The Least Developed Countries Report 2010:
Towards a New International Development Architecture for LDCs

Background Paper

South-south cooperation as a credible international support instrument for structural change in LDCs

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1. Introduction

The least developed countries (LDCs) and small states comprise a heterogeneous set of countries that have in common deep structural economic problems reflected in a vulnerable economy, low conditions for domestic resources mobilization, and weak productive capacities. The global recession of 2009 and the extensive shrinkage of development resources that followed further exposed the fragility of the LDCs. Judging solely by GDP growth rates the economic performance of African and Asian LDCs in 2009 was less gloomy than expected, although every point reduction in growth rates corresponds to vast opportunities lost due to the enormous backlog in human needs that these countries have accumulated. For Asian and African LDCs the crisis curtailed a long awaited growth process albeit precarious for some and highly uneven in the aggregate.

The crisis added new economic and social problems to LDCs while reducing the means to solve them. Despite the severity of the crisis, policy-makers and analysts recognize that long-term rather than remedial short-term considerations should orient recovery efforts in the LDCs, notwithstanding a global contraction in development resources from industrial countries.

Over the past two years, advanced industrial countries have incurred in overwhelming fiscal problems. Efforts to rescue a reckless financial system, to sustain domestic demand, and ease the social costs of the economic downturn generated large public debts. Faced with high levels of unemployment and a jobless slow recovery, it is unlikely that LDCs could count on renewed commitments by industrial societies to more and more effective levels of foreign aid. Other means to finance productive capacities in LDCs will have to be created to supplement lower export earnings, lower remittances, reduced foreign investment, and limited capacity to commercial borrowing, particularly in non-oil producing LDCs.

New mechanisms should be found within the diversified amalgam of development experiences, policies, and technical expertise of the South. The impressive and continuing expansion of the Chinese and Indian economies over several years, the performance of several developing countries as competitive exporters of manufactures, commodities and services, and the accumulation of knowledge and skills by those countries changed the perception of the South as a homogenous aggregate. In parallel, South-South economic integration through the channels of trade and investment stopped from being an aspiration to become an economic reality.

The visibility of highly industrialized developing countries such as China, India, Brazil, Mexico, South Africa, among the largest, as well as the expansion of their multiple development—oriented and knowledge-sharing projects in other developing countries are restoring the credibility to South-South cooperation. Developing countries are therefore turning to each other for development assistance. While the attention has been focused on South-South cooperation based on large developing countries, there have been exchange of development experiences between smaller developing countries such as Chile, Costa Rica, Egypt, Ghana, and

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1 Aid to developing countries in 2010 will reach record levels in dollar terms, but will be less than the world’s major aid donors promised in 2005. Overall, the figures will result in additional aid of 27 billion from 2004 to 2010, but a 21 billion shortfall between what donors promised in 2005 and the OECD estimates for the 2010 outcome. Of this shortfall, 17 billion is the result of lower-than-promised giving by the donors and 4 billion is the result of lower-than-expected gross national income because of the economic crisis (“Donors’ mixed aid performance for 2010 sparks concern”, available at http://www.oecd.org).
Thailand, among others, aiming at boosting the productive capacity of LDCs. Along the same lines, African governments have renewed confidence in regional cooperation as a crucial component of their economic recovery albeit much remains to be done. South-South cooperation cannot replace North-South cooperation but can render development assistance more effective.

The purpose of this paper is to discuss the potential for and the limitations of South-South cooperation, including regional cooperation, as credible international instruments to promote structural change in LDCs. Based on the available literature it will examine the empirical characteristics of South-South cooperation after the experiences of China, India, Brazil, and South Africa, among others, emphasizing the role of regional integration to increase the bargaining power of individual countries when negotiating with more powerful partners.

The paper will be divided in five substantive parts. After this brief introduction, the following section summarizes major issues related to the evolution of South-South cooperation over the past decades. Section 3 presents the fragmentary knowledge on the new features of South-South cooperation centred on the group of the most advanced developing economies (China, India, Brazil, and South Africa, among others). The most important characteristic shared by most of these countries is a pattern of development in which the state and state-owned enterprises have played a critical role in coordinating development resources, solving market failures, and effectively supplying public goods. Through knowledge-sharing projects, successful economic and social policies formulated and implemented in advanced developing countries could be adjusted to the particular conditions of African and Asian LDCs. The available empirical literature on initiatives for building partnerships among developing countries is reviewed, with emphasis on the relations established between China and Africa. Section 4 will propose new areas through which South-South cooperation and regional integration can become meaningful international instruments to support LDCs in a sustained and inclusive development path. Section 5 presents concluding remarks on the need for the expansion of South-South cooperation to be based on broad horizontal relations between advanced developing countries and lesser developed countries, respecting the principle of country ownership of demand-driven projects.

2. The evolution of South-South Cooperation

Although there is no space in this paper to dwell on the evolution of South-South cooperation, it is important to underline that South-South cooperation has both an intellectual and a pragmatic history that presents continuities and discontinuities. A proper understanding of the dynamics of South-South cooperation, with its prospects and limitations, conceives South-
South cooperation as a long-term process. Similarities in the structural problems of development account for the continuities in the evolution of South-South cooperation. On the other hand, the discontinuities reflect changes in technical, economic and institutional capabilities within the South as well as changes in perceptions and interpretations of the development process itself.

Over the past six decades, empirical evidence was accumulated on the multiplicity of development experiences and growing disparities between the levels of institutional, social, economic and technological capabilities among developing regions and countries. In addition, the macro and micro foundations of growth and development were profusely debated. Ultimately, contrasting views on public and private virtues and vices were rebalanced and the roles of the market and the state in allocating resources, coordinating information and incentives, and redistributing income were redressed. The very concept of development was rewritten with greater emphasis on human, inclusive and environmentally sustainable development.

A growing number of developing countries have diversified their productive structures, became middle-income economies and the largest among them, China, India, and Brazil, turn into important players in international politics. Moreover, in the process of leapfrogging and upgrading their productive structure, these advanced developing countries became critical markets for agricultural and mineral products from other developing countries in some cases replacing a contracting demand from industrial countries. This process did not start a few years ago. Economic, cultural and political relations among developing nations have been established over many decades and have been nurtured through many channels.

South-South cooperation was rooted in the principles of independence and self-determination shared by the coalition of states -mostly from Asia and Africa- that in the 1950s and 1960s identified themselves with the pioneering objectives of the Non-Aligned Movement. The original purpose of South-South cooperation was to correct biases and asymmetries in the international economic relations. The concept carries the ambitious aspirations for individual and collective self-reliance within the capabilities and resources of the developing world. Subsequently South-South cooperation became an intrinsic component of the development strategy articulated by the Group of 77 at the multilateral level. As a development strategy South-South cooperation demanded a new and more equitable international economic order that never came into being in spite of all the efforts by the new actors of the South. Developing countries further endorsed the strategic dimension to their cooperation with each other at the United Nations Conference on Technical Cooperation among Developing Countries, held in Buenos Aires in 1978. South-South cooperation, both regionally and inter-regionally, have been at the core of UNCTAD work from the first Conference in 1964.

The process of diversification among developing countries that propelled economic relations in the South began in the 1970s, almost four decades ago. Then, several developing countries that were called late- or newly industrialized countries (NICs) caught the attention of non-specialists. On the one side there were the four Asian Tigers (Hong Kong (China), the Republic of Korea, Singapore, and Taiwan (China), and on the other, developing countries that were widening and deepening their industrial basis by borrowing heavily on capital markets in the wake of oil price increase. Argentina, Brazil, India, Malaysia, Mexico, Philippines, the former

3 The African-Asian summit in Jakarta in April 2005 celebrated the 50th anniversary of the Bandung Declaration.
4 A Special Unit for South-South Cooperation (SU/SSC) was since then established by the United Nations General Assembly and hosted in UNDP. Its primary mandate is to promote, coordinate and support South-South and triangular cooperation on a global and United nations system-wide basis.
Yugoslavia and Turkey became main manufacturing and technology exporters. Between the late 1970s and early 1980s, trading and investment relations between the NICs and less industrialized countries, particularly oil-producing countries, expanded vigorously adding pragmatism and market-oriented flows to the political discourse of South-South cooperation. The debt crisis that followed would show however, that the trend was not sustainable.

While the 1980s was termed a lost decade by the United Nations the ongoing movement towards global interdependence among domestic markets and high convergence in production and consumption patterns proceeded unabashedly demanding new rules and institutions to govern global market access for capital, goods, services and technology. In debtor countries, serving the debt was translated in low levels of economic growth, increasing poverty and unemployment, high levels of inflation, and reduced bargaining power to negotiate the new multilateral rules with creditor countries. Intra-regional and inter-regional development suffered a setback during the period in which developing countries were facing financial crisis and the conditionality of multilateral financial institutions.

At the micro level, however, the decade was not totally lost because there was a learning process associated. Several state-owned and private enterprises in developing countries started their process of internationalization through mergers, acquisitions and joint-ventures in other developing countries, but also in industrial countries. Enterprises based in the South continued their incipient learning on how to deal with the uncertainties and complexities proposed by international operations. Without this practice to which those enterprises had not been exposed in the past, trading and investment opportunities in the South would not be converted into commercial reality by the most industrialized developing countries when the macro conditions became favourable in the 1990s and 2000s. The internationalization of South firms’ operations that started in the late 1970s and 1980s contributed to extended South-South economic relations.5

The idealized South-South cooperation proposals of the 1960s and 1970s ignored that the uncertainties and the risks inherent to foreign operations of firms as perceived by domestic private investors could be dissuasive factors for collective action thereby hindering the materialization of regional and inter-regional collaboration among developing countries. In other words, one of the objectives of regional integration is to integrate production and distribution of goods and services in the regional space. A larger regional space could lead local production to overcome “the extent of domestic market” reaching efficient levels and benefitting from economies of scale. Nevertheless, government policies did not address investment and management uncertainties as well as other transaction costs that domestic firms would face in foreign markets. In the 1980s and 1990s, in their process of internationalization, Brazilian, Indian, Mexican firms, among others, organized trading channels and built enterprise-to-enterprise contacts that would contribute to foster South-South trade and investment later.6

When private and public enterprises in the South became efficient producers and exporters of goods, services and technology they could also benefit from open markets in other developing countries. As it is now recognized in the case of LDCs, market access conditions becomes quite irrelevant if the country does not have the productive capabilities to convert market opportunities into a commercial reality (see below). Changes in the protection regimes that

5 See Lall (ed.) 1983; Wells 1983 for the first studies.
6 As it happens with private firms’ growth strategies there were successes and failures in the internationalization of firms. See Peres, 1992 for Latin American experiences; Ventura-Dias 1994, for Brazilian case stories.
were introduced in the late 1980s and early 1990s played a role in the transformation of the
geography of trade and investment. In the past, collective self-reliance, deeper regional
integration and greater inter-regional economic relations were conceived as part and parcel of
programmes of national development. Nationalism was a necessary step for establishing a
deep sense of shared identity in countries emerging from the colonial rule but it was not
conducive to promote economic cooperation among them. In Latin America and in Africa, the
formation of the first regional integration schemes in the 1960s and 1970s failed to generate
concrete results more than two decades later. While the ambitious plans for regional free
trade areas and joint production did not materialize a long-term learning process was set in
action.

