FINANCE CENTER FOR
SOUTH-SOUTH COOPERATION
南南合作金融中心
FCSSC

2017 SOUTH-SOUTH COOPERATION REPORT

Changing Roles of South-South Cooperation in Global Development System: Towards 2030

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Congratulatory Message

The UN Office for South-South Cooperation congratulates the Finance Center for South-South Cooperation on the annual report entitled, "Changing Roles of South-South Cooperation in the Global Development System towards 2030". The publication captures the historical perspective and current transitions of South-South cooperation in today's development landscape. It introduces the strategies and practices of the emerging economies, development partners and the multilateral institutions created to facilitate the expansion of South-South cooperation. The report is therefore a very useful compilation of knowledge on South-South cooperation from concept to practice.

The report is also an example of the change in discourse on South-South cooperation. Whereas in the past South-South cooperation was sometimes challenged for lack of rigor in substantive analysis, this report compiles the research of reputed academics and thinkers from the Global South, supported by evidence-based case studies. Consequently, and as expected, the report reflects a diversity of independent views on a wide spectrum of issues on international development cooperation, criticisms and accolades; and offers perspectives on South-South Cooperation's complementarities and differences with North-South cooperation.

This report is a timely contribution as the international community prepares to commemorate the fortieth anniversary of the Buenos Aires Plan of Action for Cooperation among Developing Countries with a UN High–level Conference on South-South Cooperation (BAPA+40). UNOSSC, jointly with UNDP, is supporting a Global Coalition of Think Tank Network on SSC, to advance Southern perspectives and thought leadership in this context, bringing forward the diversity of views to inform policy makers and practitioners, in order to strengthen the pathways towards achieving the Agenda 2030.

I hope to see more of such knowledge products being led and produced by institutions from the countries of the Global South to enrich the discussion on this important agenda.

Jorge Chediek
Envoy of the United Nations Secretary-General on South-South Cooperation
Director of the United Nations Office for South-South Cooperation

Foreword

The 2030 Agenda and the Sustainable Development Goals (SDGs) are the universal calls to act to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. Peace and prosperity are to realize the full potential of every human life, not just of a few, nor of most, but of all lives in every corner of the world.

However, the agenda and goals are one thing, translating it into practice is another. Since the new century especially the 2007-08 financial crisis, the whole international political and economic situation has gone through major epoch-making changes, which will bring about uncertainties and challenges to the 2030 Sustainable Development Goals.

In response to this emerging challenge, in the last few years two very large multilateral development banks have been created: the Asian Infrastructure Investment Bank, supporting an infrastructure-led view of development and a regional emphasis, and the New Development Bank, emphasizing sustainable development and renewable energy. They can accommodate broader objectives in line with the Sustainable Development Goals.

The Belt and Road Initiative aims to boost international development cooperation by strengthening infrastructure and trade links between China and the rest of the world. On the ground, this means building a vast logistics and transport network. In the long run, it's meant to push forward trade and investment facilitation and create better conditions for development cooperation.

The other significant change is the growth of the developing countries represented by China, India, Brazil, South Africa, and others. The landscape of development cooperation has been changing, South-South cooperation and triangular cooperation gaining importance. South-South cooperation has become popular because of distinguished comparative advantages of developing countries. China and other major emerging countries will play more on international development programs towards the developing countries, and the existing South-South cooperation is getting new momentum.

Apart from other considerations, the most recent experiences and lessons of emerging countries like China, India, and Brazil are much relevant to the development path of the still catching-up developing countries. At the changing dynamics of the landscape of development cooperation, it is timely that this report is devoted to the theme of the changing roles of South-South Cooperation in global development system: towards 2030.

Esheng Cai
Chairman
Finance Center for South-South Cooperation

Acknowledgement

The chief purpose of the Finance Center for South-South Cooperation (FCSSC, hereafter) is to promote poverty reduction and economic development of developing countries. Among other actions of facilitating financial and industrial projects towards developing countries, FCSSC also commissioned "2017 South-South Cooperation Report: Changing Roles of South-South Cooperation in Global Development System: Towards 2030".

To this end, FCSSC invited a group of the worldly renown scholars to write this report. These scholars and the chapter they wrote respectively are as follows:

- Professor Justin Yifu Lin (Director of the Centre for New Structural Economics, and Dean of the Institute of South-South Education, Peking University, former World Bank Chief Economist and Senior Vice President), Chapter 4 "New Mechanism and Approach of Development Cooperation" co-authored with Professor Yan Wang (Visiting Professor, George Washington University, and Senior Follow, Centre for New Structural Economics, Peking University).
- Professor Yunling Zhang (Academy member of Chinese Academy of Social Science, (CASS)), Chapter 8 "Belt and Road Initiative and New Architecture of Development Cooperation", co-authored with Zhongyuan Zhang (PhD, Associate Research Fellow, Institute of Asia-Pacific and Global Strategy Study, CASS).
- Professor Chris Alden (Department of International Relations, London School of Economics

and Political Science (LSE)), Chapter 1 “An Overview of International Development Cooperation and The Innovation of South-South Development Cooperation Towards 2030”, co-authored with Folashade Soule-Kohndou.

- Dr. Ross Anthony (the Centre for Chinese Studies, Stellenbosch University, South Africa), Chapter 9 “China Africa South-South Cooperation”, co-authored with Yejoo Kim, Emmanuel Igbinoba, Nusa Tukic and Meryl Burgess.
- Dr. Biswa Nath Bhattacharyay (former senior advisor at Asian Development Bank), Chapter 12 “South Africa’s Development Cooperation: Trends, Prospects and Challenges”.
- Mr. Richard Carey (Independent Development Advisor, former Chairman of OECD Development Assistance Commission), Chapter 3 “New Ideas of Development Cooperation: A Common Destiny”, co-authored with Dr. Jiajun Xu Assistant Professor, Executive Director of centre for New Structural Economics, Peking University, China.
- Professor Sachin Chaturvedi (Professor and Director General, Research and Information System for Developing Countries (RIS), India), Chapter 11 “Framework for South-South Cooperation and Emerging Contours of India’s Development Partnership”.
- Dr. Jing Gu (Director, CRPD, Institute of Development Studies, UK), Chapter 13 “Changing dynamics and International Development Cooperation”.
- Professor Meibo Huang (School of Economics, Xiamen University, China), Chapter 6 “South-South Development Assistance”, co-authored with Na Chen.
- Professor Xiaoyun Li (Research Centre for International Development at China Agricultural University, China), Chapter 2 “Emergence of the New South-South Cooperation: History, Status Quo and Challenges”, co-authored with Jin Xiao.
- Professor Carlos R.S. Milani (Associate Professor of Political Science and International Relations at the Institute for Social and Political Studies of the Rio de Janeiro State University (IESP-UERJ), and Senior Research Fellow with the National Science Council (CNPq-1C)), Chapter 10 “Brazil’s Development Cooperation: Actors, Interests and Future Challenges”.
- Professor Shunli Yao (Institute for Applied International Trade, China), Chapter 5 “Global Value Chains and South-South Trade Cooperation: The Case of China”.
- Professor Chusheng Ye (Professor in Economics & Management School, Wuhan University; Deputy Director, Centre for Economic Development Research; Chief Editor, Economic Review), Chapter 7 “South-South FDI Investment”, co-authored with Li Hui (Post doctor at the Centre for New Structural Economics at Peking University).

To better organize the editing of the South-South Report, FCSSC invited Professor Qingjie Xia

(the director of the Centre for Human and Economic Development Studies, Peking University, China) to be the chief editor of this report.

Dr. Man Yu attended various meetings of this report. Mr. Mohnish Kedia (MA student at Yenching Academy of Peking University, China) contributed in editing some chapters of this report.

Thanks to my colleagues, Joyce Zhang, Jenny Yao, Au Yeung King Hau, Susan Zhao, Tim Pan, Mancy Yu for contributing to the publication of this report.

Dr. Zhong Wu
Vice President and Director-General
Finance Center for South-South Cooperation

Note: the contents of each chapter of this report are purely views of relevant authors rather than FCSSC's.

ABREVIATION

AAA, Accra Agenda for Action

AAPAS, Associação de Apoio ao Programa Alfabetização Solidária (Association for the Support of the Solidarity Literacy Programme), an operational branch of ALFASOL created in 1998.

ABC, Agência Brasileira de Cooperação (Brazilian Cooperation Agency).

ACET, African Centre for Economic Transformation

ACP, African, Caribbean and Pacific (ACP) countries

ADB, Asian Development Bank

ADBI, Asian Development Bank Institute

AEC, African Economic Community

AfDB, African Development Bank

AFT, Aid for Trade

AGOA, African Growth Opportunity Act

AIIB, Asian Infrastructure Investment Bank

ALFASOL, Alfabetização Solidária (Solidarity Literacy), a Brazilian NGO created in 1996.

AMC, Advance Market Commitments

AMU, Arab Maghreb Union

ARF, African Renaissance and International Co-Operation Fund

ASEAN, Association of Southeast Asian Nations

ASF, African Standby Force

ATDC, Agricultural Technology Demonstration Centres

AU, African Union

BRI, Belt and Road Initiative previously known as One Belt One Road Initiative (OBOR) and The Belt and Road (B&R)

BAPA, Buenos Aires Plan of Action

BCIM, Bangladesh-China-India-Myanmar

BCIMEC, Bangladesh-China-India-Myanmar Economic Corridor

BNDES, Banco Nacional de Desenvolvimento Econômico e Social (Brazilian Economic and Social Development Bank).

BPA, Bui Power Authority

BRICS, Brazil, Russia, India, China, and South Africa

CAADP, Comprehensive Africa Agricultural Development Programme

CACM, Central America Common Market

CADF, China-Africa Development Fund

CAPES, Coordenação de Aperfeiçoamento de Pessoal de Nível Superior (Coordination for the Improvement of Higher Education Personnel), a foundation within the Brazilian Ministry of Education, created in 1951.

CCCC, China Communication Construction Company

CCWAEC, China-Central and West Asia Economic Corridor

CEMAC, Central African Economic and Monetary Community

CGFome, Coordenação-Geral de Ações Internacionais de Combate à Fome (General Coordination of International Actions to Fight Hunger), within MRE.

CICPEC, China-Indo-China Peninsula Economic Corridor

CIFIT, China International Fair for Investment and Trade

CITES, Convention on International Trade in Endangered Species

CLMV, Cambodia, Laos, Myanmar and Vietnam

CMHI, China Merchant Holdings International

CMREC, the China-Mongolia-Russia Economic Corridor

CNMC, China Non-Ferrous Metal and Mining Corporation

CNPC, China National Petroleum Corporation

CNPq, Conselho Nacional de Desenvolvimento Científico e Tecnológico (National Council for Scientific and Technological Development), a collegiate body of the Ministry of Science and Technology (MCT) also created in 1951.

CNSE, Centre for New Structural Economics

COBRADI, the term COBRADI refers to Cooperação Brasileira para o Desenvolvimento Internacional, or Brazilian International Development Cooperation, and it is the title of a research programme that IPEA implements. COBRADI is the unit responsible for data collection and diffusion on Brazilian cooperation.

COMESA, Common Market for East and Southern Africa

CONDRAF, Conselho Nacional de Desenvolvimento Rural Sustentável (National Council for Sustainable Rural Development).

CONSEA, Conselho Nacional de Segurança Alimentar e Nutricional (National Council for Food and Nutritional Security).

CPAI, Comitê Permanente de Assuntos internacionais (Permanent Commission on International Issues), within CONDRAF.

CPEC, China-Pakistan Economic Corridor

CPLP, Community of Portuguese-Speaking Countries.

CRBC, China Road and Bridge Corporation

CRCC, China Railway Construction Corporation

CSR, Corporate Social Responsibility

DAC, OECD's Development Assistance Committee

DCF, Development Cooperation Forum.

DEA, Department of Environmental Affairs

DFQF, duty free and quota free

DPA, Development Partnership Administration

DUDBC, District Urban Development and Building Corporation

EAC, East African Community

EAD, Economic Affairs Division

EBA, EU Everything but Arms laws

ECA, Economic Commission for Africa

ECCAS, Economic Community of Central African States

ECD, Economic and Coordination Division

ECDC, Economic Cooperation among Developing Countries

ECLA, Economic Commission for Latin America

ECOSOC, Economic and Social Council (United Nations).

ECOWAS, Economic Community or Western African States

EIAs, environmental impact assessments

EITI, Extractive Industries Transparency Initiative

EMBRAPA, Empresa Brasileira de Pesquisa Agropecuária (Brazilian Agricultural Research Corporation).

ERCA, Ethiopia Revenue and Customs Authority

ETCZ, Economic and Trade Cooperation Zone

EU, European Union

FDI, Foreign Direct Investment

FIDC, Forum for Indian Development Cooperation

FIOCRUZ, Fundação Oswaldo Cruz (Oswaldo Cruz Foundation).

FNDE, Fundo Nacional de Desenvolvimento da Educação (National Fund for the Development of Education, under Brazil's Ministry of Education).

FOCAC, Forum on China-Africa Cooperation

FOCEM, Fundo de Convergência Estrutural do MERCOSUL (MERCOSUR's Structural Convergence Fund).

FTA, free trade agreement

FTP, Growth and Transformation Plan

G77, the Group of 77 countries

GATT, General Agreement of Tariff and Tax

GMS, Great Mekong Sub-Regional Economic Cooperation Program

GNI, gross national income

GPEDC, Global Partnership for Effective Development Cooperation

GPEDC, Global Partnership for Effective Development Cooperation

GSP, US Generalized System of Preferences

GVLs, global value chains

HDI, Human Development Index

HIPCs, Heavily Indebted Poor Countries

HREZ, The Haier-Ruba Economic Zone

IADB, Inter-American Development Bank

IAFS, India-Africa Forum Summit

IAM, India Aid Mission

IBSA, India, Brazil and South Africa forum.

ICM, Indian Cooperation Mission

IDC, International development cooperation.

IDC/ED, International development cooperation in the field of education.

IDEAS, Indian Development and Economic Assistance Scheme

IDI, India Development Initiative

IEO, IMF's Independent Evaluation Office

IIDCA, Indian International Development Cooperation Agency

ILO, International Labour Organization

IMF, International Monetary Fund

IPEA, Instituto de Pesquisa Econômica Aplicada (Applied Economics Research Institute).

IRDEB, Instituto de Radiodifusão Educativa da Bahia (Radio Education Institute of Bahia).

ITEC, Indian Technical and Economic Cooperation Program

LDCs, least developed countries

LoCs, Line of Credits
MDA, Ministério do Desenvolvimento Agrário (Ministry of Rural Development).
MDGs, Millennium Development Goals
MEA, Ministry of External Affairs
MEA, Ministry of External Affairs
MEC, Ministério da Educação (Ministry of Education).
MFA, Multi-Fiber Arrangement
MFN, most favored nation
MNC, multi-national corporations
MRE, Ministério das Relações Exteriores (Brazilian Ministry of External Relations), also known as Itamaraty.
MSR, 21st Century Maritime Silk Road
NAM, Non-Aligned Movement
NAMA, non-agricultural market access
NDB, New Development Bank
NELB, New Eurasian Land Bridge
NEPAD, New Partnership for Africa's Development
NGOs, non-governmental organizations
NICs, newly industrialized countries
NITI, National Institution for Transforming India
NSC, North-South Co-operation
NSE, New Structural Economics
OAU, Organization of African Unity
OBOR, One Belt, One Road
ODA, Official Development Assistance
OECD, Organisation for Economic Cooperation and Development
OETCZs, Overseas ETCZs
OFDI, outward foreign direct investment
One Belt, One Road, The Silk Road Economic Belt and the 21st Century Maritime Silk Road
OOF, Other official flows
OPEC, the Organisation of Petroleum Exporters
PALAMA, Public Administration, Leadership and Management Academy
PALOPS, Portuguese-speaking African countries.
PEC-G, Programa de Estudantes Convênio de Graduação (Undergraduate Exchange Programme).
PEC-PG, Programa de Estudantes Convênio de Pos-Graduação (Graduate Exchange Programme).
PICs, Pacific Island Countries
PIDA, Programme for Infrastructure Development in Africa

PNAE, Programa Nacional de Alimentação Escolar (National School Feeding Programme).
PPP, public and private partnership
PPP, purchasing power parity
QIPs, Quick Implementation Projects
R&D, research and development
RBLs, resource based loans
RCA, Revealed comparative advantage
RFI, Resource financed Infrastructure
RIPES, Rede de Instituições Públicas de Educação Superior (Public Higher Education Institutions Network).
SACU, the Southern African Customs Union
SADC, The Southern African Development Community
SADPA, South African Development Partnership Agency
SAPs, Structural Adjustment Programs
SCAAP, Special Commonwealth Assistance for Africa Programme
SCO, Shanghai Cooperation Organization
SDGs, Sustainable Development Goals
SDPs, Small Development Projects
SDPs, Small Development Projects
SDR, Special Drawing Right
SDT, special and differential treatment
SEBRAE, Serviço Brasileiro de Apoio às Micro e Pequenas Empresas (Brazilian Service for the Support of Micro and Small Enterprises).
SENAI, Serviço Nacional de Aprendizagem Industrial (National Service for Industrial Training and Education).
SENAR, Serviço Nacional de Aprendizagem Rural (National Service for Rural Training and Education).
SESU/MEC, Secretariat of Higher Education (SESU) of the Brazilian Ministry of Education.
SETCZ, Suez Economic & Trade Cooperation Zone
SEZs, special economic zones
SMEs, small and medium-size enterprises
SOEs, state owned enterprises
SRF, Silk Road Fund
SSA, Sub-Saharan Africa
SSC, South-South Cooperation
SSDAPs, South-South Development Assistance Providers
SSDC, South-South Development Cooperation

SVPs, Special Volunteers Programmes
TC/ED, Technical cooperation in the field of education.
TCDC, Technical Cooperation among Developing Countries
TDC, triangular development cooperation
TFTA, Tripartite Free Trade Agreement
TOSSD, Total Official Support for Sustainable Development
TPP, Trans-Pacific Partnership Agreement
TRIPPs, Trade-Related Aspects of International Property Rights
UAE
UNCTAD, United Nations Conference on Trade and Development
UNDP, the United Nations Development Programme
UNEP, United Nations Environment Programme
UNILA, Universidade Federal da Integração Latino-Americana (Federal University for the Latin American Integration).
UNILAB, Universidade da Integração Internacional da Lusofonia Afro-Brasileira (Federal University for the International Integration of the Afro-Brazilian Lusophony).
UNOSSC, United Nations Office for South-South Cooperation
UNSC, UN Security Council
WB, World Bank
WDS, grand western development strategy
WHO, World Health Organization
WITS, World Integrated Trade Solutions
WTO, Wolrd Trade Organization
WWF, Worldwide Fund for Nature
ZCCZ, Zambia-China Economic and Trade Cooperation Zone

OVERVIEW

1. The Origin and Development of South-South Development Cooperation

South-South Development Cooperation has undergone tremendous transformations over the last fifty years. Once characterized as parochial and irrelevant by conventional Western development analysts, South-South Development Cooperation (also known as SSDC) has evolved from its aspirational origins in the immediate aftermath of decolonization in parts of Asia, Africa, Latin America and the Caribbean, to become a significant engine of development in parts of the emerging South and its development partners. At the same time, the innovation demonstrated over the past few decades by proponents of SSDC—grounded in many respects in the ad hoc and practical application to specific development problems—is also evolving to reflect changing contemporary circumstances especially within the South. As such, it needs to continue to exhibit these dynamic qualities as it moves to address the development challenges of the coming decades, manifested in the Agenda 2030 for Sustainable Development.

South-South relations commonly designate the multitude of political, economic, technical, social and cultural relations among developing countries. Though these relations were initially shaped by the reaction to colonialism and pull of ideology during the Cold War, they progressively evolved both in nature and growth over time. In the volatile Cold War context, developing countries remained largely dependent both economically and politically on their former colonizers in the northern hemisphere. On the international level, relations between developing countries remained weak and were marked by North-South dependency patterns.

Relations between developing countries were established on the United Nations platform in 1955 with the creation of the Afro-Asian group at the UN, bringing together the African States and newly independent Asian states. These relationships were also established at the conference of Non-Aligned Movement (NAM) following on the heels of the Bandung Conference in April 1955. The first glimpse of a new world economic order came with the formation and progressive institutionalization of institutions such as the United Nations Conference on Trade and Development (UNCTAD) and the Group of 77 (G77) to promote the economic emergence of developing countries in 1964. In the aftermath of the oil crisis of 1973 and the rise of the resource cartel-the Organization of Petroleum Exporters (OPEC)-a newly assertive South called for direct talks to create the conditions for a New International Economic Order. Resource cartels sprung up across the developing world, with marginal effectiveness, as developing countries sought to use commodities as an instrument for obtaining better terms of trade. In fact, until 1986, the term “South-South Cooperation” does not appear in the declarations of the pre-eminent organizations of developing countries–the NAM, the G77 or UNCTAD. It is first found in the Harare Declaration of the 8th summit of the NAM in 1986.

Despite this gradual institutionalization that promotes interaction among developing countries, South-South relations remain, at this stage, largely political in nature with a low level of economic interaction as indicated by the comparison between South-South and North-South trade flows.

Contemporary relations between developing countries are experiencing new economic dynamics, especially commercial, since the 2008 financial crisis and the subsequent contraction of the economies of developed countries. While South-South exports only accounted for 12% of total global exports and increased at the rate of 8% per annum in 1995, they experienced a jump in 2010, accounting for 23% of global exports and are now increasing at the rate of 30% per year.

Leading the rapid growth of these economic flows between developing countries, are the emerging economies of China, Brazil, India and, to a less extent, South Africa. The intensification of South-South relations also fostered the emergence of high-growth countries such as China, India, and Brazil, who aspire to play an increasingly international political role in order to assert themselves as the emerging powers of the South. This quest for status and international prestige has led them to strengthen their development assistance to other developing countries and promote themselves as new emerging donors.

The result of all of these changes is that South-South relations gradually materialized beyond the initial political declarations of intent. ‘South-South’ relation no longer refers to only an ideology and isn’t limited to political and governmental spheres. It takes into account the changing global circumstances that are becoming prevalent and also the potential role of the private sector, by including some investment banks who are willing to be part of this dynamic.

2. Innovation and Dynamics of South-South Development Cooperation

2.1 Changing principles

What are the BRICS and emerging powers bringing to the key processes of current and future change in international development assistance? As we have already seen above the first and perhaps most obvious change is in the understanding of the core principles and values at the heart of development-partnership and equality, mutuality, political non-interference, and a rejection of conditionality; all embedded in shared past and present experience and common aspirations for the future. These have long-established antecedents, reaching back to the Bandung Declaration of the conference of newly independent and non-aligned states that met in 1954. A prime contributor to the declaration from that conference was Chinese Premier Chou En-Lai, who introduced China's own Five Principles of Peaceful Coexistence into the conference debate and final document, principles that remain part of the political position of China, BRICS and many developing countries today (Gu, Shankland and Cheony eds., 2016).

China's President Xi Jinping's speech to the seventh BRICS summit in Ufa, Russia, in July 2015 set out his vision of a BRICS approach emphasising the need for developing countries to take on more responsibility for their own development while BRICS provides assistance in meeting critical capacity-building needs and promotes further South–South Co-operation. In President Xi's view, "The BRICS nations should also establish a new type of global development partnership, urge the developed countries to shoulder their due responsibilities, and help developing countries improve their self-development capability, so as to narrow the North–South gap, intensify South–South cooperation and seek self-improvement through cooperation on the basis of mutual benefit and win-win." Brazil's approach also stresses the importance of working within the principles and practices of South–South Cooperation "as it enhances general interchange; generates, disseminates and applies technical knowledge; builds human resource capacity; and, mainly, strengthens institutions in all nations involved" (Brazilian Cooperation Agency, n.d.).

If we examine one of these principles, non-intervention, this forms a core BRICS principle. It refers to non-intervention in the domestic affairs of partners, retaining the values of mutuality and equality of relations. In other words, the guiding principle is to respect the legal and political sovereignty of partner states by not intervening in their domestic affairs.

2.2 Changing practices

The second substantial contribution of the emerging powers to changing international development assistance is changed practices. South-South Cooperation, in contrast to 'traditional' aid, usually provides financial flows independent of political pre-requisites of requirements for reform. This principle is well favoured by recipient countries.

The emerging powers' approach to delivering international development assistance is also distinctive in utilising a wider range of financial and other instruments in their international development cooperation than is defined as 'aid' in the DAC's definition (Chahoud, 2008). One of the most evident of these instruments is that of 'concessionary loans' (Mawsley, 2012). Whilst 'aid' from the traditional donors has largely drawn a distinction between overtly 'commercial' and 'development' considerations, emerging powers' use of concessional loans tends to be less clear-cut, with the lines rather opaquer. Repayment in kind, i.e. by a lender agreeing to receive goods or resources in return for the loan or by accepting the use of resources as the guarantee or security for the loan. This instrument and the use of these non-traditional provisions is criticised by traditional donors. However, as Bräutigam has pointed out, this can provide a more viable and attainable way of gaining repayment than established orthodox methods; this being particularly the case in conditions where a recipient country is high in resources, but low in stocks of foreign exchange reserves (Bräutigam, 2011). This type of loan usually forms part of a wider package of measures.

The second instrument of note is the use of export credits. These are widely used by emerging powers to provide incentives for domestic public and private companies to conduct business in recipient countries. Export credits are not restricted to domestic firms, they have all been provided to a range of international financial institutions and agencies, including regional development banks, foreign firms and even governments. The advantage of using these is that they offer a concessional basis for these agencies and firms to pay for goods and services from the donor country.

A key feature of the emerging powers' approach to development cooperation is a focus on technical cooperation. To some extent this is playing to established strengths of these states. Technical cooperation from emerging powers is often based on their own specific development experiences. For example, based on its own experience, Brazil asserts expertise in 'combating urban violence and youth gangs, literacy programmes, agricultural technologies, and HIV/AIDs awareness and prevention initiatives' (Mawdsley 2012). Countries such as India, China and Brazil have long-established relationships with other developing countries grounded in technical support covering a vast range of fields, from health, education, agricultural production, telecommunications, transport infrastructure, scientific knowledge, construction technology and, most recently 'clean' energy. A focus on technical cooperation brings a number of advantages to the emerging powers. For example, being more tangible, they offer greater opportunities for managerial oversight and control of projects and assessment of progress with benchmarking of specified practical outcomes.

Technical cooperation is also advantageous insofar as this ties in well with the central themes and focus of South-South Cooperation in promoting knowledge and skills sharing and exchange and to meet the SDGs and post-2015 Sustainable Development Agenda objectives, for example with respect to education and health (King, 2014). As is noted below, much of the 10-project programme of China-Africa projects announced by President Xi Jinping at the 2015 Johannesburg FOCAC Summit fall into this category of assistance, building on a decade-and-a-half of such commitments made at the six China-Africa Ministerial Meetings held since 2000. India too strongly emphasises technical cooperation through its Technical and Economic Cooperation programme (ITEC), instigated in 1964, and covering 158 developing countries. In 2011, India provided US$700m to build institutions and establish training programmes with an additional US$300m to develop the Ethio-Djibouti Railway. ITEC provides capacity building through technical training and knowledge sharing; project assistance; and specialised institution-building to support skills development and scholarships for higher education administered through the Indian Council for Cultural Relations. Technical Cooperation also offers providers with useful potential public relations gains in being able to record these tangible outcomes as evidence of a no-nonsense approach that ‘gets things done’ on time and on budget—a point often raised in support of Chinese technical assistance projects in Africa.

2.3 Changing institutions

The third aspect of change is that of institutions. Much of this follows from the emphasis placed by emerging countries on infrastructure development and technical cooperation-whether bilateral, triangular or multilateral.

The estimated annual global infrastructure investment need is about USUS$3.7 trillion, of which only about US$2.7 trillion is currently met on an annual basis. The majority of this need centres upon the developing countries. China has been a strong proponent and sponsor for new institutions designed specifically to address the infrastructure financing gap. This commitment comes directly from China’s own development experience. The imperative to completely rebuild China’s infrastructure from the devastation of colonial desecration, wars, and a failed and venal state and the economic failings of the early decades of the PRC entered the DNA of China’s approach to development. A perceived deficiency in the established development funding provision and wider international development institutional architecture led China, other members of the BRICS group and wider emerging economies to initiate new institutions to fill the gap. Hence, recent years have seen the creation of the AIIB, the BRICS NDB, a dedicated fund within the AFDB and a SSC

Fund. In 2013, the BRICS countries established a New Development Bank (NDB) with an initial capital of US$100bn to fund infrastructure and sustainable development project, and a US $100bn Contingency Reserve Arrangement (CRA) to help deal with potential financial crises in emerging countries.

The National Development Bank (NDB). The NDB's remit is to provide critically important infrastructure investment, reflecting the priorities of the BRICS' national development programmes and SSC more broadly as well as the importance attached to this factor by China (Abdenur, 2014). Rodrik (2014) expresses disappointment in the focus on infrastructure cooperation, arguing it represents an outdated view of economic development. However, others argue this is '[filling] a major gap in international financial architecture' (Dixon 2015: 4; see also Chin, 2014) left by traditional donors who have shifted their focus substantially to health and education; spending less than 10% of aid budgets on infrastructure (Chin, 2014).

Asian Infrastructure Investment Bank (AIIB). The AIIB was proposed by China in 2013 and started operation in late 2016. The AIIB's task is to help finance infrastructure needs. In particular, the AIIB is expected to support China's One Belt One Road (OBOR) initiative to promote connectivity and cooperation between China, Asia and Europe (Callaghan and Hubbard, 2016). President Xi Jinping declared: 'China's inception and joint establishment of the AIIB with some countries is aimed at providing financial support for infrastructure development in countries along the 'One Belt, One Road' and promoting economic cooperation.' The establishment of the AIIB is also seen as a response to the reluctance of developed countries, in particular the US (Callaghan and Hubbard 2016; Griffith-Jones *et al.* 2016; Kawai 2015; Reisen 2015), to allow increased emerging power and developing country influence at the World Bank and IMF. It is suggested by both Reisen (2015) and Wang (2016) that the new institutions may speed up reforms to increase the voice of rising powers at the existing multilateral institutions.

Poverty reduction is not an explicit target of the AIIB unlike the existing MDBs. Its focus on infrastructure instead is similar to the NDB, but one study argues that 'the AIIB will likely be able to ramp up lending faster and achieve a portfolio more than twice as large as the NDB within 10 years' (Humphrey *et al.*, 2015: 3). Nevertheless, the AIIB's remit is not to prioritise poverty reduction, health or education, or to offer concessional loans to developing countries (Kawai 2015: 8).

The AIIB has indicated that it has adopted existing multilateral development bank (MDB) standards for environmental protection and monitoring. The AIIB has expressed an emphasis on integrating standards with a recipient country's procedures. A failure of existing MDBs to do the same is described by Humphrey as a 'major failure of existing MDBs, which often seem more concerned with protecting their own projects against criticism from NGOs and domestic politicians than in achieving development goals. ... The AIIB could take the lead in this area by having a team of experts to advise on engineering, sustainability, social and environmental impacts, fiscal, regulatory and pricing issues, project financial structuring, and attracting external public and private investors' (Humphrey, *et al*. 2015: 6).

The IBSA dialogue forum of Indian, Brazilian and South African representatives, established during the 2003 G8 summit in France, predates the BRICS institutions. This bloc has 'turned into an interesting platform for the three emerging powers to engage, allowing them to debate, coordinate and articulate a range of domestic and geopolitical issues' (Stuenkel 2013: 17). The motivation behind the grouping is their common interests, which although they face similar criticisms as with the BRICS to their divergence, should in principal–as all democracies–be more similar. This grouping has taken some steps, albeit small, to institutionalising SSC–notably an IBSA fund (to which each country contributes US$1 million annually) managed by the UNDP which has funded projects across the Global South (ibid). However, the relative lack of institutionalisation of the grouping, Stuenkel (2013) argues, is the main difference from traditional international organisations. For example, 'there is no sign that the group will develop binding rules and norms [and] this is perhaps the most fundamental difference between traditional multilateral institutions and new endeavours to institutionalise South-South cooperation' (ibid, p. 19). While this may change with the growth of the new BRICS institutions, it illustrates the ways in which new regional forums aren't always complementary; creation of the AIIB and NDB by China and other emerging powers has reduced the importance of IBSA somewhat.

3. Case Studies of South-South Development Cooperation

3.1 China and Africa

Over the past half century, China's relationship with the African continent has shifted from one based primarily on political partnerships to one based on market interaction. In the 1950s and 60s, China's historical interests in Africa were predominantly established during the Cold War era, in which various countries of the socialist world forged alliances. During the Maoist period, Beijing sought support from African countries in areas such as attaining United Nations (UN) membership and politically isolating Taiwan (Yun, 2014). Socialist orientated African governments, such as Zimbabwe, Ethiopia and Zambia, received varying forms of development assistance from China. As the Cold War came to a close, and China's political aims were largely reached, former support in Africa began to accumulate unsustainable financial costs (Yun, 2014). In the 1990s, China-Africa relations began to deepen again. In order to keep up with its growing manufacturing sector (a development sparked by economic restructuring from a command to a market oriented economy), Beijing once again turned to Africa to supply raw materials needed for its growing manufacturing sector (Cissé, 2013; Moyo, 2012).

China's relations with the African continent in the previous two decades has been guided predominantly by several economic factors, including the need for resources to fuel domestic growth, international competitiveness through market access and technology and knowledge transfer (Cisse 2013; Alden and Davies 2006). This marked a new era in China-Africa relations, one that was based primarily on economic, rather than political motivations. China's South-South engagement with African countries is largely a combination of these two elements–a shared sense of destiny in terms of developing countries and their struggles while also drawing on contemporary market forces to achieve this vision.

The principles of mutual benefit and equality guide China's foreign policy still today and are the foundation upon which China's eight standards for development cooperation are built. The 'Eight Principles for China's Aid to Third World Countries' also called the 'Eight Principles of Foreign Economic and Technical Assistance' (Yun, 2014) include: a) Emphasize equality and mutual benefit; b) Respect sovereignty and never attach conditions; c) Provide interest-free or low-interest loans; d) Help recipient countries develop independence and self-reliance; e) Build projects that require little investment and can be accomplished quickly; f) Provide quality equipment and material at market prices; g) Ensure effective technical assistance; h) Pay experts according to local standards (Chin, 2012).

Grimm (2015) states that agreements on Chinese cooperation are often made in government-to-government negotiations (in the same way that NSC bilateral aid is provided), with the end result being package deals that include aid measures, commercial loans and some support for strategic investments by key Chinese companies. In this context, the concept of SSC covers a large number of domains including state actors, the business community (both state and privately owned) and civil society groups.

China's engagements in Africa are substantial with a number of large-scale schemes, which suggest sustained future engagement. We can see that China's engagement has been successful in many regards, such as offering various forms of development assistance, not least of which is the improvement of infrastructure. Crucially, for the future, it remains to be seen to what degree China can alter the industrialization landscape of Africa, as therein lies the key to greater African economic prosperity. From the perspective of SSC, increased technology transfers and capacity building can play a role in this. At the 2015 FOCAC event, the Chinese government pledged a US$ 10 billion 'China-Africa Production Capacity Cooperation Fund' to support industry partnering, including manufacturing, hi-tech industries, agriculture, energy, infrastructure and finance, and the development of industrial parks. It will also support the 'education' of 200,000 African specialists through setting up professional schools in Africa and training 40,000 Africans in China. Certainly, in terms of striving toward SSC, China's record in this regard is impressive and has much potential for future development.

At the same time, it is inevitable that development assistance on such a scale was also to bring a certain level of negative consequences. An exclusive blame on Chinese actors in this regard is unfair; western corporate actors today grapple with a host of similar issues, including environmental degradation, CSR, beneficiation and so forth. Furthermore, western actors have a heavy reliance on raw materials in their economic engagements with Africa –a case which has frequently been attributed as if it were solely China's burden. Because both China and Africa are in, technically speaking, developing world countries, there is still a large scope for improvement. At the level of policy, reflected in the FOCAC outcomes, it is evident that China is increasingly prioritizing issues such as environmental sustainability and CSR; these are challenges which China faces both domestically and abroad. In many respects, enforcement of issues is up to African governments, rather than the Chinese state, to enforce. In this regard, the terrain is very different, with some countries exercising relatively stringent conditions (such as Rwanda and Botswana) with others less so (such as the DRC and Mozambique). This is one aspect of the China-Africa relationship which is less understood is the issue of African state agency, which is very much under-represented in discussions on the engagement. In this sense, African states need to not only partner with China but also contribute toward channelling its development potential into sustainable enterprises. Weak state capacity in certain African states plays a role in hindering this outcome.

3.2 Brazil's Development Cooperation

Brazil, engagement in international development cooperation (IDC) as a donor is not new; its first experiences date back to the 1970's. However, Brazil's government funding and interest in IDC has grown since the 1988 Constitution. Particularly since 2003, there has been a stronger political emphasis on South-South cooperation, from both government and civil society organisations. According to the official data published by IPEA & ABC (2010, 2013), Brazil's IDC increased from 158 million USD in 2005 to approximately 923 million USD in 2010. In this same span of time, technical cooperation expenditure was multiplied by five times: from 11.4 million USD in 2005 to 57.7 million USD. Humanitarian cooperation has also gained ground: from 488 thousand USD in 2005 to 161 million USD in 2010. In 2010, 68.1% of all Brazilian IDC went to Latin America, 22.6% to Africa, 4.4% to Asia and the Middle East, 4% to Europe and 1.1% to North America. In the case of Latin America, the top-five partner countries constitute 80.4% of all Brazilian IDC to the region, which includes Haiti (47.4%), Chile (16.3%), Argentina (8.6%), Peru (4.5%) and Paraguay (3.6%).

Another source for understanding the growing interest of Brazil in IDC is the data published by the Brazilian Cooperation Agency (ABC). ABC's online database reveals that amongst 1,464 concluded projects between 1999 and 2012 in other developing countries, 577 projects had been developed in South America, 552 projects were in Africa, 164 in the Caribbean, 90 in Central

America, 65 in Asia, 15 in North America (Mexico) and 1 in Oceania (Papua New Guinea). Amongst these 1,464 concluded projects, 573 were in social policies (health, culture, sports, social development, environment, education), and 539 in governance (public management and planning, urban development, justice, legislative capacity-building, defence and security).

Brazilian IDC strategies give priority to the exchange of experiences (policy practices) and emphasise the use of government officials, civil servants and public institutions as the primary instrument for the country's contribution to international development. Brazilian IDC activities do not involve a direct financial transfer to partner countries. It is important to recall that Brazilian IDC is statistically conceived as public expenditure, under the Annual Budget Law's current spending. Therefore, it does not include either subsidised investment loans or external debt write-offs. Grants are only exceptionally taken into consideration. There are two main types of public expenditures made by federal administration in international development cooperation: (1) payment to civil servants and eventual collaborators of the federal public administration (airline tickets, *per diem*, salaries; technical working hours, scholarships, grants); (2) financial commitments with multilateral organizations (IPEA & ABC, 2013, p. 14).

Brazil has joined India, South Africa, and China in challenging OECD's institutional role in the aid system (MAWDSLEY, 2012). Together these countries, despite their diversity, lay stress on the need for building another political sense of international development cooperation. For instance, they have proposed a different view on "aid effectiveness" declarations or the post-2015 development agenda. Based on critical reviews on international cooperation (EASTERLEY & PFUTZE, 2008; ESCOBAR, 1995; HAYTER, 1971; NAYLOR, 2011; PANKAJ, 2005; RIST, 1996), we value this emerging trend as extremely positive, since it tends to break a political and cultural monopoly produced within a selected club of countries which pretends to be universal, but lacks legitimacy and full participation of developing nations.

Apart from IDC, Brazil also has economic cooperation with various developing countries. Brazilian foreign direct investment in mining (Vale), infrastructure and civil engineering projects such as roads, airports, harbours, metros, energy powers, etc. (Oderbrecht, Andrade Gutierrez, Camargo Correa, among others), oil prospection (Petrobras), and agribusiness, among other economic sectors, have been key historical development actors in African and Latin American countries. New sectors like biofuels (ethanol and biodiesel) have emerged in more recent years, increasing these tensions and creating some contradictions for Brazil's SSC discourse and practice (ALBUQUERQUE, 2014).

3.3 Indian International Development

India's policy on development cooperation and partnership has been part of India's approach on its external linkages. This inclination was always there, whenever India could exercise an independent policy. India's development philosophy was very much part of the shared idea of 'one world' and partnership for overall development. The theoretical framework comes in from the concept of development compact. The modern concept of a development compact provides for development assistance that works at five different levels: trade and investment, technology, skills upgrade, LoCs, and finally, grants. LoCs and grants may be pooled under an overall financing mechanism. The engagement of emerging economies with other Southern countries has provided a major pull factor for wider engagement across these five elements, which emphasises the comprehensive support for economic development.

Receiving specific request from partner countries like Nepal and Ethiopia, India added new modalities particularly in the form of projects. The number of projects in countries like Nepal multiplied so much that by 1952 India launched what was called as India Aid Mission (IAM) at the Indian Embassy in Kathmandu. The responsibility of the IAM was to keep a consolidated picture of all the projects and coordinate among the implementing agencies. However, very soon, India switched over to programme based assistance for both Nepal and Bhutan. Nepal was brought back to project based assistance while Bhutan still gets development partnership under programme based framework. This was also the period when India explored the strength of triangular development cooperation. In partnership with the United States, India launched radio and road network across Nepal. With Canada, food supplies were ensured for Bangladesh, which at that point was Eastern Pakistan. Even now India partners with the United States to train police personnel in Afghanistan. In the partnership, India hosts the training and the US supports the travel expenses.

India also introduced a new programme of providing concessional loans which eventually emerged as a major programme of extending lines of credit. In the first phase of the Lines of Credit (LoC) programme (1966-2003), the GoI signed credit agreements with the borrowing country; the relevant LoCs were directly charged to the budget and disbursed through the State Bank of India. During this period, the GoI extended 83 government-to-government LoCs to 23 countries, totalling LoCs USD 1,816.82 million in purchasing power parity (PPP) (for 31 LoCs in USD) and INR 5,862.1 million (for 52 LoCs in Indian rupees). At the time of independence of Bangladesh, India extended full support to finance trade not only related to India but even other requirements of Bangladesh. India entered into trade financing to Bangladesh from 1975 to 1979. Apart from these grants, LoCs and capacity building programmes, India also provided duty-free quota free access to Indian markets for all the LDCs since 2008, as per the Hong Kong WTO Ministerial in 2005. China also announced similar access afterwards.

In several related programmes, India also got into technology partnerships with various countries. India was instrumental in initiating in 1981 the Caracas Programme of Action, adopted by the Group of 77, which exclusively recognised the importance of S&T in South-South Cooperation. This led to the launch of Technical Cooperation among Developing Countries (TCDC) and through bi-lateral cooperation resulted in the transfer of technology in many instances. These were mostly simple technologies with greater relevance for immediate requirements at the initial stages of economic development. TCDC/Economic Cooperation among Developing Countries (ECDC) initiatives had their own limitations, but the lessons from these are relevant even today.

Since 2003, India's development cooperation has gone through a major change. The inflows were restricted and ideas for an institutionalised effort for development cooperation multiplied. The new scheme for lines of credit under the name of IDEAS came up in 2005 and finally DPA emerged in 2012. There are some new trends which are extremely interesting and may have long term impact. India explored the strength of civil society in its development journey right from the freedom struggle itself. Through the small development projects (SDPs) the same was explored across partner countries. India introduced an interesting programme in Nepal called as Small Development Projects (SDPs) and in Vietnam called as Quick Implementation Projects (QIPs). Out of this, SDPs became extremely popular and successful. India is now implementing SDPs in Sri Lanka, Afghanistan, Bhutan, and across a couple of African countries. The short duration projects involve civil society organizations, local communities, basically supplementing the efforts of local administration. In this process, India's development cooperation has increasingly leveraged the strengthening of civil society organizations. In fact, the DPA has also partnered with academia and civil society to put forth what is called has Forum for Indian Development Cooperation (FIDC). At the Third India-Africa Forum Summit held in New Delhi in 2015, FIDC was identified as an important connects on development cooperation related initiatives. Indian civil society has also played an important role in India's current economic evolution and this has given scope for greater experience and additional resources in carrying forward a corrective vision for economic development.

