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South–South Cooperation: A Survey of Recent Trends

Vivan Sharan and Prashant Kumar

Introduction

South–South cooperation can be traced back to the Bandung Conference of 1955. The conference was held at a critical period in global transition as post–war movements were taking shape in Asia and Africa. It was clear from the outset that development assistance, technical cooperation and integration through trade and investment were to be pillars of economic cooperation within the South–South framework. Thus cooperation was never circumscribed by a donor–recipient construct, traditionally associated with North–South cooperation.

These concepts were further advanced by the Group of 77 (G-77), established in 1964 by seventy seven developing countries at the end of the first session of the United Nations Conference on Trade and Development (UNCTAD). The distinctive feature of the G-77 is the emphasis on unity and solidarity within the group of developing countries. From the first declaration of the G-77 in Geneva, it is clear that South–South cooperation arises from a historical background which places emphasis on shared prosperity through economic development.

Therefore any evaluation of South–South Cooperation must encompass the areas of trade, investment and aid. This brief highlights the role for South–South cooperation in the 21st century and does so by comparing North–South and South–South flows. One of the recurring themes here is the fundamental change that has taken place in the global economy since the Global Financial Crisis, which in turn has profound implications for each of the areas analysed. The share of

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developed countries' collective GDP as a proportion of global GDP has slipped from close to 80 per cent in 1990 to about 60 per cent in 2012. This brief emphasises that the crisis has helped to reinforce similar macro trends within trade, investment and aid.

Trade

According to UNCTAD, since 2008-09, the global South exports more to other developing countries than to countries in the North. Moreover, South-South exports accounted for nearly a quarter of world exports in 2011 compared to 13 per cent in 2001. The developing countries in Asia accounted for 77 per cent of South-South exports in 2011. According to India's EXIM bank, the share of the South in global merchandise exports has increased from 20 per cent during the mid-1980s to 45 per cent in 2007.

As is evidenced from Table 1, this shift in the destination of exports from the South has accelerated in the last two decades. While exports to the North accounted for 61 per cent of total exports in 1990-91, this proportion has fallen substantially to only 42 per cent as of 2010-11. And in the last decade the shift has been rapid—represented by a substantial 36.5 per cent jump in trade originating from the South destined for the South.

Table 1: Changes in the Destination of Exports from the South (as % of total exports)

Destination	1990 -91	1995 -97	2000 -02	2005 -07	2010 -11
To the South	38	42	41	47	56
To the North	61	57	58	51	42

Source: unctad.org/tab

The Global Financial Crisis has slowed the growth of Western economies significantly. IMF estimates for global growth indicate a wide gap between the projected growth rates of advanced countries and emerging and developing economies. According to latest forecasts, advanced economies including the United States and countries in the euro zone, are expected to grow by 1.2 per cent and 2 per cent in 2013 and 2014 respectively. In contrast, emerging and developing economies including those in the BRICS grouping are expected to grow by 4.5 per cent and 5.1 per cent in these years.

Table 2 shows just how the markets and consumption capacity of the North have been stifled by the crisis. The share of developed economies in global imports has shrunk in the past 5 years by over 10 per cent and that of the Group of 7 (G-7) countries, by over 7.6 per cent.[1] At the same time the share of developing economies in global imports has increased by over 17.7 per cent and that of the five

BRICS countries by over 15 per cent. Therefore the cyclical shift since the global financial crisis has helped to reinforce a larger fundamental shift that is captured in the previous table.

Table 2: Share in Global Imports by Country Groupings in %

Group of Countries	2008	2009	2010	2011	2012
Developing Economies	38.3	39.7	42.7	43.8	45.1
Developed Economies	60.9	59.4	57.1	55.9	54.7
BRICS	12.1	13	14.6	15.5	16.1
G7	39.3	38.5	37.6	36.7	36.6

Source: International Trade Centre

Foreign Direct Investment (FDI)

Until recently, nominal amounts of outward FDI flows originated from the global South. Developed countries accounted for most of the FDI flows in the past. The US itself accounted for over 50 per cent of global outward FDI flows in 1950, whereas in 2011, the figure stood at relatively modest 21 per cent. This shift, much as is the case with trade, is fundamental. Developing countries have emerged as major sources of foreign investment over the past two decades.