In the 1990s regionalism was revived as a political response to global economic forces albeit
modified in form and scope. The information and communication revolution moved global
interdependence among countries forwards and deeply changed the nature of international
trade with the expansion of international outsourcing and the formation of international
supply chains. The global factory that was functioning at modest scale in Asia during the 1980s
became the symbol of global operations of transnational enterprises in the 1990s and 2000s.

Developing countries became more aware that in order to foster regional and inter-regional
cooperation and coordination, with a view to render more effective their integration into the
global economy credible regional legal and political institutions should be established or
strengthened. In Latin America and in Africa new regional integration groups were created and
older schemes went through an aggiornamento process. Among these, we can mention
MERCOSUR (Common Southern Market), in Latin America and in Africa, SADC (Southern
African Development Community); COMESA (Common Market for Eastern and Southern
Africa); ECOWAS (Economic community of West African States), CEMAC (Economic and
Monetary Community of Central Africa) and UEMOA (West African Economic and Monetary
Union). In Africa, the problem of overlapping membership of subregional integration schemes
still poses difficulties.7

In Asia, regional integration was accomplished with a minimum of formal economic
institutions. There, regionalism was driven more by markets than by governments. Actually,
while in Latin America, for instance, developing countries were integrating regionally as a
means to enable a better integration to the global economy, in Asia (particularly in East and
Southeast Asia) regional linkages were the upshots from the integration of individual
economies to global production chains. This successful regionalization of production inspires
proposals for the creation of similar virtuous linkages in Africa through public-private
partnership. The financial crisis of 1997-1998 gave impetus to the establishment of regional
institutions for cooperation while keeping with the pragmatism and flexibility that has
characterized the region, which are being discussed by the governments in Asia (Asian
Development Bank 2008).8

China and India stand out from the group of advanced developing countries not just because
together they account for more than one third of the human population, but also because of

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7 African countries participate in several of these Regional Trade Agreements (RTAs) (multiple memberships). Of
the 53 countries, 27 are members of two regional groupings, 18 belong to three, and one country is a member of
four. Only seven countries have maintained membership in one bloc (UNCTAD 2009a).

8 Evans, Kaplinsky and Robinson 2006 differentiate between regionalization, defined as regional integration through
formal intergovernmental agreements; and regionalism, defined as less ‘constructed’ and more market-driven
regional integration.
the historical roles that they have played in their regions, in the decolonization movement, and in the generation of concepts and practice of South-South cooperation.

The multiplicity of development experiences in the South can benefit lesser developed countries. Policy-makers and societies in middle-income developing countries still have fresh memory of having to deal simultaneously with several layers of economic and social problems. They are still faced with similar conundrums of “all at the same time” that LDCs are confronting in their day-to-day life, albeit with more resources. As the result of transformations in the South, LDCs societies and governments have access to a pool of knowledge and experience that are more adequate to their development needs. While technical cooperation among developing countries was a constant component of South-South cooperation, there has been a radical change in the size and scope of technical advice and technological transfer that advanced developing countries can offer as compared to the 1970s and 1980s due to the expansion and diversification in the production structures of developing countries following the global restructuring of international production and trade.

Through the association of policy and market mechanisms together with concerted actions between state-owned and private enterprises, several developing countries could build technical competence and create domestic conditions for technology transfer, policy exchange and provision of funding to other developing countries. It is this knowledge for trial-and-error problem solving that successful developing countries can share with LDCs through knowledge-and experience-sharing, training, and other forms of technology transfer. Large economies, namely China, can also provide financial assistance to large-scale projects.9

As any human endeavour, South-South relations are not without challenges and exercise of power. As it will be mentioned below, South-South trade and investment include both complementary and competitive effects between domestic production in LDCs and imported goods and services from other developing countries. Asymmetric relations between investors from advanced developing countries and governments in LDCs may generate unbalanced concessions by the weakest partner. Individual countries should increase their bargaining power by inducing regional and subregional groupings to stand up to them and redress the balance of power relations between LDCs and large advanced developing countries.10

The role of South-South cooperation in any strategy oriented towards the recovery and restructuring of the LDCs remains undisputed: economic cooperation and integration among developing countries are fundamental tools for the development process of the LDCs if combined with technically and politically sound domestic policies. In this respect, the strengthening of the process of South-South cooperation deserves the full support of the industrial countries in assembling the necessary financial resources for funding strategic development projects.

3. THE CHANGING CONDITIONS FOR SOUTH-SOUTH COOPERATION: OPPORTUNITIES AND RISKS FOR LDCS

A. General observations

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9 South-South cooperation was recognized as a valuable and necessary input for enhancing cooperation effectiveness and achieving development results by the Accra Agenda for Action, the 2008 agreement that reinforced the aid effectiveness principles of the Paris Declaration.

10 African LDCs should develop strategic focus to maximize their benefits, or in the words of the Paris Declaration and the Accra Agenda for Action, “to exercise ‘ownership’ over these growing interactions” (Kaplinski and Farooki 2009).
In spite of the long history of South-South cooperation and of its increasing importance to complement and modify development assistance programmes from industrial countries the knowledge of its size and composition is still fragmentary. In some countries data may be collected but they are not publicly available. While developing countries such as Brazil, China, India and South Africa, among others, have placed South-South cooperation at the core of their foreign policy, according to a recent report by the United Nations, “few developing countries have made it a priority in terms of establishing clear policies and institutional mechanisms to coordinate, monitor and fund sufficient large-scale or strategic cross-border initiatives” (United Nations 2009b: 7).

Most South-South cooperation takes place under bilateral agreements through cooperation programmes of different sizes and scope. Regional or multilateral bodies have been slow to respond to large country’s initiatives. Although, technical cooperation made the bulk of South-South cooperation financial cooperation has also become an integral part with loans, debt relief initiatives, budget and balance of payment support. Technical cooperation ranges from pilot inter-state projects to large scale projects developed by private contractors and state-enterprises from the South. Assessment of case studies has shown that these projects have to be demand-driven as to match needs in the lesser developing countries with offers from more advanced developing countries (UNDP 2009).

Even in large countries with a broad experience in central planning, as in China, the organization of cooperation programmes lacks comprehensive coordination and transparency (Davies, Edinger, Tay and Naidu 2008; Rowlands 2008 ). In each country, several ministries and institutions may oversee different programmes of technical assistance. Consequently, the information on development cooperation is scattered among different bureaucracies making difficult the compilation of aggregated figures. The absence of comprehensive, coherent and comparable data prevents a rigorous assessment of South-South cooperation. International agencies and research institutions have been attempting to document some of the best practices of South-South cooperation in different domains that could constitute the basis for further analysis.

South-South cooperation comprises a mixture of actors, scales and modalities of activities. Actors are drawn from civil society organizations (NGOs - non-governmental organizations), state bureaucracies and state-owned enterprises, the private sector firms, universities, and R&D institutions in general. A complex network of experts, officials, business contacts, institutional linkages and information flows are involved in the formulation and implementation of projects and programmes aimed at transferring knowledge for development from more advanced to lesser advanced countries in the South. Although the majority of cooperation programmes are part of bilateral intergovernmental agreements, several projects have been financed by regional and multilateral financial organizations. Another financing modality is the triangular cooperation under which industrial countries may finance the transfer of technical expertise between developing countries. Triangular

11 African regional organizations such as COMESA, ECOWAS and SADC should: 1. Provide support for individual African governments in the monitoring of trade, aid and FDI interactions with advanced developing countries; 2. Coordinate strategic analysis where action is appropriate at continental or regional level; and 3. Facilitate coordinated bargaining where this is appropriate to include the interests not just of commodity-exporting economies, but also of non-exporting (Kaplinsky and Farooki 2009).

12 Some countries may prefer opacity in comparable data to avoid pressures from individual countries to match other most supported recipient countries.

13 See the sites of the Task Team on South-South cooperation (http://www.southsouth.info). See also (http://www.oecd.org).
cooperation can ease the paucity of finance as a critical constraint to the expansion of South-South cooperation (Fordelone 2009).  

Knowledge- and experience-sharing, training, technology transfers, in-kind contributions, but also cost-sharing arrangements, soft loans, credit lines and grants are the mechanisms for development cooperation by developing countries. Although the mechanisms for development cooperation are similar to the standard mechanisms of Overseas Development Assistance (ODA) traditionally policy-makers in the South have been reluctant to confine their cooperation into ODA definitions. Nevertheless, as South-South cooperation increases in size and complexity efforts should be focused on establishing the boundaries between cooperation and commercial opportunities. A rigorous assessment of South-South cooperation should distinguish between market-determined economic relations and policy-determined development-oriented programmes in economic international relations among developing countries.  

In the past, the demand from developing countries was perceived as “vent for surplus” that would help manufacturing industries in the South to reach a competitive scale of production. However, a few developing countries, mainly in Asia, have become global exporters of manufactures and importers of commodities, a fact that was reflected in their increasing share of world exports and imports. Hence, new actors in the South of the magnitude of China, India, Brazil, the Republic of Korea, among others with complex productive and technological structures drastically changed the geography of trade and foreign direct investment, introducing new source for capital, goods, services and technology to LDCs as well as new markets for their products (UNCTAD 2004). New and strong demand for commodities from developing countries increased export earnings in commodity exporting LDCs, fostering growth and development, but the trading mechanism is not specific of South-South relations.  

Changes in the direction of trade per se while maintaining a similar composition of North-South inter-industrial exchange may not create the dynamic externalities that LDCs require for their own production diversification. In other words, South-South trade and investment have to go beyond a change in the geography of trade and investment flows to justify its inclusion as a South-South cooperation mechanisms. Scarce oil, minerals and land from resource-rich LDCs attract investments from private and state-owned enterprises located in developing countries. Conversely, private incentives do not exist in the case of resource-poor LDCs. In all cases, deliberate long-term intergovernmental measures are required for development-oriented results. As it will be proposed later, governments from advanced exporters should extend technical assistance and concessional loans for LDCs to effectively enhance their productive capacities and the quality of their exports.  

Although rich countries will remain priority markets for global exporters in the South, in the foreseeable future, other developing countries have also become sought-after destination  

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14 In 1993, Japan was the first country to fund a triangular cooperation aiming at African countries. It supports West African researchers and institutions in developing New Rice for Africa or NERICA: high-yield, pest-resistant rice varieties adapted to regional conditions. In 2005, the Japan International Cooperation Agency launched an initiative with the purpose of creating partnerships with other advanced developing countries such as Brazil, Chile, Egypt, Mexico, Singapore and Tunisia (United Nations 2009b, p. 12).  