3.4 South Africa's International Development Cooperation

Prior to the transition to the democracy in 1994, the apartheid regime of South Africa provided development assistance to support five African countries—Lesotho, Gabon, Cote d'Ivoire, Equatorial Guinea, and Comoros as well as Paraguay which had strong economic and cultural links with South Africa.

The major objective of South Africa's apartheid-era development assistance program was to win a measure of respect for the country and to get support (votes in UN) from friendly countries. The main instrument of the development assistance was the Economic Co-operation Promotion Loan Fund Act, 1968, which was later amended by the Economic Co-operation Promotion Loan Fund Amendment Act, 1986.

The Chief Directorate of the Department of Foreign Affairs managed the Development Assistance program institutionally. The program included direct project-related development assistance. However, there was little research for formulating the development program. The program was based on direct requests for assistance from the recipient countries.

After the democratic rule in 1994, South Africa's country's relations with other countries in Africa witnessed a transformation—one of primary importance. The development assistance program formulated an instrument to advance the so-called African Renaissance. South Africa attempted to avoid following the traditional North-South donor hierarchies by promoting a cooperative engagement with its African partners. South Africa aims to play a major role as a driver of economic growth and development, human capacity building, and political freedom of the African continent. South Africa can utilize its long experiences, economic power, and strong institutional and skills base to promote the development. South Africa's development cooperation with the African continent involves three pillars: (i) Strengthening Africa's institutions, regionally and continentally; (ii) Promoting implementation of Africa's socioeconomic development program, the New Partnership for Africa's Development (NEPAD); and (iii) Enhancing bilateral political and socioeconomic relations through dialogue and cooperation (Braude et. al, 2008).

South Africa's development assistance program embedded within the broad framework of the New Partnership for Africa's Development (NEPAD) and the vision of an African Renaissance. The main focus of its development assistance program is Africa and therefore, the development assistance is mostly directed toward less developed African countries. Around 70% of development assistance is directed to South African Development Community member states. The main objectives of the program include: (i) general improvements in governance, (ii) conflict prevention, resolution, and remediation; and (iii) security concerns and peacekeeping (Braude et al., 2008).

As South Africa emerged out of its apartheid regime in 1994, it developed strategic ties worldwide to strengthen its leadership role on the continent, through multilateral arrangements such as the Group of 77 (G77); Group of 20 (G20); Brazil, Russia, India, China and South Africa (BRICS); and the India, Brazil and South Africa (IBSA) groupings. However, most South Africa's active development cooperation, and its intended future engagements involves bilateral and trilateral cooperation to strengthen African development. The scope and activities of South Africa's multilateral engagements are rather limited compared to bilateral cooperation. For example, South Africa, India and Brazil have contributed $1 million each to the IBSA Poverty Alleviation Fund. It is not expected that this contribution will be increased in future. Even though South African is a founding member of newly established BRICS New Development Bank, multilateral cooperation is not expected to become a priority for South African development cooperation (Lucey, 2015).

The African continent has been the major priority of South Africa for its development cooperation. Even though South Africa faces criticism that often it operates unilaterally in its cooperation activities, but it formulates most of its strategies and position from the regional initiatives, such as the African Union (AU) and, to some extent, from the Southern African Development Community (SADC). In this regard, South Africa has always stressed that an African framework should be used for strengthening peace and security in Africa. However, South Africa should try to fit its bilateral and trilateral activities into regional and/or global frameworks (Lucey, 2015).

Unlike other major emerging economies, South Africa does not have any centralized agency to manage its development assistance programs. The foreign assistance is usually provided through: "African Renaissance Fund (ARF) of the Department of Foreign Affairs; Various government departments, particularly Defence, Education, South African Police Services (under the Department of Safety and Security), Foreign Affairs, Minerals and Energy, and Trade and Industry; and Parastatals, government agencies, and other statutory bodies" (Braude, 2008).

However, since 2007 South Africa has initiated a process to create a centralized agency, namely the South African Development Partnership Agency (SADPA) for coordinating and integrating its aid and development cooperation activities. But it is not yet established.

4. 2030 Agenda: Sustainable Development Goals (SDGs) and the Role of SSDC

The Sustainable Development Goals mark a new phase in the evolving global development regime. Built upon the precedents established by the Millennium Development Goals (MDGs) over a decade and a half ago, the SDGs are an effort to make substantive improvements in not only the well-being of developing societies but to address the underlying structural conditions necessary to grow their economies into developed status over the longer term. The Sustainable Development Goals of 2030, 'Agenda for Sustainable Development' (or Agenda 2030 for short), is a set of programmatic aims launched in 2015 whose key components are distilled into the SDGs into a fifteen-year roadmap. In this regard, it is important to assess the role that SSDC can play in fostering the conditions and contributing directly to the realisation of the SDGs over the next decade. As indicated in the previous sections, South-South Development Cooperation offers a path to achieve these ambitious development aims both through its interest-based, demand driven approach to development cooperation and, amongst others, its specific focus on structural development, public entrepreneurs and development financing. The strengthening of Global Partnerships, advocated in SDG 17, provides the basis for a new avenue of transformative development through SSDC.

The content of the SDGs was not only built upon the areas of MDGs where achievements were made, but sought to deepen these and expand the overall development remit to new areas. Following the convening of a UN commission and the adoption of 'Transforming Our World: the 2030 Agenda for Sustainable Development' in 2014, extensive negotiations preceded the official launching of Agenda 2030 on 1 January 2016.

The SDGs identified by the UN were notable in that they deliberately included (amongst others) productive sectors such as industrialisation, employment conditions and environmental concerns which had not featured in the original MDGs, making it a more comprehensive array of development aims and one which could, therefore, more readily claim to be universal in its ambit. Another difference from the previous initiative was the incorporation of 'new' methodologies of development—namely South-South Development Cooperation—which had been formally integrated into the OECD-DAC process after the Busan Summit in 2011. This addition also was a by-product of the rise of 'non-traditional' partners like China and Brazil, whose development cooperation strategies were predicated more overtly on a mutual interest-basis approach. Finally, the inclusion of major foundations and expanding role of the private sector in the development process reflected the growing involvement of development financing, innovation and technological transfer and consequently widened the array of potential partners able to participate in Agenda 2030.

Infrastructure in particular is an area in which countries like China have demonstrated capacity, expertise and financial means (see below). This complements well the infrastructure requirements in parts of Southeast and South Asia, Africa and Latin America, where the backlog in road, railways, ICT and hydropower infrastructure has long been recognised as a major impediment to development. Examples of Chinese and Brazilian infrastructure projects in Angola and Mozambique underwritten by loans tied to local resources have contributed to the functioning of markets in these countries as well as their ability to export their natural resources. Such resource financed infrastructure can play an important role in breaking the infrastructure logjam to development.

Industrialisation and the possibility of relocating labour-intensive, low-skill industries from established manufacturing hubs like China to Southeast Asia, South Asia and Africa represent another area of SSDC collaboration. This observation is underscored by the fact that the Chinese economy is widely seen to be in the midst of experiencing the 'Lewis turn', a notion coined to describe the condition in developing economies where they reach a point after which they shift from being primarily labour surplus to becoming labour scarce, resulting in an increase in real wages. This is the driver for the physical movement of industries on the lower end of the production chain, textiles and footwear being a classic example of that, seeking efficiency gains outside through relocation. Taking a historical reading of the political economy of East Asia, the 'flying geese' theory suggests that this experience is being replicated as advanced economies move up the value chain and start 'off-shoring' their low-cost labour intensive industries. Furthermore, it is worth noting that there is a correlation between improving infrastructure and lowering transportation costs of export-oriented industries which creates an interest for the more developed economies to engage in improving transportation networks and power generation in less developed economies, alongside of the relocation of their industries.

Green technologies: the commitments to reduce climate change and the capacity needed for meeting the rising energy needs, forms another area of cooperation (SDGs 7 and 13, with impacts upon SDGs 9 and 11). SSDC in this area would be vital to meet the climate change objectives set in Paris in 2015 and to provide a sustainable framework for a transition away from carbon intensive energy. Of particular interest are those developing countries which have sought to not only adopt existing green technologies but have transformed technological innovation into leading and competitive technologies. Solar technology, especially relevant for the countries in the drier sub-regions of Sahel, Middle East and South America, offers an opportunity to harness energy at source and transform the lives of households that are far removed from the national grid.

Human development is another area that SSDC can make an important contribution towards realising the Agenda 2030 objectives (especially SDG 4 and 5, but also SDG 8). In many respects, the essence of the experience of the so-called Asian model of development is centred on the ability of states to successfully invest in and mobilise human capital, bolster productive capacities and make gains through the application of appropriate technologies for development (more on this below). Education and training programmes targeted at developing skills in areas that are defined as productive sectors of the economy and supporting the improvement of secondary and tertiary educational institutions (including vocational colleges) through curriculum development, exchange programmes and provisions of materials, is another aspect of a potential contribution that SSDC can make. Moreover, progressive education policies targeting gender inequality, aimed at unleashing the potential of women and girls as a source for innovation and constructive component in the production process, is another dimension that SSDC can support with resources and knowledge-sharing.

Challenges and Opportunities

As the first report on the progress of Agenda 2030 by the UN Secretary General, Ban-Ki Moon, to the UN's Economic and Social Council on 24 July 2016 declares, there is considerable concern about the statistical methodologies and gaps in data collection, that are necessary to carry out the assessment of progress in all sectors identified amongst the seventeen goals. Specifically, the indicators are not harmonized across all national agencies or the metrics utilised to capture data needed to be reconsidered. To take the first SDG, 'ending poverty in all forms', there are some in the development community who have suggested that the current figure for defining poverty–US$1.90–is too low given global inflationary trends and might need readjustment. Such considerations would clearly impact the attainment of targets. There is recognition of this issue and the UN statistical commission is working on this area, but it remains, as the report by the UN Secretary General suggests, a work in progress.

Ensuring that developing countries intending on formulating state-led policies have the requisite institutional capacity and policy autonomy with those structures, is a difficult balance to achieve. Yet, if learning and policy transfer in development–a core contribution that SSDC expects to make–is to take place, there needs to be a concerted effort to ensure that institutions are fully functional and efficient, that the staff is competent and uncorrupted and that leadership is able to lead effectively. Here again, the SDGs anticipate this prerequisite in SDG 16. This underscores the significance of effective and accountable governance, and transparent practices as the crucial conditions within state structures, that need to be encouraged in order to meet the 'sustainability' requirements of Agenda 2030.

5. The Traditional Approach: what is missing?

5.1 Neglect of Structural Transformation for too long

Despite many years of hard work by development professionals in multilateral and bilateral development agencies, traditional development aid from advanced countries has not been as effective as it is intended to. One of the reasons is that ODA was not used for structural transformation. If traditional aid had been directed to augmenting the resources under the command of governments to ease the bottlenecks to growth in sectors with latent comparative advantages, it would have been better at reducing poverty and achieving inclusive and sustainable development in low-income countries.

In the past thirty years, China achieved the most rapid economic growth and poverty reduction–it alone accounted for most of the decline in extreme poverty over the past three decades. Between 1981 and 2011, 753 million people in China moved above the $1.90-a-day threshold. During the same time, the developing world as a whole saw a reduction in poverty of 1.1 billion (World Bank 2016). One of the reasons for this achievement is that China has embraced learning by doing and learning by export oriented policies and upgraded its industrial structure rapidly, from an agrarian economy to a manufacturing centre. The government has played a strong and facilitating role in providing public goods such as infrastructure and basic education.

To end absolute poverty by 2030, international aid must be used in the context of other resources such as non-concessional loans, direct investment, and government spending (Development Initiatives 2013). Where aid is more effective—as in the Republic of Korea, China, Vietnam, and India—it has been used together with trade, foreign direct investment, commercial loans for infrastructure, bond and equity investments, and concessional or non-concessional export credit. Indeed, separating aid from trade and investment goes against market-orientation.

South-South Development Cooperation would be more effective for poverty reduction in a poor country if it created a home-grown or localized (not national) enabling environment such as special economic zones or industrial parks for dynamic structural transformation, in an economy characterized by poor infrastructure and distorted institutional environment. This solution to promote industrial clustering and agglomeration is more effective in low-income countries.

A dynamically growing developing country is in the best position to help a poor country to jump-start dynamic structural transformation and poverty reduction: It can share its experience of building a localized enabling environment in special economic zones or industrial parks, and it can relocate its labour-intensive light manufacturing industries to the poor country in a "flying geese pattern" (Lin 2012d).

5.2 Principle-agent problems

Martens et al. (2002) highlighted the "principal-agent" problems in the "donor-recipient" relationship and found that "the nature of foreign aid—with a broken information feedback loop… put a number of inherent constraints on the performance of foreign aid programs. All these constraints are due to imperfect information flows in the aid delivery process" (p. 30). They quoted Streeten's famous question on aid with conditionality: "Why would a donor pay a recipient to do something that is anyway in his own interest? And if it is not in his own interest, why would the recipient do it anyway?" Their study pointed squarely to one of the basic dilemmas in modern ODA—the nonaligned incentives between donors and recipients.

Indeed, the imperfect information and the agency problem in aid with conditionality are under-researched. The IMF's Independent Evaluation Office (IEO) admits that the IMF made several mistakes during the Asian financial crisis in 1997–98, causing unnecessary pain. "Full capital account liberalization may not be an appropriate goal for all countries at all times, and that under certain circumstances capital flow management measures can have a place in the macroeconomic policy toolkit" (IEO 2007, 2015). After the release of a staff paper on capital control (Ostry et al. 2010) Dani Rodrik called the paper "a stunning reversal—as close as an institution can come to recanting without saying, 'Sorry, we messed up'" (Rodrik 2010).

5.3 Misguided Policy Prescriptions

One of the reasons for this misguided policy prescription was that the theory advanced by American academia—that capital account liberalization is beneficial for the allocation of capital and economic growth in developing countries—assumes that *capital is homogeneous*. That is, there is no difference between financial capital and real capital. Under such a theoretical model, a currency mismatch or even a term mismatch does not exist. Nor does the asymmetry of benefits when reserve currency–issuing countries can use virtual monetary capital to exchange for real products and services from non-reserve currency–issuing countries. Developed countries and developing countries also are no different in industrial and technical structures, the only difference is in capital endowment. In such theories, capital account liberalization can be beneficial only for capital-scarce developing countries. Armed with these theories, Wall Street and international financial organizations commanded a "high moral ground" in their promotion of capital account liberalization in developing countries (Lin 2015a).

However, in reality, developing countries are suffering from reversed capital flows–from poor countries to countries that are not so poor–benefiting the rich, as pointed out by Lucas (1990).

The overall effect of the collapse of the Bretton Woods system in the 1970s and the promotion of capital account liberalization by Wall Street, American academics, and the IMF was associated with larger economic fluctuations and more frequent crises in developing countries (Lin 2015a and b). After more countries liberalized their capital accounts since 1980, "there have been about 150 episodes of surges in capital inflows in more than 50 emerging market economies, and in about 20 per cent of the time, these episodes end in a financial crisis, and many of these crises are associated with large output declines (Ostry *et al.* 2016, p. 39).

And so it is high time for the IMF and the World Bank to "open up their kitchens" and welcome different development theories and ideas from the East as ingredients in their policy recommendations. Indeed, the dominant development paradigm seems to be changing: several different paradigms could coexist, and developing countries could select from the menu, based on their developmental needs (Lin and Rosenblatt 2012).

6. Linking the New Structural Economics and South-South Development Cooperation

We make two propositions on the features of China's SSDC consistent with the New Structural Economics (NSE), which we believe are validated by the case studies in this and the following sections.

Transforming "what the country has" to "What the country can potentially do well"

New Structural Economics proposes the use of neoclassical approach to study the determinants of economic structure and its evolution in the process of a country's economic development. It postulates that each country at any specific time possesses given factor endowments consisting of land (natural resources), labour, and capital (both human and physical), which represent the total available budget that the country can allocate to primary, secondary, and tertiary industries to produce goods and services. The relative abundance of endowments in a country are given at any given specific time, but changeable over time. In addition, infrastructure is a fourth endowment which is fixed at any given specific time and changeable over time (Lin 2012b, p.21).

This framework implies that at any given point in time, the structure of a country's factor endowments, that is the relative abundance of factors that the country possesses, determines the relative factor prices and thus the optimal industrial structure (Ju, Lin, and Wang 2011). Therefore, the optimal industrial structure in a country, which will make the country most competitive, is *endogenously determined* by its endowment structure.

Further, economic development as a dynamic process entails structural changes, involving industrial upgrading and corresponding improvements in "hard" (tangible) and "soft" (intangible) infrastructure, at each level. Such upgrading and improvements require an inherent coordination, with large externalities to firms' transaction costs and returns to capital investment. Thus, in addition to an effective market mechanism, the government should play an active role in facilitating structural transformation, diversification and industrial upgrading. (Lin 2012b, p. 14-15)

In the long term, if a country develops industries (and the specific infrastructure needed for that particular industry) according to the comparative advantage determined by the endowment structure, the country will become most competitive, generate the most profits (surplus), have the largest savings, and have the fastest upgrading of endowment structure, which will in turn build the foundation for the upgrading and diversification of industries to the more capital-intensive industries. This will become a virtuous cycle and infrastructure can be financially viable.

As elaborated in the New Structural Economics, the most effective and sustainable way for a low-income country to develop is to jump-start the process of structural transformation by developing sectors in which it has *latent comparative advantages*. The government could intervene to reduce transaction costs for those sectors by, say, creating special economic zones or industrial parks with good infrastructure and an attractive business environment. If a developing country adopts this approach, it can immediately grow dynamically and launch a virtuous circle of job generation and poverty reduction, even though its national infrastructure and business environment may be poor.

We therefore propose a model of "joint learning and concerted transformation" where all development partners are learners on an equal footing, but learning at different speeds. Learners at different stages of development can choose different learning partners (or "teammates") according to their own comparative advantages, "instruments of interaction," and degrees of complementarity. There is a freedom of selecting partners, development strategies as well as sequencing and priorities. One learner could have multiple partners, upstream or downstream, North or South, each playing a mutually beneficial complementary role. Another analogy is that emerging and developing countries are at various stages of climbing the same mountain of structural transformation. In a globalized world, an economy can climb to the top faster with the help of others.

Our first proposition is that a learning partner successful at transformation can use its comparative advantage in development to help diffuse tacit knowledge on the how-to issues of development. China has thousands of years of history of "learning from friends from afar," and believed in "teaching it only if you know it well" (in our context, "you can teach others only if you have a comparative advantage"). Using comparative advantage allows both partners to gain (as we know from Adam Smith), so the incentives of both partners are aligned to achieve mutual benefits or win-win. We can even measure these "gains from cooperation" just as we can measure the "gains from trade." This is fundamentally different from the "aid with conditionality" model where the incentives of donors and recipients are not aligned.

Our second proposition is that a country can learn only by moving up one tiny step at a time, reflecting its natural or accumulated factor endowments. In other words, it learns by following its comparative advantages (not defying them), based on the NSE. Because China has conducted partial reforms gradually, it can help others with partial reforms through special economic zones (SEZs) and experiments. A country can change its endowment structure through saving, investment, and learning to accumulate natural, physical, human, and institutional capital, but it takes a long time. It is impossible for a capital-scarce country to defy its comparative advantages to leapfrog and become a capital-intensive manufacturer or a high-tech knowledge economy.

6.1 Need a New Mindset: Infrastructure plus industrial parks

Infrastructure investment in developing countries could mitigate some of the post-crisis ills that advanced countries currently face, and would help create jobs and generate growth in advanced economies. However, investing in infrastructure alone is not sufficient to propel the growth engine and generate jobs unless it is combined with productive assets and human capital. Therefore, we argue that, based on the New Structural Economics, infrastructure investment needs to be associated with industrial parks or zone-development and structural transformation in order for it to become self-sustainable.

From the angle of land-based financing, investment on appropriate infrastructure and industrial assets would increase the value of land (a commonly accepted principle). Land-based financing offers powerful tools that can help pay for urban infrastructure investment. And these options have been utilized during China's experimentation on Special Economic Zones and the infrastructure around these zones (Wang Yan 2011).

Therefore, our proposition 1 is that

Other things being equal, a piece of land with a proper level of infrastructure is always more valuable than a piece of land without. Thus, it can be well used as collateral for infrastructure development loans. First, this proposition is confirmed by empirical evidence that infrastructure benefits the poor because it adds value to land or human capital and reduces inequality (Estache, Foster and Wodon 2002, Estashe 2003, and Calderon and Serven 2008).

Second, since the infrastructure is often sector-specific, "proper" level of infrastructure must be affordable to the population and be consistent with the country's existing or latent comparative advantage. Thus, market mechanisms should be relied upon to have the right relative prices and to determine which infrastructure is "bottleneck releasing". In addition, the government must perform the functions of providing information, identifying the comparative advantages and the associated appropriate infrastructure, and facilitating this process by developing Special Economic Zones (SEZs) in order to allow the self-discovery by the private sector. On the Growth Identification and Facilitation Framework see Lin and Monga (2011).

Therefore, our proposition 2 is that

Transformative infrastructure helps link a country's endowment structure with its existing and latent comparative advantages, and translate them into competitive advantages in the global market. Thus, it can be made financially viable. In other words, combining infrastructural building with industrial upgrading, as well as real estate development, can help make both financially sustainable. Potentially this approach has high rates of returns.

Based on these two propositions, any low-income country can have the ability to pay for its appropriate infrastructure in the long term, as long as they develop a strategy that is consistent with their comparative advantages. In other words, we should focus more on "what these countries have" rather than "what they do not have". The World Bank and other development banks should try to help transform "what these countries can potentially do well" based on "what these countries have" to into the country's competitive advantages in the global market.

But how could the infrastructure funding gap be closed without putting an additional fiscal burden on the already cash-strapped governments?

Infrastructure consists of a spectrum of public goods, semi-public goods and private goods. It will require a combination of financing from both traditional and new sources, in particular the private sector. Infrastructure projects in developing countries are generally financed by a combination of domestic public financing, loans or grants from multilateral institutions and bilateral creditors (ODA and OOF), commercial loans including resource based loans (RBLs) and some limited private sector investment (PPPI). Depending on the characteristics of specific infrastructure, whether it is public-, or semi-public or private goods, various funding sources can be used. One of such approach is called "Resource Financed Infrastructure" (RFI), which will be discussed below.

6.2 Resource Financed Infrastructure (RFI): a new instrument and pros and cons

During past decade, China has developed series of Resource Financed Infrastructure (RFI) projects with African countries which have been criticized by the western media. A recent World Bank-led study, however, considers it as "a new form of infrastructure financing". What is the definition of

RFI model? In a simple word, *"the RFI model is a financing model whereby government pledges its future revenues from a resource development project to repay a loan used to fund construction of infrastructure. The key advantage of the model is that a government can obtain infrastructure earlier than it would have been able to if it had to wait for a resource project to produce revenues. This new financing model resembles aspects of other financing models, and use of the model will raise issues in the same way that every other model does, whether used for a resource development project or an infrastructure project." (page 13, Halland et al 2014)*.

RFI's major advantage: Obtaining development results faster

After comparing various conventional approaches to infrastructure financing, their pros and cons and gaps, Halland et al (2014) highlighted the most important advantage of the RFI approach, and that is, this approach "*can bring substantial benefits to a [host] country and its citizens, ... years ahead of what would have been possible under any other model.*" (page 14, Halland et al 2014). But the study says relatively little about the "structural" side of the economies, not to mention structural transformation. Based on the intellectual foundation of New Structural Economics (Lin 2012), we discuss below the pros and cons of this RFI approach by stressing the developmental aspects of the RFI concept, especially focusing on structural transformation, the currency mismatch, the spatial concentration, as well as political economy and transparency issues. We leave the evaluation of past RFI transactions to further analysis.

First, economic development is a process of continuous industrial and techno- logical upgrading in which each country, regardless of its level of development, can succeed if it develops industries that are consistent with its comparative advantage, determined by its endowment structure. However, this process is not spontaneous. Without the government playing a facilitating role to overcome inherent coordination and externality problems in the process, the private sector may not be willing to diversify into new sectors based on the changes in the structure of the country's endowment. The RFI concept can help connect resource extraction with the construction of "bottleneck-releasing" infrastructure—two otherwise segregated supply chains, thereby reducing transaction costs. In the conventional World Bank approach, resource extraction and infrastructure building are two separate supply chains, belonging to two different sectors. Their projects are designed separately and financed separately, and in developing countries, they are implemented by different ministries. In the RFI approach, income streams or potential income streams from resource extraction are used as collateral for loans for infrastructure building, it has linked the two otherwise separate supply chains–thereby reducing transaction costs as well as the number of years before development impact from infrastructure can be shown on the ground. It allows development results to be shown faster and earlier --This is the most important advantage of the RFI approach, which is shown in an example of Ghana's Bui Dam. In this example, Ghana's export of cocoa beans has been used as the collateral for the loans from the China EXIM Bank. The dam was completed by China Hydro from 2009 to 2013, as part of an EPC turnkey project, and owned and operated by Ghana's Bui Power Authority (BPA). The Bui hydropower plant increases the installed electricity generation capacity in Ghana by 22 percent, by utilizing the comparative advantages of both Ghana and China. However, the full development impact has yet to be evaluated (Lin and Wang 2016).

RFI facilitates structural transformation

Second, on the "valuation" issue of the RFI approach, Halland et al (2014) indicates that, ideally, *"an RFI credit may be the least-cost option for obtaining essential infrastructure that cannot generate sufficient revenue to support a project finance transaction."* The study also rightly points to gaps left by the previous infrastructural financing models, which could be filled by the RFI approach, including the interesting feature of "nonrecourse" loans.

Most infrastructural loans have some feature of "limited recourse "loans, as the government cannot /does not provide a full guarantee. If China's past RFI deals were indeed "nonrecourse" loans which disproportionally favouring the borrower, the lender would have assumed higher risks than in the case of full-recourse secured loans. This represents a unique "insurance service" provided by the lenders in RFI deals, that would otherwise be unavailable. This service has yet to be fully appreciated and priced-in by the development community. The IMF and the World Bank should conduct more research on the "appropriate" pricing of nonrecourse loans favouring the borrowers.

Third, the RFI concept helps overcome several constraints in low-income and resource-rich countries, and one of those constraints is the currency mismatch. It is well known that the revenue stream from a specific infrastructure denominated in local currency cannot be used to repay loans denominated in foreign exchange. Ideally, the structural transformation should not be constrained by an insufficient foreign exchange. The RFI approach focuses on the real sector and relies less on cash flows denominated in foreign exchange. This concept reduces the amount of foreign exchange a country has to have for repayments of foreign debts, as long as it has the potential to produce some commodity that can be sold in the international market such as oil or gas or cocoa beans (in the case of Bui Dam in Ghana) that can generate a revenue stream in the future.

Not all countries have equal access to the international financial market, allowing them to issue bonds for infrastructural development, thus innovative approaches must be found to finance their development. The RFI model allows the exchange of one resource for another productive asset in the long term, and thus supports real sector diversification without relying completely on the financial market. In addition, it reduces the leakages due to resource rents/revenues being transferred out of the country, or capital flight. This "real"-for- "real" sector exchange could help overcome severe financial and governance constraints suffered by low-income but resource-rich countries. For countries constrained by capacity gaps, a "real"-for- "real" exchange, for example, "work for food" programs, turnkey projects, "market for technology" exchanges as well as the "resources for infrastructure" approach, if well designed and monitored, can lead to development results such as roads or schools or jobs on the ground within a time span of three to five years or less.

Fourth, not all asset classes are equal in terms of productivity and their impact on poverty. Some are public- or semi-public goods and others private goods. Certain types of infrastructure are "bottleneck-releasing" with high developmental impact, others are not. The RFI model could help integrate and "bundle" the provision of public goods together with the extraction of natural resources (private goods) in a meaningful way (for example, around an eco-industrial zone) that could benefit the host-country population, as well as making the provision of public goods attractive to the private sector.

RFI and Risks

On risk management side, the political economy dimension is critical. On the one hand, the RFI model may be welcomed by democratically elected governments, thanks to its ability to "rapidly" achieve developmental results. On the other hand, this feature may be detrimental to the repayment cycle because the next government of the borrowing country, having forgotten the benefits obtained in the earlier period, may revoke the concessions or request a renegotiation. In a sample of 1,000 concessions granted by Latin American and Caribbean countries between 1985 and 2000, 30 percent were renegotiated within 2.2 years, with the highest rate of renegotiation being in water and sanitation (74 percent) (Guasch 2004, 12). This is one of the highest risks of this RFI approach.

Second, there are legitimate concerns over the transparency issues around past RFI packages. We are strongly supportive of the Extractive Industries Transparency Initiative (EITI) principles for moral, political, as well as risk management reasons. History has shown that for political risk management, it is important to keep a balance between the commitment to transparency and a certain level of confidentiality during negotiations. In our view, any "deals" negotiated in the dark—without the support of the general public—are more likely to be revoked or renegotiated later if there is a change in the government. This lesson from history should be kept in mind.

6.3 Building Industrial Parks to attract Manufacturing Industries

The idea that industrial parks can promote structural transformation is not new. Economists have emphasized that industrial parks or zones take advantage of dynamic scale economies, and reduce search, learning, and transaction costs. In particular, investing in SEZs can:

- Bundle public services in a geographically concentrated area.

- Improve the efficiency of limited government funding/budget for infrastructure.
- Facilitate cluster development or agglomeration of certain industries.
- Propel urban development by providing conducive living conditions for workers and diaspora science and technical personnel, and by conglomerating services, inducing economies of scale for environmental services.
- Stimulate job creation and income generation and, potentially, environmental sustainability through promoting green growth and eco-friendly cities (Lin and Wang 2013, p. 14).

Countries, especially those developing, cannot build business infrastructure in one go. They have few resources and low implementation capacities. They also have limited political capital to defend policies and reforms against vested interest groups and other political opposition. Such conditions require targeted interventions or piloting, especially in the initial stages.

The Chinese government has backed six SEZs or industrial parks in Africa (Brautigam and Tang 2013). But many others are initiated and largely financed by the private sector, including the two discussed below. Investment in infrastructure around and in the zones is facilitating enterprise/ cluster development in manufacturing and job creation.

7. Future Development finance in the 21st century

7.1 The One Belt, One Road Vision and Confucianism

Chinese President Xi Jinping at the APEC summit in 2013 proposed a new vision to build a "one silk road economic belt and a maritime silk road" (One Belt, One Road for short), supported by more than 50 countries along the proposed routes. What is its rationale?

The One Belt One Road reflects Chinese leaders' vision of a world order guided by shared prosperity, "peaceful co-existence with differences," and commitments for providing global public goods, peace and security, and sustainability, drawing on China's deep wealth of Confucianism. Most historians agree that China was relatively prosperous before the industrial revolution. "Until the Industrial Revolution, China was far richer. In fact, China produced a greater share of total world GDP than any western society in 18 of the last 20 centuries. As late as 1820, it produced over 30 percent of world GDP—an amount exceeding the GDP of Western Europe, Eastern Europe, and the United States combined" (Kissinger 2011, p. 11).

Confucianism may explain why. "As early as the Song Dynasty (960–1279), China led the world in nautical technology; its fleets could have carried the empire into an era of conquest and exploration. Yet China acquired no overseas colonies and showed relatively little interest in the countries beyond its coast" (Kissinger 2011, p. 8).

Confucius emphasized *ren* (benevolence); the cultivation of social harmony; the principles of compassionate rule, including his love of lifelong learning, as in "It is indeed a pleasure to acquire knowledge and as you go on acquiring, to put into practice what you have acquired?" and through learning from others, "When I walk along with two others, they may serve me as my teachers. I will select their good qualities and follow them, their bad qualities and avoid them."

As Kissinger noted, "China owed its millennial survival far less to the punishments meted out by its Emperors than to the community of values fostered among its population and its government of scholar-officials" (2011, p.13). The civil service examination allowed talented people to become members of the ruling class, which brought handsome economic returns and high honour to their families. Moreover, the examinations instilled a set of values, emphasizing the loyalty to the emperors and the services to the people, in the mind of elites further reduced the costs of ruling and holding the large country together (Lin 1995). This community of values helped hold a large country together for thousands of years.

Confucianism also shaped China's relations with its neighbours. Instead of using its power to conquer them, China used its power to restore and maintain peace with them, reflecting the principles of Confucianism to "revive states that had been extinguished and restore families whose line of succession had been broken, and called to office those who had retired into obscurity, so as to gain the hearts of the people in the world" (《论语・尧曰》: "兴灭国，继绝世，举逸民，天下之民归心焉). This might help to explain why "China acquired no overseas colonies and showed relatively little interest in the countries beyond its coast." (Kissinger 2011, p. 8).

Deeply rooted in China's history and civilization is a firm belief that "one should not impose on others what oneself does not desire" and "one wishing to be successful oneself must also help others to be successful; one who wishes to develop oneself also hopes to help others develop." These principles have been behind the visions guiding China's foreign aid and cooperation in the last 50 years.

The new generation of Chinese leaders has attempted to modernize and strengthen these values and principles. "China now has its basic interest and responsibility in the systemic functioning of global development financing" Xu and Carey (2015). And as Chinese President Xi has said "The vast Pacific Ocean has ample space for China and the United States" (*Washington Post*, February 12, 2012). These ideas have been fully incorporated in China's 13th Five Year Plan, which calls for a new pattern of development based on five principles: "innovation, coordination, green, open and shared development." It sets a strategy of two-way openness, promoting orderly movement of all production elements, supporting infrastructure development and connectivity with neighbouring countries (State Council FYP draft 2015).

In other words, this One Belt One Road will not be just a vision, but a guiding principle in China's foreign policy and development finance, with a concrete action plan.

7.2 A new bilateral approach: building communities of "common fate and destination"

BRICS countries and other non-DAC member countries will continue their bilateral approach in South-South Development Cooperation (SSDC), as the Addis Ababa Action Agenda has supported it, for reducing poverty and reaching the Sustainable Development Goals. But to overcome some of the incentive problems and the information-asymmetry and principal-agent problems that exist in the "aid effectiveness" literature, the following principles should be followed:

Host countries must have full ownership of their development programs. An SSDC project should be "requested by the host country, led by the host country, and co-constructed by the host country." Both providers and hosts are on equal footing, and either one of them can say no (Addis Ababa Action Agenda, article 56).

The partners of cooperation may seek to establish communities of "common fate and destination" to find common ground of interest that can benefit both partner- and host- country national interest. Admittedly, each developing country has its national interest, and SSDC is not purely altruistic. Both sides should strive to seek common ground of interest and reach mutual benefit and a win-win outcome. At project level, a joint venture company may be or should be established before capital can be injected and loans can be borrowed. In fact, this joint venture is the embodiment of this community of "common destination." For example, in the case of a high-speed rail system in Indonesia, a Chinese company selected by international competitive bidding will form a joint venture with the Indonesian Railway Company—each agreeing to contribute to the equity capital. Then other lenders and investors, like China Development Bank and the Silk Road Fund, may contribute to the equity capital as well. In this way, both sides can benefit if the project succeeds, and both sides will lose if the project fails.

But bilateral SSDC has disadvantages. Obviously, it cannot leverage funds and share risks among multiple partner countries. Nor does it facilitate learning and trilateral cooperation, so improving its effectiveness through learning remains a question mark. And in the event of a dispute or default, it is difficult to resolve. In our joint book on "Going Beyond Aid", we proposed four ways to improve China's SSDC efforts, including for example,

- giving priority in drafting a Foreign Aid Law,
- providing more transparency in the terms and conditions of China's aid and cooperative activities,
- providing training and education to follow local labour and environmental standards, and
- establishing a clear framework for evaluating and rating/ranking all firms and banks which engage in South-South Development Cooperation (Lin and Wang 2016, chapter 7).
- In addition, here we propose that a higher proportion of China financed projects should be

subject to international or local competitive bidding, especially in certain sub-components of larger projects, in order to benefit local SMEs in construction and manufacturing business, and create more local jobs. Host governments can also have such regulations requiring a certain percent of subcomponents be subject to local competitive bidding.

Most important, bilateral mechanisms are completely inadequate for providing global public goods. Similarly, plurilateral arrangements (among a few partners, as with the BRICS) are insufficient to solve such global issues such as climate change, and interregional connectivity—hence, the need to resort to a multilateral system.

7.3 Plurilateral financial arrangements

Brazil, Russia, India, China, and South Africa (BRICS) have jointly established the New Development Bank, formerly the BRICS Bank, headed by an experienced Indian Banker, K.V. Kamath, with headquarters in Shanghai. In its first articles of agreement, it states the objective of "mobilizing resources for infrastructure and sustainable development project in BRICS and other emerging economies and developing countries, complementing the existing efforts of multilateral and regional financial institutions for global growth and development."

The BRICS are on different continents, with different comparative advantages and different national interests. Many analysts conclude that the New Development Bank is "temporary and weak." We think they are wrong. We believe this bank reflects a true partnership of equals, based on the principle of "peaceful co-existence with differences." It also has the potential to become a "community of common fate and destination." These five countries are all middle-income countries striving to upgrade their industries and diversify from their own positions in the world's value chains. They have own national interests but also large grounds for common interest. They are teammates in climbing the same mountain of structural transformation and need help from each other. And with their different comparative advantages, they can complement each other economically.

Similarly, on governance, all founding member countries contribute equally to the New Development Bank and have equal voting rights—a "true partnership in development." "The voting power of each member shall be equal to the number of its subscribed shares in the capital stock of the Bank." No one is in dominating position, to impose conditions on other partners, but all will follow the international rules of the game. Partners have the freedom to join or exit, and each can say yes or no. Membership is also open to all members of the United Nations.

In sum, there is ample room for mutual learning and exchanges of experience among the BRICS, the traditional and emerging suppliers of development cooperation, and the bilateral and multilateral financial organizations.

7.4 Advantages of the new multilateralism

In the past, most development cooperation from China was bilateral (Lin and Wang 2016). With the newly established multilateral financial organizations, China will contribute more development finance. International development is a new area for China—one cannot learn how to swim without jumping into the water—and it offers six main advantages.

Initiating and running a new multilateral financial institution will be a learning and experiment process for China. A new group of Chinese will take leadership roles in the New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB), led by AIIB president Mr. Jin Liqun, working with their colleagues will enhance their international leadership and coordination skills.

A multilateral financial institution allows China to leverage capital and pool a larger amount of capital, exerting a larger impact than through bilateral development cooperation. This will reduce the amount of capital flowing from developing countries to developed countries and improve the efficiency of global capital allocation. Theoretically this will improve the rate of return, since investing in the bottlenecks of developing countries should have higher rates of return than investing in industrial countries, where capital is abundant. It also allows better risk-sharing among a larger number of member countries, which is good for risk management. Moreover, it enhances shareholders' ability to protect their investment against all sorts of risks, including political risk.

The rest of the world can benefit from the large savings, rapidly growing consumer demand, and scale economies of the very large BRICS economies. China, India, and other emerging countries are at a stage where labour-intensive industries need to relocate to other countries due to sharply rising labour costs at home. This provides huge opportunities for low-income countries to upgrade their manufacturing industries.

In addition, China enjoys scale economies that other smaller countries do not, which lets it keep down construction costs of large transport networks. China has demonstrated its comparative advantage in constructing large infrastructure, thanks to its inexpensive labour and engineers, the capacity to complete many large projects domestically, and the ability to raise funds and implement large projects in other parts of the world (Lin and Wang 2016, chapter 5). Countries connecting to China and Chinese rail networks can benefit from these scale economies and comparative advantages, increasing their access to inland consumer markets. Indeed, the social benefits of connecting to a large (hard and soft) network should be huge.

The new institutions require all shareholders to share information and thus enhance transparency and internal governance. This will later influence the behaviour of large shareholders domestically, and provide pressure mechanisms for law making in domestic reforms. For example, in setting up the governance structure of the AIIB, Chinese leaders will learn from other founding member countries that have a more complete system of foreign aid laws and regulation. The Articles of Agreement of the NDB and the AIIB presage the highest standards of transparency and governance, which should influence those in bilateral SSDC. This will enhance trust among all founding members, including that between southern and northern partners.

8. Concluding remark

The report includes three parts. Part I first gives an overview of international development cooperation (IDC) and the innovation of south-south development cooperation (SSDC) towards 2030, then lay out the evaluation of contributions of south-south development cooperation to global development. This report tries to reflect the New Ideas of Development Cooperation and New Mechanism and Approach of Development Cooperation. Part II focuses on South-South Trade Cooperation, South-South Development Assistance/Technological Cooperation, and South-South Direct Investment. Part III explores the case studies on the cooperation of major south country, such as China's New Architecture of Development Cooperation (One Belt and One Road Initiatives), Development Cooperation between China and Africa, Brazil's Development Cooperation, India's Development Cooperation, South Africa's Development Cooperation, finally concluding as Changing dynamics and International Development Cooperation.

Note: The overview of the report is quoted from various authors of this report. The contents of each chapter of this report are purely views of relevant authors rather than FCSSC's.

Part I

Chapter 1

An Overview of International Development Cooperation and the Innovation of South-South Development Cooperation towards 2030*

1. Introduction

South-South Development Cooperation has undergone tremendous transformations over the last fifty years. Once characterised as parochial and irrelevant by conventional Western development analysts, South-South Development Cooperation (also known as SSDC) has evolved from its aspirational origins in the immediate aftermath of decolonisation in parts of Asia, Africa, Latin America and the Caribbean, to become a significant engine of development in parts of the emerging South and its development partners. The recognition accorded to SSDC by the Organization for Economic Cooperation and Development during the High-Level Summit on Aid Effectiveness in Busan in late 2011, highlights the changing global status of SSDC. At the same time, the innovation demonstrated over the past few decades by proponents of SSDC-grounded in many respects in the ad hoc and practical application to specific development problems-is also evolving to reflect changing contemporary circumstances, especially within the South. As such, it needs to continue to exhibit these dynamic qualities as it moves to address the development challenges of the coming decades, manifested in the Agenda 2030 for Sustainable Development.

The strategies developed and methods employed by the innovators of the South have been deeply influenced by the material conditions they faced and the changing international context. The liberal

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international economic order-a spatially defined area characterised by a set of rules and practices predicated on market access by participating developing countries and underwritten by the US dollar based economy-is clearly stalled. The failure of the Doha Development Round, coupled with uncertainty generated by populism and economic dislocation amongst key global players like the European Union and the United States, underscores the constraints that developing countries are experiencing as they attempt to continue their path in the coming years. At the same time, the promulgation of the SDGs in 2015 paves the way for the next stage in the global development process, one which commits the international community to meet a host of specific targets through provisions for economic support, market access, technical assistance and development financing.

In this respect, emerging countries of the South have demonstrated through concerted effort, the ability to mobilise their domestic resources in conjunction with external sources–best represented by the enormous growth in the economies and improved livelihoods in China–to achieve a transformative impact on their economies and societies.[1] Concurrently, the increase in South-South trade, the ongoing exchange of technology and experiences, the growth of development and commercial financing to encourage businesses to engage in economic activities-all speak to the growing role countries of the South have in the global economy. Given the spectacle of a period of international uncertainty and the resulting challenging conditions, the significance of SSDC is all the more heightened as a key instrument for the realisation of the global development agenda. For this reason, understanding how SSDC has served as a development catalyst and can continue to act as a source of ideas and innovation, development financing, human development and institutional capacity building, is crucial to assessing the role and impact it is has had (and is likely to have) on meeting the SDGs.

This chapter will examine, first, the origins and evolution of SSDC; second, the lessons that can be drawn from International Development Assistance and its respective shortcomings; third, the innovations developed and utilised in SSDC; and fourth, the prospects for SSDC to play a consequential role in meeting the ambitious targets of the Sustainable Development Goals' Agenda 2030.

2. Evolution of South-South Development Cooperation

South-South relations commonly designate the multitude of political, economic, technical, social and cultural relations among developing countries. Though these relations were initially shaped by the reaction to colonialism and pull of ideology during the Cold War, they progressively evolved both in nature and growth over time. Moreover, South-South ties gradually became institutionalised

1 UNDP *Human Development Report: The Rise of the South* (New York: UNDP 2013).

through mechanisms of multilateral cooperation, both in the framework of the United Nations and through selective mini-lateral clubs. This process was to lay the foundation for SSDC.