The table below shows that the proportion of outward FDI originating from developing economies has been consistently rising from a mere 0.02 per cent of GDP in 1970 to over 2 per cent in 2010. At the same time, over the last decade outward FDI from developed economies has shrunk as a proportion of GDP from close to 4.4 per cent in 2000 to around 2.5 per cent in 2010. Clearly the slack from the North is being made up for by the South.

According to UNCTAD, although there are no systematic data, there is anecdotal evidence that a relevant share of this FDI is invested in other developing countries. Numbers support this hypothesis. Since 1970, there has been an over 320 per cent increase in the inward flows of FDI to developing countries as a proportionate share of GDP. Concomitantly, in the last decade since 2000 to 2010, there has been more than a 309 per cent decline in inward FDI received by developed economies as a proportion of GDP.

Table 3: Foreign Direct Investment Flows as % of GDP 1970-2010

Economies	1970	1980	1990	2000	2010	Direction
Developed economies	0.63	0.59	1.31	4.38	2.54	Outward
Developing economies	0.02	0.14	0.32	2.16	2.01	Outward
Developed economies	0.42	0.56	0.98	4.58	1.72	Inward
Developing economies	0.72	0.29	0.91	3.78	3.05	Inward

Source: UNCTAD

It is instructive to note that transnational corporations are increasingly investing in developing economies owing to a number of fundamental drivers. According to UNCTAD, The primary drivers tend to be low wage rates and better access to diversified consumer markets.[2] While it can be argued that a large proportionate share of inward FDI directed towards developing economies has been received by only a handful of nations, particularly those with a competitive advantage in industry and manufacturing (such as China) or with large middle class bases (such as India), this trend is likely to be more widely dispersed in the decades to come. Growth of middle class may be a fundamental driver of more broad dispersion of FDI flows. For instance, today, only 2 per cent of the global middle class resides in Sub-Saharan Africa, but this proportion is projected to reach 23 per cent by 2030 (Table 4).

Table 4: Middle Class Growth Projections

	Size (in million) and Distribution (% of Total)					
	2009	**%**	**2020**	**%**	**2030**	**%**
North America	338	18	333	10	322	7
Europe	664	36	703	22	680	14
Central and South America	181	10	251	8	313	6
Asia-Pacific	525	28	1740	54	3228	66
Sub-Saharan Africa	32	2	57	2	107	23
Middle East and North Africa	105	6	165	5	234	5
World	1845	100	3249	100	4884	100

Source: Ernst & Young, 2013

Note: Middle Class is defined by the level of Disposable Income and Spending Power

Shifting patterns in FDI flows is already evident, as seen in the table below. There is a rising trend in both inflows and outflows of FDI in developing economies, and a concomitant decline in flows for developed economies. Least Developed Countries (LDCs) have seen over a 46 per cent increase in inflows from 2010 to 2012 and a 100 per cent increase in outflows in the same period. This trend, though it cannot continue at the same pace, might foretell a broader distribution to new middle class growth centres in the coming years.

Table 5: FDI Flows 2010-2012 (%)

	FDI Flows 2010-2012 (%)					
	FDI Inflows			FDI Outflows		
Economy	**2010**	**2011**	**2012**	**2010**	**2011**	**2012**
Developed Economies	49.4	49.7	41.5	68.4	70.5	64.4
Developing Economies	45.2	44.5	52	27.5	25.5	30.6
LDCs	1.3	1.3	1.9	0.2	0.2	0.4

Source: World Investment Report 2013, UNCTAD

The outward movement of FDI from the global south is now an established trend. Even before the global recession, signs of the FDI outflows from the South had started making waves. One of the examples of such outflows was the 2005 acquisition of IBM Personal Computers by the little known Chinese computer manufacturer–Lenovo. The trend has only strengthened since the Global Financial Crisis. Companies in developing economies, which were not hit as hard as those operating in demand saturated advanced economies, have started to consolidate their international presence. The examples of Indian multinational companies (MNCs) listed below shows the level of global expansion. Chinese FDI outflows (which includes outflows from Hong Kong) in 2012 alone were above US$ 50 billion.