15 Davies, Edinger, Tay and Naidu (2008, p. 2) quoted a Chinese official stating a difference between cooperation and ODA. According to him, cooperation referred to FDI and contracts with Chinese companies, while ODA referred to concessionary loans, debt relief and grants. Others suggested that only the transfer of funds between governments (including the funds involved in donations of aid in kind) would qualify as aid.  

16 According to WTO data, from 1983 to 2008 Asian developing countries doubled their share of world exports to reach 20 per cent whereas the share of the other developing regions was reduced from 15 to 12 per cent.
markets. Furthermore, in the new trade context that resulted from international production-sharing operations, markets are linked through multiple exchanges of intermediate goods and manufacturing services. More than half of developing Asian trade is performed within the region (Asian Development Bank 2008). As the result of these global changes in the nature of international trade, the size of trade among developing countries increased in relative and absolute terms. In 2008, South-South trade accounted for a significant share of world trade (roughly 17 percent) totalling more than 2.5 trillion dollars. Since the South includes the most dynamic segment of global markets, South-South trade and investment remains a central objective for developing countries. However, in the context of a development strategy the real question is how best to use South-South trade and investment to diversify production and exports in the LDCs. As proposed by Kaplinsky and Farooki (2009), South-South trade incorporates development cooperation elements when the promotion of downstream and upstream linkages from the resource sector is part of the commercial activity.

There is empirical evidence that entrepreneurial networks and clusters in sub-Saharan Africa have not generally produced the kind of strong, transnational links that characterized Asia’s ‘flying geese’ pattern of industrial diffusion. In East and South-East Asia, corporations invested massively in establishing regional production chains to serve global markets. However, Brautigam (2003) believes that over the past two decades, Chinese businesses in Asia have increased their ties to entrepreneurs in sub-Saharan Africa, leading to consulting, input supply, and, sometimes, joint ventures.

Governments will have to use a mix of deliberate policies and instruments with the purpose of directing market-based processes into enhancing productive capacity in the LDCs. Development cooperation initiatives among developing countries comprise a group of specific and concrete initiatives, policies and processes involving both public and private agents that, whenever feasible, should be convergent at the national, bilateral, plurilateral and multilateral levels. South-South cooperation must include direct inter-governmental measures to stimulate the creation of regional industrial and agricultural networks, the transfer of technology on equitable terms, the equitable sharing of higher prices of commodities between producers, governments and traders, and in special the equitable sharing of the rents derived from land exploitation and mineral extraction between local governments, multinational enterprises and the domestic private sector. The dispute for a fairer share of rents and profits calls for an improvement of individual bargaining power that can only result from pooling resources cooperatively with other interested actors. The experience of the OPEC (Organization of Petroleum Exporting Countries) in the redistribution of oil exploration profits showed the strength (and limitations) of collective action. 17

In what follows major development cooperation projects are reviewed. New sources of financing long-term projects in the South are good news for LDCs that need to their build physical, human and institutional infrastructure. It is up to LDCs leadership to construct their informed views and forge their own strategies to engage in productive bargaining with the new actors in development cooperation. Land, oil and other assets are scarce resources highly demanded by large development cooperation providers that should be used as strategic collateral assets by LDCs’ governments at the bargaining table. Most South-South cooperation arrangements are reached at the bilateral level in which power asymmetries are magnified, while the coordination of LDCs positions by regional bodies could considerably improve

17 Unfortunately, as the literature on collective action abundantly analyzed through the metaphor of “the prisoner’s dilemma”, there are also high benefits to gain when all the other participants adhere to the rules while one player (the free rider) does not cooperate (see Olson, 1965).
individual bargaining position. The regional machinery can be used strategically to strengthen LDCs voice in the bargaining table with the purpose of maximizing their share in agricultural and mineral rents to be extracted by private and state-owned enterprises from the South.  

B. Major development cooperation providers

China

Among developing countries, China is the largest provider of development cooperation projects. According to official sources, Chinese assistance to Africa doubled between 2006 and 2009, reaching 2.7 billion dollars of concessional loans to support 54 projects in 28 countries, and 2 billion dollars in preferential export buyer’s credit to support 11 projects in 10 countries. In the African continent, there are 39 development projects in progress covering several areas including telecommunications, transport, energy, electric power, water conservation, construction projects, aviation, mining, agriculture and industry. Although Chinese aid is significant for African LDCs the amount is small as compared to development assistance from industrial countries.

China signed protocols on debt cancellation with 33 heavily indebted poor countries and LDCs in Africa having diplomatic relations with China, writing off their debts of interest free loans that matured at the end of 2005. In June 2007 the Chinese government supported Chinese financial institutions to establish the China-Africa Development Fund, with an initial investment of 1 billion dollars. The Fund decided to invest more than 500 million dollars in 27 projects covering agriculture, electric power, construction material, mining, machinery, and industrial parks, with a potential to stimulate nearly 4 billion dollars in corporate investment form China to Africa. 

The economic relationship between China and Africa has developed rapidly over the past decade. Sino-African exports and imports for the first time exceeded 10 billion dollars in 2000 to reach more than 106 billion dollars in 2008, according to data from WTO (WTO 2009, table x)). Trade between China and Sub-Saharan Africa increased from 7 billion dollars to more than 65 billion dollars in the same period. Most of this trade is concentrated in oil-exporting and large African economies, with South Africa accounting for roughly 18 per cent of total Sino-African trade. Among African LDCs, Angola, the Democratic Republic of Congo, Equatorial Guinea and Sudan are the leading African trading partners (Besada, Wang and Whalley 2008, table 1). Aguilar and Goldstein (2009) showed that there was an important diversification of export markets in Angola. From 1997 to 2006, the share of the United States decreased from 63% to 39% whereas that of China increased from 13% to 35%.

The Addis Ababa Action Plan (2004-2006) that was announced at the 2003 FOCAC (Forum for China-Africa Cooperation) summit included the Special Preferential Tariff Treatment

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18 The Caribbean Regional Negotiating Machinery is an example to look at. The CRNM was very successful while representing the interests of the small Caribbean states during the negotiations of the FTAA (Free Trade Area of the Americas). The CRNM, as the Office of Trade Negotiations of the CARICOM (Caribbean Community) Secretariat, now has extended responsibility for the coordination, development, and execution of negotiating strategies for all Community external trade negotiations. (http://www.crnm.org/).


20 In the aggregate, five main commodities account for most of China imports from Africa: oil, iron ore, cotton, diamonds and timber.
programme which removed import tariffs on 190 different items from 25 African countries.\textsuperscript{21} It was implemented in January 2005. FOCAC was conceived and implemented as an effective mechanism to increase economic relations between China and Africa.

Chinese FDI to Africa is still small when compared to European and the United States stocks of FDI. On the other hand, Africa’s share of total Chinese outward flow of FDI is marginal: roughly 3 per cent while Asia receives 53 per cent.

Chinese investors have established joint-ventures with local investors across the African continent in several sectors, in special in oil, agriculture, agribusiness, textile and light manufactures. Chinese investment in textile brought mutual advantages for China and African countries.\textsuperscript{22} On the Chinese side, they helped Chinese firms to circumvent trade restrictions in rich countries against direct textile and apparel exports from China. On the African side, Chinese FDI have helped to build local capacity, transfer of technology and raise export levels. In Mozambique, Chinese companies have invested in a soya processing plant and in a facility processing prawns.\textsuperscript{(REFS)} In Zambia, China has invested nearly 160 million in the mining sector. Zambia is also set to become the first Chinese Special Economic Zone (SEZ) in Africa.\textsuperscript{23}

In the Democratic Republic of the Congo, China has investments in cobalt and copper.\textsuperscript{24} In Uganda, a Chinese pharmaceutical firm is producing a new anti-malaria drug. Chinese firms have also been involved in the road reconstruction and in water treatment plants in Mozambique (Besada, Wang and Whalley 2008, pp. 11-12). Chinese and Indian financial technical support has allowed the Angolan government to proceed with the recovery of the infrastructure and of the agricultural sector at a much faster rate than it could be otherwise.\textsuperscript{25}

China has been active in providing technical support to African states, and particularly to African LDCs. Many LDCs have benefitted from the building of schools and hospitals, and also from cooperation in the form of technical assistance. Grants tend to be disbursed in kind, normally as equipment through various projects, as requested by the recipient country. Regular inflows of teachers, medical personnel, and agricultural experts have provided core expertise in the fields of education, health, agriculture, and environmental conservation, among others. Chinese engineering, medical and agricultural teams have been transferring knowledge and experience to some African LDCs since the 1960.

\begin{footnotesize}
\begin{enumerate}
\item In October 2000, the Chinese government launched the Forum for China-Africa Cooperation (FOCAC) as a vehicle to coordinate Chinese foreign policy toward the continent. FOCAC became the institutional mechanism for China-Africa multilateral engagement.
\item A few African countries (Sudan, Ghana, Tanzania, Nigeria, Ethiopia, Uganda and Kenya) account for a significant share of Chinese imports of manufactured products, mainly clothing and textiles.
\item Part of China’s strategic industrial plan toward Africa is to establish five preferential trade and industrial zones for Chinese business entry in Zambia, Mauritius, Egypt, Nigeria, and possibly Tanzania (Davies et al. 2008).
\item China agreed to take on large-scale infrastructure projects in the Democratic Republic of Congo, in exchange for copper and cobalt reserves. To facilitate the exchange, Congolese and Chinese state-owned enterprises set up a joint venture known as Socomin. The mining company will invest 3 billion dollars, mostly in new mining projects. The profits of Socomin will then be used to repay these mining investments, and also to find Chinese investment in other big infrastructure projects ("The heart of darkness: what’s really behind Asian investments in Africa", by Jason Simpkins, Money Morning, 18.04.2008 available at http://moneymorning.com/2008/04/18/the-heart-of-darkness-whats-really-behind-asian-investment-in-africa/).
\item According to the Centre for Chinese Studies in University of Stellenbosch, South Africa (2007), in Angola: the extractive industries, diamonds and oil, account for 99% of Angolan exports and 57% of GDP but employ only 1 percent of the Angolan workforce. Agriculture represents no more than 8.6% of Angolan GDP but employs 85% of the workforce.
\end{enumerate}
\end{footnotesize}
China announced the eight points that will orient China-Africa cooperation in the next three years. They comprise: 1. Partnership in addressing climate change; 2. Cooperation in science and technology; 3. Financial assistance (the provision of $10 billion in concessional loans, and a special loan of $1 billion for small and medium sized African businesses. For the heavily indebted countries and LDCs in Africa (having diplomatic relations with China) China will cancel their debts associated with interest-free government loans due to mature by the end of 2009. 4. Phasing in zero-tariff treatment to 95 per cent of the products from the LDCs (having diplomatic relations with China), starting with 60 per cent of the products within 2010. 5. Cooperation in agriculture. 6. Cooperation in medical care and health. 7. Cooperation in human resources development and education. 8. People-to people and cultural exchanges.