In the volatile Cold War context, developing countries remained largely dependent both economically and politically on their former colonizers in the northern hemisphere. Although there were existing interactions among developing nations, these largely remained at the regional level and were less extended. On the international level, relations between developing countries remained weak and were marked by North-South dependency patterns (Rosenbaum, Tyler, 1975). Collective action was limited and often resulted in the formulation of common interests rather than effective economic policies for reducing economic dependency on developed countries. The material weakness of South-South relations and the exacerbating tensions between rival blocs, led several developing countries from the South to use global platforms like the United Nations for advocating political independence (Rosenbaum, Tyler, 1975). The necessity to reinforce political, economic and social relations among southern countries was therefore promoted as a quest for autonomy and reduction of dependency on the North.

This period is synonymous with the birth of the 'Third World', a label that applied to all developing countries marginalized in the globalization process, wishing to distance themselves from rivalries between major powers during the Cold War (Sauvy, 1952).[1] Relations between developing countries were established on the United Nations platform in 1955 with the creation of the Afro-Asian group at the UN, bringing together the African States and newly independent Asian states. These relationships were also established at the conference of Non-Aligned Movement (NAM) following on the heels of the Bandung Conference in April 1955. The first glimpse of a new world economic order came with the formation and progressive institutionalization of institutions such as the United Nations Conference on Trade and Development (UNCTAD) and the Group of 77 (G77) to promote the economic emergence of developing countries in 1964. In the aftermath of the oil crisis of 1973 and the rise of the resource cartel-the Organisation of Petroleum Exporters (OPEC)-a newly assertive South called for direct talks to create the conditions for a New International Economic Order. Resource cartels sprung up across the developing world, with marginal effectiveness, as developing countries sought to use commodities as an instrument for obtaining better terms of trade.

The same impulse was seen on the technical level of these relations with the organization of the first conference on technical cooperation among developing countries in 1978 in Buenos Aires. This conference brought together a vast majority of developing countries and led to the adoption of the Plan of Action of Buenos Aires that identified 15 cross-cutting areas in which technical cooperation among developing countries should be implemented. Notably, the use of the term

1 The United States and its Western European allies were designated as the 'First World' and the Soviet Union and its allies as the 'Second World'.

'technical' cooperation among developing countries gradually came to be replaced by that of 'South-South Cooperation'.

In fact, until 1986, the term "South-South Cooperation" does not appear in the declarations of the pre-eminent organisations of developing countries–the NAM, the G77 or UNCTAD. It is first found in the Harare Declaration of the 8th summit of the NAM in 1986. The South was characterised at Harare as a diverse set of states in terms of size, the structure of economy and level of economic, social and technological development which are heterogeneous in culture, political system and ideology (Institute of Foreign Affairs, Tripureshwor, Kathmandu, 2011). Despite this economic, political and societal heterogeneity, these countries share a common identity-primarily international-which leads them to adopt collective action strategies to defend their mutual interests. This period also coincides with the expression of intention by the Malaysian Prime Minister to create a "South Commission" which was set up a year after the NAM Summit in Harare (Alden, Morphet and Vieira 2010). The purpose of this commission–co-chaired by India's Manmohan Singh, the then Secretary General of the Commission and Tanzanian President Julius Nyerere–was to provide an initial assessment of the political and economic relations in the South and the challenges that developing countries may face at national and international level and the means to overcome them. India, Venezuela and South Korea were the largest contributors to the Commission's work.

The report of the South Commission invited the abandonment of the term 'Third World'-the set consisting of three-quarters of humanity living in the developing countries and over two thirds of the surface of land-for the term "South", regrouping all the existing countries on the periphery of the developed North' (South Commission 1980). The South was presented as a diverse and heterogeneous set of states both in terms of size, the structure of their economies, level of economic, social and technological development, cultures, political systems and ideologies. Despite these differences, the authors of the report presented the South as a whole, having a base unit that transcends their differences and gives them a common identity. This common identity is based on shared aspiration to emerge from underdevelopment and a shared agenda for the reform of the system of global governance including the decision-making process dominated by the North. These countries were thus defined as part of the South in reference to a set of structural features and some shared history such as the struggle against colonialism and imperialism (South Commission 1980).

The term 'South-South Cooperation' has not been rigorously defined but has gradually become the institutional reference point for relations between developing countries including technical cooperation for development. The UN Office for South-South Cooperation, under the United Nations Development Programme (UNDP) gives a broadly defines South-South Cooperation (SSC) as:

A broad framework for collaboration among countries of the South in the political, economic, social, cultural, environmental and technical domains. Involving two or more developing countries, it can take place on a bilateral, regional, sub-regional or inter-regional basis. Developing countries share knowledge, skills, expertise and resources to meet their development goals through concerted efforts. Recent developments in South-South cooperation have taken the form of increased volume of South-South trade, South-South flows of foreign direct investment, movements towards regional integration, technology transfers, sharing of solutions and experts, and other forms of exchanges.[1]

This broad 'catch-all' definition is essentially drawn from the Buenos Aires Plan of Action and the Nairobi outcome document adopted by the UN High Level Conference on South-South Cooperation.

Despite this gradual institutionalization that promotes interaction among developing countries, South-South relations remain, at this stage, largely political in nature with a low level of economic interaction as indicated by the comparison between South-South and North-South trade flows. In 1980, some analysts considered SSC more of a 'slogan' than a reality and called for the establishment of effective cooperation mechanisms at different scales, from regional to international, in order to go beyond the idealized vision of strengthening South-South links. (Ul Haq, 1980). In 1990, the gradual establishment of regional cooperation mechanisms in Africa, Asia, and South America, favoured the progressive regional integration of those markets (Tenier, 2003), and also the strengthening of economic relations between countries from the South. Practices of cooperation among developing countries also differ from those among developed countries in that they do not follow the classic separation of cooperation vectors. The classical theories of economic integration call for the separation of vectors of cooperation such as development aid, trade and direct foreign investments in bilateral relations. But practices of cooperation between emerging and developing countries, including China, India, Brazil and South Africa, tend to merge these three vectors in their relations. These different sets of relations are grouped under the umbrella of SSC. These approaches are increasingly expanded, particularly through the addition of scientific, technical and in-kind contributions, making SSC a category whose definition and dynamics are constantly evolving.

Other semi-formal mechanisms of cooperation of a cross-regional character are also emerging like the Indian Ocean Rim Cooperation Association formed in 1997 and the IBSA dialogue forum involving India, Brazil and South Africa formed in 2003. Although these initiatives are presented as tools for building South-South relations by their member-states, the intensification of bilateral and regional relations among developing countries is not systematically labelled as 'South-South' by all developing countries. For instance, Chile, although being a member of the G77 and NAM, wishes to forge strong links with developing countries without appearing in the contentious logic of the period of the Cold War. (Brun, 2012)

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1 "What is South-South Cooperation?", United Nations Office for South-South Cooperation., http://ssc.undp.org/content/ssc/about/what_is_ssc.html

Contemporary relations between developing countries are experiencing new economic dynamics, especially commercial, since the 2008 financial crisis and the subsequent contraction of the economies of developed countries. While South-South exports only accounted for 12% of total global exports and increased at the rate of 8% per annum in 1995, they experienced a jump in 2010, accounting for 23% of global exports and are now increasing at the rate of 30% per year (UNCTAD, 2012). And although South-South trade flows were initially affected by the financial crisis, since 2009 they have recovered their growth rate and are growing faster than North-South trade flows. South-South investments have increased almost three-fold (from US$14 billion in 1995 to US$47 billion in 2003) and now account for almost 37 percent of total FDI flows to developing countries, up from 15 percent in 1995 (Rajan, 2010)[1], changing the image of SSC.

Leading the rapid growth of these economic flows between developing countries, are the emerging economies of China, Brazil, India and, to a less extent, South Africa. Their dynamic growth spurred on new forms of diversification with trading partners and the rapprochement with non-traditional countries and regions and has become a foreign policy priority in order to reduce their interdependence and to hedge against crisis. In 2010, South-South exports remained largely dominated by Asia, which accounted for 84% of all exports, while regions like South America and Africa accounted for only 10% and 6% respectively (UNCTAD 2012). Developing countries in regions like Africa and South America, export 62% and 42% of their total exports to Asia respectively, where China is their biggest trading partner. This densification is then done at the expense of intra-regional export flows. For instance, Africa's intra-regional trade dropped significantly from 63% to 29% of their total trade between 1995 and 2010 (UNCTAD, 2012).

The intensification of South-South relations also fostered the emergence of high-growth countries such as China, India, and Brazil, who aspire to play an increasingly international political role in order to assert themselves as the emerging powers of the South. This quest for status and international prestige has led them to strengthen their development assistance to other developing countries and promote themselves as new emerging donors. China's development aid flows to other developing countries rose from $1 billion in 2002 to $10 billion in 2004 and experienced a peak of $25 billion in 2007 (Fischer, 2009). Meanwhile, these emerging southern donors gradually institutionalize their development agencies to centralize, organize and coordinate these different flows and assistance programs (Schulz, 2013).

The result of all of these changes is that South-South relations gradually materialized beyond the initial political declarations of intent. 'South-South' relation no longer refers to only an ideology and isn't limited to political and governmental spheres. It takes into account the changing global circumstances that are becoming prevalent and also the potential role of the private sector, by

1 Ramkishen Rajan, 'South-South foreign direct investment flows: focus on Asia', in Global Studies Review Vol. 6 No. 3 Fall 2010

including some investment banks who are willing to be part of this dynamic. Despite these new circumstances, South-South relations continue to suffer from certain limitations. These include tariff and non-tariff barriers including high taxes on imports and limited air and sea connections that slow down the flow of trade and investment, particularly in the context of Africa. Moreover, while trade has intensified, financial investment flows remain weak and largely come from the developed North especially the United States, France, Netherlands, Spain and Japan. Finally, South-South relations remain largely dominated by state actors and social actors have limited involvement in the intensification process (UN-DESA, 2012). Nevertheless, the South-South dynamic is becoming more inclusive through a multi-stakeholder approach by appealing to a range of new stakeholders including non-governmental organizations, the private sector, civil society, academia and other local actors. The combination of these different actors is seen to be a key objective contributing to the realisation of the development goals set by the UN under the auspices of SSC (see below).

3. Lessons of International Development Assistance

North's pre-eminent role in promoting development is rooted in a similar pattern of evolution and reaction to systemic transformation, as has been seen in the case of the evolution of South-South Cooperation. A closer examination of Official Development Assistance (ODA) highlights the following characteristics: the historically rooted institutional fragmentation of the ODA system; the key policy features of contemporary ODA, characterised by conditionalities and initiatives like 'untying aid'; and the gradual reform of ODA and its efforts to align its policies with the changing development agenda articulated in the UN and the dynamics of a more assertive South.

ODA's Institutional Fragmentation and its Impact on Development Policy

The governance of ODA is fragmented and is undertaken by three main groups of actors: international financial institutions, namely the World Bank, the International Monetary Fund, the Organisation for Economic Cooperation and Development's (OECD) Development Assistance Committee, and the UN agencies. Beyond these institutions is plethora of Non-Governmental Agencies (NGOs) and foundations, varying considerably in size and influence. These broad areas of institutions with a mandate to promote development has resulted in a divergence of the development policy agenda. However, by the end of the Cold War, the basic prescriptions guiding ODA began to be more closely harmonised to reflect the cohesive influences of neo-liberalism on development. At the same time, a strong backlash emanating from developing countries and civil society brought pressure to reform ODA that ushered in a new period of development reflected in the UN's 2030 Agenda for Sustainable Development.

The international financial institutions were created to ensure financial stability and to mobilize resources for reconstruction following the Second World War (Gilpin). Since 1960, the International Bank for Reconstruction and Development (renamed the World Bank)-after having largely fulfilled its original aim of reviving Western European economies-turned its attention to the newly independent and developing countries of Asia, Africa, the Caribbean and Latin America. The World Bank gradually became the main multilateral channel for financing development projects, while the International Monetary Fund (IMF) took the responsibility of ensuring macroeconomic stability through various liquidity and lending tools. These institutions were key actors in advancing analysis, recommendations and conditionalities that led to the implementation of Structural Adjustment Programs (SAP) in response to the debt crisis induced by the collapses of commodity prices. SAPs were first imposed on Latin American countries and then across debt-ridden African economies from 1980 onwards. The focus of SAP-reflecting the rising neoliberal thought at the time-was on obliging target countries to remove price supports and related subsidies, reduce public service budgets (which often exceeded 50 percent), privatise para-state institutions, and engage in currency reforms.

At the same time, bilateral donors led by the United States, Western European countries and Japan, provided substantial development assistance in the form of grants, concessional loans and varieties of technical assistance to developing countries, the bulk of which was aligned with the politics of the Cold War and commercial interests (their role through the OECD and the EU-ACP relations is explored further below). Multilateral initiatives, including UNCTAD, the UN Development Programme, the World Health Organisation and UN Industrial Development Organisation formed another category of development institutions. Embedded within the UN system, these institutions provided sector specific support and technical assistance, though their involvement in actual projects on the ground was constrained by their resources and mandate. Finally, outside of these institutional structures were a growing number of small non-governmental organisations headquartered in Western countries which were involved in humanitarian assistance such as the Red Cross, Oxfam, Catholic Relief Services etc. which provided an eclectic mix of training, finance, emergency relief and missionary work. Their influence, though limited in material terms, was to grow as the Cold War ended.

The centre piece of western donor development planning, outside the international financial institutions (although in coordination with it), was the OECD and its Development Assistance Committee (DAC). The DAC was and is a forum for cooperation and not an implementing agency. The organization has no operational role; it neither finances nor implements development projects. Its power is essentially normative; it provides expertise, consultation, information (ODA data, statistics, studies) and has Peer Review Mechanism for policy proposals (distinct from the World Bank's development goals).

Echoing the evolution of SSDC, ODA policies changed over time in response to national and international circumstances. In fact, the efforts of the OECD countries to coordinate their development assistance programmes beyond the international financial institutions only began in earnest in 1961 with the founding of the DAC. The term Overseas Development Assistance was coined in 1969 at an OECD meeting and its definition was clarified in 1972, which was as follows:

'Overseas Development Assistance is provided by official agencies, including state and local governments, or by their executive agencies; and each transaction is administered with promotion of the economic development and welfare of developing countries, as its main objective; and is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent).'[1]

Thereafter, there were periodic efforts by Western donor countries to go beyond this definition and harmonize their practices and coordinate their policies towards the developing world without compromising their national interests behind their aid programmes (Lancaster 1995). The most significant of these grew out of the European Economic Community's decision to formalise their aid policy towards former colonies, building on already existing cooperation programmes. They established the Yaounde Agreement in 1963 with seventeen African, Caribbean and Pacific (ACP) countries which provided the most comprehensive framework for trade preferences, grant aid, loans and technical assistance. This was followed by a succession of agreements as the European Union (EU) expanded. The coordination between EU members and the ACP countries needed to reflect the new regulatory regime that was eventually embodied in the newly inaugurated World Trade Organisation in 1995.

The end of the Cold War brought changes in ODA, as the strategic value of aid to Third World countries diminished and the traditional constituency of support for aid within the OECD countries weakened. This paved the way for a new rationale for aid policy reflecting the Western triumphalism and resulted in the promotion of market friendly policies in conjunction with democratic institutions and practices. OECD-DAC countries began to follow the international financial institutions and extended a new round of invasive 'conditionalities' –policies which linked aid to performance–to aid recipient countries based on overt political criteria. Western NGOs, acting in conjunction with Southern counterparts, critiqued conditionalities as well as the biased interests behind the ODA and called for the 'untying of aid'. Concurrently, scholarly studies demonstrated that ODA and conditionalities, in particular, had failed to significantly improve economic performance and social indicators in poor countries, particularly in sub-Saharan Africa.[2]

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1 www.oecd.org/dac/stats/officialdevelopmentassistancedefinitionandcoverage.htm

2 See the cascading critical research over the years, for example, UNRISD, 'States in Disarray: the social effect of globalisation' (London: UNRISD 1995); Claude Ake, *Democracy and Development in Africa* (Ibadan: Spectrum 2001); Anup Shah, 'Structural Adjustment – a major cause of poverty', Global Issues, 24 March 2013, www.globalissues.org/article/3/structural-a-major-cause-of-poverty.

All of these factors contributed to a period of "aid fatigue", and resulted in the possibility of a drastic fall in public funds allocated to international development.[1]

Against this backdrop of criticism, the World Bank's new director, James Wolfensohn, and its chief economist, Joseph Stiglitz sought to engineer a path of a fundamental renewal. The World Bank recognized that structural adjustment programmes were too uniform, heavily focused on financial, monetary and fiscal indices and insensitive to social, environmental and cultural dimensions of developing countries. In his first speech, Wolfensohn declared that development was a complex process while Stiglitz called upon the Bank to be humble.[2] The stage was set for a major rethinking of the shortcomings of the Northern development policy approach.

Key Problems with ODA

While the structural problems associated with institutional fragmentation clearly shaped Northern development policies and their implementation in the South, closer examination sheds light on the key problems which have acted as obstacles, sometimes unwittingly, to its aid programme. These include political equality, conditionalities, tied aid, and soft and hard infrastructure.

Political equality: the fundamental framework of relations, manifested more clearly in the EU-ACP ties, has been defined by a lingering paternalism. Ignored within Western circles, it not only shaped the aid process was at official summits but more disturbingly was also manifested in the project development and implementation phases. Specifically, the absence of consultation with and inputs by aid receiving countries in the development policy planning process, meant that their key concerns went unrecognised by the donors. These concerns repeatedly proved to be the major obstacles in the program implementation process. The absurdity of externally providing finance and technical assistance to communities without tapping their local knowledge or involving them in the selection of appropriate targets for implementation (and thereby gaining their confidence) may seem obvious. However, the pattern of negligence displays the fundamental disregard of equality in the Northern approach to development.

Conditionalities: the imposition of conditionalities by the IMF or Western donors reflected the perpetuation of unequal relations, but more significantly, was a single-minded application of a blueprint, incongruent with the aid receiving countries. The social dislocation and hardships experienced by local populations only compounded the decimation of state capacity to function in the wake of huge cuts in its operating budget. As noted above, neoliberal prescriptions were eventually subject to criticism by Northern scholars and development practitioners for their negative impact on nations and societies and resultant undermining of the ability of state to carry

1 Ruth Kagia, ed., *Balancing the Development Agenda: The Transformation of the World Bank under James D. Wolfensohn (1995-2002)* (Washington D.C: The World Bank, 2005), p. 2.

2 Joseph Hanlon, 'Bank admits HIPC conditions wrong' Debt Update, Jubilee 2000 Coalition, March 1998, www.globalpolicy.org/compenent/conetent/article/209/43192.html

out the very process of planning and programme execution necessary for achieving economic and social growth.

Untying Tied Aid: the moral argument behind reducing (if not removing) the role of national interest in provisions for aid was based on an assumption that such intertwining of interests necessarily produced conflicts in achieving development aims. Moreover, there have been instances where the excess of conditionalities resulted in mismanagement and failure of projects. However, efforts to introduce these more altruistically motivated ideas into practice have not been especially encouraging. Attempting to run projects without a clearly recognised self-interest can inadvertently produce a loss of the momentum needed to bring them to completion. This absence of a guiding economic and reputational self-interest in the project, which tied aid provides, becomes all the more problematic when one considers that most projects operate on fixed two-year financial cycles. Project personnel can be transferred at that point in the cycle, and the original rationale behind the project can thus be inadvertently diluted in the process. All of this complicates the successful delivery of economic assistance and consequently argues for the inclusion of concrete interests on the part of the respective partners so as to maintain project continuity and greater responsibility for ensuring positive and enduring outcomes.

Soft versus Hard Infrastructure: One of the insidious effects of ODA policy formation and implementation in the period of neoliberalism was the intensive focus on so-called ‘soft infrastructure’ compared to ‘hard infrastructure’. What this meant was that policy makers in Washington and Brussels were more concerned with the adjustment and refitting of macro-economic frameworks in developing countries than they were with paved roads, modern communications and functioning harbour facilities, the latter being more crucial for the actual functioning of markets. China and other emerging powers recognised this underlying pragmatic point and found partners in African governments who prioritised this feature of the development process.

Reforming ODA through Outreach, Alignment and Collaboration

The cumulative effect of problems in conceptualising and delivering effective economic assistance was to seek new sources of legitimacy for ODA through outreach, alignment and collaboration. In 2000, the fight against poverty was designated as a priority goal of the World Bank with the publication of the report titled ‘Attacking Poverty’. Also, the World Bank launched “the voice of the poor” initiative in preparation of the Development Report 2000/2001. Poverty was progressively analysed as a multi-faceted phenomenon and relational and relative deprivation of well-being. It was more than a simple question of income and was characterised by the vulnerability, overexposure to risk, deficit of power (‘powerlessness’), opportunities and capacities (as has been outlined by the economist Amartya Sen).

This change re-aligned the World Bank with a major United Nations initiative, which introduced the second contribution to the aid reform process. The Millennium Development Goals were adopted by 189 nations and signed by 147 heads of state during the Millennium Summit in September 2000. The eight goals were aimed at halving the number of people living in poverty in developing countries. The mobilization by United Nations and the signing of the MDGs resulted in increased resources for development.

Thereafter came the Paris Declaration in 2005, which aimed to streamline the processes of implementation of development aid programs by identifying "good practices". The Paris Declaration was signed by 60 developing countries, 30 bilateral donor countries and 30 multilateral cooperation agencies. Its objectives are broken down into 56 commitments, "objective targets" and twelve indicators to enable monitoring of progress and evaluate achievements at the end of 2010. Follow-up surveys of the implementation (measures of progress) were discussed at a mid-term review conducted during an international high-level summit held in Accra (Ghana) in 2008, supplemented by the 4th high level Forum in Busan (Korea) in 2011. With the "Paris Agenda", the OECD-DAD returned to the front stage after years of reduced activity and influence.[1] Alongside traditional donors, countries of the South, including emerging donors also participated in this normative competition for ODA. The contribution of these actors is mainly manifested through the promotion of "South-South cooperation", with the United Nations acting as the main platform as it is more inclusive than the DAC (also called "the rich nations club").

To respond to emerging criticism of its structural deficit of legitimacy, the OECD-DAC has adopted a strategy of openness, collaborating with other multilateral institutions. In addition to its efforts to facilitate the participation of non-member countries of the South, it settled a strategic alliance with UNDP in 2011, by the creation of the Global Partnership for effective development co-operation. The goal for the DAC was to combine its technical expertise with the representativeness of the UN agency, to find a "balance" between efficiency and representativeness.

However, the first Global Partnership Forum held in Mexico City in April 2014, confirmed that the DAC's efforts to better engage and influence emerging countries in the context of the Paris Agenda have so far largely failed. From the outset, UNDP officials indicated that their participation in the Global Partnership would be purely from a "technical" point of view and not representative of the United Nations system. The "Partnership" is still seen as a process led by the DAC and heavily influenced by the UK's Department for International Development. China informed of its non-participation at the last minute while Chinese participants appeared in the programme. Neither did India join the event, the official reason for which was said to be because of elections in the country a few days later. Moreover, South Africa did not send a strong delegation and Brazil clarified in plenary sessions that it would not be part of the Global Partnership, while engaging in

1 «*The UN is failing to lead on SSC because it reflects the priorities of northern donors*», Declaration of the Indian Delegation to the United Nations, UN-DCF, 28 june 2010

informal negotiations on the final communiqué. China and India have expressed their concerns about the role of SSC and also the relationship between the Global Partnership and the UN, pointing to the preparatory process of the post-2015 agenda led by the UN. They fear in particular that the final statement is considered a "binding input" regardless of the fact that all member states of the UN were not present in Mexico. Emerging donors prefer ODA matters to be discussed within the UN framework, particularly in the Development Cooperation Forum of the United Nations, which was established in 2008 at the initiative of the G77 to "defy the rule of the DAC", whose mandate-the effectiveness of aid-is very similar to that of the special committee of the OECD. [1]

At the same time, the OECD-DAC-beyond the Working Party and the Global Partnership-has achieved some notable results with emerging donors. First, the engagement channels with non-members of the South have increased beyond the agenda of aid effectiveness from the Busan Forum. The links made during the Working Party has been expanded and exploited in the work of the Secretariat and this opening is being frequently used by OECD-DAC.

Similarly, since 2011, members of the Brazilian delegation are using the concept of "ownership"-a pillar of the Paris agenda-and demanding "good practices" of cooperation in discussions. In 2014, DAC launched working meetings with Brazil, India, China and South Africa in order to "develop categories and statistical methods to be able to use relevant information on financial development and facilitate the collection of data from all providers of development cooperation". For this, the Secretariat proposes to emerging donors to identify points of convergence and common terminology. In return, the CAD promises to "adjust their statistical systems to their needs" and to involve them "in the governance of their evaluation system", including giving them decision-making power. The creation of a Secretariat for the South is also currently under study.

Strategies and practices emerging within existing multilateral bodies differ widely: while they proceed to adopt reformist practices that operate mainly through a systematic de-legitimization of standards and productions of the OECD-DAC, they also intend to reform the procedures of some UN agencies such as UNDP, which are considered the emerging powers believe are widely influenced by north-south standards and approaches to development assistance. However, recurrent and growing criticism of the UNDP has been articulated by some emerging powers. Dissatisfaction and criticism, particularly from India, has focused on vertical management, also called the "north-south" approach of development. India argues that this approach leaves little room for the opinion of recipient countries, as they receive methods and projects from international experts without much room for consultation. Moreover, these international experts are guided by the interests of

1 Joren Verscheave, 'Is the Development Assistance Committee still calling the tune in international development? A comparative analysis of the legitimacy of the OECD-DAC and the UN-DCF', paper presented for the *8th Pan-European Conference on International Relations*, 18-21 septembre 2013, Warsaw.

traditional DAC donors. North-South tensions around governance of development aid have led some emerging markets like India to denounce "UN's disability, including its bureaucracy, to play a leadership role in the agenda of south-south cooperation", arguing that, "the UN essentially reflects the priorities and interests of Northern donors."[1]

Discussions are underway to identify concrete possibilities to expand the influence ('outreach') of the DAC as part of its mission, which is defined by its founding document. Its members have noted that "the world has changed," but they also seem keen to protect the exclusive nature of the committee. The Paris Agenda has produced few results, additional standards or commitments. Some see the result of the strategy of outreach-the growing numbers of participants-would lead to a proliferation of interests and a dilution of the agenda. Furthermore, it would make it difficult to make strong commitments because of a weak consensus. Doubts have also been raised about the structure of the Global Partnership, which is considered too weak to revitalize the working of the DAC. Also, they are aware that aid is only one of the many sources for financing development along with contributions from the private sector, taxes, remittances, trade flows, investment and natural resources. The fact remains that ODA is at the heart of the mandate of the OECD-DAC and that any innovation has to be made according to this lens.

4. Innovations of South-South Development Cooperation

At the heart of the SSDC experience resides the concept of innovation. Fundamentally, this constant search for new and different means of attaining the practical goals of development is derived from the methodological approach adopted from the outset under the rubric of SSDC. Member countries of SSDC are constrained by limited access to resources–especially, but not exclusively financial–and have to address the everyday societal needs and challenges. In reality, SSDC fits neatly into the old aphorism, 'necessity is the mother of all inventions'.

The core elements of SSDC were from the outset underpinned by a normative impulse on the part of developing countries of the South to encourage economic and technical exchanges between one another as a means of breaking the pattern of historical dependency on the former colonial powers of the North. Self-reliance as an overarching aim guided the policy choices pursued by developing countries, though the specific approaches utilised differed depending on the government's assessment of needs, capabilities and interests. These constituent features of SSDC changed through exposure to actual development projects, coalescing into a coherent set of practices that defined the economic engagement between developing countries. Crucial

1 *The UN is failing to lead on SSC because it reflects the priorities of northern donors*, Declaration of the Indian Delegation to the United Nations, UN-DCF, 28 June 2010.

to the emergence of innovation as a key component of SSDC was the focus on adaptation and experimentation through policy implementation. In summarising the relationship between SSDC and innovation, four features stand out. These are (i) evolving ideas of development, (ii) grounding development in the service of mutual interest, (iii) policy implementation as a modality of innovation, (iv), and finally, improving policy through development experiences.

Evolving ideas of development

With its roots in differing analyses of the nature of the international economic system–ranging from world systems theory to varieties of *dependencia* theory–the diagnosis of structural dependency upon the industrialised North strongly suggested the adoption of development approaches which encouraged self-reliance. In its earliest iterations, there followed from this analysis, the promotion of policies of autarky by some developing countries which consequently reduced foreign investment and discouraged active trading relationship.[1] This could have–and did in some cases like Burma and Guinea in the 1960s and 1970s–diverged into rigid applications of policies which crowded out virtually all opportunities for growth and development. For the vast majority of countries of the South, however, the response to structural dependency inherited from the colonial period was to find ways of promoting industrialisation as rapidly as possible. This created a widely-accepted belief that the end product of the development process would be realised in the form of an industrialised economy in the Northern mould. This in turn would generate the conditions for greater state autonomy to provide for domestic needs through collaboration with other Southern economies (and like-minded Northern economies).

In this context, the adoption of state-led development, predicated on centralised planning, was *de rigueur* and import substitution was the preferred strategy to strengthen local industries against competitive external trading partners (it wasn't until the 1980s that liberal theories were revived that diminished the role of the state as a key player in development). This process-as captured by the jargon of modernization theory promoted at the time- would necessarily involve a staged and incrementalist approach to development to achieve its aims.[2] A parallel process, derived from the experience of the Soviet Union, adopted the five-year planning approach that included the mobilisation of capital and the marshalling of factors of production towards the attainment of specific development targets over a fixed term.

After nearly two decades of trial and error, the ideology of autarky had reduced in importance as a point of reference for cooperation (or non-cooperation) between developing countries, because of the shortcomings and the failure of import substitution strategy (and the unanticipated politics of

1 See Samir Amin, *Imperialism and Unequal Development* (New York: Monthly Review Press 1977).

2 Walter Rostow, *The Stages of Economic Development: an anti-communist manifesto* (Cambridge: Cambridge UP 1960).

protectionism that accompanied these policies). Moreover, some of the countries of the South–most notably the export-oriented newly industrialised economies of Singapore, South Korea, Taiwan and Hong Kong–began to experience economic growth in double-digit figures and a commensurate rise in standards of living that pointed to another path for achieving development.[1] The east Asian tigers directly participated in the global production process and positioned their economies based on their competitive advantages. They utilised local factor costs, absorbed technological innovations and promoted financial incentives, and consequentially moved up the value chain.[2] The route to self-reliance was thus being redefined as one in which conscious engagement with the market economies, under the careful stewardship of the development state, would provide the conditions for growth-induced improvements for society.

This gradualist shift in ideas of development, based on the varied and practical experience of developing countries, was recognised at the UN Conference convened in Buenos Aires in 1978 and formalised as Technical Cooperation amongst Developing Countries (TCDC).[3] The result was a template for action aimed at fostering collectives self-reliance which was remarkable in its commitment to allow 'form to follow function', focusing on the involvement of a variety of partners (South and North), the use of technology transfer, the necessity of capacity building strategies and a clear recognition of local needs and conditions.[4] It highlighted once again how in the realm of ideas, SSDC is not wedded to a given approach and is in fact deliberately not dogmatic towards questions of development, preferring to find answers based on outcomes.

Grounding development in the service of mutual interests

Seeking out self-interest as a basis for economic cooperation seems at first glance self-evident and indeed the literature on development assistance, aid and other forms of economic involvement situates it within the broader parameters of economic statecraft.[5] Policy provisions that promote financial or trade incentives or institute punitive sanctions against a given state, feature as expressions of self-interest in the pursuit of economic statecraft. Despite this, the aid industry

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1 Ezra Vogel, *Four Little Dragons: the spread of industrialisation in East Asia* (Cambridge: Harvard University Press 1991).

2 Ezra Vogel, *Four Little Dragons: the spread of industrialisation in East Asia* (Cambridge: Harvard University Press 1991).

3 'Buenos Aires Plan of Action for Promoting and Implementing Technical Co-operation among Developing Countries', Special Unit for TCDC, United Nations, New York, 1978, www.ssc.undp.org/content/ssc/documents/Key Policy Documents/Buenos Aires Plan of Action

4 'Buenos Aires Plan of Action for Promoting and Implementing Technical Co-operation among Developing Countries', Special Unit for TCDC, United Nations, New York, 1978, www.ssc.undp.org/content/ssc/documents/Key Policy Documents/Buenos Aires Plan of Action

5 Mark Mastunduno 'Economic Statecraft' in Steve Smith, Amelia Hadfield and Tim Dunne, eds., *Foreign Policy: theories, actors, cases*, 1st edition (Oxford: Oxford University Press 2012), pp. 171-188,

in particular, as it has evolved over the last few decades, has consciously sought to infuse its economic engagement with greater moral purpose through recourse to policies such as the untying of aid through commitments based at the OECD-DAC or alignment with broader mandates such as the Millennium Development Goals (and the more recent Sustainable Development Goals). As admirable and desirable as the former policy may be (the latter being a constructive necessity for better reflecting shared global development concerns in one's own aid programme), it is not necessarily a reflection of a more ethically attuned foreign policy. It may be the case that it resonates more strongly with domestic and target societies and has greater legitimacy. International Relations theorist Chris Brown, for instance, reminds us that 'altruism is not a necessary pre-condition' for an ethical foreign policy and, from a communitarian perspective, the expression of ethics is founded in promoting the concerns of society as represented by a given state and concurrently through collaboration with other like-minded states.[1]

In this regard, the less taxing and more overt commitment to the pursuit of self-interest in forging economic cooperation lays a clearer foundation for structuring enduring development partnerships. SSDC expects that the development imperatives that bring two countries together to share experiences, exchange technologies, build capacity are better aligned when framed in terms of self-interest. A range of Western philosophical traditions, from the rationalism school-which is underpinned by classical economics as articulated by Adam Smith and reinforced by Jeremy Bentham's utilitarianism-to more popularist approaches like Ayn Rand's objectivism, endorse the principle of self-interest as positive force for fostering the creation of a sustainable society.[2] Eastern philosophical traditions also recognise aspects of this self-interested approach, which is reflected in the recognition of the constructive contribution that self-interest can have on society by some Confucian and neo-Confucian scholars especially as reflected by proponents of Mencius.[3] The Aristotelian admonition of 'doing well while doing good' is perhaps the most succinct summation of the convergence between the pursuit of a form of enlightened self-interest and its overall positive impact on society. Notions like the 'spill over effect', 'virtuous cycles', 'building social capital', are all reflections of and attempts to capture this wider impact generated by enlightened self-interest that goes beyond the narrow concerns which instigates it in the first place.

The corollary to adopting this self-interested approach is that it is more likely to produce a

1 Chris Brown, 'Ethics, Interests and Foreign Policy', in Karen Smith and Margot Light, eds., *Ethics and Foreign Policy* (Cambridge: Cambridge University Press 2001), pp. 15-32..

2 See Karen McCreadie, *Adam Smith's The Wealth of Nations: a modern interpretation of an economic classic* (Oxford: Infinite Ideas 2009); Bikhu Parekha, ed., *Jeremy Betham: Ten Critical Essays* (Oxford: Frank Cass 1978); and Ayn Rand, *The Fountainhead* (New York: Bobbit-Merritt 1943).

3 See 'Mencius', Stanford Encyclopedia of Philosophy, www.plato.stanford.edu/entries/mencius;also, Lee Yearley, **Mencius and Aquinas: Theories of Virtue and Conceptions of Courage** (Albany: State University of New York Press, 1990).

demand driven form of engagement on the part of governments which host economic projects that reflect genuine needs and localised conditions of the societies which are targeted. The negotiations which accompany SSDC projects involve finding a convergence of positions on what constitutes a shared development goal for each state and what exactly each of them are prepared to provide in the pursuit of this goal. This puts any proposed cooperation within a context that assumes parties understand their respective needs and capacities for development as well as effectively holds these parties to a common standard of conduct based on the terms of the agreement. Where complications do ensue, it can often be ascribed to demands being defined by governing elites in ways which compromise the development aspirations of a joint initiative.

Policy implementation as a modality of innovation

Placing policy implementation at the heart of the development process is one of the key innovations of SSDC, which holds wider implications for its methodological approach and the accompanying achievements. To understand its significance, however, requires delving into the prevailing scholarship on policy implementation and the constraints that it imposes on our understanding of how SSDC has been able to introduce new ideas into this area.

Public administration scholarship examines policy implementation as an acknowledged routine feature of their concerns with public policy. At the same time, most of the published work is concerned with issues such as how to improve delivery, ensuring closer adherence to policy directives at the centre by implementing agents or elaborating upon the conditions for learning within organisations (last point has been further analysed below). This has the effect of under-theorising a key aspect of the policy process and not recognising how implementation itself can serve as a source of policy. Scholars like Clarke and Smith, concerned with the specific case of foreign policy implementation, are distinctive in having sought to interrogate the role of implementation and in so doing have appropriated the organisational systems approach which places greater emphasis on the concerns of implementation.[1] They declared that implementation consisted of three phases,: ‘the nature of the decision, the characterization of the international environment as an arena of policy implementation and the question about the types of control that foreign policy-makers can exercise within that environment.’[2]

It is their focus on and problematizing of what they call ‘the nature of the decision’, that is most relevant to SSDC and policy implementation. Clarke and Smith declare that a policy decision is actually composed of a variety of possible procedural choices of consequence to a given policy, at different stages and positions, within the implementation hierarchy and time line.

1 Michael Clarke and Smith, ‘Conclusion’, in Steve Smith and Michael Clarke, eds., *Foreign Policy Implementation* (London: George Allen and Unwin 1985), p. 168.

2 Michael Clarke and Smith, ‘Conclusion’, in Steve Smith and Michael Clarke, eds., *Foreign Policy Implementation* (London: George Allen and Unwin 1985), pp. 168, 170-180.

Most significantly, they recognise that certain policy decisions are subject to re-interpretation by the implementing agents, who through this process exercise *de facto* authority over a given policy by virtue of their capacity to put it into practice. Clarke and Smith tell us that in these cases '...the implementation process *is* the decision process to a greater or lesser extent'.[1] Seen in this context, the primary concerns of policy implementation are 'slippage', that is to say the gap between policy maker's intentions in promulgating a particular policy and the manner in which the bureaucracy actually operationalises it.[2] A second problem is that of 'routine complexity' which is the sum of numerous micro-decisions taken in the course of implementation, be they procedural or the products of networking arrangements, aimed at translating the policy imperatives into action. Interestingly, while they acknowledge the impact that implementation agents can have on policy formulation–seeing in it an explanation for the uneven trajectory from policy goals and formulation to policy application and adjustment–they seemingly continue to hold the assumption that tighter adherence to top-down hierarchies in policy process is desirable for any improved outcome.

Looking at these observations through the prism of SSDC, one can see immediately the salience of policy implementation for developing countries. By necessity the purveyors of SSDC have to devise approaches that would produce significant development results keeping in mind the lack of institutional, financial and technological depth that the traditional aid donors have. Focusing on policy implementation reflected the requirement of learning how to structure and introduce development projects within these constraints. The absence of an 'aid bureaucracy' meant that distance between policy decisions were shortened considerably. It also situated policy making within the actual process of rolling out the project, enabling it to be adjusted in response to circumstances and new inputs. It linked the demand driven process of mutual interest amongst the cooperating parties with a concern for reproducing positive outcomes. This had the additional effect of tempering the dogmatic stance towards development–though it certainly did not forestall them altogether, especially in the earliest period of SSDC as demonstrated above–by exposing them to local actors who were generally cognizant of the context and the debilitating impact on local conditions. In this way, issues of concern such as routine complexity are captured and incorporated into the development process. Finally, a patently different approach is adopted towards implementation agents themselves, one which sees them as strategic assets to be cultivated not only through training programmes but also by giving them a hand in the process. Reinterpreting the broad terms of the policy mandate as they seek to implement its strictures in

1 Michael Clarke and Smith, 'Conclusion', in Steve Smith and Michael Clarke, eds., *Foreign Policy Implementation* (London: George Allen and Unwin 1985), p. 168.

2 Michael Clarke and Brian White, 'Perspectives on Foreign Policy System: implementation approaches', in Michael Clarke and Brian White, eds., *Understanding Foreign Policy: the foreign policy systems approach*, (Aldershot: Edward Elgar 1989), p. 165.

the local environment, the implementation agents achieve (through a process of trial and error) a deeper understanding of the possibilities and pitfalls that feature in realising the aims of the particular development project.

The overall impact of this emphasis on policy implementation by SSDC ensures that local conditions are recognised as truly meaningful to the outcome and encourages implementing agents to take up the role of problem solvers within the process. This sets the stage for SSDC's new approach to policy learning; one which deliberately uses the implementation phase of development as a crucial and integrated component not only for the transfer of policy experiences but also for learning itself.

Policy learning through development experiences

Policy learning is not only a crucial element in the development process: it is the most consequential expression of the transfer and exchange of knowledge from one party to another. In this respect SSDC has demonstrated some significant innovations in this area, both in terms of its methods and its outcomes. It takes some of the conventions of policy learning, as recognised by the scholarly literature on that subject, and invests it with new meaning that draws from the specificities and conditions of project formulation and implementation which are–as noted above in the previous section–the primary preoccupation of SSDC. This has produced a novel approach to policy learning that eschews rigid adherence to models-a much celebrated instrument in the conventional policy learning toolkit-in favour of a more nuanced approach that is founded on a process-orientation towards problem-solving.

Models, blueprints and other devices, as described in the public administration literature, are seen to be a particularly useful pedagogical tool which distil the key features of a given development experience into a set of policy prescriptions suited for application, for achieving similar outcomes by the recipient. BModels, in short, based as they are on proven experiences, help policy makers in similar circumstances in conceptualising the problem, breaking down the steps for solving it and offering a course for policy action.

Transferring that lesson is a crucial aspect of the transformative process and is dependent on policy makers and implementing agents embedded within state institutions. Targeting the right individuals and departments, coupled with developing appropriate methodologies for policy transfer, is crucial to developing the conditions for learning. It is recognised that organisational learning takes place at a various levels, especially when authority is distributed across an organisation, but follows a hierarchical logic of top-down or bottom-up.[1] Becoming a 'learning

1 Giandomenico Majone and Aaron Wildavsky, 'Implementation as Evolution', in H Freeman (ed) *Policy Studies Review Annual* (Beverley Hills: Sage 1978); also see Robert Matland, 'Synthesizing the Implementation Literature: The Ambiguity-Conflict Model of Policy Implementation', *Journal of Public Administration and Research Theory* 5, 1995, pp. 144-174.

organisation', that is one which integrates learning into its very routines and practices, is often held up as the essence of institutional success.[1] Government institutions as different as the military and aid agencies, have embraced this approach by systematically applying it to their policy cycles through internal monitoring and evaluation of programmes.

Reflecting on the nature of learning itself as it relates to the policy process, may divides it into four categories; instrumental, social policy, political and 'mimicking'.[2] Deriving 'lessons' from an analysis of past policy implementation forms a distinctive part of learning in the policy process. In this respect, the singularity of 'failure' as a source of profound learning by organisations is notable and contrasted with the weaker impacts of positive lessons.[3] Recognising the possibility of failure and that such failures have shaped the experiences which were to become distilled as lessons, is imperative to reproducing a dynamic form of the lesson with genuine applicability to the target.[4] The 'wave' of integration of neo-liberal practices across Latin America in the late 1980s and into the 1990s, for instance, was understood to be a response to systematic policy failures.[5] Reducing or removing the element of risk–the learning equivalent of eliminating the 'moral hazard' in finance–weakens the saliency of the knowledge transfer process.

If models are best understood as vehicles for policy learning, it should nonetheless be recognised that they serve purposes that go beyond the content of policy. They can assume an ideological character, acting as expressions of legitimacy and affiliation to a particular doctrine or hierarchies of power. Prescriptive forms of the model, paradoxically, deny the core element that inspires the positive development outcome, which is the primary reason for using them. Undue focus on the outcome, coupled to an ahistorical rendering of the experiences of trial and error which were integral to development successes, results in a catechism form of policy transfer, where demonstrating closer adherence to the model -- 'mimicking' –becomes more important to implementation agents than finding ways to reproduce its results.

The critical difference in examining how SSDC approaches the issue of learning in development is that it treats learning as integral part of and fundamental to the implementation process. It is not a linear process, but rather one dependent upon and shaped by feedback loops emanating from the

1 See Peter Senge, *The Fifth Discipline: the art and practice of the learning organization*, 2nd edition (London: Century 2006).