Table 6: Top Mergers and Acquisition by Indian MNCs by Value, 2007 - 2011

Year	Acquiring Company	Target Company	Target Industry	Target Nation	Value ($mn)
2007	Tata Steel UK	Corus Group PLC	Steel	United Kingdom	11791
2007	Bharti Airtel Ltd	Zain Africa BV	Telecom	Kuwait	10700
2010	AV Aluminium Inc	Novelis Inc	Metal	United States	5789
2010	Investor Group*	Rep Of Venezuela Cardobo Block	Oil and Gas	Venezuela	4848
2010	Adani Mining Pty Ltd	Linc Energy Ltd	Mining	Australia	2740
2008	Investor Group*	Sabiha Gokcen International Airport	Transport	Turkey	2656
2008	Jarpeno Ltd	Imperial Energy Corp PLC	Oil and Gas	United Kingdom	2608
2008	Tata Motors Ltd	Jaguar Cars Ltd	Auto	United States	2300
2011	Mundra Port and Special Economic Zone	Abbot Point Coal Terminal	Transport	Australia	1951

*Group of Investors

Source: World Investment Report, 2013. UNCTAD

Aid

According to the UNDP, "South–South cooperation is about developing countries working together to find solutions to common development challenges".[3] The key point to emphasise here is that the principles of South–South aid flows, while not being explicitly defined within any common policy framework, are essentially centred on the idea of mutual benefit and exchanges on common and shared development experiences and knowledge. In fact the Indian Government has stated using the term 'development cooperation' to steer away from terminologies traditionally associated with a donor–recipient paradigm of aid.

As is evidenced by Table 7, the largest recipients of bilateral aid originating from the South are often countries linked by history, geography, and socio–economic and cultural similarities. In some cases

such as India, nearly three fourths of bilateral aid is disbursed to its extended South Asian neighbourhood, comprising of developing stakeholders.

Table 7: South-South Aid Flows, 2006

		Top Three Recipients (per cent of bilateral aid) 2006		
	Number of Recipient Countries	1	2	3
India	NA	Bhutan (36 per cent)	Afghanistan (25 per cent)	Nepal (13 per cent)
Malaysia *	136	Indonesia	Myanmar	Cambodia
Thailand	58	Laos (59.9 per cent	Cambodia (25.9 per cent	Myanmar (6.9 per cent)
Arab Countries	40	Morocco (28 per cent)	Sudan (13.8 per cent)	China (11.3 per cent)
Brazil	46	Haiti	Cape Verde	East Timor
Chile	NA	Cuba	Guatemala	El Salvador

Source: UN, 2008 * 2005 data

'Official Development Assistance' ODA is defined as the concessional part of official resource flows from the North to the South by the OECD. In 2005, 15 countries of the European Union (EU) agreed to achieve a target amount of ODA equal to 0.7 per cent of Gross National Incomes (GNIs) of member countries by 2017. However, the table below shows that on average there has been a secular decline in ODA as a percentage of GNI. In fact there has been more than a 34 per cent decline in ODA as percentage of GNI originating from the United States, which traditionally has been the largest donor in absolute terms. The EU was not only far from the target levels of allocation in 2009 (0.44 per cent), there was a relative decline from 1950- 55 levels.

Table 8: ODA as % of GNP/GNI**

Country/Grouping	1950-55	1970-71	1990-91	2008*	2009*
United States	0.32	0.3	0.2	0.19	0.21
EEC	0.51	0.38	0.43	0.43	0.44
Japan	0.04	0.22	0.32	0.19	0.18
Canada	0.1	0.41	0.45	0.33	0.3
Sweden	0.04	0.4	0.91	0.98	1.12
Norway	0.04	0.33	1.15	0.89	1.06
Australia	–	0.59	0.36	0.32	0.29
Switzerland	0.02	0.112	0.34	0.44	0.45
Finland	–	0.09	0.7	0.44	0.54
Austria	–	0.07	0.29	0.43	0.3
New Zealand	–	0.23	0.26	0.3	0.28