Liberia has received technical assistance in agriculture since 2005, when a Chinese expert team was sent to disseminate high-yielding hybrid rice technology, followed by the establishment of an Agricultural Technology Demonstration Centre. More recently, a vocational training college was opened in Ethiopia entirely funded by the Chinese government, aimed at “improving the quality of Ethiopian language development”. The Uganda Industrial Research Institute and the construction of the Kibimba rice scheme in western Uganda are other examples of Chinese development assistance.

Tanzania has been China’s largest cooperation recipient in Africa since 1964. The main Chinese-supported projects in Tanzania include: the Tanzania-Zambia railway (TAZARA), where the agreement to build the 1860 km long railway line was signed in 1967; the Mbarali Rice Farm, privatized in 2006 and China Sisal Farm; the Wami-Chalinze and Dodoma water projects, and the construction of Tanzania National stadium in 2004 (Moshi and Mtui 2008).

In both Liberia and the Central African Republic, China has directly provided funding from training programmes to strengthen the capacity of the civil service in these countries. In areas of small-scale agricultural production and hydro-irrigation, China has supported training programmes that have involved thousands of African farmers. In Djibouti, and Ethiopia, China supplied modern telecommunication equipment, along with training programmes to help local entrepreneurs to deal and maintain their equipment (Besada, Wang and Whalley 2008, p. 17).

Several LDCs have benefitted from Chinese programmes in Africa with emphasis on infrastructure development such as the Mphanda Nkuwa Dam in Mozambique, and the Merowe Dam in Sudan. Both projects will have a significant impact on the power generation of these countries. The current rail rehabilitation project and road reconstruction in Angola is

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26 China will enhance cooperation on satellite weather monitoring, development and utilization of new energy sources, prevention and control of desertification and urban environmental protection. China decided to build 100 clean energy projects for Africa covering solar power, bio-gas and small hydro-power (“Chinese premier Wen Jiabao announces eight new measures to enhance cooperation with Africa” available at http://www.focac.org/eng/dsjbzjhy/h625619.htm).

27 China will increase the number of its agricultural technology demonstration centers in Africa to 20, send 50 agricultural technology teams to Africa and train 2,000 agricultural technology personnel for Africa, in order to boost the continent’s food security (see previous note).

28 China will provide medical equipment and anti-malaria materials worth $73.2 million to the 30 hospitals and 30 malaria prevention and treatment built by China and train 3,000 doctors and nurses for Africa (ibidem).

29 China will build 50 schools and train 1,500 school principals and teachers for Africa countries. By 2012, China will increase the number of Chinese government scholarships to Africa to 5,500, and will also train 20,000 professionals for Africa over the next three years (ibidem).
another example of a Chinese cooperation programme that is highly beneficial to the recipient country.\textsuperscript{30}

Concessional loans and interest-free loans are delivered mainly through China Export-Import (EXIM) Bank, the sole provider of concessional financing. Although there are no data available on the terms of the loans extended the World Bank estimated that by middle 2006 more than 12.5 billion of dollars had been granted by China to transport and power generation infrastructure projects in sub-Saharan Africa. The EXIM Bank financed over 300 projects in Africa until the mid-2007. Among African LDCs Angola, Ethiopia, Sudan, and Zambia are priority countries in Chinese cooperation (Davies, Edinger, Tay and Naidu 2008, pp. 6-7). Chinese lending to Africa, as a whole, totaled 8.2 billion committed in 2006 surpassing the World Bank’s 2.3 billion (Alden 2007).

While controversial, because of the Chinese model of collaborative state-business approach to foreign policy and an unequivocal strategy to gain access to strategic resource assets in Africa, analysts recognize that Sino-African relations have many positive points. The first one is to alter the dependence of Africa on the United States and Europe as aid providers. China became an alternative source of aid, trade and investment for Africa. The second positive outcome is that China gives access to long-term finance for infrastructural and productive projects in African countries. UNCTAD and OECD have produced empirical evidence showing that the share of ODA committed to transport, storage and energy was less in 2006 than it was in 2000-2004. The share of aid committed to economic infrastructure in LDCs decreased from 18 to 12 per cent of total commitments to LDCs from 1995-1999 to 2006 (UNCTAD 2008, p. ). Frot and Santiso (2010) have also reached the same conclusions on changes in donor countries’ priorities albeit for ODA in general. In the 1970s, transport and infrastructure projects comprised more than 25 per cent of aid sector allocation; while in 2007, these areas accounted for less than eight per cent of aid resources. Over the past decades ODA has been predominantly allocated to social sectors (health, education, population, water supply, government and conflict prevention). The third positive aspect of Chinese aid is lack of political and economic conditionalities.

Nevertheless, the overwhelming importance of China in Africa is not without criticism. Geda (2008) and Gebre-Egziabher (2009) are concerned with the lack of competitiveness of Ethiopian local producers of labour-intensive manufactures, particularly in textile and footwear manufactures, to contest imports of cheap Chinese products.\textsuperscript{31} The use of Chinese contract labour, rather than local workers in most of Chinese-sponsored projects in Ethiopia, as elsewhere, has raised criticism, as much as the dominance of Chinese firms on rural and urban construction, and in telecommunications in Ethiopia (and elsewhere). In the case of Angola, in the furniture for schools, 50 per cent of the procurement materials must originate from China (Centre for Chinese Studies in University of Stellenbosch 2007).

However, one study from the Center for Chinese Studies of the University of Stellenbosch showed that in the case of Angola, there is a provision that thirty per cent of the Chinese government credit line to be used for Angolan contractors, but it has rarely been enforced. Hence the need to strengthen Angolan (and other LDCs) negotiating position when bargaining

\textsuperscript{31} The collapse of the Angolan textile industry preceded Chinese imports. It was due to the destruction of arable land during the war and an influx of donations of second-hand clothes from developed countries to Angola (Centre for Chinese Studies in University of Stellenbosch 2007 p. 34).
with Chinese investors and representatives of Chinese government, and later in the implementation phase.\(^{32}\)

Other analysts are critical of Chinese motivations to guarantee a steady supply of key resources. Through formal or informal means China has had a unique opportunity to access Africa’s relatively unexploited energy sources, timber, agriculture and fisheries (Alden 2007; Broadman 2007a).\(^{33}\) On the other hand, other authors believe that African LDCs and Chinese authorities can construct economic relations that will provide market access and investment opportunities mutually advantageous based on equality and mutual respect (Besada, Wang and Whalley 2008; Brautigam 2007). Moshi and Mtui (2008) think that in the long-run Africa may become an important segment of a future value supply chain coordinated by China and focused on European and Middle Eastern consumer markets.

It is important to reiterate that anecdotal information is all that is available on Chinese cooperation activities (as well as on others). There is no well documented study covering the impact of Chinese trade, investment and aid relations on the development process of African LDCs.

**India**

India has been an active promoter of South-South cooperation since its independence, but its role and contribution to development cooperation show discontinuities generated by domestic and external factors. Indian participation in development cooperation activities has gained momentum over the past decade. The country provides its assistance in the form of financial (lines of credit) and technical assistance. According to available data India’s development cooperation is focused first on neighbouring countries followed by African countries. India’s development cooperation is implemented by various ministries and institutions with the Ministry of External Affairs as the leading agency. Estimates of Indian annual financial volume for development cooperation vary between half a billion to one billion dollars (Agrawal 2007; Beri 2003).

Major destinations of India’s cooperation programmes are South Asian LDCs, namely Afghanistan, Bhutan, Bangladesh, Myanmar and Nepal. Maldives is also an important destination of those programmes. Technical assistance is extended under the Indian Technical and Economic Cooperation (ITEC) programme that started its operations in the 1960s. This involves mostly training (civil and military); projects and project-related assistance such as supply of equipment, consultancy services and feasibility studies. Development programmes also include study visits of senior officials/ decision makers to India, deputation of Indian experts, setting up pilot projects and research centres in the agricultural sector. Training constitutes about 40 per cent of the annual ITEC programme (Katti, Chahoud and Kaushik 2009).

Infrastructure appears to be a key focal point for India cooperation programmes in South Asia, as in the case of the upgrading of the infrastructure at Sittwe Port in Myanmar; building of

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\(^{32}\) See also the Special issue of the World Economy of November 2009 on Asian Drivers (Goldstein, Pinaud, Reisen and McCormick 2009)

\(^{33}\) Cheung and Qian (2009) did not find substantial evidence that China invests in African and oil-producing countries mainly for their natural resources. The abundance of natural resources is just one of the many determinants of Chinese FDI. There has been a diversification of FDI from natural resources to manufacturing, information technology products and services, and trading.
roads, bridges, hospitals and airports in Afghanistan, Maldives, Nepal. Along with other projects, in Bhutan, India has assisted in the construction of Chukha and Tala hydroelectric projects, among others, which export surplus power back to India. Health and education are important secondary sectoral targets. The country is extending health services in South Asia through telemedicine networks. Vocational training centers, SMEs (small and medium size enterprises) and entrepreneurship development centers have been set up in Vietnam, Cambodia, Laos, among other Asian countries (Kumar 2008, p. 10). India has also had a broad engagement in the reconstruction and redevelopment of Afghanistan. By contrast, its African programmes seem primarily focused on technical assistance and technology transfer.

Regional cooperation is also an important channel for channelling India development assistance. The context of the South Asian Association for Regional Cooperation (SAARC) favours technology and capacity building in agricultural and rural development, education, health, science and technology and poverty-reducing programmes between India and the other members (Bangladesh, Bhutan, the Maldives, Nepal, Pakistan and Sri Lanka) (De la Fontaine 2008).

India’s engagement in Africa dates from ancient period. Technical assistance to African countries is extended through ITEC and the Special Commonwealth Assistance Programme for Africa (SCAAP). Besides the provision of lines of credit through Indian Exim Bank, the most important activities in African countries are India’s provisions for the Pan African E-Network, India’s contribution to the New Partnership for Africa’s Development (NEPAD) and the Team9 Initiative. These are very innovative projects that would deserve more space for a fair description.

Pan-African E-Network Project: This initiative aiming at reducing the digital divide and accelerating the integration of the African continent in the information society was launched by India in 2004. It is an ambitious programme of ICT (Information and Communication Technology) connecting the 53 African countries belonging to the African Union through an e-network (a fibre optic cable and a dedicated satellite). This network will also connect academic institutions and hospitals in African countries with their counterparts in India for providing tele-education and telemedicine facilities, as well as tele-conferencing between heads of states. The project will build capacity on three levels: 1. Technology transfer of software and hardware; 2. By way of giving access to education for African students from selected Indian universities and educational institutions. 3. By way of tele-medicine services for consultation with experts in super speciality hospitals in India. The project will cover Continuing Medical Education (CME) for practicing doctors and nursing staff to update their knowledge and skills from medical speciality hospitals in India. The funding by the government of India, of roughly 125 million dollars, only lasted for five years.