2 Peter May, 'Policy Learning and Failure', *Journal of Public Policy* 12:4 1992, pp. 336-337.

3 Giandomenico Majone and Aaron Wildavsky, 'Implementation as Evolution', in H Freeman (ed) *Policy Studies Review Annual* (Beverly Hills: Sage 1978); Peter May 'Implementation Failures Revisited: policy regime perspective' *Public Policy and Administration* 30:3-4 2015. For a critique of lessons and policy transfer see Martin Lodge and Oliver James, 'Limits of Policy Transfer and Lessons Drawing for Public Policy Research', *Political Studies Review* 1:2 2003.

4 Toft and Reynolds characterise this as 'isomorphic learning'. See Brian Toft and Simon Reynolds, *Learning from Disasters*, 3rd Edition (Basingstoke: Palgrave 2005).

5 See Covadonga Meseguer, 'Policy Learning, Policy Diffusion and the Making of a New Order', *The Annals of the AAPSS*, 598:1 March 2005, pp. 67-82.

implementing agents, and in doing so creates an environment of active learning that influences the development project as it progresses. Progressive accumulation of knowledge is further enhanced by the integration of risk into the process itself. Conventional models are top-down in substantive form, producing an inclination to see risk in political terms and measured in the degree to which one faithfully implements the policy prescriptions assigned in accordance with the development model. Risk in the sense of it having a potentially negative impact on project becomes secondary and consequently, the corrective feature which prospective failure imposes on policy is reduced or even absent. In contrast in SSDC, the focus on policy implementation and the attendant risk is recognised, and the implementing agents are enabled to take appropriate corrective action. This provides the sense that it is but 'bounded' by the process that incorporates the elements of risk but at the same time through the active engagement of the implementing agents, mitigates its impact wherever possible. This idea of *bounded risk* is a key concept in the latest innovation forms being featured in SSDC, as applied to different development projects.

As a result, one can say that SSDC appropriates the skeletal framework of the idea of a development model and reconfigures it as a set of signposts, marking the way towards a common recognised destination. Bounded risk is integrated into that model, allowing local agents to take into account the requisite costs and challenges that accompany any venture, providing them at the same time an opportunity to devise strategies to overcome these issues. Taken together, all of this subverts the conventional use of development models, preventing them from becoming rigid sources of doctrinal tenets to be faithfully emulated by followers (thus avoiding May's concern about 'learning through mimicking'). Instead it transforms them into active vehicles for transfer of development experiences that are appropriate for local conditions.

Box 1.1 China's Agricultural Technical Demonstration Centres and Africa

An example of the manner in which SSDC incorporates innovations, can be seen in the promulgation of Agricultural Technical Demonstration Centres.

In the agricultural sector, the Chinese government established over twenty Agricultural Technical Demonstration Centres, including provisions for financing and technical expertise, whose primary purpose is aimed at raising agricultural productivity for local markets and, with that, improvements in rural incomes, bolstered by a range of technical cooperation programmes in agriculture. A phased in 'public-private partnership' approach is used, commencing with designated Chinese provincial authorities partnering with local host government to set up the infrastructure of the centre in the first year, provisions for training and experimental farms in the second year, and the handing over of the facility to the local government in the third year. According to Lu, one of the longer-term purposes is to create a platform for Chinese agricultural enterprises to obtain exposure to local markets in African countries, improve their position and hence gain experience in globalising their production.[1]

Collectively, it is clear that these Chinese initiatives being promoted in Africa are drawn from the transformative policy approaches and implementation strategies that were behind the rapid development of the modern Chinese economy over the last four decades. They are grounded in the interest-based form of cooperation that has prevailed in China-Africa relations, manifested in the solid commercial component devised for support and involvement of Chinese firms and their African counter-parts. While perspectives differ about the role of the state and the private sector as catalysts in this process, they reflect an emerging consensus within the development community about the importance of linkages between growth and poverty reduction in the case of China.[2] As such, these initiatives are central to the effort of bringing a distinctive Chinese experience of development to the task of catalysing African development.

5. 2030 Agenda: Sustainable Development Goals (SDGs) and the Role of SSDC

The Sustainable Development Goals mark a new phase in the evolving global development regime. Built upon the precedents established by the Millennium Development Goals (MDGs) over a decade and a half ago, the SDGs are an effort to make substantive improvements in not only the well-being of developing societies but to address the underlying structural conditions necessary to grow their economies into developed status over the longer term. The Sustainable Development Goals of 2030, 'Agenda for Sustainable Development' (or Agenda 2030 for short), is a set of programmatic aims launched in 2015 whose key components are distilled into the SDGs into a fifteen-year roadmap. In this regard, it is important to assess the role that SSDC can play in fostering the conditions and contributing directly to the realisation of the SDGs over

1 Lu Jiang, 'Chinese Agricultural Investment in Africa: motives, actors and modalities', *Occasional Paper* 223, South African Institute of International Affairs, October 2015, pp. 16-17.

2 See Martin Ravallion, "The Developing World's Bulging (but Vulnerable) 'Middle Class'", Policy Research Working Paper 4815, World Bank Group, Washington DC, 2009, www.openknowledge.worldbank/bitstream/handle/01986/4013/WPS4816.pdf; China DAC Study Group, 'Sharing Experiences and Promoting Learning about Growth and Poverty Reduction in China and African countries', (Paris: OECD 2009), pp. 1-8.

the next decade. As indicated in the previous sections, South-South Development Cooperation offers a path to achieve these ambitious development aims both through its interest-based, demand driven approach to development cooperation and, amongst others, its specific focus on structural development, public entrepreneurs and development financing. The strengthening of Global Partnerships, advocated in SDG 17, provides the basis for a new avenue of transformative development through SSDC.

The content of the SDGs was not only built upon the areas of MDGs where achievements were made, but sought to deepen these and expand the overall development remit to new areas. Following the convening of a UN commission and the adoption of 'Transforming Our World: the 2030 Agenda for Sustainable Development' in 2014, extensive negotiations preceded the official launching of Agenda 2030 on 1 January 2016.

Box 1.2 The seventeen SDGs[1] are:

- SDG 1 No Poverty: end poverty in all its forms everywhere.
- SDG 2 Zero Hunger: end hunger, achieve food security, improved nutrition and promote sustainable agriculture.
- SDG 3 Good Health and Well-Being: ensure healthy lives and promote well-being for all, at all ages.
- SDG 4 Quality Education: ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.
- SDG 5 Gender Equality: achieve gender equality and empower all women and girls.
- SDG 6 Clean Water and Sanitation: ensure availability and management of water and sanitation for all.
- SDG 7 Affordable and Clean Energy: ensure access to affordable, reliable, sustainable and modern energy for all.
- SDG 8 Decent Work and Economic Growth: promote sustained and inclusive economic growth, full and productive employment and decent work for all.
- SDG 9 Industry, Innovation and Infrastructure: build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.
- SDG 10 Reduced Inequalities: reduce income inequality within and among countries.
- SDG 11 Sustainable Cities and Communities: make cities and human settlements

1 See 'Sustainable Development Goals', Sustainable Development Knowledge Platform, Department of Economic and Social Affairs, United Nations, www.sustainabledevelopment.un.org./sdgs

inclusive, safe, resilient and sustainable.

- SDG 12 Responsible Consumption and Production: ensure sustainable consumption and production patterns
- SDG 13 Climate Action: take urgent action to combat climate change and its impacts, by regulating emissions and promoting developments in renewable energy.
- SDG 14 Life below Water: conserve and sustainably use the oceans, seas and marine resources for sustainable development.
- SDG 15 Life on Land: protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, halt and reverse land degradation and halt biodiversity loss.
- SDG 16 Peace, Justice and Strong Institutions: promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.
- SDG 17 Partnerships for the Goals: strengthen the means of implementation and revitalize the global partnership for sustainable development.

The SDGs identified by the UN were notable in that they deliberately included (amongst others) productive sectors such as industrialisation, employment conditions and environmental concerns which had not featured in the original MDGs, making it a more comprehensive array of development aims and one which could therefore more readily claim to be universal in its ambit.[1] Another difference from the previous initiative was the incorporation of 'new' methodologies of development-namely South-South Development Cooperation-which had been formally integrated into the OECD-DAC process after the Buzan Summit in 2011.[2] This addition also was a by-product of the rise of 'non-traditional' partners like China and Brazil, whose development cooperation strategies were predicated more overtly on a mutual interest-basis approach. Finally, the inclusion of major foundations and expanding role of the private sector in the development process reflected the growing involvement of development financing, innovation and technological transfer and consequently widened the array of potential partners able to participate in Agenda 2030.

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1 See 'Sustainable Development Goals', Sustainable Development Knowledge Platform, Department of Economic and Social Affairs, United Nations, www.sustainabledevelopment.un.org./sdgs

2 See points 30-31. Busan Partnership for Effective Development Co-operation, Fourth High Level Forum on Aid Effectiveness, Busan, Republic of Korea, 29 November-1 December 2011, www.oecd.org/dac/effectiveness/49650173.pdf

Prospective SSDC Contributions to Realising the SDGs

In light of this new set of global development goals and their accompanying objectives, it is important to assess how SSDC can contribute to the achievement of the 2030 Agenda. Firstly, it is obvious that given the broad set of goals, there is plenty of scope for developing countries to find areas of cooperation and impact. That being said, three dimensions in particular stand out as open to SSDC engagement: the first regarding areas of specific expertise that countries of the South can bring to the SDG process; the second involves provisions for financing which are vital to fulfil the actual project requirements of the SDGs; and the third is meaningful in that it involves sharing the knowledge and development experiences garnered by other developing countries through SSDC, to assist target countries in improving their policy planning process, institutional depth and resilience.

- Areas of specific expertise (SDGs 2, 3, 4, 7, 9 and 13) and SSDC

As noted above, the expectation would be that countries involved in SSDC would be contributing across the board to the SDGs in different ways and in terms that suited their respective interests and capacity. However, there specific areas identified in Agenda 2030 are ones in which the emerging countries have demonstrated both competence and ability to solve the problems. These include poor infrastructure, low human development and issues of climate change amongst other areas.

Infrastructure in particular is an area in which countries like China have demonstrated capacity, expertise and financial means (see below). This complements well the infrastructure requirements in parts of Southeast and South Asia, Africa and Latin America, where the backlog in road, railways, ICT and hydropower infrastructure has long been recognised as a major impediment to development.[1] Examples of Chinese and Brazilian infrastructure projects in Angola and Mozambique underwritten by loans tied to local resources, have contributed to the functioning of markets in these countries as well as their ability to export their natural resources.[2] Such resource financed infrastructure can play an important role in breaking the infrastructure logjam to development.

More recently, the Chinese funded infrastructure project such as the light rail system built by China Railway Group in Addis Ababa, made major improvements to the highly-congested situation in that city. It complimented the road transport construction and modernisation of the airport done

1 Vivien Foster, 'Building bridges China's growing role as infrastructure financier for Sub-Saharan Africa', public private infrastructure advisory facility (PPIAF), trends and policy options (5) Washington DC: World Bank 2009.

2 See Marcus Power and Ana Cristina Alves, *China and Angola: a marriage of convenience?* (Nairobi: Fahamu 2011); Chris Alden and Sergio Chichava, *China and Mozambique: from comrades to capitalists* (Auckland Park: Jacana 2014).

by Chinese firms which were financed by loans from its policy banks.[1] Equally the Ethiopia-Djibouti standard gauge railroad opened up new markets and export opportunities for the land-locked country. This development is especially significant because, contrary to most conventional accounts of China's economic cooperation with African countries as Ethiopia lacks significant natural resources and hence does not fit into the conventional 'infrastructure for resources' ('the Angolan model') approach adopted by Beijing.

Notably, the SDGs speak about 'resilient' infrastructure, so the capacity to address the problem of recurrent costs–something that many of the projects initiated under the initial wave of SSDC cooperation in the first decade ignored–is recognised as critical to supporting the overarching sustained development aims. Building this element into infrastructure financing models is an important step in dealing with this concern and one innovative way to take note of is the SSDC experience between South Africa and Mozambique. In the late 1990s, the two countries embarked on a build-operate-transfer project, the Maputo Development Corridor which linked the industrial and mining centre of Johannesburg to the port facilities of Maputo. The project used receipts from the toll road to pay off the costs of construction and continues to do so to fund recurrent costs.[2]

Industrialisation and the possibility of relocating labour-intensive, low-skill industries from established manufacturing hubs like China to Southeast Asia, South Asia and Africa represent another area of SSDC collaboration. This observation is underscored by the fact that the Chinese economy is widely seen to be in the midst of experiencing the 'Lewis turn', a notion coined to describe the condition in developing economies where they reach a point after which they shift from being primarily labour surplus to becoming labour scarce, resulting in an increase in real wages.[3] This is the driver for the physical movement of industries on the lower end of the production chain, textiles and footwear being a classic example of that, seeking efficiency gains outside through relocation. Taking a historical reading of the political economy of East Asia, the 'flying geese' theory suggests that this experience is being replicated as advanced economies move up the value chain and start 'off-shoring' their low-cost labour intensive industries. Furthermore, it is worth noting that there is a correlation between improving infrastructure and lowering transportation costs of export-oriented industries which creates an interest for the more developed economies to engage in improving transportation networks and power generation in less developed economies, alongside of the relocation of their industries.

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1 See Manickam Venkatarama and Solomon Gofie, 'The Dynamic of China-Ethiopia trade relations: economic capacity, balance of trade and trade regimes', *Journal of the Global South* 2:8 2015.

2 See Fredrik Soderbaum, 'Institutional Aspects of the Maputo Development Corridor', DPRU Working Papers 1/07, 2001, University of Cape Town.

3 John Knight, 'China, South Africa and the Lewis Turn, Centre for the Study of African Economies', *Working Paper Series*, 12, Oxford University, 2007, pp. 1-3.

Evidence is beginning to accumulate that Chinese industry is entering into this phase of its development, with growing cross-border production networks. Since 2000, the textile, footwear and electronics industries once based in southeast China, are increasingly being relocated in Vietnam, Indonesia, Cambodia, followed by some intriguing examples in Ethiopia and Rwanda.[1] According to Yang, by 2013, Cambodia and Vietnam already accounted for 21 and 29 percent of China's import of garments from ASEAN countries, with Vietnam occupying 43 percent of all Chinese textile imports from that region.[2] . This presents the opportunity to deeply integrate these economies into global production networks, as well as pave the way for China to upgrade its production facilities. It includes key developments such as the replacement of 60,000 workers with robots in the iconic Foxconn facilities, transforming it into a manufacturer with over 70 per cent of its production done by robotics.[3]

Green technologies: the commitments to reduce climate change and the capacity needed for meeting the rising energy needs, forms another area of cooperation (SDGs 7 and 13, with impacts upon SDGs 9 and 11). SSDC in this area would be vital to meet the climate change objectives set in Paris in 2015 and to provide a sustainable framework for a transition away from carbon intensive energy. Of particular interest are those developing countries which have sought to not only adopt existing green technologies but have transformed technological innovation into leading and competitive technologies. Solar technology, especially relevant for the countries in the drier sub-regions of Sahel, Middle East and South America, offers an opportunity to harness energy at source and transform the lives of households that are far removed from the national grid.

Human development is another area that SSDC can make an important contribution towards realising the Agenda 2030 objectives (especially SDG 4 and 5, but also SDG 8). In many respects, the essence of the experience of the so-called Asian model of development is centred on the ability of states to successfully invest in and mobilise human capital, bolster productive capacities and make gains through the application of appropriate technologies for development (more on this below). Education and training programmes targeted at developing skills in areas that are defined as productive sectors of the economy and supporting the improvement of secondary and tertiary educational institutions (including vocational colleges) through curriculum development, exchange programmes and provisions of materials, is another aspect of a potential contribution that SSDC can make. Moreover, progressive education policies targeting gender inequality,

1 YANG Chun, 'Relocating Labour Intensive Manufacturing Firms from China to Southeast Asia: a preliminary investigation', *Bandung: Journal of the Global South* 3:3 2016, pp. 1-13.

2 YANG Chun, 'Relocating Labour Intensive Manufacturing Firms from China to Southeast Asia: a preliminary investigation', *Bandung: Journal of the Global South* 3:3 2016, p. 7.

3 'Foxconn replaces 60,000 factory workers with robots', 25 May 2016, www.bbc.com/news/technology-36376966; YANG Chun, 'Relocating Labour Intensive Manufacturing Firms from China to Southeast Asia: a preliminary investigation', *Bandung: Journal of the Global South* 3:3 2016, p. 13.

aimed at unleashing the potential of women and girls as a source for innovation and constructive component in the production process, is another dimension that SSDC can support with resources and knowledge-sharing.

- Development financing and SSDC

Linked to the specific SDGs identified above, and part and parcel of their actual implementation, is the necessity of addressing the financial requirements of projects. The traditional post-war international architecture for development finance dominated by the World Bank and regional development banks has recently been augmented with the establishment of the BRICS 'New Development Bank' in 2013 (with its first tranche of capital and projects announced in 2016) and the Asian Infrastructure Investment Bank (AIIB) in 2014, along with a whole host of active national policy banks in leading emerging countries. With the BRICS New Development Bank holding $50 billion and the AIIB's $100 billion in capital reserves, the possibilities of financing development have increased dramatically.

What is significant about this expansion of the financial space for development is that projects and ideas considered 'unbankable' under the strictures of the traditional development banks are now open for consideration. This has been especially the case with large-scale infrastructure projects which had been perceived to be too costly, complex and controversial. As noted above, the innovative thinking behind resource backed loans for infrastructure development is a classic case of how SSC can find solutions to problems that have thwarted other donor-led approaches.

At the same time, given the critique that accompanied the founding of the BRICS New Development Bank and the AIIB, there is a concerted effort by the members to ensure that they meet the standards and best practices of established international financial institutions.[1] What this means in the context of Agenda 2030 is that the ambitious development targets set by the international community have a funding base that has greater depth, with capital reserves amounting to more than $150 billion (and even more, if one includes a variety other instruments such as the Silk Road Fund). The fact that SSC is espoused by the key financiers of the BRICS New Development Bank and the AIIB, underscores its centrality as a guiding principle and practice for realising the funding for the SDGs.

- Conceptualising Development (SGD 17) and SSDC

The most important instrument for realising the SDGs is enhancement of global partnerships

1 Karthrin Berensmann, 'New Players with Handicaps', *Development and Cooperation*, 1 April 2016, www.dandc.eu/en/article/asian-infrastrure-invesment-bank-aiib-and-new-bank-are-changing

to meet the other sixteen SDGs. SDG 17 calls for recognising 'multi-stakeholder partnerships as important vehicles for mobilizing and sharing knowledge, expertise, technologies and financial resources to support the achievement of the sustainable development goals in all countries, particularly developing ones.'[1] Given the development achievements of emerging countries of the South, there is enough scope for considering how the ideas and practices that underpinned their success can be transferred to other developing countries.

Arguably the biggest idea which underwrote much of the experience of the fastest developing countries in the South was that of the role of the development state. State led development has a historical pedigree within the West that laid the foundations for many of the precepts used by interventionist governments to improve the economic standards of living of their citizens. Fredrich List provided the intellectual basis for state-led development, which in his mind, was necessary for late developing economies like 19th century Germany to industrialize, which he argued would not have been able to compete effectively in a liberal trading environment.[2] Hirschman, writing in the mid-twentieth century, thought that since developing countries lacked sufficient savings to draw on for industrialisation, they would need a 'big push' –a concerted and considerable financial transfer of capital alongside substantive technical assistance–to be able to make the necessary gains to industrialize and be competitive.[3] For Wade, the successes of the Newly Industrialised Economies of the late twentieth century epitomised the strategic use of protection and targeted investment to 'hot house' industries, so that they would enhance their international competitiveness and allow for local innovation to flourish.[4] As he notes 'in important industries they (the NIE governments) regulated both quantities and prices, so as to achieve government-selected goals, preventing those parts of the economy from being guided by international prices.' (Wade 1989: 68).

Finally, it should be noted *en passant* that one of the most important lessons to be absorbed by purveyors of SSDC is not to dismiss policies, practices and modalities utilised by OECD-DAC donor countries. The fact of the matter is that these countries themselves have undergone a variety of experiences and changes in policies, some aspects of which are more closely aligned to the SSDC experience than popularly understood. Indeed, the mandate articulated by Agenda 2030 is an inclusive one, which encourages cooperation between all members of the international community towards realising these ambitious and worthy development aims.

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1 See 'Sustainable Development Goals', Sustainable Development Knowledge Platform, Department of Economic and Social Affairs, United Nations, www.sustainabledevelopment.un.org./sdgs

2 See David Levi Faur 'Friedrich List and the Political Economy of the Nation State', *International Political Economy*, 4:1 1997.

3 Albert Hirschman, 'Exit, Voice and Loyalty: further reflections and a survey of recent contributions', The Milbank Memorial Fund Quarterly, *Health and Society* 58:3 Summer 1980.

4 Robert Wade, 'Japan, the World Bank and the Art of Paradigm Maintenance: The East Asian miracle in political perspective', *New Left Review* I/217 May-June 1990.

Challenges and Opportunities

As the first report on the progress of Agenda 2030 by the UN Secretary General, Ban-Ki Moon, to the UN's Economic and Social Council on 24 July 2016 declares, there is considerable concern about the statistical methodologies and gaps in data collection, that are necessary to carry out the assessment of progress in all sectors identified amongst the seventeen goals.[1] Specifically, the indicators are not harmonized across all national agencies or the metrics utilised to capture data needed to be reconsidered. To take the first SDG, 'ending poverty in all forms', there are some in the development community who have suggested that the current figure for defining poverty–US$1.90–is too low given global inflationary trends and might need readjustment. Such considerations would clearly impact the attainment of targets. There is recognition of this issue and the UN statistical commission is working on this area, but it remains, as the report by the UN Secretary General suggests, a work in progress.[2]

Ensuring that developing countries intending on formulating state-led policies have the requisite institutional capacity and policy autonomy with those structures, is a difficult balance to achieve. Yet, if learning and policy transfer in development–a core contribution that SSDC expects to make–is to take place, there needs to be a concerted effort to ensure that institutions are fully functional and efficient, that the staff is competent and uncorrupted and that leadership is able to lead effectively. Here again, the SDGs anticipate this prerequisite in SDG 16. This underscores the significance of effective and accountable governance, and transparent practices as the crucial conditions within state structures, that need to be encouraged in order to meet the 'sustainability' requirements of Agenda 2030.

6. Conclusion

In 1978, at the UN Conference on Technical Co-operation amongst Developing Countries in Buenos Aires, the following declaration was issued:

(S) ubstantial changes are taking place at the world level in the control and distribution of resources and in the capabilities and needs of nations. As a result of these changes and other international developments, the expansion of international relations and co-operation and the

1 'Progress towards the Sustainable Development Goals', Report by the Secretary General, Agenda items 5, 6 and 18 (a), High-level political forum on sustainable development, convened under the auspices of the Economic and Social Council, 24 July 2016.

2 Progress towards the Sustainable Development Goals', Report by the Secretary General, Agenda items 5, 6 and 18 (a), High-level political forum on sustainable development, convened under the auspices of the Economic and Social Council, 24 July 2016.

interdependence of nations are progressively increasing. Interdependence, however, demands sovereign and equal participation in the conduct of international relations and the equitable distribution of benefits.[1]

The proponents of South-South Development Cooperation have had their eyes open for a long time. They recognise the shifting balance of economic, demographic and eventually political power as an incontrovertible part of the dynamic international system. In the absence of critical resources and with limited technical means available, countries of the South have to devise approaches that are commensurate with their aims and capacities. Today, with leading developing countries like China, Brazil and India at the forefront, South-South Development Cooperation is taking its place as a leading source of policy innovation, technical assistance and development finance, for the developing world of the South. With Agenda 2030 for Sustainable Development as a guide and the SDGs as signposts, the global community can walk the long road to realising the end of poverty.

As we move into a new era in which the countries of the South are increasingly occupying a larger share of the global economy and are becoming significant actors in the provision of all forms of economic cooperation and aid, there is a patent need for new wave of SSDC innovation. The policies and practices which characterised the previous phase of global development are now recognised as a part of the continuum of experience and knowledge. This experience and knowledge can now be integrated into the policies and practices of Agenda 2030.

1 'Buenos Aires Plan of Action for Promoting and Implementing Technical Co-operation among Developing Countries', Special Unit for TCDC, United Nations, New York, 1978, p. 1, www.ssc.undp.org/content/ssc/documents/Key Policy Documents/Buenos Aires Plan of Action.

Chapter 2

Emergence of the New South-South Cooperation: History, Status Quo and Challenges*

1. Introduction

After the World War II, the global political and economic landscape went through a host of changes. The decolonization movement inspired many colonies to embark on the path towards national independence, which led to the emergence of a group of new nation states besides traditional ones. Decolonization was not only the result of the progressive forces of the west but also the result of the struggle of people in colonial regions. Through the struggle, the newly formed *developing countries* that were once colonies inherited the political and economic legacies of the colonial period. With this, there also emerged a structural chasm between them and former colonial countries. Besides the Cold War, the conflict between former colonies and former colonial powers became one of the new features of global geopolitical and economic situation, during the initial phase of decolonization. The concept of "the global South" appeared against such historical backdrop.

South-South Cooperation went through difference phases, from political unity and sharing of development experience to the 'New' South-South Cooperation where countries share their latest development experience under an institutionalized framework. Before the material

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and funding support of different forms offered by China and India to countries of the South, the cooperation was for a long time confined to exchanges of abstract ideas such as political unity and development experience. Since the end of the 20th century, countries of the global South developed by leaps and bounds and some became emerging powers, who together with other countries of the global South, fundamentally reshaped the global economic and social structure. From then on South-South Cooperation entered a new phase and broke away from the past mould. Firstly, countries of the global South had by then accumulated new development experience, which was completely different from that of the 1950s and 1960s. Their independent development experience was comparable and shared with each other, which was in stark contrast to the North-South divide in development experience. Secondly, the global South, especially emerging countries, gathered substantial economic power. Their experience sharing was no longer limited to discussion in meetings but increasingly focused on the exchanges of materials and funds. Thirdly, emerging countries became fully aware of the importance of institutional development. As a result, the BRICS New Development Bank (NDB) and the Asia Infrastructure Investment Bank (AIIB) were established, symbolizing the beginning of the new South-South Cooperation.

This section reviews the history of South-South Cooperation. The second section then analyses its status quo and contribution to global development. The third section concludes by summarizing the challenges it faces and discusses the future of South-South Cooperation.

2. History of South-South Cooperation

The essence of South-South Cooperation is meeting the demands of the former colonies of the South. The attention to the demands of the former colonies dates back to the Russian Revolution of 1917. In 1920, Lenin convened the Congress of the Peoples of the East in Baku. Congresses for the Advancement of the Oppressed People were held in 1920 in Paris and 1923 in London. In 1924, a League against Imperialism organized the first Congress of the Oppressed People in Moscow and then a second in 1927 in Brussels which was attended by Sukarno and Nehru. In 1924, 25 countries held the Asian Relations Conference in New Delhi. These conferences marked the aim of countries of the South to develop a shared development policy. (Rist 2008:81-86) They also unveiled the convening of the Bandung Conference. This section considers the Bandung Conference as a starting point to introduce the history and evolution of South-South Cooperation.

Phase 1 The initial phase of South-South Cooperation

The Bandung Conference has been widely regarded by the academia as the starting point of

South-South Cooperation. It was the first conference where the colonial powers were not present and also the first one in which Asian and African countries concertedly expressed their call for political independence and national development. After the World War II, the decolonization movement took place in Asia in the beginning. Marked by the Indian Independence Movement, decolonization movement in Asia had a direct impact on decolonization and antiracist movement in Africa[1]. In 1945, the Pan-African Congress was held in Manchester, United Kingdom. Among the 200 participants, most came from African countries. They demanded the independence and emancipation of African countries and the end of colonial rule with no conditions attached. The Bandung Conference held later also emphasized the same thing. Before the Bandung Congress, only five African countries including Egypt, Ethiopia (then called Abyssinia), Liberia, Libya and South Africa[2] and 15 Asian countries had achieved independence.

The first principle in the initial stage of South-South Cooperation was neutralism and non-interference in internal affairs, which was fully reflected in the ten principles laid out in the conference outcome document—Final Communiqué of the Asian-African conference of Bandung (hereinafter referred to as "the Communiqué"). These ten principles are:

(1) Respect for fundamental human rights and for the purposes and principles of the Charter of the United Nations.
(2) Respect for the sovereignty and territorial integrity of all nations.
(3) Recognition of the equality of all races and of the equality of all nations large and small.
(4) Abstention from intervention or interference in the internal affairs of another country.
(5) Respect for the right of each nation to defend itself singly or collectively, in conformity with the Charter of the United Nations.
(6) (a) Abstention from the use of arrangements of collective defence to serve the particular interests of any of the big powers.
(b) Abstention from exerting pressures on other countries.
(7) Refraining from acts or threats of aggression or the use of force against the territorial integrity or political independence of any country.
(8) Settlement of all international disputes by peaceful means, such as negotiation, conciliation, arbitration or judicial settlement as well as other peaceful means of the parties' own choice, in conformity with the Charter of the United Nations.

1 Reid. R., (2014). A History of Modern Africa: 1800 to the Present. 2e. Trans. Shanghai People Publishing House. Pp266-267.

2 Although South Africa won its independence, it was ruled by white people and adopted racial discrimination policies. Some scholars thus believed that the federal government of South Africa established in 1910 was "result of the collusion between white colonists" and called it "British South Africa". They believed that South Africa was not independent until the establishment of the Republic of South Africa in 1961.

(9) Promotion of mutual interests and co-operation.
(10) Respect for justice and international obligations.[1]

Non-interference in the internal affairs refers to “refraining from acts or threats of aggression or the use of force against the territorial integrity or political independence of any country and abstention from exerting pressures on other countries.[2]” The principle of non-interference in internal affairs was embodied by neutralism in political ideology. As countries of the South achieved their independence during the Cold War period, only by taking no sides with the US or the USSR could they maintain their political and economic independence. Just as what a delegate from Myanmar participating in the Asian Relations Conference for the first time said, “it was terrible to be ruled by a Western power, but it was even more so to be ruled by an Asian power” (Henderson, 1955). Therefore, the principles of neutralism and non-interference in the internal affairs became fundamental principles for South-South Cooperation and remained critical throughout its evolution. Besides emphasis on solidarity among countries of the South, the cooperation also emphasized the “conformity with the Charter of the United Nations”. It was a strategy to get support of the United Nation for the legitimacy of emerging independent countries, and it also laid the foundation for the inseparable tie between South-South Cooperation and the United Nations, which later on became an important organization in promotion of South-South Cooperation. From then on, the “southernisation” of the United Nation began (Aghazarian, 2012).

The second characteristic of South-South Cooperation in the initial phase was the emphasis on development cooperation among countries which would help in achieving economic independence. The Communiqué put forward a number of objectives for economic, cultural and political cooperation. All of these objectives centred on consolidating the economic and political independence of countries of the South. Despite the active engagement of countries of the South in suggesting initiatives, South-South Cooperation at this phase still followed the existing international cooperation order, because of the western dominance in the international political and economic order. After the World War II, the establishment of new international organizations such as the United Nations, the International Bank for Reconstruction and Development (now called the World Bank) and the International Monetary Fund were all led by the US and headquartered in New York or Washington D.C. Both of these institutions were mainly funded by the US.

The section relating to economic cooperation in the Communiqué recommended the

1 See Final Communiqué of the Asian-African conference of Bandung http://www.fmprc.gov.cn/web/ziliao_674904/1179_674909/t191828.shtml accessed on September 13, 2016.

2 Ibid.

establishment of the ‘Special United Nations Fund for Economic Development’ and the allocation by the International Bank for Reconstruction and Development of a greater part of its resources to Asian-African countries[1]. The Bandung Conference included the role of existing international organizations into its outcome document, which reflected the fact that due to the insufficient fiscal, political and economic strength of countries in the South at the initial stage, South-South Cooperation was unable to contend with the international economic and political order led by the US. One thing worth noticing was that as a new global superpower, the US was different from the traditional colonial powers represented by the UK, and that the US was previously against colonization[2]. Therefore, the stress on the role of existing organizations could also be regarded as a strategy of South-South Cooperation to seek assistance and cooperation from the US, which was an emerging superpower at that time. The Communiqué also recommended the early establishment of the International Finance Corporation which would undertake equity investment and promote joint ventures among Asian-African countries to promote their common interest[3]. This was in line with the way international cooperation is carried out nowadays under the leadership of the United Nations and it paved the way for future international financial and investment cooperation. On the other hand, it also emphasized the importance of technical assistance among participating countries and encouraged them to provide technical assistance to one another in the form of experts, pilot projects and equipment for demonstration purposes[4]. It was also in line with the first technical assistance program carried out in 1949 by the UN Economic and Social Council. Later on, the technical exchange became a major content of South-South Cooperation.

Strong nationalism was the third characteristic of South-South Cooperation during this period. Nationalism consolidated the national identity of Asian and African regions and promoted them to get rid of their colony status and achieve independence. Although the strong sentiment of nationalism facilitated national independence, it created some problems and disputes among countries of the South over the way the newly created African and Asian countries should cooperate. In spite of the objectives of economic, cultural and political cooperation in the Communiqué, cantered around the consolidation of national economic and political, there was little progress made in achieving these objectives in the following decades. Some scholars thus criticized that the objectives of the Bandung Conference, namely anti-colonialism and anti-discrimination,

1 See Final Communiqué of the Asian-African conference of Bandung, http://www.fmprc.gov.cn/web/ziliao_674904/1179_674909/t191828.shtml accessed on Sept.13

2 Reid, R., (2014). A History of Modern Africa: 1800 to the Present, Shanghai: Shanghai People Publishing House, pp.260-267.

3 See Final Communiqué of the Asian-African conference of Bandung, http://www.fmprc.gov.cn/web/ziliao_674904/1179_674909/t191828.shtml accessed on Sept.13

4 Ibid.

were far from accomplishment and pointed out that "Since the Pan-Asianism was too strong during the Bandung Conference, African and Asian countries found it hard to reach consensus during the negotiation" (Dirlik, 2015). In the following years, due to escalated internal conflicts in African and Asian regions: those between India and Pakistan, Indonesia and Malaysia, China and India and among African countries, the convening of the second Bandung Conference was delayed multiple times. Also, due to the containment policy adopted by the US during the Cold War period, it was decided on the Summit of Foreign Ministers of Asian-African Countries in 1964, that the Second Asian-African Conference will be postponed indefinitely. Hence, the second Bandung Conference reached a deadlock (Zhang, 2007).

Phase 2 Torturous Development of South-South Cooperation

As the second Bandung Conference was put aside, many Asian and African countries that attended the first, were engulfed in political turmoil. In 1962, U Nu, former Prime Minister of Burma was put in "custody" and later fled the country. In 1965, the then Indonesian President Sukarno was overthrown by the army generals and forced to retire. In 1962, the Sino-India conflict over the Himalayan border turned into a short war. In 1964, Nehru passed away. In 1974, a military coup d'état broke out in Ethiopia. Hence, the cooperation among Asian-African countries hit rock bottom.

On the contrary, the Latin American countries enjoyed a longer independence and hence accumulated development experience for more than 100 years. Compared with Asian and African countries which were founded not long before the Bandung Conference, they were far more mature in national independence and response to economic crises. From the perspective of national independence movement, Latin American countries started from the end of the 18th century. By the 1930s, 18 independent states were founded. Expect for Brazil, these newly-founded nation states established democratic republics based on the modern capitalist system (Lin, 2010). The independence movement in Latin America was a century earlier than that of Asian and African regions, which laid the foundation for the economic development of Latin America. After gaining their independence, Latin American countries relied on the demand for primary products of North American and European markets and developed an export-oriented economy, which became their economic tradition. This situation lasted until 1929 when the global economic crisis broke out, the demand coming from North American and European countries plummeted, creating a struggle for the Latin American countries. Furthermore, a group of economists represented by Roal Prebish who had studied the development of Latin America, proposed plans for import substitution. These plans enabled the economy of Latin America to maintain growth through import substitution after the economic crisis. During the three decades from 1945 to 1975, the steel output of Latin American countries increased twenty times and that of electricity, metals and machinery increased ten times. Mexico, Argentina, Brazil and Chile were called emerging industrialized countries (Palmer, 2009). It helped as a foundation for Latin American countries to bring their specific demands in global trade and economic new order to developed countries, before Asian and African countries. Therefore, South-South Cooperation at this phase was closely related to the efforts made by Latin American countries.

(I) Latin American countries pushed the agenda of South-South Cooperation towards the topic of economy and commerce.

First, in 1948, the UN Economic Commission for Latin America was established in Santiago, Chile, which was promoted and designed by Raúl Prebisch. He drew up three documents for ECLA[1] from 1948 to 1950, which provided the framework and foundation for ECLAC. The framework designed by Prebisch included the analysis of the international integration of peripheral economies, their external vulnerability, and the problematic environment and reversing trend for peripheral Latin-American economies. According to Prebisch, the international structural features of peripheral Latin American economies were, low-level division of labour and technological heterogeneity. Second, with the efforts of Raúl Prebisch, five countries in Central America including Costa Rica, Honduras, Nicaragua, El Salvador and Guatemala created the Central America Common Market (CACM) in 1962. Through this customs union, these countries maintained a GDP growth close to 6% from 1960 to 1978, and they were regarded as the most successful example of economic integration in developing countries (Irvin 1988). Third, Raúl Prebisch promoted the establishment of the UN Conference on Trade and Development and served as its Secretary-General. The goals of the UN Conference on Trade and Development built on the report of Prebisch presented at the first conference. The report mentioned three issues: the first was about primary commodities. Due to the spillover effect of the business cycle of industrialized countries, exporters of primary commodities suffered greatly because of falling demand and prices, during the economic downturn. An international commodity agreement was needed to be explored and reached; the approach of the stock buffer of international finance should be taken as a solution. On the other hand, for exporters, revenue growth form primary commodities were slower than that of manufacturing export. The first recommendation was to accelerate the industrialization of exporters of primary commodities. The second recommendation suggested removal of barriers for the import of primary commodities set by industrialized countries, restrictions on tariff escalation and import of labour-intensive manufacturing products. The preferential tariff treatment for the manufacturing export of developing countries needed to be promoted. Industrialization could only happen with the shift from import substitution to export orientation. The third issue was about

1 It was called ECLA at that time and was later changed to ECLAC after it was joined by the Caribbean countries in 1984.

compensatory finance. Since developing countries could not avoid losses from worsening trade due to community agreements, it was necessary to set up a mechanism for compensatory finance.

(II) Latin American countries promoted the economic aspiration for industrialization of developing countries

Upon the establishment of the ECLA, Prebisch put forward the strategy of government intervention in industrialization and believed that it could make up for the market deficiencies and solve the problem of peripheral structure of developing countries[1]. When the first UN Conference on Trade and Development convened in 1964, G77 was founded to support the industrialization of developing. Several topics of the first UN Conference on Trade and Development centred on the way to promote industrialization as the economic aspiration of developing countries. The Joint Declaration of the 77 Developing Countries pointed out that "the basic premises of the new order involve a new international division of labour, oriented towards accelerated industrialization of developing countries". The efforts of developing countries to raise the living standards of their peoples, which are now being made under adverse external conditions, should be supplemented and strengthened by constructive international action. Such action should establish a new framework of the international trade that is wholly consistent with the needs of accelerated development."[2]

The establishment of the new order was another stress on the sovereignty of developing countries and their aspiration for independent industrialization. In April 1974, the sixth special session of the United Nations General Assembly approved the Declaration on the Establishment of a New International Economic Order (hereinafter referred to as the Declaration) and the Program of Action on the Establishment of a New International Economic Order. The Declaration stressed on equality of States and full permanent sovereignty of every State over its natural resources and all economic activities. It is worth noticing that the Declaration included the principle of non-interference in internal affairs proposed in the Bandung Conference in 1955 and the Declaration also expanded the scope of assistance from the international community to developing countries. Article 11 of the Declaration stated the "extension of active assistance to developing countries by the whole international community, free of any political or military conditions"[3]. In addition, compared with the aspiration of economic equality of developing countries laid out in the Communiqué, those in the Declaration were more direct and specific: "preferential and non-

1 See for background information-Evolution of ECLAC Ideas pp.5-6 at http://www.cepal.org/en/historia-de-la-cepal; accessed on September13, 2016

2 See Article 2 in Joint Declaration of the Seventy-Seven Developing Countries Made at the Conclusion of the United Nations Conference on Trade and Development at http://www.g77.org/doc/Joint%20Declaration.html; accessed on September 13, 2016.

3 See Article 11 in UN Documents /A/RES/S-6/3201 at http://www.un-documents.net/s6r3201.htm; accessed on Sept.13 2016.

reciprocal treatment for developing countries, wherever feasible, in all fields of international economic cooperation whenever possible (article 15) and securing favourable conditions for the transfer of financial resources to developing countries"[1].

(III) The establishment of G77—A Cooperation Alliance of Countries of the South with the United Nation as the platform.

The Group of 77 (G77) expanded the scope of the participating compared to that of the Bandung Conference and ECLA. G77 had developing countries of Asia, Africa, Latin America, the Caribbean and Europe as its member states, which included 20 Asian countries, 36 African countries, 15 Latin American countries, 4 Caribbean countries and 2 European countries. The establishment of G77 is owed to the great efforts of regional economic commissions of the UN. The Economic Commission for Asia and the Far East was founded in 1947, the Economic Commission for Latin America (ECLA) in 1948 and the Economic Commission for Africa (ECA) in 1958. The support from the United Nations for the cooperation of the South reached a record level. On the first Conference on Trade and Development in 1964, 77 developing countries and regions issued a Joint Declaration and established the G77. The Joint Declaration echoed the establishment of a new order for international trade and the industrialization of developing countries as was advocated by the UN Conference on Trade and Development. As stated in the Declaration, the participating developing countries recognize the United Nations Conference on Trade and Development as a significant step towards creating a new and just world economic order. Several themes on a new and dynamic international policy for trade and development found concrete expression in specific programs and proposals presented by the developing countries to this Conference, as a united expression of objectives and measures in all major fields. Developing countries also recognized that it is a daunting challenge and it can only be achieved gradually. However, the developing countries declared that they consider the final recommendations of the Conference as only an initial step towards an international endorsement of a new trade policy for development. They did not consider that the progress that had been registered in each of the major fields of economic development had been adequate or commensurate with their essential requirements. For instance, there had not been an adequate appreciation of the problems of "trade gap" between developing countries. Only limited progress was made regarding trade in primary commodities and preferential treatment for exports of manufactures. Similarly, only a few initial steps were taken regarding the schemes for compensatory financing to tackle the long-term deterioration in terms of trade of developing countries. The developing countries nevertheless accepted the results of this Conference in the hope that these results would lay the foundation for

1 See Article 14 in UN Documents /A/RES/S-6/3201 at http://www.un-documents.net/s6r3201.htm; accessed on Sept.13 2016.

more substantial progress in the period ahead.[1]

During this period, South-South Cooperation made breakthroughs under the leadership of Latin American countries: the demand by South-South Cooperation expanded from political independence as demanded in the Bandung Conference, to the establishment of a new and just international economic order. Countries participating in South-South Cooperation also expanded from African and Asian countries to Latin American countries. Despite these remarkable achievements, South-South Cooperation encountered a lot of obstacles and ups and downs, due to a widening internal divide among countries of the South as a result of a complex international political and economic situation.