Source: OECD, 1996; *http://www.oecd.org/dac/stats/47137659.pdf, 2011

** The standard measurement for proportionate ODA has changed from GNP to GNI in recent years

The Global Financial Crisis has set in place a fundamental change even in terms of ODA flows. According to the United Nations, ODA flows in 2012 showed a four per cent drop in real terms from 2011 levels and were less than 0.3 per cent of donor's collective GNI. ODA in 2011 was also two per cent below 2010 levels. This is the first time since 1996-97 that there has been a drop in ODA in real terms for two consecutive years. Simultaneous to this decline, the OECD's Development Assistance Committee has found in a recent survey that ODA flows have shifted from being primarily directed at low income countries, to being directed towards middle income countries.

Additionally, it is worthwhile to note that historically, North-South aid flows have been characterised by political and economic conditionality and are often disbursed in the form of tied aid. According to the European Network on Debt and Development (EURODAD), many countries have reneged on their commitment to untie their foreign aid, and 20 per cent of all formal bilateral aid originating from these countries remains tied. This is a critical point of differentiation between North-South and South-South aid flows. Moreover, conditionality has traditionally been underpinned by prescriptive development models.

Conclusion

This brief has focussed on recent trends in South–South cooperation in the areas of trade, investment and aid. It is clear that the Global Financial Crisis has acted as a veritable inflection point in observable trends. There are two main reasons for this. The first is that developing economies of the global South have been generally more resilient than developed economies of the North. This is corroborated by consistent high growth rates in these economies. The second is that even before the financial crisis, trends already indicated a fundamental shift. The cyclical downtrend in economic growth of the North has been exacerbated by the crisis. The 'new normal' rates of growth are simply not sufficient to maintain trends prevalent a few decades ago.

The above mentioned shift is clear in evolving patterns of trade and investment. Another pattern which is likely to manifest itself more prominently in the coming years is the increase in flows towards economies which have not seemed to be as commercially attractive as the 'emerging economies'. Growth in middle class consumers in economies such as the LDCs could be one driver for increased attention on these untapped markets. Indeed in the past few years, investment originating and destined for these countries have increased manifold. Stakeholders within incumbent emerging economies including India would do well to enhance their commercial engagements with new markets.

Similar to the case for trade and investment, the South is now playing a commensurately larger role in assisting and partnering with developing economies. As North–South ODA decreases both in

relative and absolute terms, it is likely that the South will be asked to share proportionate responsibility. However, the premise of South–South cooperation is based on mutual benefit and therefore cooperation is based on a broader overarching objective than responsibility sharing. As trade, investment and aid flows within the South advance, developing countries must organically develop contextual frameworks to holistically assess the immense scale and impact of increased South–South cooperation.

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4. "Annual Report", Export–Import Bank of India, 2008-09
5. "World Economic Outlook", International Monetary Fund, 2013
6. "Hitting the Sweet Spot: The Growth of the Middle Class in Emerging Markets", Ernst and young, 2013
7. "The Millennium Development Goals Report", United Nations, 2013

Endnotes

1. The G-7 is a group consisting of the finance ministers of seven developed nations: the U.S., U.K., France, Germany, Italy, Canada and Japan
2. For more information see: http://unctad.org/en/PublicationsLibrary/tdr2013_en.pdf
3. For more information, see: http://www.undp.org/content/undp/en/home/ourwork/povertyreduction/focus_areas/focus_development_finance/south-south_cooperation.html

ABOUT THE AUTHORS

Vivan Sharan is an Associate Fellow at the Observer Research Foundation. As part of the Development and Outreach team, he works in a number of areas related to global political and economic governance.

Prashant Kumar is an Associate Fellow at the Centre for Economy and Development at the Observer Research Foundation (ORF), New Delhi. His research is focused on issues related to India's economic policies. He is also a member of the India Datalabs development team at ORF.

Observer Research Foundation,
20, Rouse Avenue, New Delhi-110 002
Phone: +91-11-43520020 Fax: +91-11-43520003
www.orfonline.org email: orf@orfonline.org