On February 2009 the Pan-African e-Network was inaugurated. A Data Centre in New Delhi and a Satellite Hub Station in Senegal have been connected through a submarine cable in

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34 India helped to build the Tribhuvan Highway, the first highway in Nepal in the 1950s. Later, the Siddartha Highway was also built with Indian help, among others.
35 Further regional cooperation projects are under preparation, one of the most prominent projects are discussed within the Mekong-Ganga Cooperation (MGC), the main focus is on the construction of the 1360 km Trilateral Highway with the cost US$ 700 million as well as on building the railway connectivity involving the ASEAN partners Singapore, Myanmar, Thailand, Cambodia and Vietnam.
36 The South Asian Association for Regional Cooperation (SAARC) with Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka was formed in 1985.
37 India-Africa relations exist for centuries. Prime Minister Nehru said that “though separated by the Indian Ocean from us, it is in a sense our next door neighbour” (quoted in Beri 2003, p. 217).
order to connect the Indian and African partners. These centers will connect seven universities and 12 super specialty hospitals in India, with five leading regional universities, 53 learning/tele-education centers, five super specialty hospitals, 53 medical centers, 53 Voice over Internet Protocol (VoIP) nodes, one in each African country.

Ethiopia was the first country to participate in the Pan-African e-Network. Students and teachers at Addis Ababa University and Haramaya University in Alemaya have been working via satellite with the New Delhi-based Indira Gandhi National Open University since Ethiopia’s 2.12 million pilot project was launched in Addis Ababa in July 2007. Ethiopia’s Black Lion Hospital in Addis Ababa and the rural Nekempe Hospital are also consulting with Indian heart specialists at the CARE hospital in Hyderabad and the Narayana Hrudyalaya Hospital chain. Doctors in Ethiopia can transmit digitised forms of X-rays, electrocardiograms, and other test results. Satellite ground stations are being installed at universities and hospitals in Cameroon, Malawi and Niger. Other African countries such as Djibouti, Mozambique, Uganda, the Democratic Republic of Congo, Sierra Leone, Somalia, Tanzania, Togo and Zambia were scheduled to join the network until the end of 2009.

Indian diplomacy has also created comprehensive economic cooperation arrangements such as the India-Africa Forum Summit and the India-Brazil-South Africa (IBSA) Trilateral Commission for promoting South-South Cooperation not only between themselves, but globally. The IBSA Dialogue Forum was launched in 2004 with the goal of achieving common positions at the United Nations, the Doha round at the World Trade Organization, and other multilateral settings for the three major developing countries.

India has reinforced regional organizations as a cooperation channel. This is the case of the innovative NEPAD (the New Partnership for Africa’s Development). The programme provides a vision and a strategic framework for Africa’s “renaissance”. For the implementation of various projects under NEPAD India has contributed with 200 million dollars.

The Techno-Economic Approach for Africa-India Movement (TEAM-9) is a credit facility with a volume of over 500 million dollars in very favourable credit launched in 2004 for eight African countries six of which are LDCs (Burkina Faso, Chad, Cote d’Ivoire, Equatorial Guinea, Ghana, Guinea Bissau, Mali and Senegal). The purpose is to promote socio-economic development in these countries via access to Indian technology, goods and services. Under the Initiative, a cooperation mechanism was formulated which will operate at governmental, institutional and private sector levels.

Brazil

Brazil is a relatively newcomer to the field of development cooperation, as compared to China and India. Size, language and political regimes set Brazil aside from its Spanish Latin American neighbours, with whom economic relations were not significant until late in the 20th century. On the opposite direction of China and India, in spite of some rhetoric on development cooperation, Brazilian diplomacy sided with colonial powers in multilateral debates for most of the Post-World War II glorious years of anti-colonial struggle, except for a short period of independent foreign policy between 1961 and early 1964. It was not until near the Portuguese

39 The Portuguese-speaking Brazil did not become a republic until the end of the 19th century (1889), while Spanish Latin American countries adopted the republican regime after the Independence wars, early in the 1810s. It should not be forgotten that Brazil remained a slave-based economy until 1888. It was the last country in Latin America to abolish slavery.
revolution of 1974 that the Brazilian government stopped supporting the Salazar regime and his colonial policy. At the end of 1972 the Brazilian foreign policy broke with the past endorsement of the colonialist policy in Africa, but it is only in 1974 that Latin America and Africa are included as important pillars of the Brazilian economic diplomacy.

In the 1970s economic relations between Brazil and African countries were intensified as Brazilian manufacturing firms perceived the importance of African demand, particularly of oil-producers such as Nigeria and Angola.

Development cooperation programmes expanded in the 1980s predominantly in the form of technical cooperation. Brazil does not command significant volume of funds as China and India. Consequently, the country seldom undertakes programmes that involve grants or concessional loans. The Brazilian Cooperation Agency (ABC for the Brazilian acronym) located at the Ministry of Foreign Relations, and created in 1987, is in charge of the coordination of the development cooperation activities. In reality there are several focal points in different ministries: the National Council on Research (CNPq) at the Minister for Science and Technology, the Department for International Affairs at the Ministry of Planning, besides sectoral ministries such as health, education and agriculture. Despite efforts to centralize cooperation activities under ABC, the formulation and delivery of development cooperation remains largely fragmented and decentralized (Abdenur 2007).

Priority areas for Brazil’s cooperation programmes are agriculture, health (particularly HIV/AIDS), water, professional education, public administration, meteorology, energy, environment, electoral support, cooperation in sports, and production and use of bio-fuels (especially ethanol and biodiesel). Bilateral agreements provide the legal basis for technical cooperation between Brazil and lesser developed countries. Brazil sees triangular cooperation as positive when fair partnerships are created and when ownership by the beneficiary takes place. Several innovative initiatives are being implemented with the support of main partners identified by ABC: Canada, France, Germany, Italy, Japan, Spain, and the United Kingdom (Nogueira 2008).

Brazil’s development assistance is primarily directed towards its own Latin American region, particularly to the only LDC in Latin America: Haiti; and Portuguese-speaking Africa (Angola, Mozambique, Cape Verde, Sao Tomé and Principe, and Guinea-Bissau) and East Timor (Asia) (Rowland 2008, p. 8). Nevertheless, over the past eight years of the current administration of President Lula da Silva, there has been an active participation of Brazilian diplomacy in intra-regional and inter-regional initiatives. In recent years Brazil has attempted to professionalize its development cooperation policy and to give it greater political relevance. Brazil has been an important actor in Haiti, leading the United Nations Stabilization Mission in Haiti (MINUSTAH as in the French acronym).

Brazilian development cooperation has benefitted from resources from industrialized countries, in triangular cooperation. One example is the Angola-Brazil-Japan project on building capacities at the Josina Machel Hospital.40

40 In this Project, professionals of Josina Machel Hospital (JMH), Lucrecia Paim Maternity Hospital (LPM), 13 primary health care centers, and other hospitals were trained in five areas as follows: hospital administration, equipment maintenance, nursing care, radiology and laboratory. The training course was conducted by Brazilian experts and Angolan professionals under the coordination of Japan, Brazil and Angola in the Josina Machel Hospital which was rehabilitated by the Grant Aid Cooperation of Japanese Government (Case story 18 at http://www.impactalliance.org/).
There have been several other interesting initiatives. In particular, the state-owned Brazilian Agricultural Research Enterprise (EMBRAPA) has opened two offices in Africa, to respond to an increasing demand for technology transfer in food and commodity production. With joint financial resources from Brazil, Japan, and the United States, EMBRAPA will transfer knowledge to Mozambique on soya and corn. EMBRAPA is also developing a cooperation project with cotton producers as Mali, Benin, Burkina Faso and Chad to improve cotton seeds.

**South Africa**

After the end of the apartheid in South Africa and the advent of democratic rule in 1994, South Africa has become increasingly involved in Africa as a development partner in peace-keeping and post-conflict missions, and technical assistance projects.

South Africa’s programmes are Afro-centric. The country is closely tied to its immediate neighbours through commercial and monetary links. The bulk of South Africa financial transfers are made through formal partnering arrangements in the South African Customs Union and the Common Monetary Area, South African Development Community (SADC), although some of these countries, such as the Democratic Republic of the Congo are not immediate neighbours (Braude, Thandrayan and Sidiropoulos 2008).

South Africa is focused on fostering sustainable industrial in areas where poverty and unemployment are at their highest. This objective is carried out through the Spatial Development Initiatives (SDI) which focuses high-level support in areas where socio-economic conditions require concentrated government assistance and where inherent economic potential exists. SDIs have been increasingly addressed to the southern African region, with the Maputo Development Corridor leading to substantial investments in both South Africa and Mozambique. The SDI programme comprises a cluster of projects designed to develop small communities through infrastructural development. The main project under the SDI is the Maputo Development Corridor which involves the Maputo Corridor Toll road, the railway from Ressano Garcia to Maputo and the Maputo Port and Harbor. Other secondary projects are in the fields of agriculture, mining and tourism. The beneficiary countries are from the Southern African Region (Mozambique, Swaziland, Zimbabwe, and Botswana).

**Other countries**

With very limited financial means, but armed with the spirit of international solidarity and solid social policies, Cuba’s health programmes in Africa dates back some forty years. Cuban programmes have focussed on capacity building within the health sector, rather large infrastructural programmes. Cuba made a significant contribution to the concept and operation of South-South development cooperation when it was part of a discourse of solidarity among developing countries (Blunden 2008). Cuba and Brazil have joined forces to establish medical centers in Haiti. It is an interesting South-South cooperation in which the Brazilian government will be responsible for the physical infrastructure and the Cuban government by medical services.

There are several knowledge-transfer projects between developing countries of different sizes and development levels that affirm the importance of South-South cooperation as a mechanism to promote growth and development, improve welfare and reduce poverty in developing countries and particularly, in the most vulnerable developing countries. The Task

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41 For additional information see [http://www.southafrica.info/doing_business/economy/development/sdi.htm](http://www.southafrica.info/doing_business/economy/development/sdi.htm).
Team on South-South Cooperation compiled a list of 110 undergoing projects that give an idea of the diversity in scale and scope of the projects as well as of the engagement of a great quantity of developing countries’ governments and civil society in development cooperation projects.

Countries as diverse as the Republic of Korea, Argentina, Nigeria, Vietnam, and Thailand have set aside human and financial resources to cooperate with other countries in solving development problems with the knowledge accumulated in the South. For instance, Vietnam is transmitting to Nepal its Doi Moi policy, of making a transition of its economy to a market-based one while strengthening state institutions. Thailand is transferring knowledge to Cambodia, Laos, Myanmar, and Vietnam on trade and investment facilitation, tourism cooperation, agricultural cooperation, among others, within the framework of the ASEAN.44

Japan has financed many projects with a South-South cooperation approach. Among them, we find the International Network for Water and Ecosystem in Paddy Fields (INWEPF), that is a South-South network to improve policies and practices related to paddy (rice) agricultural systems in Monsoon Asia, that includes several Asian LDCs (Bangladesh, Cambodia, Laos, Myanmar, Nepal). The JICA (Japan international Cooperation Agency)-ASEAN Regional Cooperation Meeting (JARCOM) is an innovative triangular framework in South-East Asia. Originally designed as a mechanism to formulate food quality South-South cooperation projects, it eventually evolved into a forum to discuss common development challenges in the region. In involves countries such as Cambodia, Laos, Myanmar, Vietnam, Timor-East, Indonesia, Malaysia, the Philippines, Singapore, and Thailand.45

In brief, the available information on South-South Cooperation albeit fragmentary and discontinuous highlights the great potential of its initiatives.