The first obstacle was the internal disagreements among G77. In 1971, Prerez Gurrero, the successor of Raul Prebisch, hoped to establish the secretariat of G77 but failed as a result of internal disagreements among member states. Disagreements arose from questions like: should the secretariat be set in countries of the South or of the North? From which continent should Secretary-General be selected? Who should be responsible for the funding? Large developing countries were worried that they would shoulder most of the funding responsibility while Secretary-General was more likely to be selected from smaller countries. As a result, G77 maintained its reliance on the UN Conference on Trade and Development for providing policy agenda (Toye, 2014). Second, the gap of economic growth among developing countries was widening. Starting from the 1960s, the 'Four Asian Tigers' emerged. South Korea was one of them and also a member of G77 Group. In 1982, the per capita GDP of South Korea exceeded 2000 USD and reached 2542 USD in 1985. While Vietnam, another member state of G77, only had a per capita GDP of 239 USD[2], less than 1/10 of South Korea. In addition, the oil crisis in the 1970s pushed up the oil price and boosted the economy of petroleum exporting developing countries such as Saudi Arabia and Kuwait, which further widened the gap between them and other G77 countries. Third, the divide among countries of the South was also related to the overall situation of international development. Because of the Latin American debt crisis in the 1980s, the poorest developing countries which relied on export of primary commodities had no other choice but to turn to neoliberalism (Gray&Gills, 2016). And hence the developing countries started to adopt structural adjustment programs led by the World Bank (Karshenas, 2016). Further, even though the Conference on Trade and Development and G77 had called for the establishment of a new world economic order to address the North-South trade gap, such efforts were opposed and obstructed by developed countries. Among the above-mentioned topics only a few breakthroughs were made in the area of tariff preference. In the Second Conference on Trade and Development held in New Deli in 1968, developed countries gave way to the Generalized System of Preference (GSP). However, for other topics, little progress

1 See Article 4 in Joint Declaration of the seventy-seven developing countries made at the conclusion of the United Nations Conference on Trade and Development at http://www.g77.org/doc/Joint%20Declaration.html; accessed on September 13, 2016.

2 Source: World Bank

was made due to the opposition of developed countries. At the same time, with the growing pressure from the US-dominated General Agreement on Tariff and Trade and the reform of IMF, the role of the Conference on Trade and Development as a platform for the economic aspirations diminished and it was reduced from a multilateral forum for trade and development to a platform providing technical assistance, policy support, data and information. With the establishment of the World Trade Organization in the 1990s and increasing number of developing countries as its member, the UNCTAD was left to perform the supplementary function such as providing developing countries with information for their preparation to join the WTO, helping indebted countries to manage and negotiate foreign debts, conducting international investment research, information collection and technical cooperation among developing countries (Toye, 2014).

Phase 3 Recovery of South-South Cooperation

After the torturous development of the last phase, South-South Cooperation entered the phase of recovery and transition in the 1980s. Its features during this phase include: first, the shift of the objective from economic growth to poverty reduction and technological cooperation; second, the establishment of the platform for sharing knowledge and experience of the development of South-South Cooperation.

The UN General Assembly in 1974 adopted the resolution A/3251 to set up a special unit to promote technical cooperation among developing countries (TCDC). The conference of the Global South on TCDC in 1978 adopted the Buenos Aires Plan of Action (BAPA) which emphasized that TCDC activities should be utilized to benefit the least developed countries such as land-locked and island countries. The High-level Committee of the General Assembly was established in 1980 by participating countries of UNDP, to assess the implementation of BAPA every two years. It can be concluded that South-South Cooperation at this stage shifted from seeking economic and trade interests that were difficult to be realized to focusing on technical cooperation among developing countries and the development of the least developed countries.

The obvious transition of focus took place around the 1990s. The structural adjustment plan proposed by the World Bank and the IMF ended up with a failure in developing countries, which led to the change of the development agenda of the traditional donor OECD countries from economic growth to poverty reduction leading to the formulation of the Millennium Development Goals in the UN General Assembly in 2000. The first goal of MDGs was to eliminate poverty and hunger. And the eighth goal, global partnership for development, emphasized efforts at national and international levels for good governance, development and poverty reduction, addressing the special needs of least developed countries. This was to be achieved by levying no tariff and imposing no quota on their export products, enhancing the debt-reducing plan for indebted poor countries by writing off their bilateral official debt, providing more generous assistance to countries committed to poverty reduction, addressing the special needs of landlocked developing countries and small island countries, and making available benefits of new technologies, especially information and communications in cooperation with the private sector[1].

The shift of South-South Cooperation's focus from economic growth to poverty reduction and technical cooperation also meant that its emphasis on decolonization, independent identity and industrialization changed and integrated with that of the global development agenda. In 2005, 50 years after the Bandung Conference, Asian and African countries gathered again in Bandung for the Asian-African Summit. The summit issued the Declaration on the New Asian-African Strategic Partnership, which pointed out that the new partnership will emphasize the need to promote practical cooperation between the two continents in areas such as trade, industry, investment, finance, tourism, information and so on.

The UN General Assembly in 2004 passed the resolution to formally name the special unit for TCDC as the "UN Office for South-South Cooperation", which marked the establishment of the platform providing knowledge of South-South Cooperation. It was then that the concept of South-South Cooperation was formally defined. The UN defined the cooperation as a broad framework for the collabouration among countries of the South in the political, economic, social, cultural, environmental and technical domains. Involving two or more developing countries, it could take place on a bilateral, regional, sub-regional or interregional basis. Developing countries will share knowledge, skills, expertise and resources to meet their development goals through concerted efforts. In addition, the UN Office for South-South Cooperation encouraged triangular cooperation, namely the collaboration in which traditional donor countries and multilateral organizations would facilitate South-South initiatives through the provision of funding, training, management and technological systems as well as other forms of support.[2]

The UN Office for South-South Cooperation designed a "three-in-one" multilateral support architecture to promote South-South cooperation. The framework had three pillars: the first is the Global South-South Development Academy, which is an on-line think-tank with data and information of millions of experts specializing in the development of the Global South. The second pillar is the Global South-South Development Expo, which is a platform showcasing successful development examples selected from the UN system every year and represents the concerted efforts of governments, private sector and social organizations. The third is the South-South Global Assets and Technology Exchange, which promotes countries of the South to carry out the technical transfer and also creates a safe environment for financing. It can be concluded that during this phase South-South Cooperation began to produce development knowledge and share development experience.

1 See the Millennium Development Goals of the United Nations http://www.un.org/zh/millenniumgoals/; accessed on September 13, 2016.

2 See http://ssc.undp.org/content/ssc/about/what_is_ssc.html; accessed on September 5, 2016.

Phase 4 New South-South Cooperation

The financial crisis in 2008 led to the prolonged economic downturn of OECD countries while developing countries represented by China, India, Brazil and South Africa kept steady economic growth. The BRICS Bank and the Asian Infrastructure Investment Bank were established, and New/Emerging donor appeared. South-South Cooperation drew the attention of traditional donors as a new model of international cooperation. The OECD started to acknowledge the role of South-South Cooperation and set up a task team on South-South Cooperation in 2008, and the relation between the North and the South which used to be the one of "the donor and the recipient" turned into one in which actors at different levels, share resources and knowledge.[1] One of the prominent features of South-South Cooperation in this phase was the sharing of development experience among countries of the South, which was inseparable from the emergence of these countries.

Since the World War II, despite all twists and turns, some developing countries of the Global South stood out and set the example for sharing of development experience. Among them, the emergence of China drew the most attention. After the founding of the People's Republic of China, it developed an independent industrial system and spent only 50 years in transforming itself from an agricultural country to a strong manufacturer. It reduced its poor population from 689 million in 1990 to 250 million in 2011, becoming the first countries to reduce poor population by half as laid out in the Millennium Development Goals[2]. In the UN Sustainable Development Summit in 2015, President Xi Jinping promised to set up the "South-South cooperation assistance fund", with an initial contribution of 2 billion USD, to support other developing countries to implement their post-2015 development agenda. China will continue to increase investment in the least developed countries (LDCs) using various measures: raise its investment in LDCs to 12 billion USD by 2030; exempt the debt in the form of outstanding intergovernmental interest-free loans due by the end of 2015, owed by the relevant LDCs, landlocked developing countries and small island developing countries; establish a knowledge centre for international development research and communicate with other countries on development theories and practices suitable to their respective national conditions.[3] On December 25, 2015, the world's first China-advocated multilateral financial institution—Asian Infrastructure Investment Bank was founded. Its 57 founding member states include more than 20 developing countries, poor countries such as Laos and Vietnam and traditional developed countries. Its member states also include four permanent members of the UN Security Council, 14 G20 countries, 4 G7 countries and all BRICS countries.

1 See http://www.oecd.org/dac/effectiveness/taskteamonsouth-southco-operation.html; accessed on September 13, 2016.

2 See the Report on China's Implementation of the Millennium Development Goals (2000-2015) http://www.cn.undp.org/content/china/zh/home/library/mdg/mdgs-report-2015-.html

3 See http://news.xinhuanet.com/politics/2015-09/27/c_1116687809.html; accessed on September 5, 2016.

Furthermore, China's "One Road One Belt" initiative will benefit more than 70 countries along the route (most of which are developing countries).

The G20 Summit 2016 was held in Hangzhou, China in September. It has the largest number of participating developing countries. China invited Laos, chair of ASEAN; Chad, chair of the African Union; Senegal, chair of the New Partnership for Africa's Development; Thailand, chair of the G77 and two representative large developing countries-Kazakhstan and Egypt. The summit successfully included the 2030 Agenda for Sustainable Development in its own agenda, and for the first time the summit formulated its action plan centring on this development agenda. It was also the first time in history that the G20 Group discussed topics on both sustainable development and climate change, which reflected the comprehensive support of China for the implementation of the 2020 Agenda on Sustainable Development. The introduction of the agenda symbolized that China succeeded in moving the discussion of G20 on short-term management of financial crisis, to long-term global development. The G20 Hangzhou Summit marked that development proposals of the Global South represented by "China's proposal" is becoming important for global development. China's proposals introduced by Premier Li Keqiang in meetings of the UN further showcased that countries of the South are getting political maturity in global development. It can be said that China's proposals widened and enriched the framework of South-South Cooperation, realized the sharing of development experience and resources, and made South-North and triangular cooperation possible, which ushered in the phase of New South-South Cooperation.

3. Contribution of South-South Cooperation to Global Development

Compared to North-South Cooperation, South-South Cooperation is much more extensive. The definition of South-South Cooperation by the UN is "a broad framework for collabouration among countries of the South in the political, economic, social, cultural, environmental and technical domains."[1] This section will discuss the contribution of South-South Cooperation from the perspective of trade, direct investment and international development cooperation among countries of the South.

(I) Trade

According to the statistics of IMF, during the past 10 years, the trade volume between countries of the South leapfrogged. Their import volume accounted for 28% of world import in 2000 and increased to 43% in 2014, and their export ratio increased from 22% of the world level in 2000 to 38% in 2014. The import and export ratios of developed countries dropped from 72% and 78% in 2000 to 57% and 62% in 2014 respectively (see Figure 2.1 and Figure 2.2).

1 See http://ssc.undp.org/content/ssc/about/what_is_ssc.html; accessed on September 5, 2016.

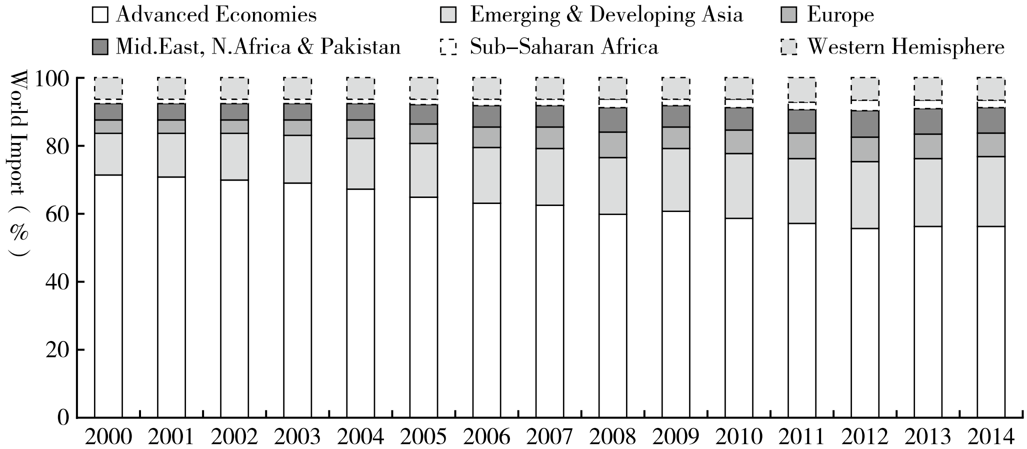

Figure 2.1 Percentage of Imports by Region
(Source: IMF, DOTS)

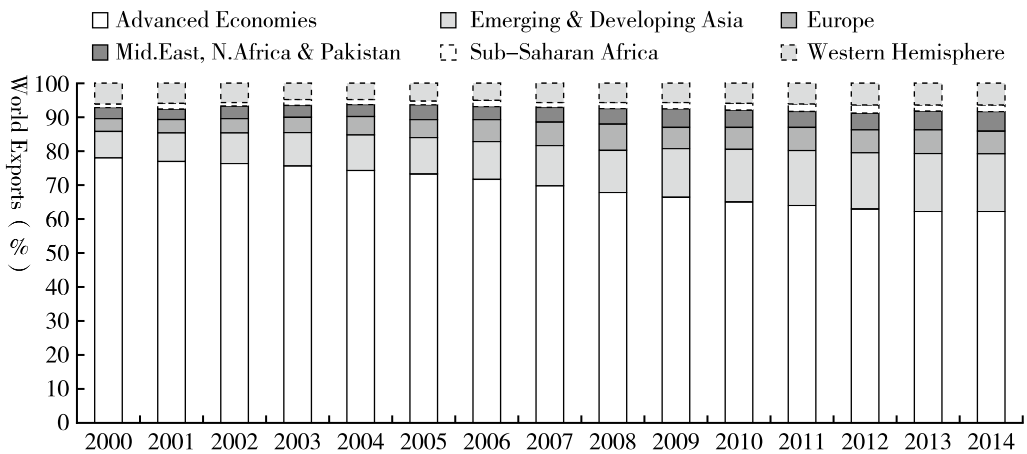

Figure 2.2 Percentage of Exports by Region
(Source: IMF, DOTS)

As for the trade within the Global South, the import volume between countries of the South increased from 28% in 2000 to 48% in 2014 and the export volume increased from 25% to 41% during the same period. The ratios of South-North trade dropped from 71% and 75% in 2000 to 52% and 59% in 2014 respectively. It can be seen that the trade between countries of the South was almost close to the South-North trade. Statistics show that among all countries of the South, the trade between Asian emerging countries and other developing countries grew at the fastest pace. With further analysis, it can be seen that China had the largest contribution (see Figure 2.3 and Figure 2.4). The IMF's statistics of the world import and export in 2014 showed that China was the major trading country among 143 countries of the South. It was the biggest importing country for 48 countries of the South and one of the top three importing countries for 105 countries of the South. Moreover, China was also the largest exporting country for 33 countries of the South and

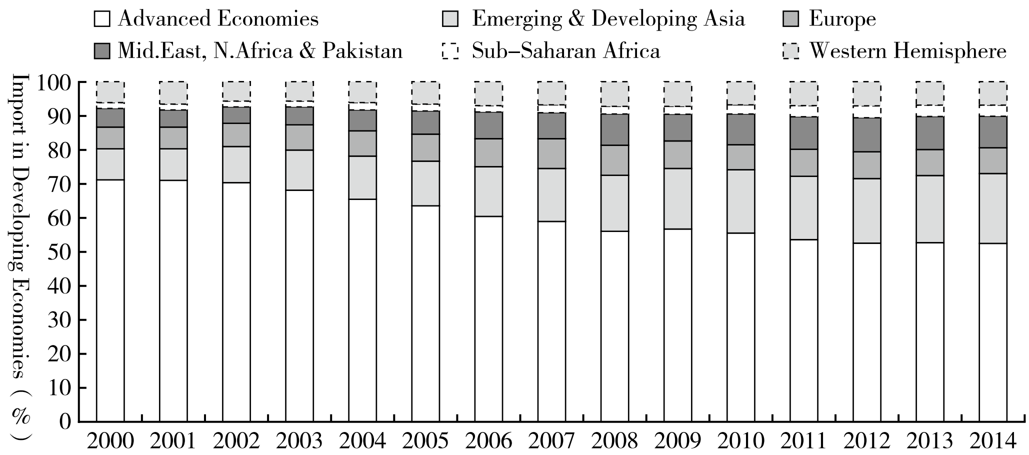

Figure 2.3 Imports Percentage of Developing Countries
(Source: IMF, DOTS)

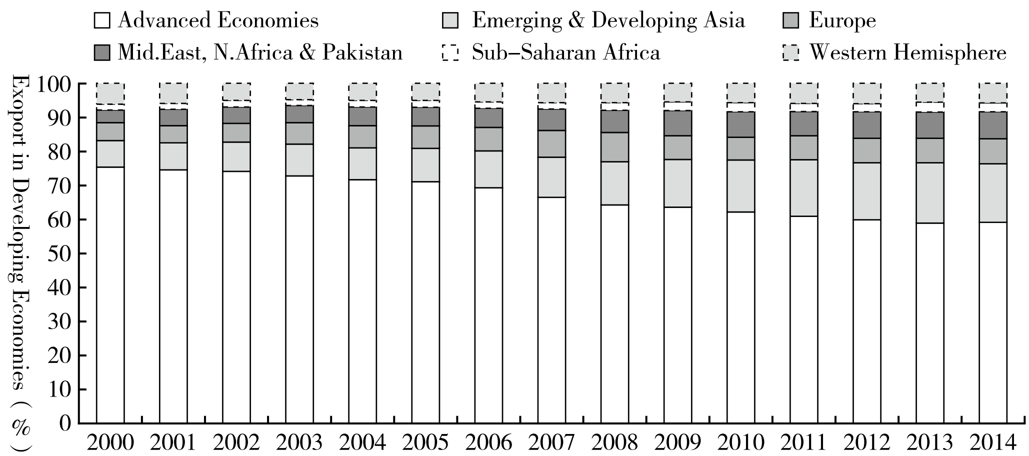

Figure 2.4 Exports Percentage of Developing Countries
(Source: IMF, DOTS)

one of the top ten exporting countries for 95 countries of the South[1].

Currently, China is the largest trading partner of ASEAN and the latter is the third largest trading partner, the fourth largest market for exports and the second largest source of imports of China. In 2014, the trade volume between Africa and China reached 220 billion USD, up by 22 times from the 2000 level. China's investment stock in Africa exceeded 30 billion USD, up by 60 times since 2000.[2] From 2009, China was the largest trading partner to Africa for five consecutive years. It is also an important partner for Africa in development cooperation and the source of emerging

1 See the CDIS database of IMF, http://data.imIf.org/?sk=40313609-F037-48C1-84B1-E1F1CE54D6D5 ; accessed on August 30, 2016 .

2 See NetEase website, http://news.163.com/15/1228/17/BBUI2EO300014JB6.html; accessed on August 16, 2016.

investment. Africa, in turn, has become an important source of imports, the second largest market of overseas project contracting and the new investment destination for China.[1]

(II) Foreign Direct Investment (FDI)

Besides the increase of trade volume, the direct investment among the Global South is also on the rise. The World Investment Report 2015 indicated that the FDI in developing countries mainly came from Asian countries. Hong Kong (China), China and Singapore had the largest FDI in developing countries. Brazil came the fourth with 7%. Some developing countries (including China, Brazil, India, Malaysia, Mexico and South Africa) in total accounted for 33% of FDI sources of all developing countries. Among the destinations of FDI from developing countries, Asian regions (East Asia, Southeast Asia, South Asia and West Asia) accounted for 58% of all developing countries; Europe accounted for 13%; Africa accounted for 4%; Latin America and the Caribbean accounted for 4% and North America accounted for 7% (see Figure 2.5). It shows on the one hand the importance of investment in the Global South, and on the other hand the unbalanced distribution of FDI among countries of the South.

IMF's statistics on the top five countries with the largest FDI flows in 2014 showed that China and Mauritius were the top two destinations of FDI from South Africa. Chinese market accounted for 32% of the outbound investment of South Africa and reached 46,203 million USD, making China the largest FDI destination of South Africa. And Mauritius accounted for 8%. The largest

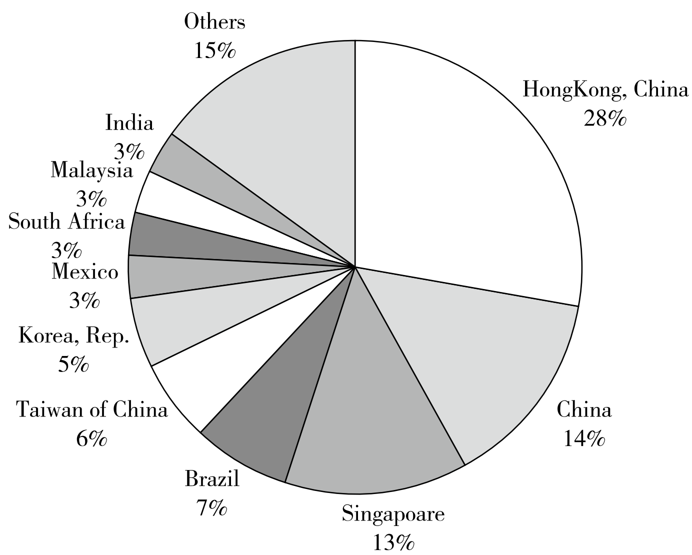

Figure 2.5 Percentage of Major Developing-economy Source of FDI
(Source: UNCTAD World Investment Report 2015)

1 See ChinaNews website, http://www.chinanews.com/gn/2014/05-05/6135274.shtml; accessed on August 16, 2016.

developing countries as FDI destinations for India were Mauritius and the UAE, accounting for 15% and 5% of India's total outbound investment respectively. The largest developing country as FDI destination for Brazil was the Bahamas, accounting for 11% of its outbound investment[1].

Statistics showed that China had the largest outbound direct investment among developing countries. Among the top five developing countries in Africa, Asia and Latin America it had the largest outbound direct investment. China's outbound direct investment in Niger accounted for 30% of its total FDI. China's direct investment in Palau accounted for 26% of its total FDI and in Kyrgyz Republic accounted for 23% (see Figure 2.7)

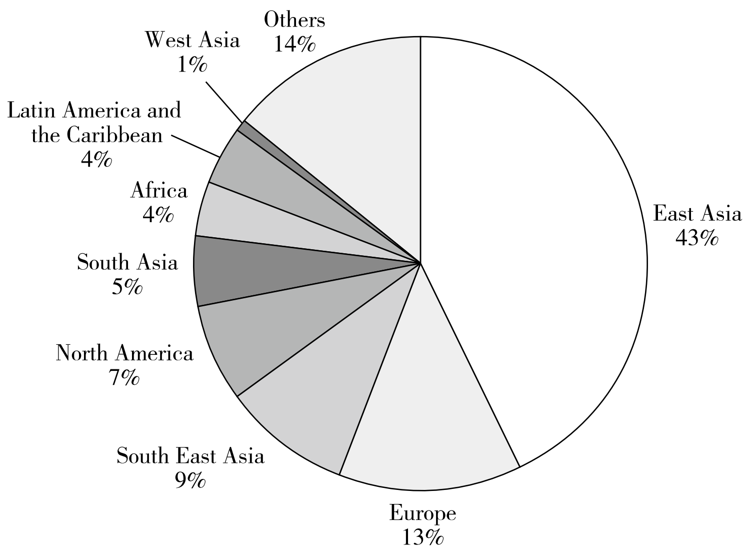

Figure 2.6 Percentage of Developing-economy FDI by Major Destination Regions
(Source: UNCTAD World Investment Report 2015)

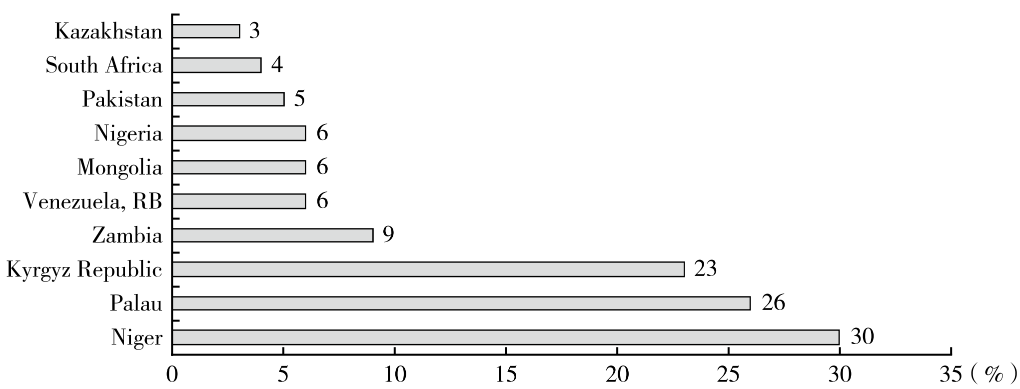

Figure 2.7 China outward direct investment (%)
(Source: compiled using data from IMF and CDIS)

1 IMF Data CDIS at http://data.imIf.org/?sk=40313609-F037-48C1-84B1-E1F1CE54D6D5 accessed on August 30, 2016

By the end of 2014, the accumulated bilateral investment between China and ASEAN exceeded 130 billion USD, among which the investment of ASEAN in China reached 90 billion USD[1]. In 2014, the FDI flows from China to ten ASEAN countries was 7.809 billion USD with a year-on-year increase of 7.5%, accounting for 6.3% of total flows and 9.2% of flows to Asia. And China's FDI stock in ASEAN countries was 47.633 billion USD, accounting for 5.4% of the total FDI stock and 7.9% of FDI stock in Asia. By the end of 2014, China set up more 3300 FDI enterprises with 159.5 thousand foreign employees.[2]

By the end of 2014, China's FDI stock in countries along the "One Road, One Belt" reached 92.46 billion USD, accounting for 10.5% of the total FDI stock.

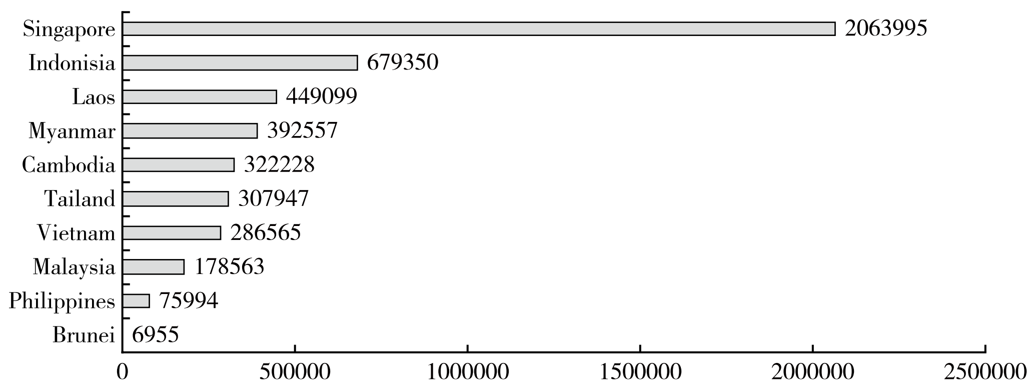

Figure 2.8 2014 China's FDI Stock in the ASEAN Countries (in ten thousand USD)
(Source: 2014 Statistical Bulletin of China's Outward Foreign Direct Investment)

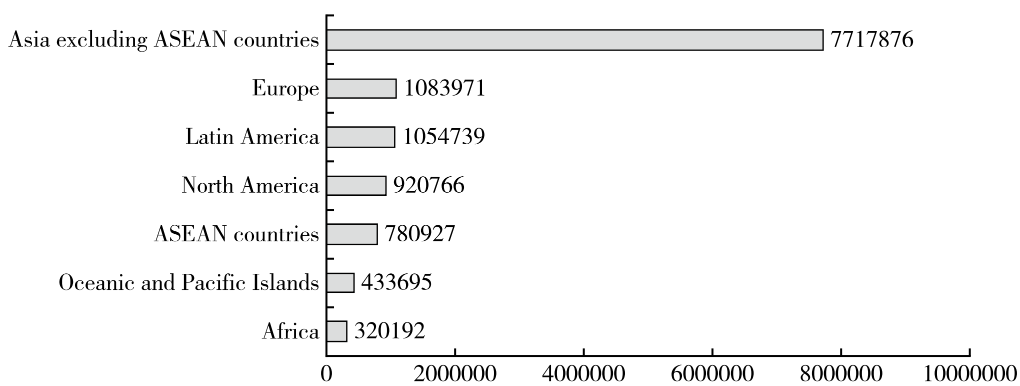

Figure 2.9 2014 China's FDI flow to different countries (in ten thousand USD)
(Source: 2014 Statistical Bulletin of China's Outward Foreign Direct Investment)

1 See http://finance.people.com.cn/n/2015/0729/c1004-27378764.html accessed on August 30, 2016

2 Ministry of Commerce,

Therefore, it can be seen that the South-North economic structure that once dominated the world has gone through fundamental changes with the emergence of the Global South. The political independence of countries of the South was enhanced as their economies grew stronger. South-South economic cooperation has become a crucial part of the global economic cooperation and it has changed the order and structure of the latter.

(III) South-South development cooperation: the case of China and India

Apart from the rapid growth in South-South economic cooperation due to the "New/Emerging donors" represented by BRICS countries, South-South development cooperation also became an important part of the global cooperation. According to the World Bank's report on the international development cooperation, China has become the largest assistance provider among countries of the South. Its official expenditure on development assistance has far exceeded BRICS countries such as India, Brazil and South Africa. India ranks the second among BRICS countries in terms of expenditure on development assistance. (See Figure 2.10)

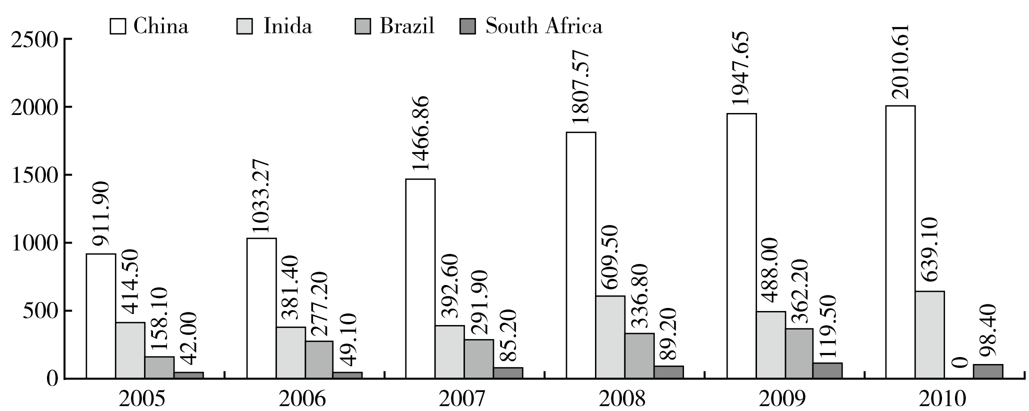

Figure 2.10 Estimate of gross concessional flows for development co-operation («ODA-like»flows) from the BRICS in 2005-2010 (USD million)[1]

(Source: World Bank)

The latest white paper on China's foreign aid states that China's foreign aid kept increasing from 2010 to 2012 and reached 89.34 billion Yuan. Africa and Asia were the major recipient regions of China's foreign aid, among which Africa accounted for 51.8% and Asia accounted for 50.5%, Asia accounts for 30.5% of total Chinese foreign aid.

Infrastructure, medical and health services, education and training, environmental protection and climate changes were China's major areas for international development cooperation (see Table 2.1).

1 Excluding Brazil's data in 2010

Table 2.1 Industry Distribution of China's Foreign Aid Program from 2010 to 2012

Industry	No. of program
Social public facilities	**360**
Hospitals	80
Schools	85
Civil architecture	80
Well digging and water supply	29
Public facilities	86
Economic infrastructure	**156**
Transportation	72
Radio and telecom	62
Electricity	22
Agriculture	**49**
Demonstration centre for agricultural technologies	26
Irrigation and water conservancy	21
Agricultural processing	2
Industry	**15**
Light and textile industry	7
Construction materials and chemical industry	6
Mechanical-electronic industry	2
In total	**580**

(South: White paper on China's Foreign Aid (2014))

Bhutan, Bangladesh, Nepal, Myanmar, Sri Lanka, Maldives and Afghanistan were among the top recipients of India's foreign aid. (See Table 2.2)

Table 2.2 Principal destinations of India's Aid and Loan Programmes (excluding lines of credit), US$ million

Country/region	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
Bhutan	250.1	131.5	168.4	277.9	269.4
Bangladesh	11.5	4.9	13.8	116.3	0.8
Nepal	14.6	51.0	23.0	96.5	31.0
Sri Lanka	5.5	6.8	6.5	49.7	16.6
Myanmar	4.9	9.7	4.6	26	11.4
Maldives	2.9	1.5	4.5	21.9	0.7
African Countries	13.5	4.9	11.5	8.1	25.9
Mongolia					25.9
Afghanistan			100	6.9	59.4
Central Asia			4.6	4.3	4.1
Latin American Countries			0.4	1.4	0.4
Other Countries	111.5	108.1	55.3	0.5	52.5
Total	414.5	381.4	381.4	609.5	488

(Source: Sachin Chaturvedi and Anthea Mulakala (2015, India's Approach to Development Cooperation, Routledge)

(1) Infrastructure

In the area of infrastructure, China has made the substantial contribution to South-South development cooperation. So far, China has constructed the Tanzania-Zambia railway, the Mombasa-Nairobi Railway, the Addis Ababa–Djibouti Railway, 16 airport terminals, 20 bridges, 12 ports, 68 power plants, 77 sports venues, 16 parliament houses, 38 government office buildings, 9 international conference centres etc.[1] A study in 2013 ranked donor countries assisting the infrastructure construction in Sub-Saharan Africa from 2001 to 2008 and China took the first position overall. India was the second highest among countries of the South (Lin, Y. & Wang, Y, 2016).

In December 2015, the Johannesburg Summit & the 6th Ministerial Conference was held in South Africa. On behalf of Chinese government, President Xi Jinping announced that China will lift the China-Africa relationship to a comprehensive strategic cooperative partnership and will roll out “10 major cooperation plans” in areas including industrialization, agricultural modernization, infrastructure, financial services, green development, trade and investment facilitation, poverty reduction and public welfare, public health, people-to-people exchanges, and peace and security. An ambitious blueprint was planned for China-Africa cooperation and a new charter for China-Africa relationship was opened.

Infrastructure has always been an important area for China-Africa cooperation for improving the cooperation level and transiting the development mode. Under the plans for China-Africa infrastructure cooperation, priorities will be given to the following aspects:

1) Railways, highways and ports: Through diverse financing and cooperation models, China will take into account Africa’s railway network of “four north-south and six east-west” lines and highway network of “three north-south and six east-west” lines and encourage enterprises to actively participate in the construction of railway, highway and port networks in Africa. And in cooperation with Africa, China will carry out a number of highways, railways and port projects, provide reliant and well-developed technologies and equipment to boost Africa’s transportation construction and the economic growth of surrounding areas.
2) Regional aviation: China, together with Africa, will keep pushing forward the “plan for China-Africa Regional Aviation Cooperation”. With the market operation as the premise, China will deepen the aviation investment and operation cooperation, provide more civil aircraft and facilitate the construction of supporting facilities such as airports, parts

1 Summarized according to “Fruitful Sino-African Cooperation”, a program in 2016 on CCTV-4, http://news.cctv.com/2016/07/30/VIDE4Yhc3WnAXLoJRT5bmVWT160730.shtml; accessed on September 1st, 2016.

warehouses, maintenance centres and aviation schools in Africa.

3) Electricity: Based on practical needs of African countries, China will adopt multiple financing methods to support Africa's power generating projects including hydropower, thermal power, wind power, photovoltaic power and biomass power. It will also aid in projects of power transmission and transformation and power grid in order to improve the situation of electricity shortage which hampers the economic growth.
4) Information communication technology: China will support Africa in building an information society and developing the digital economy. Using the market mechanism, it will encourage Chinese enterprises to take part in the IT network construction, operation and services of African countries and gradually build a modern ICT network favourable to Africa's development.
5) Talent and R&D: China will mobilize governmental and social resources to conduct research on the establishment or upgrading of five universities of transportation covering aviation, railway and highway and provide all-round support in infrastructure, teaching equipment, cooperation plan, technical assistance and management operation. The aim will be to assist Africa in systematically training the professional technical teams for infrastructure construction and consolidating talent and R&D base for the sustainable development of connectivity projects in Africa.

Apart from Africa, China has also undertaken various infrastructure projects in other countries. (1) In 2004, the first-stage construction of the North Luzon Railway in the Philippines funded by the assistance loan from China of 400 million USD, started from the capital city of Manila. The first-stage project of the railway stretched 32 kilometres from Manila to Malolos and the whole railway covered 80 kilometres from Manila to Clark. (2) In 2005, the construction of the Upper Paunglaung hydropower plant began, which is Myanmar's largest hydropower facility and the largest one contracted to in southeast Asia. (3) In 2009, the rehabilitation project of the northern part of Na Teuy-Pakmong highway with the assistance of China was launched. 4) In August 2011, the construction of the agricultural technology demonstration centre in Laos was completed with China's assistance, which included training centre, nursery, demonstrative gardens, agricultural machineries and was used for conducting training for variety breeding, demonstrative farming and demonstration of the use of agricultural machinery. The project was divided into three phases of infrastructure construction, personal training and technical cooperation. (5) In 2011, the foreign implementation contract for Laos' International Conference Centre was formally signed. (6) In 2011, with China's aid for construction of new parliament office and renovation of the old offices and the conference hall of parliament speaker, was launched. (7) Finally, from 1996 to 2002, Chinese government helped in the drilling of 1000 wells for villages in provinces of Myanmar and solved the drinking shortage for more than 200 thousand residents (Wu, J., 2010)

Now, let's consider India's case. The concessional loans of the Export–Import Bank of India were mainly granted in the area of infrastructures construction. From 2001 to 2010, loans provided to infrastructure such as electricity, railway and engineering construction accounted for 28%, 19% and 14% respectively of the total. Loans extended to infrastructure for agricultural production and village development also took a large proportion, in which, 8% was for agriculture and irrigation, 3% was for village electricity and 9% for sugar crops production and processing. India's foreign aid in the area of infrastructure has been mainly concentrated in African countries. India's aid for African infrastructure mainly focused on the purchase of agricultural machinery and construction of IT network and facilities. (See Table 2.3)

Table 2.3 India's Aid to the Infrastructure of Africa

Country	Content of aid
Angola	concessional loan of 40 million USD for railway construction and of 5 million USD for the purchase of agricultural machineries from India
Benin	concessional loan for railway construction and 5 million USD for the purchase of agricultural machineries from India
Burkina Faso	concessional loan of 31 million USD for the purchase of agricultural machineries
Cameroon	donation of 60 tractors
Gambia	confessional loan of 7 million USD for the purchase of tractors and construction of tractor bulking factories
Ghana	concessional loans of 15 million USD and 27 million USD for the construction of rural power network and 2 million USD for technical assistance in information networks; concessional loan of 27 million USD to the Ivory Coast for the purchase of 400 Tata buses
Mauritius	concessional loan of 100 million USD for the information network technical assistance; providing IT equipment worth 7.5 million USD and 10 million USD concessional loan for construction of sewage treatment system
Niger	concessional loan of 17 million USD for the purchase of transportation facilities in India
Senegal	concessional loan of 48 million USD for irrigation system, informational technology and the construction of steel plants; loan of 18 million USD for the purchase of 250 Tata buses; concessional loan of 15 million USD for the purchase of agricultural equipment
Sierra Leone	donation of 800 thousand USD for the construction of 400 barracks
Tanzania	supporting the establishment of two cashew nuts processing companies and exempting 20 million USD of debt

(Source: Kragelund P. (2008). 'The Return of Non-DAC Donors to Africa: New Prospects for African Development'? Development Policy Review, Vol 26, Issue 5.)

(2) Medical and health services

80 projects of medical facilities received China's aid, and they include general hospitals, mobile hospitals, health care centres, specialist clinics and centres of Chinese medicine, which effectively mitigate the shortage of medical facilities in recipient countries. At the same time, China provided with recipient countries about 120 batches of medical equipment and medicines, including sophisticated equipment like color doppler ultra-sonography machines, CT scanners, automatic biochemical analysers, maternal and fetal monitors, important surgical instruments, intensive care machines, NMR equipment and medicines for the prevention and treatment of diseases such as malaria and cholera.

Dispatching medical teams: China has dispatched 55 medical teams to foreign countries with 3600 medical care personnel working in nearly 120 medical centres in recipient countries and conducting training for tens of thousands of local medical care personnel. As a result, the shortage of medical services of recipient countries has been relieved to some extent. In their medical work in foreign countries, members of medical teams conduct training for local personnel through demonstration, lectures, technical trainings and academic communications, which cover areas of the prevention and treatment of contagious diseases such as malaria, AIDS and bilharzia. It also includes care of patients, treatment of diabetes and rheumatism as well as traditional Chinese medicine such as acupuncture, massage, health care and Chinese medicines. Within three years, more than 100 Chinese medical team members were awarded medals because of their outstanding contribution.

The human resources training of China's foreign-aid medical teams has the following three features. (1) It puts capacity building at the core. The fourth principle in the Eight Principles for Economic Aid and Technical Assistance to Other Countries states that "in providing aid to other countries, the purpose of the Chinese Government is not to make the recipient countries dependent on China but to help them embark step by step on the road of self-reliance and independent economic development." And the 7th principle points out that "in giving any particular technical assistance, the Chinese Government will see to it that the personnel of the recipient country fully masters such technique." Medical teams dispatched to foreign countries have always regarded training of local medical talents as a crucial part of their work, and capacity building of the recipient country is one of their priorities. Therefore, the medical team is an indispensable part of the assistance of medical human resources. Chinese medical teams have introduced to recipient countries cutting-edge medical and clinical technologies such as cardiac surgery, tumour enucleation, replantation of a severed limb and minimally invasive medicine. (2) On-site teaching as the major form. Medicine is a highly practical science. On-site teaching enables rapid improvement of local medical personnel and the solution of medical problems. China has conducted on-site teaching activities in all medical centres. Through collaboration between Chinese and local medical personnel where the local personnel shoulder more responsibilities, more medical human resource base is created for recipient countries. (3) Sharing Chinese medical technologies and helping recipient countries to improve their medical system. Chinese medical teams help recipient countries to build new medical care department and set up disciplines in local universities. For example, Chinese mobile medical teams advocated "putting priorities of disease prevention and medical care to rural areas". In addition, Chinese medical teams provide free medicines and also introduce Chinese medical technologies. They also bring traditional Chinese medicine such as acupuncture and massage as well as treatments combining Chinese and western medicines to recipient countries (Liu, Q., 2014).

India's international development cooperation in the area of medical care is mainly demonstrated in the following aspects. (1) Providing medical care personnel and humanitarian assistance. As early as 1956, India sent 200 doctors to Myanmar to support the management of local medical care departments. It also sent one doctor and two nurses to the Gandhi memorial hospital in Addis Ababa, Ethiopia, which was built by the Indian community in Addis Ababa commemorating the birthday of King of Ethiopia. From 1998 to 1999, sets of medical equipment, medical supplies and medicines worth 400,000 INR were sent to the Indira Gandhi Children's Hospital in Kabul, Afghanistan, which was built by Indian people living in Afghanistan. Medical personnel and free medicines provided by India to Afghanistan treated 36 thousand poorest local patients annually. (2) Increasing access to vaccines and medicines. The Report on Global Health Policies 2010 pointed out that India's medical aid projects benefit from low-priced medicines for AIDS produced by Indian pharmaceutical companies (Bliss 2010). Producers in India currently provide 80% of AIDS treatments completely funded by foreign aid to developing countries and benefit millions of patients (Waning, Diedrchsen and Moon, 2010) The country has also greatly contributed to vaccine production. 8 vaccine companies in India are producing 72 types of vaccines pre-qualified by the WHO. Besides, vaccines produced in India account for 60% to 80% of all vaccines procured by departments of the United Nations, which makes India the largest and most reliable vaccine provider among developing countries. (3) Contributing to global health governance policies. On the WTO's Ministerial Conference in Doha in 2001, India put forward a proposal about the Trade-Related Aspects of Intellectual Property Rights (TRIPS) in the area of public health, which brought about two prominent changes to the conventional. The first was the attention on rights of the poorest countries and those without the capacity for medicine production. The second was the flexibility of TRIPS agreement in guaranteeing the rights of above-mentioned countries. As a result, non-patented medicines could be exported to countries without medicine production capacity as long as they follow relevant rules and produces and meet certain conditions.

