South-South Cooperation – A new lease of life for developing countries

2016-09-12 00:00:59

Table 1: Main recipients of aid from selected developing donors

Country	Main Recipients
Brazil	Haiti, Cape Verde, East Timor; Lusophone and Southern American countries
China	Africa (46%), Asia (33%), Latin America (13%)
India	Bhutan (36%), Afghanistan (25%), Nepal (13%); Approximately 85% to Asia, 15% to Africa
South Africa	Southern African Development Community (70%), and other African countries.

Source: Walz and Ramachandran (2011)

The adoption of the Sustainable Development Goals (SDGs) along with the recent ratification of the Paris Agreement on climate change has heralded a new era of development policy discourse. Rather than concentrate on a purely economic measurement of growth and development, the international community has now embraced a more holistic approach that better represents the economic, social and environmental challenges faced by countries. In doing so, countries have also taken up a new gamut of policy objectives, which will require significant financial, technical and political support from all stakeholders.

A key lesson from the previous development era, led by the Millennium Development Goals (MDGs), is that developing countries cannot depend on developed countries to fulfil their obligations of development finance. With only a handful of developed countries fulfilling their obligation to direct 0.7 percent of GNI for Overseas Development Assistance (ODA), domestic and alternate forms of financing development have become increasingly important. It is under these conditions that the United Nations celebrates its Day for South-South Cooperation.

What is South-South Cooperation?

South-South Cooperation is a broad framework for collaboration between developing countries in the political, economic, cultural, environmental and technical domains. This effort was officially adopted on September 12, 1978 at the Buenos Aires Plan of Action for Promoting and Implementing Technical Cooperation among Developing Countries. The rapid emergence of developing countries such as Brazil, India and China as economic heavyweights, however, has significantly altered the landscape of South- South Cooperation. Rather than act as purely a means of goodwill, South-South Cooperation has become a tool for emerging economies to demonstrate their economic and diplomatic strength, commonly referred to as 'soft-power'. In effect, these emerging economies are directing more resources in the form of foreign aid and foreign direct investment to finance the development processes of fellow developing countries. It is important to note, however, that increasing levels of South-South aid flows do not reduce the levels of commitment by developed countries.

Is it an alternate means of finance?

In addition to increasing levels of aid flowing between developing countries, the dynamics of international aid flows are also changing, especially due to the considerable overlap between the recipients of foreign aid from developed countries and those from other developing countries. This particularly holds true to the African region, especially least developed countries (LDCs). Additionally, South-South Cooperation is also identifiably focussed on regional cooperation. Sri Lanka is a key beneficiary of this extension with a large component of its external development finance flowing from China and India.

While influencing traditional aid flow dynamics, research suggests that South-South Cooperation is not significant enough to act as an alternate means of finance. This is due to both the quantity of aid provided and the economic characteristics of the donor nations. LDCs, due to their poor economic conditions, require large amounts of external financing to carry out their policies, while also attempting to improve growth. However, compared to the aid needed, the amount provided by other developing countries account for a significantly small proportion. For example, estimates suggest that emerging donors contribute only 7-10 percent of global official aid. Consequently, aid recipients continue to depend heavily on traditional donors as a means of finance. Stakeholder interviews also suggest that the significance of traditional donors is further increased by the long-established structures of global economic governance, namely the Bretton Woods Institutions. The policy prescriptions advocated by the World Bank and other multilateral donor agencies are closely associated with aid disbursement policies of traditional donors. Notably, however, LDCs and low-middle income developing countries believe that the establishment of the BRICS Bank would offer a reasonable alternative to the existing financial structures in the long-term. This is likely to occur due to better coordination between emerging donors as well as the availability of a larger pool of resources for assistance.

The ability for aid from other developing nations to act as an alternate means of finance is further constricted by their respective market orientations as well. Similar to aid-dependent nations, emerging donors' economies have a considerably large primary sector. Therefore, developing countries find it difficult to penetrate the markets of emerging donors with their respective exports. Universal tariff preferences provided by industrial markets through the Generalized System of Preferences (GSP), Lomé Convention and other similar arrangements, therefore, afford developing countries a better opportunity to integrate into the world market and accrue benefits of the global trading system. However, such trading agreements are often tied to aid negotiations and therefore lead to engrained dependency cycles for aid recipients.

How does South-South Cooperation facilitate soft-power?

Amidst these limitations, however, emerging economy donors are increasingly influential in the realm of capacity development initiatives. Through an increased emphasis on infrastructure and human capacity development initiatives, cooperation among developing nations appears to strengthen when negotiating at multilateral platforms such as the UN and WTO. As noted previously, developing nations, especially those dependent on foreign aid, lack the necessary resources to dedicate towards capacity improvements.

For example, these limitations are particularly acute in training negotiators and gaining technical expertise. Consequently, aid recipients suffer from weak trade policy creation and depend on consultants associated with aid donors from developed nations. Emerging donors, appear to be paying special attention to this deficit and dedicate a significant portion of their aid towards developing trade and economic policy-related human capacity in other developing countries. Given that emerging donors are unable to compete against their developed counterparts on the scale of aid, they are more focussed on addressing issues of 'softpower'. Among the emerging donors, India is seen to be especially keen on such efforts along with considerable support from China.

For example, India hosts and trains trade negotiators and ministerial officials from other developing countries, especially from LDCs and newly acceding countries to the WTO. Moreover, China set up the 'China Programme' in 2011 to finance internships at the WTO Secretariat and other training facilities along with round table meetings for LDCs and newly acceding nations. These efforts from emerging donors are aimed at better integrating other developing nations into the multilateral treaty mechanism. In doing so, the institutional capacities of LDCs in particular are improved and the coordinating mechanisms used during multilateral negotiations are strengthened. Consequently, such efforts are seen as strengthening cooperation between developing nations and conversely reducing the influence of developed nations.

Future of South-South Cooperation

Thirty-eight years since the adoption of the Buenos Aires Plan of Action, South- South Cooperation has evolved significantly and is becoming an important instrument of international political economy. The role of emerging economies in this regard, therefore, is indubitable. The emergence of outward FDI from these developing countries is even more significant and provides countries like Sri Lanka an opportunity to attract a more diverse group of investment. Moreover, this could also facilitate the process of diversifying the country's export markets and tap into faster growing markets rather than traditional markets in the US and Europe, which are becoming increasingly crisis prone and slow in recovery. South-South Cooperation is unlikely to replace the existing routes of North-South economic and political cooperation. However, there is a vital role for South-South Cooperation to play as a complement to the development processes of each other.

(This article was written to mark UN Day for South-South Cooperation, which falls today (September 12, 2016). Kithmina Hewage is a Research Assistant at the Institute of Policy Studies of Sri Lanka)