4. **South-South cooperation as a feasible and effective International Support Instrument to help LDCs in the process of economic recovery and structural change**

The preceding section provided a short description of the diversity of forms through which developing countries have been transferring knowledge and resources to other developing countries. African, Asian and Latin American countries participate in multiple types of South-South cooperation that have been mutually beneficial for countries at different stages of economic and institutional development. In particular, South-South trade and investment helped Asian and African LDCs to access alternative financial sources for industrial projects; to find additional markets for their exports; and new suppliers for their imports. Mostly through bilateral arrangements, leading exporting countries, such as China, India, and Brazil were given access to resources and strategic assets in Africa and Asia while in return, lesser developed countries are benefiting from technical assistance, institution and capacity building.

The 2008-2009 global economic crisis made even more pressing the need to strengthen the cooperation among developing countries at the conceptual and operational levels, as much as to endow South-South cooperation with adequate financial resources to increase its effectiveness. The reasons for that go beyond the short-term impacts of the financial crisis on commodity prices and international trade volumes, as deep as they have been.46

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44 The project aimed at a mutual learning experience (see case story 77 and 74 at the same site.
46 WTO estimated a fall of 12.5 per cent in the volume of trade in 2009, and of 23 per cent in the value of world merchandise trade. A solid growth of 9.5 per cent in trade volume in 2010 will not be enough to offset the steep fall.
disquieting are the long-term consequences of the financial and fiscal crises in industrial countries for the international economy and for the international integration of LDCs. How drastically and permanently has the systemic and synchronized crisis changed the forces that were subjacent to the dynamics of international economy over the past two decades is an open question that will be part of the evolving uncertainties of the next decade.

The international environment within which Asian and African LDCs will have to operate will be quite different from that of the years that preceded the crisis. Industrial countries will have to make large-scale adjustments at the household level to offset huge losses in wealth and income while domestic private and public sectors will have to adjust to new structural conditions. Ultimately, monetary and financial imbalances will have to be resolved before global production, trade and investment growth rates could be restored. 47

In the short-run, sustained growth in Asia is providing impetus to exports of primary commodities, particularly minerals, metals and oil. The trend is likely to continue. Continued rapid industrialization and rising living standards in most developing countries mean that demand for energy, food, mineral and agricultural natural resources from the South will remain expanding in the South, particularly in areas that account for more than half of human population (China, India, Latin America, most of the Asia but also parts of Africa).

However, most analysts remain sceptical of the sustainability of global economic growth driven by dynamic developing economies. In spite of a persistent contraction in industrial countries’ demand there remain great disparities between the size of advanced developing economies and that of industrial economies, particularly of the United States, the locomotive that has driven the international demand for final goods, and also the expanding trade in intermediate goods. Industrial countries still account for more than two thirds of the world product, and the Chinese GDP, albeit on the way of becoming the second largest consumption market, at 4.3 trillion of dollars, is roughly one third of United States GDP (14.4 trillion of dollars).48 Given the size of Chinese and Indian populations, these countries will inevitably play central strategic position in the restructuring of the global economy. Nevertheless, it will take some time for China, India, and other large Asian developing countries to constitute final demand for the goods they produce and export. 49 A change in the Chinese development in 2009. Only by the end of 2011, under the assumption of another expansion above 7 per cent, export volumes will surpass the peak levels of 2008 (http://www.wto.org/english/news_e/pres10_e/pr598_e.htm).

47 Although it is beyond the purpose of this paper to deal with the international monetary system, it is becoming evident that the dollar-based global system of reserves will have to be replaced in a foreseeable future. As stressed by the President of the Asian Development Bank: "Our current global reserve system, unfortunately, is not functioning too well. Exchange rate system, to cite one example, vary widely in flexibility. The use of a single national currency such as the US dollar as an international reserve currency only heightens the so-called Triffin dilemma – that is, the problem of simultaneously using a currency as a domestic and as an international currency. More specifically, it creates tension between national and global monetary policy making." (Speech by Haruhiko Kuroda in the opening session of the Second Conference on the Future Global Reserve System – An Asian Perspective, 17 March 2010, Tokyo, Japan available at http://www.adb.org/Documents/Speeches).


49 Brazil and other Latin American economies have the reverse problem of Asian societies: Latin American economies are driven by internal demand, with low domestic savings.
strategy will be required to create new value chains that could provide room for LDCs’ upgraded exports in modern manufacturing and services, and to further expand global trade.

As the review in the last section showed, even though South-South cooperation has reached a critical size with China and India, South-South initiatives are still project-based and limited in scope and scale while LDCs’ structural needs are huge. On the one hand, development cooperation among developing countries must increase in size and breadth without losing the solidarity dimension or stopping being a real peer process. On the other hand, the short term critical needs of LDCs have to be reconciled with the longer time-span needed for the implementation of most of the formulae and measures to increase South-South cooperation. In any case, it is necessary to reiterate that South-South cooperation cannot replace traditional development assistance by industrial countries.

Regional and multilateral development agencies can add to financial resources to propel the cooperation among developing countries. There are a few experiences in which a cluster of regional projects included a South-South cooperation component. A remarkable example is the set of projects that covers the Greater Mekong sub-region, supported by the Asian Development Bank, with resources from Japan, China, India, Thailand among others. The Greater Mekong sub-region comprises Cambodia, Myanmar, and Lao, Asian LDCs, besides China, Thailand, and Vietnam.

While African and Asian LDCs and small states strive to recover higher rates of growth, it is unlikely that in the short run new arrangements could be devised to increase the effectiveness of South-South cooperation. Instead, development cooperation must use existing frameworks, channels and mechanisms identifying areas where improvements could be possible with little or negligible additional costs. China, India, Brazil, South Africa, among others, have a set of ongoing projects catered to LDCs’ needs, as it was shown above. In some cases, simple administrative measures could make technical assistance and capability building projects more relevant to national purposes and more forward looking. Measures ensuring a better domestic coordination of fragmented initiatives will contribute to increase the effectiveness of North-South and South-South development cooperation making them more convergent to domestic priorities and part of a national development strategy. As proposed in past UNCTAD

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50 The Chinese government together with the World Bank organized a project on capacity development for poverty reduction to share Chinese strategy and policies on poverty reduction with 35 African countries, mostly LDCs. The project aims at transferring to African countries China’s experiences and efforts to accelerate its economic and social progress while transferring to China a better understanding of African development challenges (see Case Story 26 at http://www.impactalliance.org). Similarly, Inspired by the Asian Pacific Community of Practice (CoP), other regional CoPs were created in Africa and Latin America. Regional Development Banks are normally the secretariats. The Asian-Pacific Community of Practice in Managing for Development Results (AsCoP-MfDR) gives members access to good practices, tools, training opportunities on MfDR through peer-to-peer learning activities, including specific South-South collaborations (see Case Story 13 at the same site).

51 Since 1992, with the assistance of the Asian Development Bank, the six countries entered into a program of subregional economic cooperation, designed to enhance economic relations among the countries. The programme has contributed to the development of infrastructure to enable the development of the resource base of all countries. See http://www.adb.org/GMS. See also “Major projects of Japan’s Initiative for the Mekong region development (dec. 2004 – present)” at http://www.mofa.go.jp.

52 Matsumoto-Izadifar (2008) described how insensitive to the efficiency and effectiveness of the use of their resources individual donors can be. Describing a “showcase” set of projects to support horticultural export in Senegal, she commented on the segmentation of donor support to agriculture. Donors covering the entire value-chain from production to marketing or processing rarely work with donors covering rural infrastructure development and environmental production. In the Senegalese case, the Spanish cooperation placed Agropôle, a modern storage and processing centre in the Saint Louis region, an area where local producers and exporters with limited transport means had no easy access. The centre could be more useful to small farmers it were constructed
documents, in order to catalyze the economic recovery process and trigger investment in productive capacities LDCs should adopt an integrated approach to macroeconomic, industrial and trade policies (UNCTAD 2007, 2008). Similarly, when addressing South-South cooperation, LDCs and small states should adopt an integrated and forward-looking approach.

Market access may provide a good illustration of how to introduce an integrated and forward-looking approach into South-South cooperation. LDCs still face a wide array of difficult market access conditions in developed and in developing countries, comprising mostly non-tariff restrictions such as technical, sanitary and phytosanitary measures. Tariff barriers to trade include tariff peaks and tariff escalation schemes. In Asian countries, as much as elsewhere, higher tariffs are imposed on more processed products to retain higher value-added activities in the domestic market, while lower tariffs are applied to raw material not locally available. This tariff escalation discourages African enterprises from processing raw materials exported to Asia. Broadman (2007b) illustrates this argument with the example of an Indian-owned cashew firm in Tanzania that cannot profitably export roasted nuts to India, because of higher tariffs on processed nuts than on raw nuts.

Several advanced developing countries have defined trade preferences for LDCs. For instance, China has extended zero tariff treatment on many products from 41 LDCs including some in the Asia-Pacific region (Engel 2009). China became a relatively liberalized market after entering the WTO: 45 per cent of its imports have zero or close to zero tariffs. Along the same lines, at the first India-Africa summit in 2008, India offered duty-free access to all LDCs (Agrawal 2007). Similarly, Brazil will extend duty-free access to all LDCs starting in the second quarter of 2010.

Nevertheless, the deficiencies of unilateral trade preferences, as a tool for development, that have been amply discussed in the literature are also shared by preferences given to access in developing markets. In many cases, products in which LDCs have comparative advantage are excluded from the preferences as “import-sensitive” products, or are submitted to safeguards, after reaching a critical size. In addition, there is uncertainty surrounding the stability of sustained access under preferential programmes. Lack of stable market access reduces the attraction for private investment in industries that could benefit from the preferential access.

There is abundant evidence in the literature indicating that linking the preferential market access to improvements of supply capacity is a sine-qua-non condition for LDCs to benefit from duty-free and quota-free market access and for domestic firms to survive a possible erosion of preferences. Several authors have emphasized that tariffs are not the greatest problem that

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53 Productive capacities are defined as the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop. For tradable goods and services, it is the capacity to produce in an internationally competitive manner that matters (UNCTAD 2006).

54 The expansion of trade in poor countries as a tool for poverty reduction is part of the United Nations Millennium Development Goals (Goal 8: Develop a global partnership for development). United Nations estimate that agricultural subsidies in industrial countries are several times the amount that correspond to aid to the LDCs, landlocked countries and small island developing countries (http://unstats.un.org/unsd/mdg/Default.aspx).