(3) Education and training

From 2010 to 2012, China organized 1579 training classes for officials and invited nearly 40 thousand officials from governments of developing countries to take part in classes in China, covering areas of economic management, multilateral trade negotiation, political diplomacy, public administration, vocational education, NGOs and so on. China organized 357 training classes for technical personnel and invited nearly 10 thousand technical personnel from developing countries for training in areas of agriculture, heath, information communication, industry, environmental protection, disaster relief and prevention, culture and sports etc. To meet the needs of other developing countries to enhance the capacity of middle and senior managers in public departments, during this period, China held 15 on-the-job academic education programs by which 359 officials from 75 developing countries got their master degrees in public administration, education, international relation and international media.

Training in agriculture takes the largest share. Such training are divided into three levels: (1) for grass-root technical civil servants such as agriculture extension agents lasting 3 months (2) one for government officials with higher ranks lasting 2 to 4 weeks (3) programs for other ministerial officials. Some scholars point out that the feature of China's agricultural training program is inclusiveness and diversity. It provides training in agricultural technologies while taking into account the situation in Africa and China, to achieve commercial interest of both sides, and also serves as an important form of diplomacy and a way to export cultural soft power (Tugendhat & Alemu, 2016). Sending agricultural experts to African countries has always been a major way of China to transfer agricultural technologies and it is also a continuous and effective way of assistance. Currently, 14 Agricultural Technology Demonstration Centres (ATDC) have been built with China's aid in Africa and 9 ATDCs are under construction. By 2012, 117 thousand African students had come to study in China, 2.3% of African overseas students study agricultural sciences. China has 23 institutions for agricultural training and 539 training courses. From 2008 to 2010, China sent 104 senior agricultural experts to 22 African countries, who provided more than 400 information and policy proposals, survey reports on countries, feasibility reports on agricultural investment projects with 1.55 million words in total, carried out 184 piloting demonstration projects covering areas of crops, vegetables, aquatic product and irrigation and held 157 training classes (see Table 2.4 for details). From 2010 to 2012, China assisted 49 agricultural projects in foreign countries, sent more than 1000 experts and provided agricultural materials and resources such as machinery, improved varieties and fertilizers. In the area of support policies, Chinese government promised in 2006 to keep sending experts as an important form of bilateral agricultural cooperation in accordance with the Beijing Action Plan reached in the Forum on China-Africa Cooperation. (See Table 2.5)

Table 2.4 Content of International Agricultural Trainings

Content	Frequency	%	Name of training classes
Animal epidemic prevention	5	4	Construction of the centre for animal epidemic prevention in 2014; experiment at the border of China and Laos
Pest control	5	4	2014-Training class for African countries on pest control technology for major tropical crops
Cassava	3	2.4	2012-Training class for African countries on cassava production and processing technology
Energy	11	8.8	2012-Training class for developing countries on rural energies and environmental health technology
Trade of agricultural products	6	4.8	2013-Class for French-speaking African countries on agricultural product circulation and international trade
Agricultural development	6	4.8	2014-Class for French-speaking African countries on the sustainable development of agricultural technology demonstration centre
Agricultural management	12	9.6	2014-Class for French-speaking African Countries on management of agricultural natural resources
Agricultural cooperation	5	4	2014-Class for officials from English-speaking African countries on South-South agricultural cooperation
Agricultural machinery	6	4.8	Class for ASEAN countries on mechanization of rice production
Agricultural extension	7	5.6	2014-Class for ASEAN countries on agricultural extension technology
Farming technologies	15	12	Class for French-speaking African countries on cotton farming technology
Ecological agriculture	8	6.4	2014-Class for Asian countries on ecological agriculture
Aquatic product	18	14.4	2013-Class for ministerial officials from developing countries on the development and management of fishery industry
Soil reclamation	3	2.4	Training and study tour in China for Algeria on soil reclamation project
Project capability	3	2.4	Training for Ethiopia on building the capacity for South-South cooperation projects (II)

(Source: Information system of foreigner-related agricultural trainings management)

Table 2.5 Policies and commitments concerning sending agricultural experts

Name of the action plan	Time of release	Commitments concerning sending agricultural experts
Beijing Action Plan (2007-2009) of the Forum on China-African Cooperation	2006	· Send 100 senior agricultural technical experts to Africa
Sharm El Sheikh Action Plan of the Forum on Chi na–Africa Cooperation (2010–12)	2009	· Send 50 agricultural technical teams to African countries
Beijing Action Plan (2013-2015) of the Forum on China-African Cooperation	2012	· Keep sending agricultural technical teams to African countries and enhance trainings for local agricultural technical personnel · Send teaching teams to African countries for agricultural vocational education and help Africa to build its system of agricultural vocational education
Johannesburg Action Plan (2016-2018) of the Forum on China-African Cooperation	2015	· Keep sending 30 groups of senior agricultural experts, provide trainings of agricultural vocational education, expand the scale of technical and managerial personnel from African countries receiving trainings in China and improve the level of agricultural technology and management

(Source: Research Centre for International Development at China Agricultural University)

Capacity building is also a feature of India's aid to international development. In 1964, India set up the Indian Technical and Economic Cooperation Program (ITEC), which organized training to help partner countries to overcome technical obstacles to enhance technical cooperation and capacity building. ITEC was the major platform performing the function of capacity building for international development cooperation. For example, India responded to the requests of Cambodia, Laos, Myanmar and Vietnam by strengthening the development of their private sector and enterprises. In these countries, India set up Laos-India Entrepreneurship Development Centre, Cambodia-India Entrepreneurship Development Centre, Vietnam-India Entrepreneurship Development Centre and Myanmar-India Entrepreneurship Development Centre. ITEC program is composed of five parts: (1) training given by Indian experts to relevant personnel in recipient countries which cover areas of trade, investment and technology; (2) projects and project related activities such as feasibility studies and consultancy services; (3) deputation of Indian experts abroad; (4) study tours and (5) aid for disaster relief. By the end of 1978, 500 Indian experts have dispatched aboard. Every year 1200 personnel from government departments of recipient countries received training in institutions in India. From 2014 to 2015, ITEC provided 10,000 scholarships and 47 India institutions annually conducted 280 training courses. Moreover, between 2013 and 2014, the number of partner countries of ITEC reached 179, among which Asian countries accounted for the largest share (see Table 2.6).

Table 2.6 Regional distribution of ITEC program participants, 2013

Region	Composition (%)
Asia	44
Africa	44
Americas	4
Multilateral Agencies	2
Europe	2
Others	4

(Source: Ministry of External Affairs, Government of India (2014))

(4) Environmental protection and climate change

From 2010 to 2012, China conducted South-South Cooperation in the area of climate change through means of projects, material and resource provision and capacity building. In areas of clean energies, environmental protection, flood and drought prevention, use of water resources, sustainable forest development, water and soil conservation and meteorological information service, China actively pushed forward the cooperation with other developing countries through construction of 64 renewable energy utilization projects. These projects included the construction of solar street lamps and solar power generation for 58 developing countries, providing 13 developing countries with 16 batches of equipment and material for environmental protection, signing the Memorandum of Understanding on Complimentary Supplies for Addressing Climate Change with nine countries (Grenada, Ethiopia, Madagascar, Nigeria, Benin, Maldives, Cameroon, Burundi and Samoa) and organizing 150 training courses on environmental protection and climate change for more than 4000 technical personnel and officials from more than 120 developing countries. In 2012, in the UN Conference on Sustainable Development (Rio+20 summit), the then Premier Wen Jiabao delivered a speech titled “Jointly Write a New Chapter for the Sustainable Development of Mankind” and pledged to make available 200 million RMB for a three-year international cooperation project to help small island countries, least developed countries and African countries tackle climate change.

On September 26, 2015, President Xi Jinping delivered a speech titled “Towards a Mutually Beneficial Partnership for Sustainable Development” in the United Nations Sustainable Development Summit 2015 at the UN headquarters in New York and announced: 1) China will establish an assistance fund for South-South cooperation, with an initial pledge of US$2 billion to support developing countries in their implementation of the Post-2015 Development Agenda. 2) China will continue to increase investment in the least-developed countries, aiming to attain a level of US$12 billion by 2030. 3) China will write off the debt on outstanding intergovernmental interest-free loans due by the end of 2015 owed by designated least-developed countries, landlocked developing countries, and small island developing countries. 4) China will establish an international development knowledge centre for studying and exchanging between countries on the theories and practice of development best-suited to their respective national conditions. 5) China will propose a discussion on establishing a global energy network to facilitate efforts to meet global power demand with clean and green alternatives. 6) China is also ready and willing to work with other stakeholders to make rapid progress in the implementation of the Belt and Road Initiative. 7) It will also quickly render the Asian Infrastructure Investment Bank and the BRICS New Development Bank operational, and contribute to the economic growth of the developing countries and the well-being of their citizens.

Different from traditional development cooperation of OECD countries which pays more attention to the social area, South-South development cooperation focuses more on production, infrastructure, technical assistance and capacity building projects. Another feature is that emerging donor countries like China prefer providing aid in the form of "packages" that can include not only concessional loans, grants and debt relief but also preferential trade and investment schemes (Barteney, 2014). Scholars such as Li Xiaoyun and Xu Xiuli pointed out that the emergence of the ATDC model in Africa consummates this particular form of travelling technocratic rationality of China's agricultural development experience, and provides a platform to share and reproduce China's development experience (Xu, Li, Qi, Tang & Mukwereza, 2016).

Continuous evolvement of South-South Cooperation pushed forward the reform of North-South cooperation. The UN 2030 Agenda for Sustainable Development received active responses from traditional donor countries and also prompted the Development and Assistance Commission (DAC) of OECD to carry out reforms, one of which was the Total Official Support for Sustainable Development (TOSSD). TOSSD refers to promoting regional and global sustainable development through total official support and mobilizing all resources to support developing countries. Its aim is to improve the status quo of international public finance; implement the comprehensive statistics on development finance of the Agenda 2030 financing framework; improve transparency and facilitate monitoring of international development finance; carry the right incentives to maximize resources mobilization, their smart allocation and catalytic use and be based on international standards for measuring and monitoring international public finance. TOSSD is replacing the traditional official development assistance (ODA) as the new indictor of development cooperation[1]. With the emergence of the Global South, development cooperation among nations demonstrates a trend of convergence. Development cooperation strategies of countries of the North are also influenced by those of the South. Some scholar pointed out that during recent years, the boundary between modalities of the North and the South has become blurry and traditional donor

1 Summarized according to CIDRN's Public Event Series No.21 "The Latest Trend of OECD DAC Reform and How to Operationalize the TOSSD Framework".

countries begin to find common ground in concepts of South-South Cooperation such as "win-win situation" stressed by North-South cooperation and expansion of the understanding of development cooperation (beyond official development assistance) (Fues, 2015). Moreover, the framework of North-South cooperation is getting more similar to that of South-South cooperation (see Table 2.7).

Table 2.7 Indicators of the convergence of South-South and North-South development cooperation

Common features	Comments
Mutual benefits	Traditional donor countries turn to modalities of the South; stress on self-interests in economy and geopolitics
Development effectiveness	In the Busan Conference in 2011, traditional donor countries adopted the perspective of the South and abandoned the perspective of development effectiveness
New measurements and index	The concept of "beyond ODA" of traditional donor countries; countries of the South seeking a unified definition of South-South develop cooperation; global consensus on Post-2015 development agenda
Specialized institutions	Institutional development of donor countries of the South
Transparency	Establishment of comprehensive statistics system by donor countries of the South
Supervision and assessment	Utilization of new impact assessment models by donor countries of the South
Non-state actors	Introduction of institutionalized expansion mechanism by the South
Professional knowledge	Improvement of capacity in development research and knowledge innovation by the South
International dialogue	Global Partnership for Effective Development Cooperation, Delhi Process advocated by donor countries of the Global South

(Source: Fues, 2015)

All in all, South-South Cooperation has not only become an important force for world economic development, but also a crucial part of global development cooperation. From the Rome Conference of OECD-DAC held at the end of the 1990s to the Mexico City Conference in 2014, mainstream international development assistance system attached an increasing importance to South-South Cooperation, as a way to boost global development. Resources, experiences and new policies of countries of the South, constitute the new South-South development cooperation which is now changing the landscape of international development cooperation.

4. Problems and challenges of the new South-South Cooperation

Even though South-South Cooperation has strengthened and grown, it still faces several problems and challenges:

(1) Countries of South-South Cooperation lack a coordinating mechanism to establish unified standards. The model of South-South Cooperation is still dominated by bilateral cooperation and multilateral cooperation remains rare, which hampers the effect of South-South Cooperation. Moreover, the coordinating efforts in recipient countries are insufficient to avoid the wastage of resources.

(2) South-South Cooperation is short of the support of an independent knowledge system. From the historical perspective, contemporary knowledge was built upon the relation between Europe and regions outside Europe during pre-colonial, colonial and post-colonial eras. When colonial era came to an end, the concept of "less developed" countries replaced earlier disdainful concepts. At the same time, the responsibility of "developed" countries turned into helping other countries to become "developed". It can be seen that the relation between developed and developing countries was unequal not only from economic and political perspectives, but also from the epistemology perspective. The knowledge of development was dominated by developed countries. The North-South cooperation coordinated unified plans and programs based on its development knowledge system with the theory of neoliberalism as its pillar. Despite all the criticism of neoliberalism, it helped standardize the assistance and provided the institutional guarantee for the implementation of North-South development cooperation. In comparison, the knowledge system of South-South Cooperation still centres on principles such as non-interference in internal affairs, equality and mutual benefit. The knowledge system of South-South Cooperation has yet to be set up, which hinders the standardization of its implementation and also has the negative impact on systematization of South-South Cooperation and the communication and exchange with North-South Cooperation.

(3) South-South Cooperation lacks a standard system for collecting statistics. The design of cooperation covers a wide scope and its framework involves political, economic, social, cultural, environmental and technical areas of developing countries of the South. It can be bilateral or triangular cooperation engaging two or more developing countries. Under such condition, it is quite challenging to build a system for data collection and statistics. Even though the Global South-South Development Academy strives to perform the function of data collection and statistics, the data on this platform is far from enough and way behind the system of OECD. The lack of data system inevitably exerts the negative impact on the establishment of accountability within South-South Cooperation, which further hinders the construction of South-South Cooperation system.

(4) South-South Cooperation is short of the method for project supervision and assessment. After the development of more than 50 years, the index for North-South cooperation's project supervision and assessment turned from assistance-assistance effectiveness to development effectiveness. Its core series indicators lay emphasis on the state ownership and encourage

private sector and multilateral institutions to participate. This in one way provides a reference for the South-South Cooperation to develop its own method for project supervision and assessment, and in another way, poses challenges to South-South Cooperation—whether it can develop a method different from that of North-South Cooperation while maintaining its emphasis on principles such as non-interference in internal affairs, equality and mutual benefit.

(5) Despite efforts by China and the UN to support South-South Cooperation to become a crucial part of the global development cooperation, the cooperation is yet to realize systematization and lacks a settled supporting plan. This undoubtedly hinders South-South Cooperation form playing its role on the platforms of the UN and the World Bank.

According to the report of the World Bank, the import demand of emerging countries in 2015 fell substantially (World Bank, 2016). Even though the trade of consumer goods and services showed a sign of recovery, a downturn in global trade was still expected, which indicated a weakening global investment and decelerating supply chain integration and trade liberalization. All of this posed challenges to the cooperation among countries of the South.

The divide among countries of the South is another challenge for their cooperation. Because of the stark differences in geopolitical and national conditions, countries of the South have always been classified as large developing countries, small developing countries, island countries and so on. As mentioned above, the attempts by the second Asian-African Conference and G77 to establish a new international economic order failed due to the internal divide among countries of the South. Some scholars asked whether the emergence of countries of the South, especially emerging countries such as China, entails a new unequal and dependent relation (Gray &Gills, 2016). To avoid emergence of the new hegemony, countries of South need to stick to the original principles of South-South Cooperation, jointly promote the improvement of platform on which their development experience is shared and practice the principle of equality and mutual benefit.

It is widely believed that developing countries could and should learn from the experience of developed countries, for the later are richer and advanced because of economic, social, cultural and political modernization, which is in stark contrast to the traditional values of less developed countries. If such a model of development is followed, developing countries would need to mobilize reserves at home and abroad to set up joint investment organizations, in order to implement development projects.

Whether multilateral institutions such as the Asian Infrastructure Investment Bank can realize sustainable development, relies not only on the economic growth of countries of the South, but also on the capacity of these institutions to provide new development knowledge products. If they are to provide valuable experience to countries, they should not simply adopt the knowledge framework which they already have. Instead, they should turn the theoretical experience of China and other emerging countries into systematic knowledge (Griffth-Jones, Li & Spratt, 2016).

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Chapter 3

New Ideas of Development Cooperation: A Common Destiny*

1. Introduction

In this chapter, we review the history of ideas on development and their implications for development cooperation. We approach this review by taking the vantage point as the present. That is to say, what currents are now shaping discussion and action on development and development cooperation, and how do the ideas behind them relate to the history of economic thought and economic history?

Both the UN 2030 Agenda for "Transforming Our World" with its 17 Sustainable Development Goals (SDGs) and the 2016 G20 Leaders' Hangzhou Summit Communique, may be taken as reference points[1]. What is new in these reference points, in comparison with agreed international development agendas of the last decades, is the recognition of the role of an effective state, not just in setting the "enabling environment" for private sector-led growth, but going beyond that in engaging in proactive investments where social returns are higher than private returns to create new economic landscapes that would not exist without an initiating state. The two areas where this

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1 The UN 2030 Agenda: Transforming our World. (2015). United Nations, New York. G20 Leader's Communique Hangzhou Summit (2016). Ministry of Foreign Affairs, PRC.

recognition is most evident are innovation and infrastructure investment. Significantly, these two new reference documents apply to both developed and developing countries, with the underlying economic case based on first-mover and coordination problems that have a long history but have been obscured by the recent and ongoing reliance on the private sector as the driver of economic growth and innovation. This recalibration of thinking involves recognising the essential interaction between public entrepreneurship and private entrepreneurship in generating economic dynamism and structural transformation.

This may seem hardly revolutionary. Indeed, the foundations can be found in Adam Smith and earlier economic thinkers. But this recalibration has been the subject of heated debate and institutional resistance, only just now receding. The recognition of state actors as public entrepreneurs with an essential systemic role is being supplemented by the recognition that with the current slack in the global recovery a boost in infrastructure investment financed by the public sector has a macroeconomic rationale as well as a long-term growth rationale. Similarly, innovation-driven growth and development strategies require public entrepreneurship to foster the clusters, basic science and educational systems that feed innovation and employment growth in a changing industrialisation paradigm.

The roadmap of this chapter is as follows: We begin with the contemporary reappearance of the public entrepreneur in the UN 2030 sustainable development goals. We then identify the function of the public entrepreneur in the structural transformation process, and trace the concept of the developmental state from Alexander Hamilton through to the 21st Century and its spread from "Asian Miracles" to "Rising Africa". We then consider how China has played a role in igniting the transformation agenda as both a key vector in the structure of the global economy and as a new architect in the international system.[1] The New Structural Economics (NSE) developed by Justin Yifu Lin during his term as Chief Economist at the World Bank and now back at Peking University is directed at providing the rationale and policy guidance for promoting economic transformation in developing countries.[2] We link the NSE to the discussion of public entrepreneurship as outlined above and to the unprecedented "moment of opportunity" arising as China sheds 85 million low wage jobs in light-manufacturing sectors while Africa's population grows from 1 billion now to 2 billion people by 2050. This involves addressing the widespread pessimism surrounding industrialisation in Africa. We conclude by situating the issues covered in this paper in a broader sweep of economic history and the effort in the UN 2030 Agenda to "transform our world", and discuss the implications for South-South development cooperation.

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1 Xu Jiajun and Richard Carey (2015). The Economic and Political Geography Behind China's Emergence as an Architect in the International Development System. In Multilateral Development Banls in the 21st Century. Overseas Development Institute (ODI), London

2 Lin, Justin Yifu (2010) New Structural Economics: A Framework for Rethinking Development and Policy. The World Bank. Washington DC.

2. Bringing Back Structural Transformation and Public Entrepreneurship

This section aims to put the burgeoning transformation narrative as embedded in the Sustainable Development Goals (SDGs) into historical perspective by conceptualizing it as the renaissance of public entrepreneurship. It links up the transformative processes of advanced economies in the past, newly industrialized countries, and rising Africa. By doing so, it sheds new light on debates on developmental states, industrial policies, and the scaling-up processes for an inclusive and sustainable transformation agenda.

2.1 From the MDGs to the SDGs

The transition from the eight discrete Millennium Development Goals (MDGs) centred on poverty reduction and human development outcomes to seventeen Sustainable Development Goals (SDGs) which include the MDGs but embrace a transformational agenda is a huge shift in the international cooperation paradigm. It goes beyond a focus on development aid relationships to the functioning of industrialisation, infrastructure and urbanisation, and reaches to global financial integrity and tax policy and to governance issues and the problem of terrorism. In all of this, there is implicit and explicit acknowledgement that social returns and economic returns are not the same, and that an active state is necessary to identify the social returns and act as an entrepreneur to generate dynamic green growth processes and the stability of the global financial system. While all of these issues have been on the UN agenda since the days of the North-South dialogue, this is the first time that such a comprehensive, interactive agenda has been universally endorsed and adopted as the framework for national and international policy.

The SDG agenda explicitly tackles the issue of development financing by bringing domestic resources and external financing, public and private into integrated, dynamic national financing frameworks to support national sustainable development strategies, further elabourated in the Paris Agreement on Climate Change and the Addis Ababa Action Agenda on financing for development. The Addis Ababa Action Agenda puts emphasis on market-based official finance, notably in the form of multilateral development banking, whereby the sovereign guarantees of the shareholders allow low-cost funding to be intermediated to developing countries at terms way below what they would need to pay to financial markets. Already there is a new dynamic in the field of multilateral banking as a new competitive element enters the industry in the form of new players such as the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB). One result of this new competition has been a new level of cooperation as old and new finance-providers seek strategic partnerships–as witnessed for example in the G20 Global Infrastructure Connectivity

Alliance Initiative launched in 2016, serviced by the World Bank, but influenced by ideas and language coming from other quarters, notably China. This represents a new level of global public entrepreneurship.

2.2 Public Entrepreneurship in a Transformation Agenda

A transformation agenda entails breaking *business-as-usual* mentalities by creating long-term visions for value-creation. At the heart of the transformative process is the role of public entrepreneurship, with three core generic features:[1]

- A comprehensive long-term vision
- Acting on a decisive scale in the presence of uncertainty and risk
- The creation of learning by doing societies with spreading innovation

First, the transformation process of moving from a largely traditional economy with relatively low productivity to a largely modern economy with relatively high productivity, although working today at a historically fast pace, takes at least a generation. Planning under a grand vision is crucial to marshalling public resources in concert with private resources for fulfilling the vision. Public entrepreneurs are public-policy pioneers who can identify potential value-creation opportunities that are often suppressed by status-quo inertia, marshalling public resources in concert with private resources for fulfilling the "imagined" long-term vision, and fostering a mutually-reinforcing, synergy creating interaction between public actors and private actors, turning *latent* value creation and capture into *realized* value creation and capture.

Second, to advance up the value chain, first-movers have to take risks, overcome misperceptions or even disillusionment, and bear the losses of failure in experimentations. The large-scale transformation agenda entails an order of unprecedented complexity and magnitude with a long-term horizon. At the initial incubation/take-off stage, this is often beyond the reach of private players whose range of action usually constrained by short- / medium- term performance criteria. Thus, public entrepreneurs are crucial to overcoming *diffidence* and *inaction* by creating enabling conditions for taking-off and scaling-up value creation.

Last but not least, public entrepreneurship *alone* cannot accomplish the task of economic transformation; rather, it fosters polycentric innovation on different levels to encourage private entrepreneurship. Indeed, learning-by-doing strategies trigger and sustain the transformation agenda by coordinating efforts of multiple stakeholders and enabling bottom-up initiatives to

1 Klein, Mahoney, McGahan and Pitelis, "Toward a Theory of Public Entrepreneurship," *European Management Review*, 7, 2010, pp. 1-15.

flourish and scale up, creating a formal sector able to operate across time and space, and to generate public revenues for financing public goods.[1] The paradigm of public entrepreneurship does not imply centralized state command or control. Hence, it does not substitute for but stimulates and complements private entrepreneurship. Local public entrepreneurship creates innovation ecologies and provides public goods in sectors or localities; thus, it spreads and speeds up transformation processes.[2]

So, what enables public entrepreneurship to take up the role as an initiator, enabler, and accelerator while avoiding potential pitfalls of abusing the state's fiduciary duty as the steward of public resources?[3]

Governance matters greatly here, for it is crucial to getting *incentives* right.

On the one hand, institutional space is much needed to enable public entrepreneurship that thinks strategically by looking forward and outward. Unduly rigid institutional rules would block such thinking and constrain the potential of proactive public entrepreneurship to ignite and sustain the value creation process.

On the other hand, institutional safeguards are important to avoid abuse of public finance in both domestic and international spheres. Loopholes in institutions may breed perverse incentives for private interest capture rather than system-wide value creation.[4] Thus, a robust and accountable institutional setting (both domestic and international) is needed to unleash the potential and avoid the pitfalls of public entrepreneurship.

Therefore, the key governance challenge is how to enable public entrepreneurship to flourish in a prudential and responsible manner. In a developmental state, governance matters in a highly context specific manner.[5] Such active and responsible public entrepreneurship emerges from, and requires, as mentioned above, a strong national project with political incentives aligned with national wealth creation, broad participation and the resolution of civil conflicts; a capable civil service with access to independent policy analysis and a strong civic ethic; a global economic governance system that is supportive; and a regional security context that provides long-term confidence.

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1 See Lim, Wonhyuk (2012) Chaebol and Industrial Policy in Korea, Asian Economic Policy Review, 7.

2 Ostrom, Elinor, "Unlocking Public Entrepreneurship and Public Economies," UN/WIDER Discussion Paper No. 2005/01, 2005.

3 Public entrepreneurship in this paper is used in a generic sense. While our analysis in this paper mainly focuses on public policy actors, it does not rule out the possibility that actors outside public sectors (such as foundations, philanthropists, and social enterprises) cannot play a similar role.

4 The current corruption scandals in Brazil are a case in point, where the fragmentation of political parties produced strong incentives to divert funds from public contracts to bring parties into often temporary coalitions to support the Government. See Foreign Affairs Sept-Oct 2016.

5 For a reading of the political economy of African transformation strategies, see Kelsall, Tim, *Business, Politics and the State: Challenging the Orthodoxies on Growth and Transformation*, Zed Books Ltd (Kindle Edition), 2013.

2.3 The Quest for Structural Transformation–an Intellectual history

The phenomenon of the emerging economies has been changing the face of the global economy and dramatically reducing the incidence of global poverty within just a few decades. Many academic and policy discussions have been devoted to understanding better how the transformation process works and can be made to work in almost any country–none of the emerging economy cases of today were predicted, indeed were often considered as unlikely to take off. And based on this understanding, 'transformation' is now becoming the development narrative of choice across the developing country world, supplying new ambition and new vocabulary.[1]

The transformation narrative proposes that a country with a largely traditional economy with relatively low productivity can create a largely modern economy with relatively high productivity, within a generation, that is, much faster than ever before in history. In this narrative, such a development process is driven by a key actor, who may be styled as the 'Public Entrepreneur'. The Public Entrepreneur provides the vision and the discipline that drives the modernization process, crowding enterprises into the modern sector and generating rapid learning processes and new human and institutional capabilities. In today's world, the learning opportunities in a global economy, with ubiquitous connectivity available *via* mobile technology and high leap-frogging potential expanding human capacities and new middle class markets, provide powerful new accelerators for such transformation processes.

Analytically, the Public Entrepreneur in a developmental state solves the *first mover* problem identified by development economists in the 1940s and 1950s–that a significant number of players must enter the modern sector in a concerted effort in order to create the circular flows of income

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1　Studwell, Joe, How Asia Works, Success and Failure in the World's Most Dynamic Region. Profile Books, 2013.
Evans, Peter B., "In Search of the 21st Century Developmental State" Working Paper No. 4, The Centre for Global Political Economy, University of Sussex, 2008.
GRIPS Development Forum Report, Diversity and Complementarity in Development Aid: East Asian Lessons for African Growth, 2008.
China-DAC Study Group, Transformation and Poverty Reduction: How it Happened in China – Helping it Happen in Africa. International Poverty Reduction Centre in China, Beijing, 2011.
Early contributions to this literature are Chalmers Johnson, MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975, Stanford University Press, 1982; Alice Amsden, Asia's Next Giant: South Korea and Late Industrialisation, Oxford University Press, 1989; Robert Wade, Governing the Market: Economic Theory and the Role of Government in Taiwan's Industrialisation, Princeton University Press, 1990; Peter Evans, Embedded Autonomy: States and Industrial Transformation, Princeton University Press, 1995.
The Institute of Development Studies at Sussex did early work on industrialization in East Asia published in a series of Working Papers, Books and dedicated editions of the IDS Bulletin.

and learning needed for the modern sector to become self-sustaining and dynamic.[1] Today we should understand overcoming this first-mover problem enables catch-up development processes to take hold with all the public investment required in infrastructure, human resources and institutions. Developed countries have tackled this challenge over the last two centuries and more, and it poses similar challenges for developing countries now.

Historically, the transformation idea begins with Alexander Hamilton in his Report on Manufactures to the US House of Representatives in 1792, recommending moderate tariffs to finance subsidies for innovative industries. Then Frederich List studied Alexander Hamilton and the US experience and influenced German policies for building a modern economy in the late 19th century. In turn, under the Meiji Restoration, Japanese officials studied List and the German experience intensively. The East Asian "miracle economies", notably Korea, Taiwan and China, learned much from Japan, and Korea also drew inspiration from Germany.[2] Japan itself played a leading role in generating the ideas, investments and economic networks that helped the transformation processes work through regional linkages in East and South East Asia over recent decades.

Now, African Union (AU) Heads of State have launched a fifty-year African Transformation Plan (*Africa 2063*). This follows in the wake of intensive study and debate in African think tanks[3] and policy fora[4] to deconstruct the East Asian experience and apply it to the African context, and the emergence in Africa of a number of self-styled "developmental states", including Ethiopia, Rwanda, Kenya and Nigeria, now among the fastest growing countries in the world, although Africa is suffering from the end of the commodities super-cycle generated by three decades of Chinese super-growth.

Working across the last 250 years, this concept of the developmental state must constitute one of the most powerful chains of influence of ideas and experience in the history of world economic

1 According to Paul Krugman the insights of "high development theory" contributed by Paul Rosenstein-Rodan, Ragnar Nurkse and Albert Hirschman on the first mover problem and hence the need for a "big-push" did not enter into mainstream economic theory because they were not incorporated into a simple model which could have been absorbed widely across the economics profession. See Paul Krugman, "The Fall and Rise of Development Economics," in Lloyd Rodwin and Donald A. Schon, eds., *Rethinking the Development Experience: essays provoked by the work of Albert O. Hirschman*, Brookings Institution, 1994.

2 The Seoul-Busan Highway, a transformative infrastructure investment, was directly inspired by German autobahns and surrounding afforestation.

3 African Centre for Economic Transformation (ACET), Look East: China's Engagement with Africa-Benefits and Key Challenges, 2009; ACET, African Transformation Report, 2013 forthcoming. Also see ACET, African Transformation Report: briefing note.

4 African Union and UN Economic Commission for Africa, Economic Reports on Africa Governing Development in Africa-the role of the state in economic transformation, 2011; Unleashing Africa's Potential as a Pole of Global Growth, 2012; Making the Most of Africa's Commodities: Industrializing for Growth, Jobs and Economic Transformation, 2013.
African Development Bank, Africa in 50 Years' Time: The Road Toward Inclusive Growth, 2011; African Development Bank, At the Centre of Africa's Transformation: Strategy for 2013-2022, 2013.

development. At the same time, it also works to underline the path-dependence of transformative development. Each case is unique and highly contextual in its political, historical and geographical setting, and the specific nature of a transformation pattern varies radically across countries across and within given space-time locations. But the one common feature is the appearance of Public Entrepreneur who establishes a new, inclusive development narrative that generates dynamic capacity development processes in both public and private sectors and an active and effective state.[1] This feat, creating new economic landscapes, has been accomplished in the emerging countries from a variety of complex political starting points.

2.4 From “Asian Miracles” to “Rising Africa”

The migration of the transformation agenda from East Asia to Africa is not accidental. Commodity demand curves have shifted upwards and outwards with the emergence of a numerically large Asian middle class, and associated inward investments in commodity production have diversified economic relationships and generated rising incomes, helping to accelerate the growth of an African middle class. The incentive patterns that encourage the emergence of public entrepreneurs thus changed radically with the commodity-price super-cycle of the 2000s. In the 1980s and 1990s, low commodity prices, poor economic prospects and rising opportunities for amassing private wealth in an increasingly permissive international financial industry encouraged state capture by individuals and political elites.[2] The new economic vectors originating from the Asian Miracles helped to turn the balance of incentives for political leadership towards inclusive national wealth creation. At the same time, the significant debt reduction packages organized by donors over the last decade and rising assistance from emerging donors opened new financing options for national economic strategies.

But in the background, and now increasingly in the foreground, has been the steady effort by African leaders to build a political and development architecture across the continent to address Africa’s fundamental challenges and opportunities. This architecture has the following main components: peace and security, regional integration, agriculture, infrastructure, and good political and economic governance. These frameworks are still a work in progress amid much regional and local complexity, but the progress has been significant and under-recognised, though clouded by unresolved and new crises. The incidence of civil conflicts has fallen markedly and regional

1 On the theory of the State underpinning the developmental state, a reading of Machiavelli’s Prince is that a successful ruler creates an inclusive social contract with the people, based on a well-functioning economy, which enables the state to function with a minimum of violence, restraining the role of existing elites who might compete for power or wealth. See George Allen and Unwin Chapter Seven, “Machiavelli: Politics and the Economy of Violence,” from Sheldon S. Wolin, *Politics and Vision: Continuity and Innovation in Western Political Thought*, Princeton University Press, 1960. This insight remains helpful in understanding how developmental states overcome internal divisions.

2 Bates, Robert H., When Things Fall Apart: State Failure in Late Century Africa, Cambridge University Press, 2008.

peace-building initiatives and capabilities are increasingly being brought to bear on persisting and new conflicts. The AU, the UN Economic Commission for Africa and the African Development Bank have been combining their convening power and analytical resources to work jointly to underpin African development thinking and policy processes. The New Partnership for Africa's Development (NEPAD) has been integrated into the African Union. The Regional Economic Commissions are working to combine their integration efforts to create large markets by joining up Africa, and the mobile telephone and broadband access revolutions underway in Africa have been underpinned by African policy processes.

It is in this context that the AU has adopted the transformation narrative in the form of its 50 Year Transformation Plan (*Vision 2063*) as a signal and a strategy to break out of national, regional and continental traps of commodity dependence and geo-political fragmentation. At the pan-African level then, the AU and its companion institutions are taking on the role of public entrepreneur, changing the vision and the perceptions of the continent as the key foundation for the transformation process across Africa. The new *Ten Year Plan for African Transformation* issued by the African Development Bank and the strategic analysis and principles set out in the *2013 Economic Report on Africa* provide analytical foundations and action agendas.[1] And now, in 2016, under its new President Akinwumi Adesina, this approach is being widened and deepened at the African Development Bank, with an international search for senior staff with new assignments requiring public entrepreneurship capacities of a high order. All this indicates the emergence of a wide range of "public entrepreneurs" among African leaders and a growing class of performance-oriented African civil servants. At the same time, private entrepreneurship is also on the rise in Africa and increasing regional economic linkages hold the promise to pull Africa's fragile states into larger economic communities–a dynamic that could overcome ethnic conflict and other sources of civil instability. And the emergence of an African growth story, from the commodity sectors to the opportunities generated by urbanisation, growing middle classes, and the joining-up of Africa, is beginning to crowd in African and international equity investors.[2] A new "African agency" is emerging to promote African leadership of an African agenda.[3]

China is a key stakeholder in the Africa's transformation agenda, and the "moment of opportunity" linking China and Africa at this point is multifaceted. It is demographic and it is also path-dependent. China has created the capacities to build large-scale transport and energy infrastructure on a continental basis, to build and manage mega-cities and to develop the new information platforms and services industries of the 21st century. These capacities are available

1 See notes 4 and 5 above.

2 World Bank, Global Development Horizons 2013: Capital for the Future: Saving and Investment in an Interdependent World, 2013.

3 Beseda, Hany. Jiajun Xu, Annalise Mathers and Richard Carey. (2016). Advancing African agency in the new 2030 transformation agenda. African Geographical Review.

to apply to other continental-scale challenges. Thus, the Belt and Road Initiative is based around the idea of "connectivity". The Belt and Road "Vision and Actions" document issued by the National Reform and Development Commission, the Ministry of Foreign Affairs and the Ministry of Commerce offers the principles and the cooperation modalities embodied in the "connectivity" idea.[1] Industrially, China is moving through the early stages of the so-called 4^{th} industrial revolution, with intelligent robots working alongside humans to do much of the manual work of today's economy and with the simultaneous emergence of the services and sharing economy with advanced IT engineering skills and software platforms. China's large IT engineering companies are already well-established in Africa, providing much of the IT infrastructure and systems management capacity. In the energy sector, China is in the vanguard of renewable technologies such as solar and wind power. In urban development, it is working on smart "green" cities and a new generation of affordable rental housing for low-income populations.

China is also still in the process of development, coming from a starting point were real incomes were lower than most countries in Africa. In provinces such as Zhejiang, a poor rural economy in 1982, a small local farmers market in Yiwu was upgraded on the initiative of the local mayor, and that small first step was the origin of what is now the largest small consumer commodities industry in the world, with 15,000 foreign buyers in permanent residence. The Zhejiang Provincial Government set out a strategy to create an inclusive transformation process bringing rural people into the industrialisation process. Average per capita incomes in Zhejiang Province are now over \$10,000. And Yiwu is now working to expand its role in line with China's rebalancing strategy to become a key entrepôt centre for imports to China from the rest of the world, including Africa. This is another example of public entrepreneurship at work, demonstrating that the local level has an essential role as a key source of public entrepreneurship in a dynamic, widespread transformation process. Chinese provinces and cities have such experiences to bring to cooperation with African provinces and cities, demonstrating how they can become part of value chains, both domestic and international.

Thus, the crucial input that South-South Cooperation, China-Africa development cooperation in particular, is bringing into international economic thinking and into international development cooperation at this point is the essential contribution of public entrepreneurship that generates new economic landscapes that open the way for private entrepreneurship. We see a major impact in the reinvigoration of multilateral development banking as the activities of the China Development Bank, the China ExIm Bank and multilateral vehicles, including the New Development Bank in Shanghai and the Asian Infrastructure Investment Bank in Beijing, stimulate a new process of

1 Visions and Actions on Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road. (March 2015). National Development and Reform Commission, Ministry of Foreign Affairs and Ministry of Commerce of the People's Republic of China. With State Council Authorization.

competition and cooperation between the new and established entities.

One product of this is the new G20 Global Infrastructure Connectivity Alliance, with its terms of reference set out in the context of the Hangzhou G20 Summit. This alliance will be serviced by the World Bank, and it reflects the G20 work on infrastructure inaugurated at the Seoul G20 meeting in 2010 and the establishment of a Global Infrastructure Hub in Australia following the Brisbane G20 summit of 2014. But it reflects much Chinese experience, thinking and language and it is hard to think that such an alliance would have been brought into existence without the impulse of China's experience and initiatives. One of its major roles will be to produce a mapping of connectivity initiatives around the world, encourage those initiatives to share regular progress updates through the Alliance, and identify good practices in global connectivity improvements to facilitate their replication. The Alliance will also develop an overview of mega trends in connectivity for a 5-year and 15-year time horizon to inform ongoing connectivity initiatives. It will seek to provide a holistic perspective on infrastructure and services required for connectivity and on the role different parties can play in such a framework.

Another outcome of the G20 Summit in Hangzhou is the G20 Initiative in Supporting Industrialization in Africa and LDCs. Instigated by China, this Initiative sets out the problematic described above and puts the follow-up responsibility in the hands of the Development Working Group of the G20, though it is clearly highly related to the new Global Infrastructure Connectivity Alliance. Indeed, it would be difficult to separate the two.

The impact on industrialization prospects in Africa and LDCs generally of the so-called fourth industrial revolution, essentially the application of intelligent robots to manufacturing, is of course a central issue. There is already a major use of intelligent robots in Chinese manufacturing, including in the textile industry, and China is a major manufacturer of intelligent robots. Hence Chinese manufacturers have a strong grasp of the issues. There is in this field another "moment of opportunity" phenomenon–unless there is a migration of labour-intensive industries to Africa in the next decade, African countries may well miss out on industrialisation altogether, along with the structures and infrastructures and management skills and experience that would enable Africa also to be ultimately part of the fourth industrial revolution. Ultimately, the fourth industrial revolution will bring production centres close to consumption centres as small batch production and short delivery times out-compete the outsourced volume based production models of today. It is in that time window that African manufacturing capacities can be established and then evolve over time with the change in production time frames. China is thus putting in place a major effort of production capacity cooperation in the regions with which it has established comprehensive and strategic cooperation agreements. In the framework of the FOCAC Johannesburg Action Plan, a $10 billion facility to support production capacity cooperation has been announced.

Credibility is thus building up. Still, the challenge to design, agree and implement coherent national and regional strategies involves complex and ongoing political processes. It has to be recognised that finding ways to address fundamental political economy questions, including deep issues of land rights, are at the heart of the development challenge in Africa, as elsewhere[1].

Alongside the capacity requirements set out above, there is still a long way to go in embedding the Rising Africa narrative. How good is good enough is a question in the African context as elsewhere. The recent momentum in Africa's favour has given way to headwinds as commodity prices fall back and global stagnation scenarios are much discussed. Africa's potential as a source of dynamism in the global economy is however more recognised. What might help African governments and key actors carry forward the new fifty-year Vision?

3. The New Structural Economics: A Framework for Rethinking Development and Policy

The New Structural Economics as developed by Justin Yifu Lin is 'new' at least in two ways. First, it proposes that developing countries focus on 'what they can do well' (latent comparative advantages) based on 'what they have' (current factor endowments). In other words, it is an industrial policy that works with latent comparative advantages. It contrasts with "old" industrial policies that failed because they involved supporting industries that were not going to be viable in the setting in which they were promoted. The failures of such industrial policies in developing countries in decades' past is taken as a warning, but not as a decisive case against industrial policies as such. Second, it is new in the sense that it posits that a 'facilitating state' is necessary to provide the infrastructure and services needed by export industries, and that in even the poorest developing countries this is possible via cluster-base approaches in the form of industrial parks linked to ports. The 'facilitating state' is in fact a public entrepreneur, committed to generating a dynamic capacity development process that leads over the course of a generation to middle-income status, as has been witnessed before in recent history. The mainstream neoliberal framework does not provide for a public entrepreneur, hence the failure of neoliberal economists to predict or explain the Asian growth miracles, from Japan to Taiwan to Singapore to Korea to China.

It is in this perspective that the Centre for New Structural Economics (CNSE) at Peking University has collaborated with partners from international organizations, private sectors, and government agencies to initiate pilot projects to help developing countries to seize the window of opportunity for industrialization arising from the relocation of light manufacturing from China and other emerging market economies.

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1 Boone, Catherine. (2016). Property and Political Order in Africa: Land Rights and the Structure of Politics. Cambridge University Press.
Collier, Paul and Anthony Venables (2016). Urban Infrastructure for Development. Oxford Review of Economic Policy, Volume 32, Number 3, 2016, pp. 391–409

The pending relocation of Chinese light manufacturing presents a historical window of opportunity for catching-up countries to break into global value chains. Wages have been rapidly increasing in China as average incomes rise, with labour scarcity becoming manifest in light manufacturing industries. With 85 million light manufacturing jobs, China's upgrading to higher industries will leave a huge space for many low-income developing countries to enter a labour-intensive industrialization development phase.

Despite the tremendous opportunities for large-scale industrial transfer, however, the catching-up developing countries, African countries in particular, face basic challenges such as lack of manufacturing capability, lack of confidence of international buyers, and lack of necessary infrastructure and business environment. To overcome the above challenges, the CNSE advises African governments on pragmatic proactive approaches centring around special economic zones/industrial parks. The strategy is to attract existing export-oriented light manufacturing firms that have the technological and managerial knowhow and the confidence of international buyers, to relocate their production to special economic zones/industrial parks in Africa. The aim is to create quick wins that produce a snowball effect, attracting foreign direct investment and domestic investment into these zones and parks and others that are inspired by them. Such success stories serve as inspiration and experience for other developing countries to kick-start their own paths to sustainable and inclusive industrialization.