55 The highest barriers in the tariff schedules of most countries normally apply to processed natural resources, agricultural products, textiles and apparel, footwear, and other light manufactures.

56 Preferences will be granted to 80 per cent of Brazilian tariff lines increasing by 5 per cent each year until reach 100 per cent in 2014. Excluding oil, the sum of all Brazilian import from LDCs account for less than 0.5 per cent of all Brazilian imports. Bangladesh textiles are the only expressive imports and some of textile products from this country will be excluded from preferences. In addition, a safeguard mechanism will further protect the Brazilian domestic industry (“Brasil vai acelerar abertura aos mais pobres”, Valor Econômico, Assis Moreira, 04.02.2010).
African LDCs confront in foreign markets (Brenton 2003, Broadman 2007b, Clarke 2005). For instance, Broadman (2007) mentioned the case of African exports of cocoa beans to China although Chinese tariff (9 per cent) on finished chocolate is close to the tariff applied on cocoa bean (8 per cent). Since African LDCs lack the supply capacity to produce high-quality chocolate, they cannot benefit from higher imports of processed cocoa bean products by China.

United Nations, particularly UNCTAD, documents have concluded that LDCs cannot compete internationally on a level playing field. Trade upgrading in LDCs are less constrained by barriers at the border than by “behind-the-border” and “between-the-border” factors. Broadman (2007) included tariff and non-tariff barriers, foreign investment regimes and trade agreements in the set of at-the-border trade and investment policies. Behind-the-border (domestic) market conditions comprise the nature of the business environment, competitiveness of market structures, quality of market institutions, and supply constraints such as poor infrastructure and underdeveloped human capital and skills. Between-the-border factors include the development of cross-border trade facilitating logistical and transport regimes, quantity and quality of information about overseas market opportunities, including through expatriate and the ethnic diasporas, impact of technical standards and the role of migration.

LDCs must become capable of meeting standard market requirements and to successfully compete with efficient producers and traders even after the preferences expire. For that, the integrated approach to development cooperation should include supply-side support measures and trade capacity building together with a deep revision of product coverage by preference-granting countries that also take account the administrative costs of preference utilization. The provision of preferential market access should be linked to technical and financial assistance in areas related to “behind-the-border” factors, particularly the upgrading of SMEs (small and medium sized enterprises) through managers’ training, improving marketing, product quality, and favouring the adjustment of the country’s facilities and controls to world sanitary and phytosanitary (SPS) measures.

African LDCs governments should (re)negotiate with preference-granting countries to ensure that their products are getting real market access in more advanced countries. Although, preference granting is a unilateral decision from preference-granting countries, LDCs administrations, in the context of regional and subregional integration schemes, should use the available negotiating space to certify that they are getting effective tariff reductions for goods that their countries effectively produce while pressing for technical training to help their firms to comply with non-tariff barriers and product quality requirements. Local governments in LDCs have to negotiate with governments in large developing countries for more investment in capacity building and technical cooperation in areas that could contribute to a sustainable recovery of LDCs economies. In the short-run, priority areas should include trade facilitation, particularly the training of customs officers, rationalization and the upgrading of border operations (simplification and reduction of documentation requirements across borders).

Trade facilitation could be extended to regional arrangements. There is considerable evidence showing that much trade could be expanded within existing subregional integration schemes

57 Broadman (2007) is of the opinion that if China and India were to immediately provide open and full market access to LDCs producers, the intended outcomes probably would not materialized because of behind-the-border and between-the-border factors.

58 Engel (2009) found that Chinese and Indian trade preferences to African countries included NMF zero tariff goods as well as a great number of products that were beyond the manufacturing capacity of those countries.
by just simplifying and reducing documentation requirements across borders, enhancing transparency, expediting the release of goods from customs, standardizing trade related regulations and improving border agency coordination within and across African nations.

The group of LDCs and small states is heterogeneous. Hence different groups of countries will face different policy challenges albeit with the same purpose of using trade opportunities to improve domestic production capacities. The underlying understanding is that development is promoted by governments through policies towards trade and integration and not by trade and integration per se (Lin 2007). The gains from trade are derived from the reallocating of productive factors across sectors, either across firms within sectors or across products within firms. LDCs’ governments should aim at the growth enhancing effects of resource transfers that could be obtained from greater and better access to advanced developing countries markets.

It took some time for trade economists to discover that trade does not consist of economic relations between unrelated manufacturing firms. Consequently, trade economists only recently became aware of the importance of several services in enhancing trade in goods. Conversely, the structure of domestic services can act as a powerful barrier for increasing trade in goods. Consequently, trade-supporting services such as marketing, distribution, and logistics should be included in the package for enhancing productive capacities in LDCs through South-South cooperation.

Likewise, in a forward-looking move, some LDCs could negotiate preferential access for goods they not yet produce to foster resource-based value-added manufacturing exports. African LDCs can benefit from burgeoning middle-income markets in China, India, Latin America, to achieve a capability-centered development. Domestic policies should enable an environment to attract investment in value-added production in the natural resource sector and others with a view to participate effectively in global supply chains. Governments should aim at the complementarities between investment and trade, including the extent to which investment and trade flows influence one another; the effects of such complementarities on scale of production and ability of firms to integrate across markets; participation in global production networks and value chains; and spillover effects of technology transfer. For that, LDCs should aim at the dynamics relations between trade and investment in FDI by China, India, and Brazil. Chinese and Indian investments are already propelling African trade into multinational corporate networks which eventually may alter the current international division of labor. Although limited to non-LDCs in Africa, mostly Nigeria, Ghana and South Africa, resource-based manufactures such as aluminium, iron, and steel are part of Africa’s leading exports to China and India (Broadman 2007). There are several industries in the most developed African countries that have either already engaged in or have strong prospects for engaging in buyer-driven network trade, including food, fresh-cut flowers, apparel, and fisheries, among others. It is expected that those more advanced African countries could evolve as regional hubs of emerging supply chains bringing into them SMEs from African LDCs.

59 As François and Wooton (2005: I) recognizes, international trade in goods depends on the domestic trade and distribution sector that facilitates the trade. “Yet in standard trade theory, this dependency is one of the items we hide under the analytical rug to keep things tractable.”

60 Producer-driven networks are often coordinated by large multinationals. They are vertical, multilayered arrangements, usually with a direct ownership structure including parents, subsidiaries, and subcontractors. They tend to be found in capital- and technology-intensive sectors, often dominated by global oligopolies. The manufacturers control “upstream” relations with suppliers of intermediate components and “downstream” or forward links with distribution and retailing services. Labour-intensive consumer goods such as apparel, footwear, food, and furniture, among other compose buyer-driven commodity chains that are characterized by highly competitive, locally owned, and globally dispersed production systems.
Some of the industries derived from primary products can promote forward and backward linkages with the rest of the economy, enabling the development of local suppliers, and of SMEs, allowing for technology transfer between enterprises. This virtuous process will not emerge on the basis of the “animal spirits” of domestic entrepreneurs. Problems already well studied in the economic literature call for enlightened governmental policies to create an effective system of incentives to attract private investments and coordinating mechanisms to ensure that investments will be channelled to targeted sectors (UNCTAD 2008, 2009). In other cases, large state-owned enterprises in mining and oil-extraction can use their sizeable purchasing power to foster the creation of local suppliers.

Advanced developing countries have successfully employed a mix of policies and institutions to expand their productive basis and promote wider and deeper linkages between the exporting sector and the rest of the economy that may help lesser developed countries to redefine their development, industrial and trade priorities. Developing countries such as China, India, Brazil, the Republic of Korea have gained useful experience in employing the purchasing power of the state to promote the creation of SMEs and of local suppliers. Those countries should give more visibility to the successful experiences of promoting the creation and the expansion of local suppliers, as in the Brazilian case of the giant state-owned Petrobras, or the sophisticated EMBRAER (airplane builder).

As an illustration, India has traditionally imported phosphates from Senegal while Chinese imports consist basically of fish. While there is scope for increasing the value-added in phosphates, Senegal has not been concerned in defining a global development plan for its mining sector or to integrate it into the West African region. Hazard et al. (2009) see a large potential for cooperation between China, India and West African countries in the development of aquaculture and fish breeding that could reduce pressure on Senegalese marine resources.

With regard to investment, much of the accumulated stock of Chinese and Indian foreign direct investment (FDI) in African LDCs is concentrated in extractive sectors, such as oil and mining. However, some diversification of these countries’ FDI flows to African LDCs has been observed more recently. Significant Chinese and Indian investments on the African continent have been made in apparel, food processing, retail ventures, fisheries and seafood farming, commercial real estate and transport construction, tourism, power plants, and telecommunications, among other sectors. China and India are pursuing commercial strategies with Africa that are about far more than resources (Broadman 2007).

On the other hand, the preferential access of African LDCs to high-income markets (Everything but Arms (EBA), to European Union, and the African Growth and Opportunities Act (AGOA) to the United States) by African countries such as Angola, Mozambique, Sierra Leone, Sudan, and Zambia is attracting investment in sugar and ethanol production, opening questions on the distribution of the gains from these investment and trade opportunities. Many European

61 Indian firms have been major investors in Senegal’s phosphates industry and purchase nearly all phosphate output (“2009 Investment Climate Statement – Senegal”, US Department of State, available at http://www.state.gov/e/eeb/rts/othr/ics/2009/117156.htm).

62 The Senegalese defined an accelerated growth strategy that rests on five clusters identifies as being motors of growth: a. the agriculture and food industries; 2. Marine products; 3. Tourism, the craft industry and cultural industries; 4. Cotton, textiles and clothing; and 5. Communication and information technologies as well as teleservices (Hazard et al. 2009, p. 1580).

63 The AGOA and the EBA have encouraged Asian investment in manufacturing sectors such as the apparel industry in Lesotho and automobile assembling in South Africa (Broadman 2007).
firms are renting land in African LDCs, particularly in Sierra Leona and Tanzania, to produce ethanol for European markets.**\(^{64}\)**

In addition, the expansion of sugar and ethanol plants in Sudan and other countries creates a strong demand for capital and intermediate goods thereby creating South-South trade flows. Brazilian firms are selling turnkey plants to other foreign investors in African LDCs. These South-South trade flows that will be reflected in the statistics may leave little value-added for LDCs’ countries. While sophisticated machinery and services will be introduced in African producing countries whether there will be technology transfer to the country is an outcome highly dependent on domestic policies.**\(^{65}\)**

Another concern is related to the acquisition of land by foreigners to produce food and agricultural products to be later exported to the investing country. Land scarcity in industrial countries converted productive land in African LDCs into a precious asset in spite of the absence of reliable protection of property rights in most of those countries. Foreign investors’ search for land is a recent fact and many African countries are not familiar with legal rights and political consequences of foreign ownership of land.

In parallel, LDCs will have to deal with the impact of Asian imports, mainly from China and India, of labour-intensive goods on local labour and firms. South-South trade and investment imply in complementary but also competitive linkages between Asian and African economies. There are studies that have documented negative impacts of Asian imports of cheap textiles and clothing to African and Asian domestic firms and in job creation (Centre for Chinese Studies 2007; Hazard et al. 2009; Wang, Wu and Yao 2008).