A key element is that the Chinese and other investors are bringing with them established positions in US and EU markets, and using the market access provisions of the AGOA (African Growth Opportunity Act) and EBA (EU Everything but Arms laws). Furthermore, China itself is a dynamically growing consumer market for African-based exporters. Of course, East Asian countries are also potential sites for the migration of labour-intensive industries from China. But the growth of the working age cohort in Africa is larger and China has undertaken in the 2015 Johannesburg Action Plan of the FOCAC, to steer a significant part of this migration to Africa.[1]

In collaboration with the Made in Africa Initiative and other partners, the strategy has shown promising early successes. Following advice from Professor Justin Yifu Lin, the late Prime Minister Meles of Ethiopia visited China to seek investment in 2011. As a result, Huajian Shoe Factory invested in the Addis Ababa Eastern Industrial Park in October 2011. By January 2012, just three months later, two production lines with 600 employees were at work in this location. The first shipment for export to the United States export came in March 2012. By May 2012, Huajian became the largest shoe exporter in Ethiopia, accounting for 57 per cent of its total leather exports. The number of jobs rose to 2,000 by December 2012 and 4000 by December 2015. Huajian's initial success has sparked a boom in foreign direct investment to Ethiopia. In Bole Lamin, a new industrial park adjacent to Addis Ababa, 22 units were leased out in just three months in

1 Forum on China-Africa Cooperation (FOCAC). 2015. Johannesburg Action Plan.

2013.

In light of Ethiopia's success, President Kagame of Rwanda approached the Made in Africa Initiative and the Centre for New Structural Economics in 2013. With their facilitation, a new company, C&H Garments invested in the Kigali Special Economic Zone in February 2015 and production began within two months. Over 500 jobs were created by August 2015, and 300 women trained in embroidery to enable household manufacturing. In Senegal, with advice from the Made in Africa Initiative and the Centre for New Structural Economics, the first special economic zone was built in 2015 to attract foreign direct investment in light manufacturing supplying international buyers, such as Carrefour.

The pilot success stories have sparked high-level political commitment to achieve quick wins. Côte d'Ivoire, Djibouti, Ghana, Nigeria, Tanzania and Uganda have expressed interest to create quick wins in sustainable, inclusive industrialization. Ethiopia has shared its pioneer experiences with African countries (Senegal and Rwanda). Delegations from other African countries have also visited Ethiopia to learn first-hand from its experiences. The momentum for learning from quick wins for industrialization is thus underway.

What emerges from this current dynamic is that kick-starting economic transformation is of fundamental importance–the NSE is a theory of dynamic comparative advantage that avoids the mistakes of the past and the pessimism of the present in this vital area of industrialisation processes. Equally important, the NSE is accompanied by the entrepreneurship (via the Made in Africa Initiative) that is absolutely essential to make anything happen. And what we see is that bold entrepreneurship can make things happen in startlingly quick time frames in apparently the most adverse conditions. The entrepreneur in this case had to solve problems both big and small to get the whole value chain functioning–both the logistics and the regulatory issues had to be tackled with determination and a high level of facilitation and coordination. This worked. Within less than 6 months, shoes made in Ethiopia were reaching customers in the United States. The entrepreneur had transplanted Ethiopia into an emerging value chain–the market was burgeoning and the knowledge and experience of how to make the whole value chain work was accumulating. Despite the difficult logistics, the economic incentives for the Chinese investor and for the Ethiopian workers were there. Work on an entirely new train track from Djibouti to Addis Ababa commenced, an initiative of the Public Entrepreneur, in this case the Chinese government via the China ExIm Bank. Now completed, this investment will attract many more investors from many more countries to leverage the new dynamics of economic transformation in Ethiopia.

At the same time, the current political disturbances in Ethiopia indicate that structural transformation is not simply a technocratic process but involves a complex political task in creating and maintaining an inclusive social contract in complex, multi-ethnic societies with historic regional divides. The urbanisation process itself requires resolving difficult issues of land rights in ways that generate rising land values as the basis for revenue growth that can be reinvested in making cities that work for all. This is a major challenge as African populations explode and megacities become a growing phenomenon.[1] The NSE thus has to encompass these fundamental challenges and cannot be isolated from local political contexts–the non-interference principle of China's development cooperation thus needs to be reinterpreted to integrate these local political dynamics.

In a nutshell, the NSE not only provides a framework for rethinking development by concentrating analytical efforts on 'what a developing country has' and 'what a developing country can potentially do well', but also offers practical guidance on how to help developing countries to capture the historical window of opportunity for industrial transfer from China to jumpstart and accelerate economic transformation.

4. Looking Forward: Drawing Implications for South-South Cooperation

Looking back into economic history, it is clear that the (generic) public entrepreneur has been the leading figure in economic development. In China, the immense water engineering schemes that went into taming and using the major Yellow and Yangtze river systems (an on-going task), were the work of public entrepreneurs since more than 2000 years ago[2]. Similar engineering feats were manifest in ancient Egypt and Mesopotamia. In the first industrial revolution, the canal systems in the United States and Europe were vital in linking up towns, cities, provinces and countries. In modern times, the interstate highway system in the US was an initiative of President Eisenhower, based on his first-hand acquaintance with the German autobahns following World War II. And the construction of the Boulder Dam that underpinned the development of Southern California and the engineering in the 1930s that made the Mississippi river system a functional waterway were all products of the public entrepreneur. And as recounted at the beginning of this chapter, industrial policies were used intensively to accelerate economic development processes by those states who initiated explicit catch-up development strategies, and were widely used by others as well, as recounted by Ha-Joon Chang.[3] They continue to be widely used, though under other names, at the level of states, provinces and cities. The Tesla electric car is supported by a $500 million input of land by the State of Nevada for its new factory, and the US and the EU continue to pursue legal action against each other for support to the development of commercial passenger jets. And

1 Collier, Paul and Anthony Venables, ibid

2 Ball, Philip. (2016) The Water Kingdom : A secret history of China. Bodley Head. London

3 Chang, Ha-Joon (2007) Bad Samaritans SecretHistoryof Capitalism. (2010) 23 Things they Don't Tell you about Capitalism. Random House Business Books. (2014) Economics : The User's Guide. Pelican Books

most recently the new post-BREXIT referendum government in the United Kingdom is explicitly setting out to develop an industrial strategy in order to spread economic renewal more widely through an unequal society, geographically and socially. Again, as mentioned earlier, industrial policy and technology development have made their way explicitly into the UN 2030 Sustainable Development Goals.

What underlies the very recent recalibration of the debate on industrial policies? It is the recognition that the amount of public action needed to develop and maintain a well-functioning private sector-based economy has been greatly-underestimated in the last three decades and more. This is not an argument for a state-based economy; it is an argument for the essential interaction between public entrepreneurship and private entrepreneurship.

How does this recalibration impact on the development cooperation scene, and notably cooperation with Africa? Africa is where the global demographic opportunities and challenges will be at their most extreme. From a population of 1 billion (and only 250 million in 1960), Africa will have 2 billion people by 2050, with the fastest growth in the poorest countries (such as Ethiopia). It is inconceivable that this increase in population in Africa can be managed without huge public action in the form of public investment on a large scale and the institutions that can manage it across space and time. While this is implicit in the SDGs and in the outcome document from the 2016 UN Habitat III conference 2016[1], the only frameworks that come near to addressing the challenge are the AU Africa 2063 transformation plan and the Forum on China-Africa Cooperation (FOCAC) Johannesburg Action Plan including China's proposals for connecting up Africa with modern transport systems and accelerating industrial development through production capacity cooperation and facilitating the migration of Chinese labour-intensive industry to Africa.

But there is a widespread pessimism that Africa can generate significant industrialisation at this point when China has occupied so much of the low wage industrial potential in the world and the fourth industrial revolution will eliminate much labour-intensive work over coming decades. Indeed, there is pessimism that local elites will support the effective state that is needed. And there is pessimism that it is too late anyway given the technological advances in manufacturing technologies.

The answer to this critique is that the growth models being implicitly and explicitly used to assess Africa's potential leave out of their equations the key role of entrepreneurship and public entrepreneurship in particular. Furthermore, assessments that Africa is not a China-like economic space with much labour and scarce land and natural wealth, but rather more like the US economic space with much land and natural wealth and scarce labour, are being invalidated by the population increase that will make Africa a continent with 2 billion people by 2050. And just as the US required a large input of public entrepreneurship to create the connectivity and the cities and the

1 https://habitat3.org/the-new-urban-agenda/

scientific and educational system to exploit its agricultural potential, so will Africa.

We have argued in this chapter that new ideas of development cooperation are emerging that can support the actions needed by the international community to foster the common destiny of mankind in a direction that sustains the planet and leaves no one behind–an extraordinary but essential goal as global population climbs to nearly 10 billion people by 2050 and global warming thresholds approach. Our key point is that public entrepreneurship is the necessary element to make this possible, that it has been minimised in economic thinking and development cooperation over the last three decades in favour of private sector primacy, but is making a dramatic reappearance now.

What then are the implications for South-South Cooperation and for China-Africa development cooperation in particular?

First, South-South cooperation is historically sympathetic to public entrepreneurship, but at a much lower scale of activity and financing than is now needed. South-South cooperation places emphasis on self-reliance and the synergies between development assistance, trade, and investment. This is in line with the public entrepreneurship paradigm.

Second, as the scale and scope of activity increases exponentially, it becomes essential that developing country partners foster effective, successful developmental states. Without this, the lack of economic development, financial returns and human security will spell political and economic failure and South-South solidarity will wane.

Third, this implies that the conventional non-interference principle of South-South cooperation will need to be modified as the much larger commitments must be based on strategies for economic success and political sustainability and real-time evaluation of progress and impacts and changing opportunities and challenges. This does not suggest that South-South cooperation should adopt the traditional 'money for policy reform' approach, but rather it has to pay attention to the effective governance frameworks that will unleash the potential of public entrepreneurship but avoid pitfalls of ill-management.

Fourth, the new scale and scope of South-South Cooperation will necessarily involve interaction with other development cooperation partners from the multilateral development system as well as from the Global North. This implies building shared platforms both at the regional and the country levels.

Fifth, the scale and scope of the new initiatives imply close attention to the interface with local communities as understanding their cultures and perspectives and ensuring that they participate actively in programmes and outcomes is essential to success and to avoiding catastrophic interruptions to programmes and to building strong reputational recognition. Southern NGOs could help at this level.

Sixth, the new scale and scope of development cooperation activity also requires a major strengthening of programme and project appraisal and evaluation capacities and the research capacities to understand regional and country contexts, to interact with local, regional and global research communities and to articulate Southern perspectives in international fora.

China's high profile in the context of the UN 2030 and its leadership on development cooperation at the G20 Hangzhou Summit illustrate the impact that China can make, but also the challenges it faces in maintaining this leadership role and its success and credibility in following through on its major regional initiatives, including the Belt and Road Initiative, the Johannesburg Action Plan and its Middle East and South American initiatives. This will require a strengthening of China's development coordination arrangements so that all the key actors, including policy banks and ministries are working under the same strategic framework and within agreed regional and country programmes, sharing knowledge and generating synergies at the national level. It also implies building a constituency that understands and helps to harness China's role as a force for good in international development cooperation.

Chapter 4

New Mechanism and Approach of Development Cooperation*

1. Introduction and Objective

The year 2015 has witnessed a turning point in the history of development cooperation. In September 2015, the United Nations adopted a resolution to establish the Sustainable Development Goals (SDGs) for the post-2015 era. At the Paris climate conference in December 2015 (COP21), 195 countries came together to adopt the first universal and legally binding global climate deal. The agreement sets out a global action plan to put the world on track to avoid dangerous climate change by limiting global warming to well below 2 degrees Celsius. Now all eyes are on how to finance these endeavours.

On the economic front, nearly eight years after the eruption of global financial crisis, recovery is still weak and uneven, despite years of zero or negative interest rates. Brexit has cast dark shadows over the future of global growth. The International Monetary Fund (IMF) adjusted downward the growth rates of all industrial countries in July 2016 from 1.9% to 1.8%.[1] Some world-renowned economists are discussing the possible "secular stagnation" of industrial

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1 IMF, World Economic Outlook updates, July 19, 2016.

countries.[1] Having lost confidence in the Washington Consensus in the great recession, developing countries are increasingly looking East for experiences and ideas—for what has worked, why, and how.

China, based on its thousands of years of uninterrupted civilization and its recent 37 years of economic success, proposes a grand vision: "The Silk Road Economic Belt and the 21st Century Maritime Silk Road" (One Belt, One Road). It focuses on connectivity, infrastructure development, and structural transformation. The emergence of new multilateral and plurilateral development financing organizations such as AIIB with 57 members, the New Development Bank (BRICS Bank), and their widespread support, seems to have suggested an emerging global consensus. The G20 leaders have reiterated the consensus on building infrastructure for global connectivity and for sustainable development goals (SDGs) (G20 Leaders' Communiqué, Hangzhou Summit, 4-5 September 2016).

This chapter explores the new mechanisms and approached for development cooperation, based on a review of traditional international assistance, its effectiveness and shortcomings, and the experience from South-South Development Cooperation. Based on New Structural Economics (Lin 2010, 2011), we propose to combine aid, trade and investment, re-introduce comparative advantage in development cooperation, expand the definitions of official development assistance, stressing the roles of "very patient capital" including joint equity investment and long-term loans with limited-recourse characteristics such as Resource financed Infrastructure (RFI). On the other hand, "footloose" portfolio capital (no matter whether it's "official", "sovereign" or "private") should be discounted as sources of development financing because it contributes little to the real sectors.[2]

2. Definition Issues and Different Approaches

The history of international development has seen two types of development cooperation: North-South and South-South. North-South cooperation, or aid, "has been based on the obligation of developed countries to assist developing countries because the former has much more resources and have also benefited from their former colonies" (Martin Khor, November 16, 2015). According to the Organisation for Economic Co-operation and Development (OECD) definition, Official Development Assistance (ODA) includes grants and concessional loans (with a grant element of at least 25 percent) provided by governments and used for development.[3] The basic idea is that

1 See papers on this topic—including those by Summers 2014a, Krugman, Gordon, Blanchard, Koo, Eichengreen, Caballero, Glaeser, and a dozen others—at www.voxeu.org/article/secular-stagnation-facts-causes-and-cures-new-vox-ebook. Lin (2013) also discussed secular stagnation and proposed ways to get of it.

2 This chapter however does not cover the humanitarian aid, which is guided by different theories and principles, from those presented here in this chapter.

3 Under the OECD-DAC definition, ODA must include grants and concessional loans to eligible recipients for the promotion of economic development and welfare from an official source (government or multilateral organization) to a set of developing countries agreed to by the Development Assistance Committee (DAC) of the OECD.

ODA must be concessional. Export credits do not count. Infrastructure loans, if not concessional enough, do not count. This definition, subject to strong criticism, has recently been revised (OECD–DAC 2014a). Countries in the OECD have committed to provide 0.7 percent of their gross national income (GNI) as development assistance, a target that only a few countries have achieved.

SSDC, by contrast, is based on the principles of solidarity, mutual respect, mutual benefit, and non-interference in domestic affairs. According to the United Nations, *"South-South cooperation is a broad framework for political, economic, social, cultural, environmental and technical collaboration among countries of the global South, that is excluding developed countries. Involving two or more developing countries, this may be on bilateral or other basis. ... Recent years have seen increased South-South trade and FDI flows, moves towards regional integration, technology transfer, sharing of solutions and expertise and other form of exchange* (UN Office for South-South Cooperation[1]). SSDC, however, does not have consistent definitions across countries, legal frameworks, monitoring mechanisms, or large datasets as those for North-South aid.

The Official Development Assistance (ODA) as defined by OECD-DAC has several contentious issues that will be discussed in this and other chapters:

- The ODA definition excluded export credit even if it is concessional. This and other practice of "untying aid" proposed by the OECD/DAC are questionable from developing country perspective, as international trade is the most powerful force for job generation and poverty reduction, much more so than aid. Is this a market-oriented approach?
- The assumption of "capital being homogeneous" does not make sense in developing country context. This is also the problem underlying the misguided policy prescription of "Neoliberalism" on "complete capital account liberalization". Has the ODA definition sufficiently distinguished "very patient long-term capital investment" in developing countries from those "footloose" and "round-tripping" aid which has marginal effect on development?[2]
- Why should non-transferred aid[3] be considered ODA? One such item is the assistance to

1 For details on the characteristics and benefits of South-South Cooperation, see http://ssc.undp.org/content/ssc/about/what_is_ssc.html

2 A part of the western aid (including IMF's lines of credit) has been used to repay loans which form a "round-tripping" back to the developed countries without helping capital formation nor real sector development in developing countries. Another part of aid has been captured by vested interest and financed capital flight, as shown in several studies on the extent of capital flight from developing to developed countries (Berg et al 2007, and Berg et al 2010, Foster and Killick 2006).

3 Non-transferred aid is ODA that does not represent a new transfer of resources to a developing country. This includes debt relief, administrative costs, costs of students within donor countries, costs of refugees within donor countries, and subsidies to donor country banks. Also, included in this category are any other CRS records that are specifically flagged as being spent through donor-country government bodies (Development Initiatives 2013, page 318). According to Development Initiatives (2013), at least US$22 billion (£13.7 billion) of the $100 billion-plus reported by donors as bilateral ODA in 2011 was never transferred to developing countries.

refugees–"Temporary assistance to refugees from developing countries arriving in donor countries is reportable as ODA during the first 12 months of stay, and all costs associated with eventual repatriation to the developing country of origin are also reportable".[1] Will this measure create reverse incentives as it is intended?

In this chapter on "Development Cooperation", we need to draw from the positive and negative lessons from both types of development cooperation, North-South and South-South, go beyond aid to combine trade, aid and investment, and expand the definitions of development financing mechanisms that provide support to the real sectors in developing countries, on the ground, for job creation and sustainable development.

2.2 The Traditional Approach: what is missing?

Existing literature on aid effectiveness seems to have focused on established donors' behaviours: who provides aid, donor objectives and motivations, the conditions for aid, and aid effectiveness. Very little economic work has been done on the conceptual and theoretical foundations of development finance provided by emerging economies from the "Global South."

The extensive recent literature on aid effectiveness includes Boone (1996), Burnside and Dollar (2000); Easterly, Levine, and Roodman (2003); Easterly (2003, 2006, 2013); Collier (2007), Collier and Hoeffler (2004); Rajan and Subramanian (2008); Roodman (2007); Arndt, Jones, and Tarp (2010); Moyo (2009); Deaton (2013); and Edwards (2014a and b). One group of studies asks "where did all the aid go?" addressing the issue of absorption and capital flight.[2] Only a few authors have focused on the institutional economics of aid (such as Martens et al. 2002), and more recently on the sectoral allocation of foreign aid, growth, and employment (Akramov 2012[3]; Van der Hoeven 2012[4]).

Neglect of Structural Transformation for too long

Despite many years of hard work by development professionals in multilateral and bilateral

1 See OECD website "Is it ODA?" for details. https://www.oecd.org/dac/stats/34086975.pdf

2 See for example, Aiyar and Ruthbah (2008), Berg et al. (2007), Berg et al. (2010), and Foster and Killick (2006). The latter studies link a scaling up of aid with capital flight.

3 Akramov (2012) found that economic aid, including aid to productive sectors and economic infrastructure, contributes to economic growth by increasing domestic investment. Aid to social sectors, however, does not appear to have a significant impact on human capital and economic growth.

4 Van de Hoeven (2012), took note of China's approach of focusing on economic infrastructure and pointed to the neglect of concern for employment and inequality in the MDGs in 2000. He called for the "refocusing of development efforts," "combining a greater share of development aid for employment and productivity enhancing activities with a change in national and international economic and financial policies, so as to make employment creation (together with poverty reduction) an overarching goal" (p. 24).

development agencies, traditional development aid from advanced countries has not been as effective as it is intended to. One of the reasons is that ODA was not used for structural transformation. If traditional aid had been directed to augmenting the resources under the command of governments to ease the bottlenecks to growth in sectors with latent comparative advantages, it would have been better at reducing poverty and achieving inclusive and sustainable development in low-income countries.

In the past thirty years, China achieved the most rapid economic growth and poverty reduction–it alone accounted for most of the decline in extreme poverty over the past three decades. Between 1981 and 2011, 753 million people in China moved above the $1.90-a-day threshold. During the same time, the developing world as a whole saw a reduction in poverty of 1.1 billion (World Bank 2016).[1] One of the reasons for this achievement is that China has embraced learning by doing and learning by export oriented policies and upgraded its industrial structure rapidly, from an agrarian economy to a manufacturing centre. Government has played a strong and facilitating role in providing public goods such as infrastructure and basic education.

To end absolute poverty by 2030, international aid must be used in the context of other resources such as non-concessional loans, direct investment, and government spending (Development Initiatives 2013). Where aid is more effective—as in the Republic of Korea, China, Vietnam, and India—it has been used together with trade, foreign direct investment, commercial loans for infrastructure, bond and equity investments, and concessional or non-concessional export credit. Indeed, separating aid from trade and investment goes against market-orientation.

South-South Development Cooperation would be more effective for poverty reduction in a poor country if it created a home-grown or localized (not national) enabling environments such as special economic zones or industrial parks for dynamic structural transformation, in an economy characterized by poor infrastructure and distorted institutional environment. This solution to promote industrial clustering and agglomeration is more effective in low-income countries.[2]

A dynamically growing developing country is in the best position to help a poor country to jump-start dynamic structural transformation and poverty reduction: It can share its experience of building a localized enabling environment in special economic zones or industrial parks, and it can relocate its labour-intensive light manufacturing industries to the poor country in a "flying geese pattern" (Lin 2012d).

Principle-agent problems

Martens et al. (2002) highlighted the "principal-agent" problems in the "donor-recipient"

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1 See the latest World Bank Poverty Overview, using a new international poverty line. http://www.worldbank.org/en/topic/poverty/overview

2 How to create a localized enabling environment for dynamic structural transformation in an economy characterized by poor infrastructure and overall distorted institutional environment was discussed in Lin (2009a; 2012a; and 2012c).

relationship and found that "the nature of foreign aid—with a broken information feedback loop… put a number of inherent constraints on the performance of foreign aid programs. All these constraints are due to imperfect information flows in the aid delivery process" (p. 30). They quoted Streeten's famous question on aid with conditionality: "Why would a donor pay a recipient to do something that is anyway in his own interest? And if it is not in his own interest, why would the recipient do it anyway?"[1] Their study pointed squarely to one of the basic dilemmas in modern ODA—the nonaligned incentives between donors and recipients.[2]

Indeed, the imperfect information and the agency problem in aid with conditionality are under-researched. The IMF's Independent Evaluation Office (IEO) admits that the IMF made several mistakes during the Asian financial crisis in 1997–98, causing unnecessary pain. "Full capital account liberalization may not be an appropriate goal for all countries at all times, and that under certain circumstances capital flow management measures can have a place in the macroeconomic policy toolkit" (IEO 2007, 2015). After the release of a staff paper on capital control (Ostry et al. 2010) Dani Rodrik called the paper "a stunning reversal—as close as an institution can come to recanting without saying, 'Sorry, we messed up'" (Rodrik 2010).

Misguided Policy Prescriptions

One of the reasons for this misguided policy prescription was that the theory advanced by American academia—that capital account liberalization is beneficial for the allocation of capital and economic growth in developing countries—assumes that *capital is homogeneous*. That is, there is no difference between financial capital and real capital. Under such a theoretical model, a currency mismatch or even a term mismatch does not exist. Nor does the asymmetry of benefits when reserve currency–issuing countries can use virtual monetary capital to exchange for real products and services from non-reserve currency–issuing countries. Developed countries and developing countries also are no different in industrial and technical structures, the only difference is in capital endowment. In such theories, capital account liberalization can be beneficial only for capital-scarce developing countries. Armed with these theories, Wall Street and international financial organizations commanded a "high moral ground" in their promotion of capital account liberalization in developing countries (Lin 2015a).

However, in reality, developing countries are suffering from reversed capital flows–from poor countries to countries that are not so poor–benefiting the rich, as pointed out by Lucas (1990).

The overall effect of the collapse of the Bretton Woods system in the 1970s and the promotion of capital account liberalization by Wall Street, American academics, and the IMF was associated with larger economic fluctuations and more frequent crises in developing countries (Lin 2015a and

1 Martens et al. (2002, p.9).

2 See also Easterly (2003) and Hynes and Scott (2013).

b). After more countries liberalized their capital accounts since 1980, “there have been about 150 episodes of surges in capital inflows in more than 50 emerging market economies, and in about 20 per cent of the time, these episodes end in a financial crisis, and many of these crises are associated with large output declines (Ostry et al 2016, p. 39).

And so it is high time for the IMF and the World Bank to “open up their kitchens” and welcome different development theories and ideas from the East as ingredients in their policy recommendations. Indeed, the dominant development paradigm seems to be changing: several different paradigms could coexist, and developing countries could select from the menu, based on their developmental needs (Lin and Rosenblatt 2012).

2.3 What South-South Development Cooperation is?

What can be learnt from China's South-South Development Cooperation: Do what we can do best to help

China’s SSDC has been the subject of much debate, which has escalated in recent years.[1] Many critics seem to have forgotten that China is big but not yet rich—it was a low-income country when it started providing development cooperation to Asian and African countries in the late 1950s and early 1960s. The past 60 years have witnessed a joint learning process for economic transformation in China and in developing countries in Asia and Africa.

China’s presence in independent Africa has evolved in three phases. First, in the 1960s and 1970s, when China was a “third world” country poorer than most African countries, it expressed solidarity with the nonaligned movement and built major infrastructure projects like the TAZARA Railway to link Zambia’s copperbelt to Tanzania. In the second phase, when China returned to Africa in the 1980s and 1990s, it pursued selected investments and a more vigorous diplomatic outreach. Since the late 1990s and early 2000s China has emerged as the second-largest economy in the world. “Throughout this post-colonial engagement between China and Africa, China has represented an alternative option to the West where Africa is concerned” (Akyeampong and Xu 2015, p. 762).

Just before the new era, in 1978, China’s per capita income was US$154, less than one-third the average in Sub-Saharan Africa.[2] The country was inward looking as well: its trade dependency (trade-to-GDP) ratio was only 9.7 percent, with three-quarters of its exports either primary or processed agricultural products.

The unique features of SSDC: Combining trade with aid and investment

As one of the poorest developing countries in the 1980s, China has been using its comparative

1 See, for example, a paper by Moisés Naím “Rogue Aid” in Foreign Policy 2009.

2 Unless indicated otherwise, statistics on the Chinese economy are from the *China Statistical Abstract 2010, China Compendium of Statistics 1949–2008*, and various editions ofthe *China Statistical Yearbook*, published by China Statistics Press.

advantage, working with African countries to enhance their self-development capacity. Its approach to SSDC differs from the international aid of established donors, focusing on "what China owns and knows best" by combining aid, trade, and investment.

The official jargon, China follows the principles of equality and mutual respect, reciprocity, mutual benefit, and non-interference in domestic affairs. Aside from adherence to the One China principle, no political strings are attached to China's cooperation. This is not to say that China's aid or development cooperation is purely altruistic—it is not. The government "never regards such aid as a kind of unilateral alms but as something mutual."[1] This mutual benefit is based on the simple idea of "exchanging what I have with what you have" (*hutong youwu*, or 互通有无) from which both sides can gain (as we learned from Adam Smith). And this concept of cooperation links aid and trade naturally.

The principle of "untying aid", started with good intention, does not make economic sense because it separates aid from trade, isolating aid from market principles, from comparative advantages, and thus from mutual benefit. Export buyer's credit, even if concessional, does not count as ODA. These definitions and rules discourage the private sector's participation in development financing. Aid in the OECD definition becomes "unilateral alms" after untying aid from donor countries' trade. By definition, this concept of aid gives the aid donors a moral high ground *as if* aid is purely altruistic, placing developing countries on the receiving end—an unequal and passive position without ownership. In contrast, African commentators have appreciated the Chinese approach of cooperation, one that has "engendered country ownership and self-reliance" (Manji 2009, p. 7).

Based on its trade structures, some have criticized China for practicing "neo-colonialism" (importing resources and exporting manufactures) in Africa and other continents, but their analysis downplays two basic facts.

First, the import-export patterns of countries are largely *endogenously determined* by their own natural and factor endowment structures. The China–Africa trade pattern is not a result of any deliberate foreign policy. What China has been doing is following its comparative advantages, and there is nothing wrong with other developing countries following their own at each stage of their transformation. As Paul Krugman said:

> "Comparative advantage still explains much, perhaps most of world trade. However, both traditional location theory and recent work in economic geography generally assume away inherent differences between locations, and instead explain regional specialization in terms of some kind of external economies." (Krugman and Vernables 1995, p.4)

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1 State Council Information Office 2011.

Trade between countries with different endowment structures due to different stages of development can be better explained by the Heckscher-Ohlin model. As African countries continue to accumulate factor endowments—human, physical, and financial—their export structures will transform and upgrade.

For the last half century, globalization has been the world's most powerful force to end extreme poverty. Trade based on comparative advantage is a more powerful engine of growth and poverty reduction than aid. This can be shown by the experiences of East Asian Newly Industrialized Economies, China, Vietnam, as well as those from the US's Africa Growth and Opportunity Act (AGOA) and EU's Everything But Arms (EBA) programs. China is now the largest trading nation and, for many African countries, the largest trading partner. Its trade combined with aid provides demand for African goods and commodities as well as investment opportunities for job creation.

Different definitions: Use investment vehicles /instruments

Second, China's definition of aid differs from that of the OECD–DAC, so direct comparison is pointless. Indeed, it is true that there is no foreign aid law in China, and in that sense, the official / legal definition of China's foreign aid remains opaque. We think that given the One Belt, One Road grand vision and the newly established Asian Infrastructure Investment Bank (AIIB) and other development institutions, the Chinese government should strongly consider drafting a foreign aid law that would provide a clear philosophy and rationale for foreign aid and cooperation, a broader base for citizen participation, appropriate checks and balances, more monitoring and evaluation, and clearer accountability.

What is the current definition? According to the State Council Information Office White Paper on China's Foreign Aid (2011), China provides grants, interest-free loans, and concessional loans, with eight types of foreign aid: "complete (turnkey) projects,[1] goods and materials, technical cooperation, human resource development cooperation, medical teams sent abroad, emergency humanitarian aid, volunteer programs in foreign countries and debt relief" (p. 8). Other official flows (OOF) and OOF-like loans and investments are not included in the official definition of foreign aid. Brautigam (2011a) discusses these definitions in details.

Based on strong demand from African countries, new types of SSDC have been added in recent years, including OOFs (large but less concessional loans and export credit provided by China Exim Bank); resource-financed infrastructure packages;[2] equity investments by the China–Africa Development fund; and infrastructure investments by China Development Bank and

1 Turnkey projects and in-kind assistance were developed in the 1960s and 1970s, when China was desperately short of foreign exchange. These types of projects allowed poor countries to help each other without using dollars or other foreign exchange.

2 See World Bank 2014.

other commercial banks (which are OOF-like loans and investments for development, but non-concessional, and suitable for long-term infrastructure investment). However, these are not foreign aid in the current definition.

China's SSDC is small, commensurate with its per capita income. Many analysts have tried to compare the volume of ODA between China and established donors such as the United States without considering the huge differences in income per capita, which makes the exercise rather misleading.[1] When China started to provide ODA to African countries over 50 years ago, it was poorer than most of them. Even in 2015, when its per capita income was US$7,924, that was only one-fourth to one-eighth of that in established OECD donor countries. According to our estimation, China's ratio of ODA to GNI came to 0.09 percent in 2014, which is lower than some of the OECD countries, but higher than a regression line. In other words, at current per capita income level, China is more generous than some of the OECD countries (Lin and Wang 2016, chapter 4).

3. Linking the New Structural Economics and South-South Development Cooperation

We make two propositions on the features of China's SSDC consistent with the New Structural Economics (NSE), which we believe are validated by the case studies in this and the following sections.

Transforming "what the country has" to "What the country can potentially do well"

New Structural Economics proposes the use of the neoclassical approach to study the determinants of economic structure and its evolution in the process of a country's economic development. It postulates that each country at any specific time possesses given factor endowments consisting of land (natural resources), labour, and capital (both human and physical), which represent the total available budget that the country can allocate to primary, secondary, and tertiary industries to produce goods and services. The relative abundance of endowments in a country are given at any given specific time, but changeable over time. In addition, infrastructure is a fourth endowment which is fixed at any given specific time and changeable over time (Lin 2012b, p.21).

This framework implies that at any given point in time, the structure of a country's factor endowments, that is the relative abundance of factors that the country possesses, determines the relative factor prices and thus the optimal industrial structure (Ju, Lin, and Wang 2011). Therefore,

1 Studies include, for example, Wolf et al. (2013) from Strange et al. (2013) from the Centre for Global Development.

the optimal industrial structure in a country, which will make the country most competitive, is *endogenously determined* by its endowment structure.

Further, economic development as a dynamic process entails structural changes, involving industrial upgrading and corresponding improvements in "hard" (tangible) and "soft" (intangible) infrastructure, at each level. Such upgrading and improvements require an inherent coordination, with large externalities to firms' transaction costs and returns to capital investment. Thus, in addition to an effective market mechanism, the government should play an active role in facilitating structural transformation, diversification and industrial upgrading. (Lin 2012b, p. 14-15)

In the long term, if a country develops industries (and the specific infrastructure needed for that particular industry) according to the comparative advantage determined by the endowment structure, the country will become most competitive, generate the most profits (surplus), have the largest savings, and have the fastest upgrading of endowment structure, which will in turn build the foundation for the upgrading and diversification of industries to the more capital-intensive industries. This will become a virtuous cycle and infrastructure can be financially viable.

As elaborated in the New Structural Economics, the most effective and sustainable way for a low-income country to develop is to jump-start the process of structural transformation by developing sectors in which it has *latent comparative advantages*.[1] The government could intervene to reduce transaction costs for those sectors by, say, creating special economic zones or industrial parks with good infrastructure and an attractive business environment. If a developing country adopts this approach, it can immediately grow dynamically and launch a virtuous circle of job generation and poverty reduction, even though its national infrastructure and business environment may be poor.

We therefore propose a model of "joint learning and concerted transformation" where all development partners are learners on an equal footing, but learning at different speeds. Learners at different stages of development can choose different learning partners (or "teammates") according to their own comparative advantages, "instruments of interaction,"[2] and degrees of complementarity. There is a freedom of selecting partners, development strategies as well as sequencing and priorities. One learner could have multiple partners, upstream or downstream, North or South, each playing a mutually beneficial complementary role. Another analogy is that emerging and developing countries are at various stages of climbing the same mountain of

1 That is, the country has the lowest factor costs of production in the world, but it is not competitive due to high transaction costs stemming from poor infrastructure and a weak business environment.

2 We include conventional financial instruments, medical teams, and technical assistance, but also innovative mechanisms such as preferential export buyer's credit, agricultural technology demonstration centres, and resource-financed infrastructure.

structural transformation. In a globalized world, an economy can climb to the top faster with the help of others. [1]

Brazil, China, India, and other emerging market economies—somewhat ahead in structural transformation—have many such instruments and high complementarities. For example, with a revealed comparative advantage[2] in 45 of 97 subsectors, and demonstrated capacities in building large infrastructure projects such as roads, ports, rail networks, and hydropower systems, China is in a position to provide ideas, tacit knowledge, [3] and help releasing the "bottlenecks" that prevent many developing countries from capturing the opportunities in structural transformation. And with labour costs rising steeply in China and other emerging economies, low-income countries can benefit from attracting labour-intensive enterprises that are relocating to places with lower labour costs (Lin 2012d; Lin and Wang 2014).

Importantly, our model is market-based one, based on "exchanging what I have with what you have," signifying mutual exchange on an equal footing. Following comparative advantages in trade and cooperation, both sides can gain from this trade, as we learn from Adam Smith. This could potentially align the interests of all partners—North or South, rich or not so rich, multilateral or bilateral—working together to try to reach "multiple win" solutions (Lin and Wang 2015 and 2016).

Our first proposition is that a learning partner successful at transformation can use its comparative advantage in development to help diffuse tacit knowledge on the how-to issues of development. China has thousands of years of history of "learning from friends from afar," and believed in "teaching it only if you know it well" (in our context, "you can teach others only if you have a comparative advantage"). Using comparative advantage allows both partners to gain (as we know from Adam Smith), so the incentives of both partners are aligned to achieve mutual benefits or win-win. We can even measure these "gains from cooperation" just as we can measure the "gains from trade." This is fundamentally different from the "aid with conditionality" model where the incentives of donors and recipients are not aligned.

Many Chinese officials have said in interviews that "China is successful because she is a good student." It is just natural that good students, fast in learning (and having developed comparative advantage in some sectors) can help others with "what they can" (however little they have). China has been focusing on transforming "what these countries have" (endowment) to "what they can potentially do well" (latent comparative advantage) in order to achieve win-win. For example:

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1 Our joint learning model is applicable only to developmental finance—the issue at hand—and not to humanitarian aid in conflicts, disasters, or epidemics.

2 Revealed Comparative Advantage (RCA) is a concept based on Balassa 1965. See Box 3.1.

3 This is uncodified knowledge that is difficult to transfer across individuals. It is embodied in people's behavior and skills (like laying bricks or operating a machine), in institutional capacity, and in business processes.

In the 1950s and 1960s, China established good primary health and education systems and rapidly improved life expectancy and eliminated illiteracy. Using this comparative advantage, it has been sending medical teams, teachers, and agricultural experts to African countries for 50 years, and providing scholarships for the continent's students, in this way transmitting hand to hand tacit knowledge and experience. The feedback from Africa on Chinese medical teams is overwhelmingly positive and appreciative (see, for example, King 2013).

China achieved high yields in agriculture, fisheries, and animal husbandry after 1979. Using this experience and comparative advantage, it has financed the construction of agricultural technical demonstration centres in Africa, transferring appropriate agricultural and aquatic technologies (Brautigam 2015). One of the earlier centres led to a sugarcane farm and the Sukala Sugar Refinery in Segou, Mali, operating since 1996. Based on its good result, the government of Mali approved an expansion.

Our second proposition is that a country can learn only by moving up one tiny step at a time, reflecting its natural or accumulated factor endowments (Figure 4.1). In other words, it learns by following its comparative advantages (not defying them), based on the NSE. Because China has conducted partial reforms gradually, it can help others with partial reforms through special economic zones (SEZs) and experiments. A country can change its endowment structure through saving, investment, and learning to accumulate natural, physical, human, and institutional capital, but it takes a long time. It is impossible for a capital-scarce country to defy its comparative

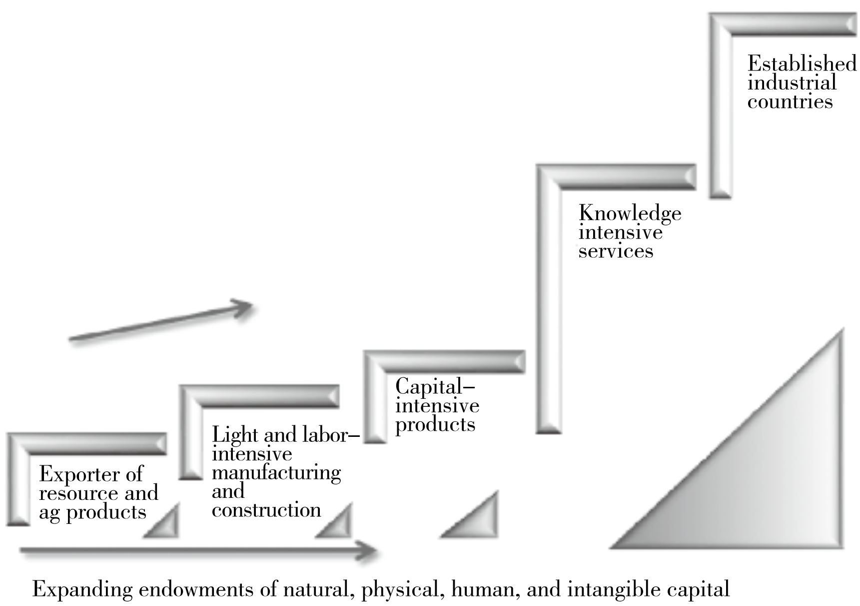

Figure 4.1 China and Africa, teammates in climbing the same mountain of structural transformation one step at a time: following comparative advantages

Source: Authors.

advantages to leapfrog and become a capital-intensive manufacturer or a high-tech knowledge economy.

China's approach in cooperation "engenders ownership and self-reliance" (Manji 2009, p. 7) and encourages countries to follow their comparative advantages (the CAF approach), gradually, not to leapfrog using shock therapy because (based on its own experience) such therapy does not fit the realities of developing and transition economies. For example:

Many Chinese firms relocating to Africa produce labour-intensive light manufacturing products—see, for example, Shen (2015), World Bank (2011a, and 2012), Weisbrod and Whalley (2011) and the case on the Huajian shoe factory in Ethiopia. Chinese technology is inexpensive and more appropriate for low-income countries. One example is the labour-intensive technology used to build the TAZARA railway (Akyeampong and Xu 2015). Another is the herbal medicine for malaria (artemisinin, also called Qinghaosu in Chinese), which has saved millions of lives. A Chinese scientist, Tu Youyou, received the Nobel Prize in 2015 for working with a team of Chinese scientists on this medicine since the 1970s.

Another reason China cannot help others leapfrog is because of its own constraints. For instance, since China is not yet a knowledge economy, it cannot help others to become one. What most Chinese companies know best is labour-intensive light manufacturing, not capital-intensive manufacturing or knowledge-intensive services (except for Huawei, ZTE, and a few other high-tech companies). Such constraints also include labour and environmental standards: some Chinese firms are not in full compliance with China's own laws and regulations, and they still need to be educated and trained in them, so some of their overseas projects are bound to have these problems. What they need is feedback or pushback from host-country governments, NGOs, and civil society encompassing mutual learning, as well as a better legal and regulatory system in the host countries.

Africa and China are thus teammates climbing the same economic mountain of structural transformation, freely selected by each other. China, a bit higher up the mountain, helps build "bottleneck-easing" infrastructure and SEZs in Africa to facilitate structural transformation, drawing on its own ideas and experiences. And with labour costs rising fast in China, African countries can benefit by attracting labour-intensive enterprises relocating outside China. Both sides gain from cooperation just as trading partners gain from trade. But good climbers may also need to be pushed up sometimes. African people, the media, and NGOs can help encourage the right behaviour in their partners. Later, we propose establishing a system to rate all partners on their compliance with international standards.

The propositions and the framework encapsulated in Figure 4.1 are fully consistent with the logic of the NSE:

- All learners or partners start on an equal footing. Some learn faster. All are free to choose their learning partners.

- China has been moving up from labour-intensive sectors to more capital-intensive sectors, while many African countries remain at the stage of exporting natural resources and primary products. But China was there only recently: as late as 1984, half of China's exports were crude oil, coal, and agriculture products. China's stage of structural transformation is the closest in distance to African countries, and thus has higher complementarity for the flying geese pattern.
- China's approach of learning and cooperation encourages Africans to take tiny steps and to follow comparative advantages, or identify latent comparative advantages in agriculture, infrastructure, and labour-intensive light manufacturing. Partial reforms through SEZs can also help in structural transformation, as shown by China's own experience.
- Partner countries need to have recent intimate tacit knowledge and experiences to help in such an experimental approach, as they have different natural endowments, different comparative advantages, but similar human capital and institutional constraints.

What is comparative advantage and how to measure it?

The previous section mentioned that each partner should make use of its comparative advantages. The question is how to measure it? Revealed comparative advantage (RCA) is a useful concept based on Balassa (1965). It measures whether the country has a revealed comparative advantage in a commodity that the country is already exporting (Box 4.1).

Box 4.1 A methodological note on revealed competitive advantage

RCA is calculated as follows:

$$RCA_{ij} = \frac{x_{ij}/X_{it}}{x_{wj}/X_{wt}}$$

where x_{ij} and x_{wj} are the values of country *i*'s exports of product *j* and world exports of product *j* and where X_{it} and X_{wt} refer to the country's total exports and world total exports. Thus, if RCA is less than 1, the country has a revealed comparative disadvantage in the product, while if RCA is greater than 1, it has an RCA in the product.