In the middle-run, South-South cooperation should focus on food security, including rural extension, rural technical assistance, knowledge-sharing in institution-building and training adopting, improving and extending innovative projects such as those undertaken by EMBRAPA, from Brazil. A framework for sustained long-term investment strategies to ensure agricultural transformation is provided by the Comprehensive African Agriculture Development Programme (CAADP) of the African Union’s New Partnership for Africa’s Development (AU/NEPAD).**\(^{66}\)** There is a consensus that the transformation of African (LDCs) agriculture provides a good opportunity for economic diversification and enhances the conditions for poverty reduction.**\(^{67}\)**

It should not be forgotten that China, India, Brazil, South Africa, Nigeria each have modernizing industries and rapidly increasing middle classes with rising incomes and purchasing power. The

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**\(^{64}\)** The Swinn company Addax Bioenergy signed a contract with the government of Sierra Leona to rent 10 thousand hectares to produce 100 million liters of ethanol from sugarcane. The Swedish Sekab has a project of renting land in Tanzania (“Agroenergia: companhias arrendam areas para produzir o biocombustível e exportá-lo sem tarifas –a Europa”, Valor Econômico, 18.02.2010).


**\(^{66}\)** The New Partnership for Africa’s Development (NEPAD). NEPAD is a long-term agenda for Africa adopted as a programme of the Africa Union. The NEPAD Secretariat is developing an implementation plan and building linkages with existing regional organizations, the United Nations Economic Commission for Africa (ECA) and the Africa Development Bank (AfDB), to elaborate proposals in support of NEPAD priorities.

**\(^{67}\)** The AU-NEPAD (2004) road map on implementing the CAADP and restoring food security in Africa has identified four pillars for transforming agriculture: improve agricultural research and technology dissemination and adoption; Increase food supply chains, reduce hunger and improve response to emergencies; Extend areas under sustainable land management and reliable water control systems; and Improve rural infrastructure and trade-related capacities for market access. Many African countries barely reach 4% of GDP (agricultural funding) and have depended on ODA for funding agriculture and other sectors. Following the Maputo Summit, African countries agreed to devote at least 10 per cent of their public expenditures to agriculture. (ECA 2009 p. 123).
result is that a growing demand exists not only for natural resource–extractive commodities, agricultural goods such as cotton, and other traditional African exports, but also for more diversified, nontraditional exports such as processed commodities, light manufactured products, household consumer goods, food, and tourism. African and Asian LDCs have the potential to export these nontraditional goods and services competitively to the average advanced developing countries’ consumers and firms.

LDCs’ governments aspire at upgrading their domestic productive capacities and the product mix of exports through greater and better participation in international production networks. However, without overcoming basic structural bottlenecks it is unlikely that the majority of African LDCs will integrated in global supply chains. Subramanian and Matthijs (2007) identified five critical factors for enhancing a country’s participation in global value-chain networks: 1. Price; 2. Speed-to-market; 3. Labour productivity; 4. Flexibility and 5. Product quality. LDCs firms and infrastructure do not help these countries to score well in any of the five components.

There remains the question on how to enable LDCs to build on the strength of its endowments of natural resources and develop backward and forward linkages to extract more value from processing, and in some cases participate in modern global production-sharing networks. Basically, how interstate cooperation could foster the formation of regional and sub-regional supply chains using and expanding regional resources? The United Nations Economic Commission on Africa has been discussing how to enhance the structural transformation of African agriculture through systematic efforts to develop regionally integrated value chains and markets for selected strategic food and agricultural commodities. However, without facing the structural problems derived from precarious or inexistent infrastructure in transport, energy, information and communication LDCs will not become competitive suppliers.

In the long-run, South-South cooperation should keep the focus in areas where North-South support mechanisms have failed, particularly in the financial support of infrastructural projects, mainly multimodal transport, railways, roads, ports, without which, no production and trade diversification will take place. There is abundant empirical evidence on the impact of precarious infrastructure on poor African development. Inadequate supply of electricity, inadequate transport facilities, and insufficient communication conditions act as solid barriers to trade and investment (Calderón and Servén 2008). The innovative proposal by India

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68 The South-South Initiative on cotton, promoted by UNIDO (United Nations Industrial Development Organization) is an interesting example of interregional cooperation among government, representatives of the private sector, cotton farmer representatives, with technical cooperation provided by African Cotton Association, the International cotton Advisory Committee, the South India Cotton Association and the China Cotton Association. The Initiative is focused on 11 cotton-producing countries, nine of which are LDCs: Benin, Burkina Faso, Cameroon, Chad, Côte d’Ivoire, Mali, Nigeria, Senegal, Uganda, the United Republic of Tanzania, and Zambia (available at http://www.unido.org/index.php?id=84840.

69 See also UNCTAD 2010.

70 Export processing zones (EPZ) have not been effective in Africa (Broadman 2007).

71 Strategies for transforming African agriculture have to address such challenges as low investment and productivity, poor infrastructure, lack of funding for agricultural research, inadequate use of yield-enhancing technologies, weak linkages between agriculture and other sectors, unfavourable policy and regulatory environments and climate change.

72 Djankov, Freund and Pham 2006 showed that a day’s delay reduce a country’s relative exports of time-sensitive to time insensitive agricultural goods by 6 %.
materialized in the Pan African E-network project should be assessed, upgraded and replicated.\(^{73}\)

There is evidence of significant opportunities for greater African participation in network trade in services exports. Hence, Indian investments and cooperation can engender significant supply chain spillover effects domestically. One possible area is outsourcing and back-office services, such as those already being implemented in Senegal, and Tanzania, among others, but also tourism.

Most of the South-South development cooperation projects that were described before contain the seed for their dissemination in larger scale. As mentioned before, the most advanced developing countries share similar successful experiences of wise state intervention in economic life, with a view of a pragmatic coordination of market forces. Coordinating institutions were built for that purpose. In this sense, the Vietnamese proposal of communicating to other countries the difficulties the country faced in the construction of market institutions is noteworthy. In particular, the best-practices with the creation of the machinery for the formulation and implementation of effective industrial policy should be disseminated using South-South cooperation instances.

India, China and Brazil have a lot to offer to LDCs on knowledge on clean renewable energy projects. Projects could be developed through public-private partnership and financed by industrial donors. As mentioned before, bio-fuels are already a promising area with more than 15 projects being under consideration just in Sudan.\(^{74}\) In some cases, royalties and tax agreements between exploring enterprises and governments should be reviewed. The problem is how to convince individual governments that only through enlightened collective action they will succeed in increasing their bargaining power and redress their participation in the distribution of agricultural and mining rents. Moreover, internally, the great challenge is to ensure that the derived income will contribute to economic development.

Finally, many projects are coming into the forefront that place special focus of the vulnerability of LDCs to climate change mitigation and adaptation. Ways and means will have to be found to improve the scientific capacity of LDCs to assess climate change vulnerabilities and adaptations, and generate and communicate information useful for adaptation planning and action. The Capacity Strengthening of LDCs for Adaptation to Climate Change (CLACC) project initiated by IIED and the RING Partner institutions aims at ameliorating the capacity of civil society based organizations working with the poor and vulnerable countries in 12 selected LDCs (9 in Africa and 3 in South Asia).\(^{75}\)

5. **Final considerations**

The case for more South-South cooperation stands largely by itself because there is a great acceptance that the stock of knowledge in advanced developing countries is more adequate to the needs of LDCs.\(^{76}\) In these countries, severe problems of capital formation, investment and

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\(^{73}\) It is important to recall the 2006 decision by the G77 to re-focus the Third world Network of Scientific Organizations as the Consortium on Science, Technology and Innovation for the South.

\(^{74}\) See previous note. According to the Brazilian press there are already eight sugar plants in Sudan, with a total of 100 thousand hectares. For more information on the positive and negative aspects of biofuels see UNCTAD 2009c.

\(^{75}\) See [http://www.clacc.net](http://www.clacc.net). In 2006, the Convention on Biological Diversity began the process of formulating a four-year plan of action on South-South Cooperation in biodiversity.

\(^{76}\) Recognition and support has been received. South-South Cooperation gained greater prominence after its inclusion in the Accra Agenda for Action, the September 2008 agreement that contributed to reinforce the aid effectiveness principles of the Paris Declaration.
domestic savings and limited powers of cognition and implementation of central authorities convert the technocratic dream of a step-by-step execution of rational plan into policy-making angst. When all the basic components of a nation’s physical, human, institutional, and innovation infrastructure are lacking, establishing a priority order in investment projects revives similar impasses proposed by the pioneers in development in the late 1940s and 1950s.77

South-South cooperation and development assistance initiatives are anchored on the principles of non-exploitative and horizontal relationships between more advanced developing countries and LDCs.78 Cooperation and partnership should constitute the basis for economic relations between the two groups of developing countries. LDCs demanded more agency as aid recipients both from the North and from the South. The 2005 Paris Declaration of 2005 and the 2008 Accra Agenda for Action set the patterns for an effective use of development assistance, which are also valid for South-South cooperation: predictability, ownership, use of country local systems, conditionality based on development objectives, partnerships and transparency.

There is much to be done. As much as there is a multiplicity of experience in the South, there is also diversity in power relations. Individual LDCs will benefit from increasing their bargaining power through pooling their voices using regional and multilateral machinery. Multilateral institutions such as the African Union and the NEPAD secretariat have been slow in formulating their own foreign policy positions. Hence the bilateral negotiations were reinforced and aid projects have been disconnected from one country to another.

South-South cooperation is profiting from important initiatives implemented in different stages in Africa, Asia and Latin America focused on asserting regional self-reliance and national sovereignty. In Africa, NEPAD put roads, telecommunications, pipelines, logistics and enabling border formalities at the centre of the development agenda. Likewise, two major African initiatives aimed at increasing productivity in agriculture should be built upon: AGRA (Alliance for a Green Revolution in Africa) and CAADP (Comprehensive Africa Agriculture Development Programme).

Despite all significant advances, a lot remains to be done to move from the scale of training, knowledge- and experience-sharing in bilateral relations to greater collective action in a coherent manner. There is a need for a full dialogue between knowledge provider and knowledge demandeur to guarantee a Hirshmanian voice to both sides of the cooperation table and therefore to keep the profile of South-South cooperation as a peer process.

In 1980, Sir Arthur Lewis made a famous speech in which he stated the conditions for greatly expanded South-South economic relations in the face of the sluggish growth in industrial countries. In his view those conditions included the loosening of the dependence of the rate of growth of production in the developing world on the rate of growth of output and imports in the developed world. For countries in the South to become an important source for the economic growth for the South would require that some of the developing countries should have already reached the stage of self sustaining growth. These conditions were not ready in the early 1980s. They seem to be ready now, thirty years later.

78 Marrakech 2003 and Doha 2005.


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