Source: WITS/Comtrade.

Comparison over time: In some sectors, China's RCA is declining, creating opportunities for other developing countries

Economists have used RCA analysis to explain the flying geese pattern and global industrial relocation. They find that in earlier stages of development, latecomers are likely to engage in primary product exports and labour-intensive light manufacturing. Then, as their labour cost rises, their RCA on labour-intensive light manufacturing declines.

China is now at a stage where western countries and Japan were in the 1970s, and the Republic Korea; Taiwan, China; and Singapore were in the 1980s, with RCAs declining in some labour-intensive sectors (Figure 4.2). As labour-intensive industries matured, wages increased, and firms moved into more technologically sophisticated industries in accord with the upgrading of the endowment structure. China's labour costs are rising rapidly, for example, from an average of US$150 per month in 2005, to US$500 in 2012, and to more than US$600 in coastal regions in 2013 (at 15 percent annually, plus an average currency appreciation of nearly 3 percent).

More and more Chinese enterprises facing the pressure to seek low-cost locations are moving inland or going abroad. China has an estimated 124 million workers in manufacturing, most of them in labour-intensive sectors (85 million), compared with 9.7 million in Japan in 1960 and 2.3 million in the Republic of Korea in 1980. The upgrading of China's manufacturing into more sophisticated and higher value-added products and tasks will open great opportunities for labour-abundant, lower-income countries to produce the labour-intensive light-manufacturing goods that China leaves behind (Lin 2012d; Chandra, Lin, and Wang 2013)

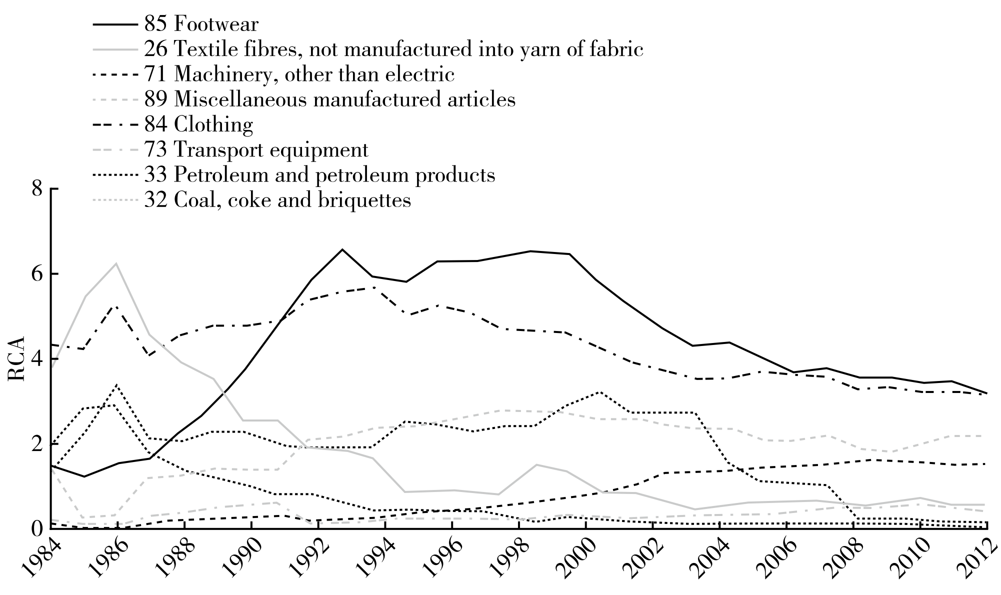

Figure 4.2 China's RCA: declines in labour-intensive export sectors

Note: RCA = share of an industry in the economy's exports / its share in global exports.Source: Authors' calculation based on UN Comtrade data, SITC rev.1, 2-digit.

Comparison across countries: China has the largest number of sectors with Comp advantage

Figure 4.3 shows the result for a sample of countries and sectors (out of 97 sectors) for 2010–2011. Comparing across middle-income countries, the Russian Federation and resource-rich Kazakhstan have only 11 sectors with an RCA greater than 1. Lower-income countries, such as Indonesia and Vietnam, have more sectors with an RCA greater than 1. China is the most diversified country in the group, with revealed comparative advantages in 45 of 97 sectors (with an RCA greater than 1). So, it is well positioned to help other developing countries reach competitiveness in sectors where they have latent comparative advantage.

In the 1970s and 1980s, China used its comparative advantage in agriculture and light manufactures to help African countries.[1] In later periods, as its manufacturing sectors became more developed, it used its comparative advantage in construction and light manufacturing and other sectors. This is where we turn to in the next sections.

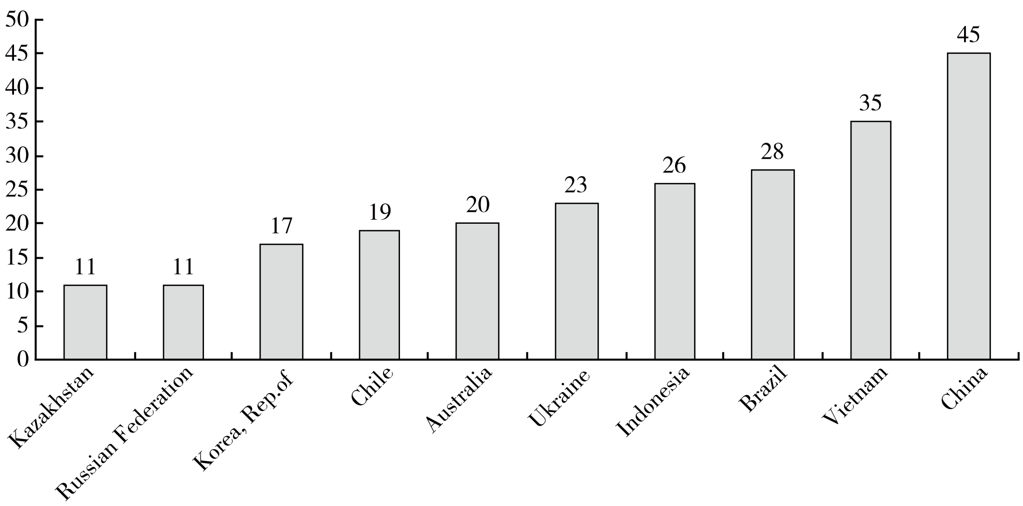

Figure 4.3 China is well positioned to help others in their transformations

Note: The figure shows the number of sectors with an RCA > 1. Figures on the bars refer to 2010 or 2011.

Source: Authors' calculation based on World Bank, World Integrated Trade Solutions (WITS) data, HS2 1996 code, 2-digit, for 97 sectors.

4. Utilizing Comparative Advantages in Development Cooperation

4.1 Need a New Mind-set: Infrastructure plus industrial parks

Infrastructure investment in developing countries could mitigate some of the post-crisis ills that

1 More examples can be found in Brautigam (2015).

advanced countries currently face, and would help create jobs and generate growth in advanced economies. However, investing in infrastructure alone is not sufficient to propel the growth engine and generate jobs unless it is combined with productive assets and human capital. Therefore, we argue that, based on the New Structural Economics, infrastructure investment needs to be associated with industrial parks or zone-development and structural transformation in order for it to become self-sustainable.

From the angle of land-based financing, investment on appropriate infrastructure and industrial assets would increase the value of land (a commonly acceptable principle). Land-based financing offers powerful tools that can help pay for urban infrastructure investment. [1] And these options have been utilized during China's experimentation on Special Economic Zones and the infrastructure around these zones (Wang Yan 2011).

Therefore, our proposition 1 is that

Other things being equal, a piece of land with proper level of infrastructure is always more valuable than a piece of land without. Thus, it can be well used as collateral for infrastructure development loans. First, this proposition is confirmed by empirical evidence that infrastructure benefits the poor because it adds value to land or human capital and reduces inequality (Estache, Foster and Wodon 2002, Estashe 2003, and Calderon and Serven 2008).

Second, since infrastructure is often sector-specific, the "proper" level of infrastructure must be affordable to the population and be consistent with the country's existing or latent comparative advantage. Thus, market mechanism should be relied upon to have the right relative prices and to determine which infrastructure is "bottleneck releasing". In addition, the government must perform the functions of providing information, identifying the comparative advantages and the associated appropriate infrastructure, and facilitating this process by developing Special Economic Zones (SEZs) in order to allow the self-discovery by the private sector. On the Growth Identification and Facilitation Framework see Lin and Monga (2011).

Therefore, our proposition 2 is that

Transformative infrastructure helps link a country's endowment structure with its existing and latent comparative advantages, and translate them into competitive advantages in the global market. Thus, it can be made financially viable. In other words, combining infrastructural building with industrial upgrading, as well as real estate development, can help make both financially sustainable. Potentially this approach has high rates of returns.

Based on these two propositions, any low-income country can have the ability to pay for its appropriate infrastructure in the long term, as long as they develop a strategy that is consistent

1 For legal and typical land-asset based infrastructure financing, see policy note by Peterson, George E. 2008. "Unlocking Land Values to Finance Urban Infrastructure: Land-based financing options for cities." Trends and Policy Options Series. Washington DC. PPIAF.

with their comparative advantages. In other words, we should focus more on "what these countries have" rather than "what they do not have". The World Bank, and other development banks should try to help transform "what these countries can potentially do well" based on "what these countries have" to into the country's competitive advantages in the global market.

But how could the infrastructure funding gap be closed without putting an additional fiscal burden on the already cash-strapped governments?

Infrastructure consists of a spectrum of public goods, semi-public goods and private goods. It will require a combination of financing from both traditional and new sources, in particular the private sector. Infrastructure projects in developing countries are generally financed by a combination of domestic public financing, loans or grants from multilateral institutions and bilateral creditors (ODA and OOF), commercial loans including resource based loans (RBLs) and some limited private sector investment (PPPI). Depending on the characteristics of specific infrastructure, whether it is public-, or semi-public or private goods, various funding sources can be used. One of such approach is called "Resource Financed Infrastructure" (RFI), which will be discussed below.

4.2 Resource Financed Infrastructure (RFI): a new instrument and pros and cons

During past decade, China has developed series of Resource Financed Infrastructure (RFI) projects with African countries which have been criticized by the western media. A recent World Bank-led study however considers it as "a new form of infrastructure financing".[1] What is the definition of RFI model? In a simple word, "*the RFI model is a financing model whereby government pledges its future revenues from a resource development project to repay a loan used to fund construction of infrastructure. The key advantage of the model is that a government can obtain infrastructure earlier than it would have been able to if it had to wait for a resource project to produce revenues. This new financing model resembles aspects of other financing models, and use of the model will raise issues in the same way that every other model does, whether used for a resource development project or an infrastructure project." (page 13, Halland et al 2014).*

RFI's major advantage: Obtaining development results faster

After comparing various conventional approaches of infrastructure financing, their pros and cons and gaps, Halland et al (2014) highlighted the most important advantage of the RFI approach, and that is, this approach "*can bring substantial benefits to a [host] country and its citizens, ... years ahead of what would have been possible under any other model.*" (page 14, Halland et al 2014).

1 Havard Halland et al. Resource Financed Infrastructure: a discussion on a New Form of Infrastructure Financing, The World Bank, 2014.

But the study says relatively little about the "structural" side of the economies, not to mention structural transformation. Based on the intellectual foundation of New Structural Economics (Lin 2012), we discuss below the pros and cons of this RFI approach by stressing the developmental aspects of the RFI concept, especially focusing on structural transformation, the currency mismatch, the spatial concentration, as well as political economy and transparency issues. We leave the evaluation of past RFI transactions to further analysis.

First, economic development is a process of continuous industrial and techno- logical upgrading in which each country, regardless of its level of development, can succeed if it develops industries that are consistent with its comparative advantage, determined by its endowment structure. However, this process is not spontaneous. Without the government playing a facilitating role to overcome inherent coordination and externality problems in the process, the private sector may not be willing to diversify into new sectors based on the changes in the structure of the country's endowment. The RFI concept can help connect resource extraction with the construction of "bottleneck-releasing" infrastructure—two otherwise segregated supply chains, thereby reducing transaction costs. In the conventional World Bank approach, resource extraction and infrastructure building are two separate supply chains, belonging to two different sectors. Their projects are designed separately and financed separately, and in developing countries, they are implemented by different ministries. In the RFI approach, income streams or potential income streams from resource extraction are used as collateral for loans for infrastructure building, it has linked the two otherwise separate supply chains–thereby reducing transaction costs as well as the number of years before development impact from infrastructure can be shown on the ground. It allows development results to be shown faster and earlier—This is the most important advantage of the RFI approach, which is shown in an example of Ghana's Bui Dam. In this example, Ghana's export of cocoa beans has been used as the collateral for the loans from the China EXIM Bank. The dam was completed by China Hydro from 2009 to 2013, as part of an EPC turnkey project, and owned and operated by Ghana's Bui Power Authority (BPA). The Bui hydropower plant increases the installed electricity generation capacity in Ghana by 22 percent, by utilizing the comparative advantages of both Ghana and China. However, the full development impact has yet to be evaluated (Lin and Wang 2016).

RFI facilitates structural transformation

Second, on the "valuation" issue of the RFI approach, Halland et al (2014) indicates that, ideally, "*an RFI credit may be the least-cost option for obtaining essential infrastructure that cannot generate sufficient revenue to support a project finance transaction.*" The study also rightly points to gaps left by the previous infrastructural financing models, which could be filled by the RFI approach, including the interesting feature of "nonrecourse" loans.

Most infrastructural loans have some feature of "limited recourse" loans, as the government cannot /does not provide full guarantee. If China's past RFI deals were indeed "nonrecourse" loans which disproportionally favouring the borrower, the lender would have assumed higher risks than in the case of full-recourse secured loans. This represents a unique "insurance service" provided by the lenders in RFI deals, that would otherwise be unavailable. This service has yet to be fully appreciated and priced-in by the development community. The IMF and the World Bank should conduct more research on the "appropriate" pricing of nonrecourse loans favouring the borrowers.

Third, the RFI concept helps overcome several constraints in low-income and resource-rich countries, and one of those constraints is the currency mismatch. It is well known that the revenue stream from a specific infrastructure denominated in local currency cannot be used to repay loans denominated in foreign exchange. Ideally, structural transformation should not be constrained by insufficient foreign exchange. The RFI approach focuses on the real sector and relies less on cash flows denominated in foreign exchange. This concept reduces the amount of foreign exchange a country has to have for repayments of foreign debts, as long as it has the potential to produce some commodity that can be sold in the international market such as oil or gas or cocoa beans (in the case of Bui Dam in Ghana) that can generate a revenue stream in the future.

Not all countries have equal access to the international financial market, allowing them to issue bonds for infrastructural development, thus innovative approaches must be found to finance their development. The RFI model allows the exchange of one resource for another productive asset in the long term, and thus supports real sector diversification without relying completely on the financial market. In addition, it reduces the leakages due to resource rents/revenues being transferred out of the country, or capital flight. This "real"-for- "real" sector exchange could help overcome severe financial and governance constraints suffered by low-income but resource-rich countries. For countries constrained by capacity gaps, a "real"-for- "real" exchange, for example, "work for food" programs, turnkey projects, "market for technology" exchanges as well as the "resources for infrastructure" approach, if well designed and monitored, can lead to development results such as roads or schools or jobs on the ground within a time span of three to five years or less.

Fourth, not all asset classes are equal in terms of productivity and their impact on poverty. Some are public- or semi-public goods and others private goods. Certain types of infrastructure are "bottleneck-releasing" with high developmental impact, others are not. The RFI model could help integrate and "bundle" the provision of public goods together with the extraction of natural resources (private goods) in a meaningful way (for example, around an eco-industrial zone) that could benefit the host-country population, as well as making the provision of public goods attractive to the private sector (see section 4.3)

RFI and Risks

On risk management side, the political economy dimension is critical. On the one hand, the RFI model may be welcomed by democratically elected governments, thanks to its ability to "rapidly" achieve developmental results. On the other hand, this feature may be detrimental to the repayment cycle because the next government of the borrowing country, having forgotten the benefits obtained in the earlier period, may revoke the concessions or request a renegotiation. In a sample of 1,000 concessions granted by Latin American and Caribbean countries between 1985 and 2000, 30 percent were renegotiated within 2.2 years, with the highest rate of renegotiation being in water and sanitation (74 percent) (Guasch 2004, 12). This is one of the highest risks of this RFI approach.

Second, there are legitimate concerns over the transparency issues around past RFI packages. We are strongly supportive of the Extractive Industries Transparency Initiative (EITI) principles for moral, political, as well as risk management reasons. History has shown that for political risk management, it is important to keep a balance between the commitment to transparency and a certain level of confidentiality during negotiations. In our view, any "deals" negotiated in the dark—without the support of the general public—are more likely to be revoked or renegotiated later if there is a change in the government. This lesson from history should be kept in mind.

4.3 Building Industrial Parks to attract Manufacturing Industries

The idea that industrial parks can promote structural transformation is not new. Economists have emphasized that industrial parks or zones take advantage of dynamic scale economies, and reduce search, learning, and transaction costs. In particular, investing in SEZs can:

- Bundle public services in a geographically concentrated area.
- Improve the efficiency of limited government funding/budget for infrastructure.
- Facilitate cluster development or agglomeration of certain industries.
- Propel urban development by providing conducive living conditions for workers and diaspora science and technical personnel, and by conglomerating services, inducing economies of scale for environmental services.
- Stimulate job creation and income generation and, potentially, environmental sustainability through promoting green growth and eco-friendly cities (Lin and Wang 2013, p. 14).

Countries, especially those developing, cannot build business infrastructure in one go. They have few resources and low implementation capacities. They also have limited political capital to defend policies and reforms against vested interest groups and other political opposition. Such conditions require targeted interventions or piloting, especially in the initial stages.

The Chinese government has backed six SEZs or industrial parks in Africa (Brautigam and Tang 2013). But many others are initiated and largely financed by the private sector, including the two discussed below. Investment in infrastructure around and in the zones is facilitating enterprise/cluster development in manufacturing and job creation. (Box 4.2)

Box 4.2 China-supported economic cooperation zones in Africa: Some examples

An enterprise zone in Nigeria with strong local linkage. Yuemei Group, a private textile firm from China, invested in Nigeria and helped local value chain development. With its approach of "rural households plus the company," it installed over 4,000 weaving machines among local households, raising household incomes. In 2008, it invested in building a textile industrial zone. After the first phase, in 2009, it has attracted five enterprises, creating 1,000 jobs.

Ethiopia: The Eastern Industrial Park, a MOFCOM-approved zone. The Jiangsu Yongyuan Group is the founder and investor for the park, and has received some funding from the China-Africa Development Fund. Since the construction began in 2007, a 50,000m^2 standard plant with water, roads, and power supply facility has been completed. When we visited in 2013, 11 Chinese enterprises with US$91 million investment had signed letters of intent to move in, in industries such as construction materials, steel products (plates and pipes), home appliances, garments, leather processing, and automobile assembly. One of the companies, the **Huajian Shoemaking Group, has created over 3,500 local jobs** and is using local leather to produce shoes for export. The zone now has 22 enterprises and 100 percent occupancy and has gained strong support from the government. Similar industrial parks or zones are being established elsewhere in the country.

Source: Authors.

5. Future Development finance in the 21st century

Who will be the new development financiers?

In our view, the world economy is facing huge uncertainty and volatility. Some economists discuss the possibility of secular stagnation; others even speculate on another financial crisis around the corner. For the developing world, we are cautiously optimistic about their growth. They have many good opportunities for productivity-enhancing investment in industrial upgrading, and transaction cost–reducing investment in releasing infrastructure bottlenecks. Such investments can not only create jobs and support consumption in the short run but also contribute to inclusive and sustainable growth in the long run.

China and other emerging market economies with a sound fiscal position and adequate savings and foreign reserves can go beyond Keynesianism to invest in bottleneck-releasing infrastructure to offset external shocks and maintain reasonably high growth in the coming years. Other low-income developing countries will also be able to maintain reasonable growth, generate jobs, and contribute to realizing the SDGs—if the global development financial community can mobilize public and private financial resources innovatively in a win-win format. In an interconnected world, achieving higher growth in developing countries is also good for developed countries because they will become larger markets for developed country goods and services, generating jobs and growth in developed countries.

As some established donors are constrained by their heavy debt burden and slow growth in the post-2015 era, development finance will come less from official development assistance (ODA) but more from the other official flows (OOF), OOF-like loans, and OOF-like investments from development banks and sovereign wealth funds in emerging economies. Figure 4.4 compares global savings rates among China, developing countries (excluding China), and developed countries. It is clear that developing countries have much higher savings rate, and thus will have higher investment rates in the next fifteen years (2015–30). The share of developing countries in global investment (including China) is projected to overtake that of the high-income countries in 2015 and beyond (Figure 4.5), and the shares of emerging market economies in world financial assets and GDP are expected to rise by about 10 percentage points (Sheng 2013).

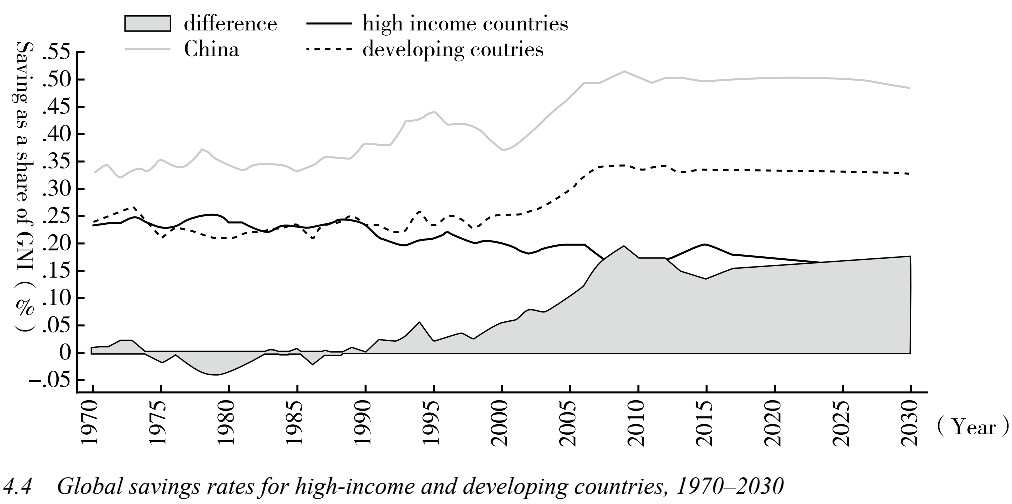

Figure 4.4 Global savings rates for high-income and developing countries, 1970–2030

Source: Updated by the authors based on World Bank Global Development Horizons (2013). Figure 5.2 Global shares of investment, with developing countries, including China, overtaking the high-income countries, 1965–2030.

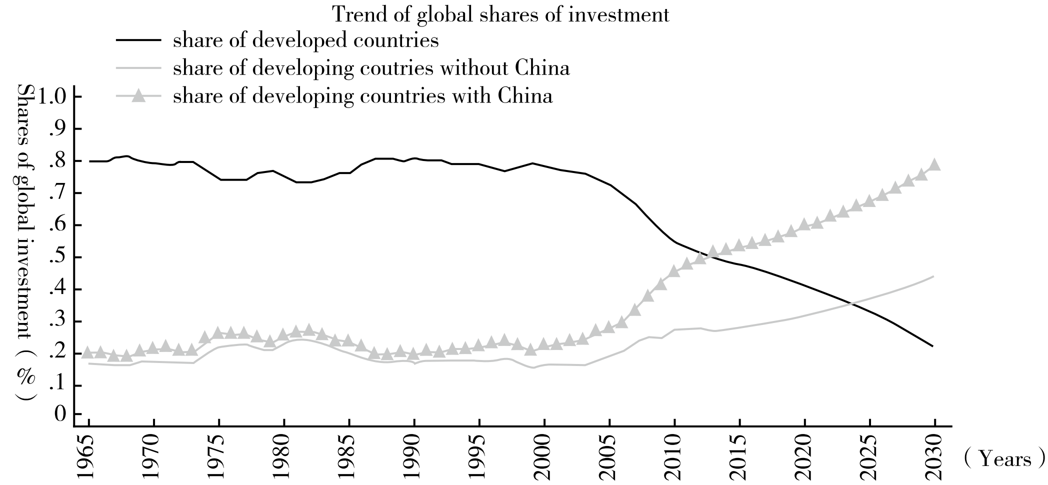

Figure 4.5 Global shares of investment, with developing countries, including China, overtaking the high-income countries, 1965–2030

Source: Authors' projections based on World Bank Global Development Horizons (2013).

We therefore propose to expand the definitions of development finance, which could induce more contributions from sovereign wealth funds (SWFs) and other public and private entities. Some may ask, why fix something that is not broken?

First, the OECD–DAC definition is far from meeting the needs of the post-2015 world, when everyone realizes the huge financial gaps in meeting the SDG and COP21 goals. The credibility and relevance of ODA for global development have been questioned by OECD members themselves.[1], [2] The concept of ODA has been under criticism in recent years, and the OECD publicly opened the debate in December 2012 (Boussichas and Guillaumont 2014). Many new proposals to reform the current OECD–DAC concepts have been proposed (Xu and Carey 2015a, OECD–DAC 2014 a, b, and c).

Second, with many emerging market economies continuing to grow relatively more rapidly and save a large proportion of their income, the prospect of South-South Development Cooperation is likely to expand. China's official stance as reflected in President Xi Jinping's speech at the UN Assembly in September 2015 and his speech at the 6th FOCAC meeting in Johannesburg, renew the confidence in China's approaches to South-South Development Cooperation, stressing "blood creation" rather than "blood transfusion." [3] He emphasized government-led investment in hard and soft infrastructure and industrial upgrading, as well as deeper doubts about the western donor approach of providing "aid with conditionality".

To "integrate" emerging economies into a global support system for development and to lower

1 Hynes and Scott 2013.

2 OECD-DAC 2014b.

3 Freeman 2012.

the transaction costs requires keeping an open mind on the Chinese and other emerging market economies' perspective about international development, especially allowing for developing countries to help each other on the basis of "equality, mutual respect, reciprocity, and mutual benefit."

Redefining development finance

We propose to broaden the definitions of development finance. The OECD–DAC definitions of ODA and OOFs are a good starting point, but they need to be reformed to clarify and to take into account all forms of finance aimed to support development. [1] For monetary policy instruments, there are M0, M1, M2, and M3. In development finance, we can define DF1, DF2, DF3, and DF4 similarly (see just below), according to the extent of "concessionality" with a consistent benchmark market interest rate; the source (the extent of "official" or state involvement); the destination countries (low- or middle-income developing countries); and the objectives of the financing (for economic development and welfare). These ideas were also seen in previous studies (Brautigam 2011a, Centre for Global Development (China-aid database 2013), OECD–DAC 2014, Boussichas and Guillaumont 2014, and Xu and Carey 2015a). A new set of clearer definitions would facilitate transparency, accountability, and selectivity by development partners, encourage SWFs to invest in developing countries, and facilitate public-private partnerships in developing-country infrastructure.

In particular, SWFs are managing huge amount of assets, in excess of US$21 trillion, and many of them are seeking higher risk-adjusted returns[2] Some of them have traditionally underinvested in the emerging and developing countries, with less than 10 percent of assets allocated to these countries. Norway, for example, is having a national debate on how best to reallocate some of its huge assets to developing countries. The Norwegian Government Pension Fund is the world's largest SWF, with US$888 billion in assets and expected to grow to more than US$1,100 billion by 2020. But it allocates 90 percent of assets to "liquid" developed country equities, with a real rate of return of mere 3.17 percent since 1998, much lower than other SWFs with more significant investment in emerging markets, in the range of 10 percent or more (Kapoor 2013). NorFund in contrast, a much smaller Norwegian fund investing in developing countries, has a higher rate of return than the Norwegian Government Pension Fund (GPF). Redefining "development finance," as we propose, would help sway public opinion toward SWFs investing in developing countries and expand the sources of development finance.

We propose to redefine development finance in the following ways (Figure 4.6):

1 Debate is sharp on calculating concessional loans, whether face value (OECD-DAC approach) or budget subsidies (China approach) should be used, or what interest rate should be used as the discount rate. Li Ruogu claims that "all China's loans for development [from Eximbank of China] are concessional in character" if a "proper" benchmark interest rate can be used for the discount rate. (Li 2007).

2 SWF Institute, accessed October 2015.

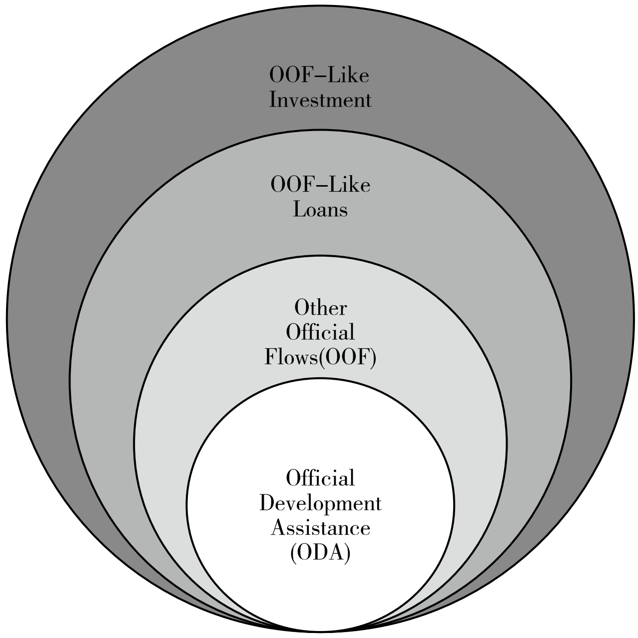

Figure 4.6 Expanding the definition of development finance

Source: Authors. The circles correspond to DF1= ODA; DF2=ODA+OOF; DF3=DF2+ OOF-like loans; and DF4=DF3+OOF-like investment. Another category could be added separately for SSDC that cannot be monetized.

- DF1 = Official Development Assistance (ODA, as defined by OECD–DAC with reforms as proposed in the December 16, 2014 decision).
- DF2 = DF1+ OOF including preferential export buyers credit.
- DF3 = DF2+OOF-like loans (non-concessional loans from state entities for development but at market interest rates).
- DF4 = DF3+OOF-like investment (equity investments by SWFs or development projects supported by state guarantees, or PPP projects for public infrastructure, which provide global public goods for sustainable development). This latter concept would be consistent with but different from Total Official Sustainable Development proposed by OECD–DAC.

We draw attention to the nonmonetary development assistance provided by southern partners, such as “turnkey projects,” “real sector (barter) exchanges,” and “resource-financed infrastructure” (RFI). The RFI concept can help connect a developing country’s comparative advantage, such as resource extraction, with the construction of bottleneck-releasing infrastructure—two otherwise separate supply chains—thus reducing transaction costs and making public infrastructure more attractive to the private sector.

For example, China agreed to use Ghana’s cocoa exports (a comparative advantage) as collateral for its loans for building a hydropower station. “An RFI credit may be the least-cost option for obtaining essential infrastructure that cannot generate sufficient revenue to support a project finance transaction" (Lin and Wang in World Bank 2014, p. 76). Some element of SSDC cannot be monetized, such as the number of volunteers and medical doctors, but separate categories can be established for them.

Volumes and global governance

The volume of international development finance depends heavily on institutional arrangements, the channels of financing and coordination, and ultimately the global environment and the structure of global governance. In other words, it depends on whether SSDC or development finance are welcome, whether and how much the voices of emerging market partners are included, and whether they are invited to the table for shaping the global "rules of the road."

China's development finance depends on many factors. A rough projection method is to use China's forecast growth rate in the next 10 years and use the proportion of development finance to gross national income. According to one study by staff of the People's Bank of China, estimated outward investment in infrastructure "will not be less than US$100 billion annually (RMB630 billion yuan)" (Jin 2012). "Considering the increased potential, China could well afford to have outward investment of RMB600 billion to RMB1000 billion yuan per year. Assume that this amount consists of 95 percent in loans and equity investment, and 5 percent in grant, this means that China's Ministry of Finance will need to budget RMB30 billion to 50 billion yuan for international aid. This number is only about 0.3 percent to 0.5 percent of China's 2011 fiscal revenue, accounting for less than 0.1 percent of GDP, much lower than the fiscal burden of the Marshall Plan (to the US Treasury)" (Jin 2012, p. 62). In our view, as China's GNI and fiscal revenue continue to grow, the amount of development finance will rise dramatically, to close to US$100 billion in 2015–16 (including grants, concessional loans and export buyer credits, as well as contributions to the Silk Road Fund, AIIB, New Development Bank and other multilateral banks). As shown by its recent commitments, China will gradually take more responsibilities and explore its new roles in global affairs. Its share of development finance in GNI is thus likely to grow steeply to 0.3 percent of GNI or more. However, the pace of increase depends on the global governance system. China has tried to set up the "right" platforms for its contribution to global development, including its contribution to setting up the AIIB and other new groupings such as the New Development Bank and the Silk Road Fund, as well as launching its One Belt, One Road Vision.

5.2 The One Belt, One Road Vision and Confucianism

Chinese President Xi Jinping at the APEC summit in 2013 proposed a new vision to build a "one silk road economic belt and a maritime silk road" (One Belt, One Road for short), supported by more than 50 countries along the proposed routes. What is its rationale?

The One Belt One Road reflects Chinese leaders' vision of a world order guided by shared prosperity, "peaceful co-existence with differences," and commitments for providing global public goods, peace and security, and sustainability, drawing on China's deep wealth of Confucianism. Most historians agree that China was relatively prosperous before the industrial revolution. "Until the Industrial Revolution, China was far richer. In fact, China produced a greater share of total world GDP than any western society in 18 of the last 20 centuries. As late as 1820, it produced over 30 percent of world GDP—an amount exceeding the GDP of Western Europe, Eastern Europe, and the United States combined" (Kissinger 2011, p. 11).

Confucianism may explain why. "As early as the Song Dynasty (960–1279), China led the world in nautical technology; its fleets could have carried the empire into an era of conquest and exploration. Yet China acquired no overseas colonies and showed relatively little interest in the countries beyond its coast" (Kissinger 2011, p. 8).

Confucius emphasized *ren* (benevolence); the cultivation of social harmony; the principles of compassionate rule, including his love of lifelong learning, as in "It is indeed a pleasure to acquire knowledge and as you go on acquiring, to put into practice what you have acquired?"[1] and through learning from others, "When I walk along with two others, they may serve me as my teachers. I will select their good qualities and follow them, their bad qualities and avoid them."[2]

As Kissinger noted, "China owed its millennial survival far less to the punishments meted out by its Emperors than to the community of values fostered among its population and its government of scholar-officials" (2011, p.13). The civil service examination allowed talented people to become members of the ruling class, which brought handsome economic returns and high honour to their families. Moreover, the examinations instilled a set of values, emphasizing the loyalty to the emperors and the services to the people, in the mind of elites further reduced the costs of ruling and holding the large country together (Lin 1995). This community of values helped hold a large country together for thousands of years.[3]

Confucianism also shaped China's relations with its neighbours. Instead of using its power to conquer them, China used its power to restore and maintain peace with them, reflecting the principles of Confucianism to "revive states that had been extinguished and restore families whose line of succession had been broken, and called to office those who had retired into obscurity, so as to gain the hearts of the people in the world"（《论语・尧曰》："兴灭国，继绝世，举逸民，天下之民归心焉）. This might help to explain why "China acquired no overseas colonies and showed relatively little interest in the countries beyond its coast." (Kissinger 2011, p. 8).

Deeply rooted in China's history and civilization is a firm belief that "one should not impose

1 Lunyu—Xueer.《论语・学而》

2 Lunyu-Shuer.《论语・述而》

3 On Chinese value system see Sun 1929, and Lin 1995, among others.

on others what oneself does not desire"[1] and "one wishing to be successful oneself must also help others to be successful; one who wishes to develop oneself also hopes to help others develop." These principles have been behind the visions guiding China's foreign aid and cooperation in the last 50 years.

The new generation of Chinese leaders has attempted to modernize and strengthen these values and principles. "China now has its basic interest and responsibility in the systemic functioning of global development financing" Xu and Carey (2015). And as Chinese President Xi has said "The vast Pacific Ocean has ample space for China and the United States" (*Washington Post,* February 12, 2012). These ideas have been fully incorporated in China's 13th Five Year Plan, which calls for a new pattern of development based on five principles: "innovation, coordination, green, open and shared development." It sets a strategy of two-way openness, promoting orderly movement of all production elements, supporting infrastructure development and connectivity with neighbouring countries (State Council FYP draft 2015).

In other words, this One Belt One Road will not be just a vision, but a guiding principle in China's foreign policy and development finance, with a concrete action plan.

5.3 A new bilateral approach: building communities of "common fate and destination"

BRICS countries and other non-DAC member countries will continue their bilateral approach in South-South Development Cooperation (SSDC), as the Addis Ababa Action Agenda has supported it, for reducing poverty and reaching the Sustainable Development Goals. But to overcome some of the incentive problems and the information-asymmetry and principal-agent problems that exist in the "aid effectiveness" literature, the following principles should be followed:

Host countries must have full ownership of their development programs. An SSDC project should be "requested by the host country, led by the host country, and co-constructed by the host country." Both providers and hosts are on equal footing, and either one of them can say no (Addis Ababa Action Agenda, article 56).

The partners of cooperation may seek to establish communities of "common fate and destination" to find common ground of interest that can benefit both partner- and host- country national interest. Admittedly, each developing country has its national interest, and SSDC is not purely altruistic. Both sides should strive to seek common ground of interest and reach mutual benefit and a win-win outcome. At project level, a joint venture company may be or should be established before capital can be injected and loans can be borrowed. In fact, this joint venture is the embodiment of this community of "common destination." For example, in the case of a high-

1 "己所不欲，勿施於人." can be translated as "What you do not wish for yourself, do not do to others."–Confucius, Analects XV.24.

speed rail system in Indonesia, a Chinese company selected by international competitive bidding will form a joint venture with the Indonesian Railway Company—each agreeing to contribute to the equity capital. Then other lenders and investors, like China Development Bank and the Silk Road Fund, may contribute to the equity capital as well. In this way, both sides can benefit if the project succeeds, and both sides will lose if the project fails.

But bilateral SSDC has disadvantages. Obviously, it cannot leverage funds and share risks among multiple partner countries. Nor does it facilitate learning and trilateral cooperation, so improving its effectiveness through learning remains a question mark. And in the event of a dispute or default, it is difficult to resolve. In our joint book on "Going Beyond Aid", we proposed four ways to improve China's SSDC efforts, including for example,

- giving priority in drafting a Foreign Aid Law,
- providing more transparency in the terms and conditions of China's aid and cooperative activities,
- providing training and education to follow local labour and environmental standards, and
- establishing a clear framework of evaluating and rating/ranking all firms and banks which engage in South-South Development Cooperation (Lin and Wang 2016, chapter 7).
- In addition, here we propose that a higher proportion of China financed projects should be subject to international or local competitive bidding, especially in certain sub-components of larger projects, in order to benefit local SMEs in construction and manufacturing business, and create more local jobs. Host governments can also have such regulations requiring certain percent of subcomponents be subject to local competitive bidding.

Most important, bilateral mechanisms are completely inadequate for providing global public goods. Similarly, plurilateral arrangements (among a few partners, as with the BRICS) are insufficient to solve such global issues such as climate change, and interregional connectivity—hence, the need to resort to a multilateral system.

5.4 Plurilateral financial arrangements

Brazil, Russia, India, China, and South Africa (BRICS) have jointly established the New Development Bank, formerly the BRICS Bank, headed by an experienced Indian Banker, K.V. Kamath, with headquarters in Shanghai. In its first articles of agreement, it states the objective of "mobilizing resources for infrastructure and sustainable development project in BRICS and other emerging economies and developing countries, complementing the existing efforts of multilateral and regional financial institutions for global growth and development."

The BRICS are in different continents, with different comparative advantages and different national interests. Many analysts conclude that the New Development Bank is “temporary and weak.” We think they are wrong. We believe this bank reflects a true partnership of equals, based on the principle of “peaceful co-existence with differences.” It also has the potential to become a “community of common fate and destination.” These five countries are all middle-income countries striving to upgrade their industries and diversify from their own positions in the world’s value chains. They have own national interests but also large grounds for common interest. They are teammates in climbing the same mountain of structural transformation and need help from each other. And with their different comparative advantages, they can complement each other economically.

Similarly, on governance, all founding member countries contribute equally to the New Development Bank and have equal voting rights—a “true partnership in development.” “The voting power of each member shall be equal to the number of its subscribed shares in the capital stock of the Bank.” No one is in dominating position, to impose conditions on other partners, but all will follow the international rules of the game. Partners have the freedom to join or exit, and each can say yes or no. Membership is also open to all members of the United Nations.

In sum, there is ample room for mutual learning and exchanges of experience among the BRICS, the traditional and emerging suppliers of development cooperation, and the bilateral and multilateral financial organizations.

5.5 Advantages of the new multilateralism

In the past, most development cooperation from China was bilateral (Lin and Wang 2016). With the newly established multilateral financial organizations, China will contribute more development finance. International development is a new area for China—one cannot learn how to swim without jumping into the water—and it offers six main advantages.

Initiating and running a new multilateral financial institution will be a learning and experiment process for China. A new group of Chinese will take leadership roles in the New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB), led by AIIB president Mr. Jin Liqun, working with their colleagues will enhance their international leadership and coordination skills.

A multilateral financial institution allows China to leverage capital and pool a larger amount of capital, exerting a larger impact than through bilateral development cooperation. This will reduce the amount of capital flowing from developing countries to developed countries and improve the efficiency of global capital allocation. Theoretically this will improve the rate of return, since investing in the bottlenecks of developing countries should have higher rates of return than investing in industrial countries, where capital is abundant. It also allows better risk-sharing among a larger number of member countries, which is good for risk management. Moreover, it enhances shareholders’ ability to protect their investment against all sorts of risks, including political risk.

The rest of the world can benefit from the large savings, rapidly growing consumer demand, and scale economies of the very large BRICS economies. China, India, and other emerging countries are at a stage where labour-intensive industries need to relocate to other countries due to sharply rising labour costs at home. This provides huge opportunities for low-income countries to upgrade their manufacturing industries.

In addition, China enjoys scale economies that other smaller countries do not, which lets it keep down construction costs of large transport networks. China has demonstrated its comparative advantage in constructing large infrastructure, thanks to its inexpensive labour and engineers, the capacity to complete many large projects domestically, and the ability to raise funds and implement large projects in other parts of the world (Lin and Wang 2016, chapter 5). Countries connecting with China and Chinese rail networks can benefit from these scale economies and comparative advantages, increasing their access to inland consumer markets. Indeed, the social benefits of connecting to a large (hard and soft) network should be huge.

The new institutions require all shareholders to share information and thus enhance transparency and internal governance. This will later influence the behaviour of large shareholders domestically, and provide pressure mechanisms for law making in domestic reforms. For example, in setting up the governance structure of the AIIB, Chinese leaders will learn from other founding member countries that have a more complete system of foreign aid laws and regulation. The Articles of Agreement of the NDB and the AIIB presage the highest standards of transparency and governance, which should influence those in bilateral SSDC. This will enhance trust among all founding members, including that between southern and northern partners.

The articles of agreement of the AIIB stress the freedom to use all currencies in the Bank's operations. Article 19 stipulates that "Members shall not impose any restrictions on currencies, including the receipt, holding or transfer by the Bank or by any recipient from the Bank, for payments in a country." Both the NDB and the AIIB could potentially issue renminbi bonds (or other local currency bonds) and grant renminbi loans if their shareholders want to. This will, to some extent, release the foreign exchange constraints and currency mismatches that developing countries face. In the long term, Article 19 may engender more widespread use of currencies from emerging market countries. In November 2015, the IMF agreed to include the renminbi as one of the five components of Special Drawing Right (SDR), and central banks are likely to hold renminbi in their international reserves. In the long term, the international use of renminbi as an investment instrument will increase. Recent development including the successful launching of SDR bonds in China, is one of the evidence.[1]

1 THE World Bank issued 500 million SDR bonds, which was settled in RMB, on August 31 2016 in China's interbank market. The three-year bonds were sold at 0.49 percent, and was 2.47 times oversubscribed. A much bigger wave of such bonds could be expected as the global lender has got approval from the PBOC for a 2-billion SDR program.

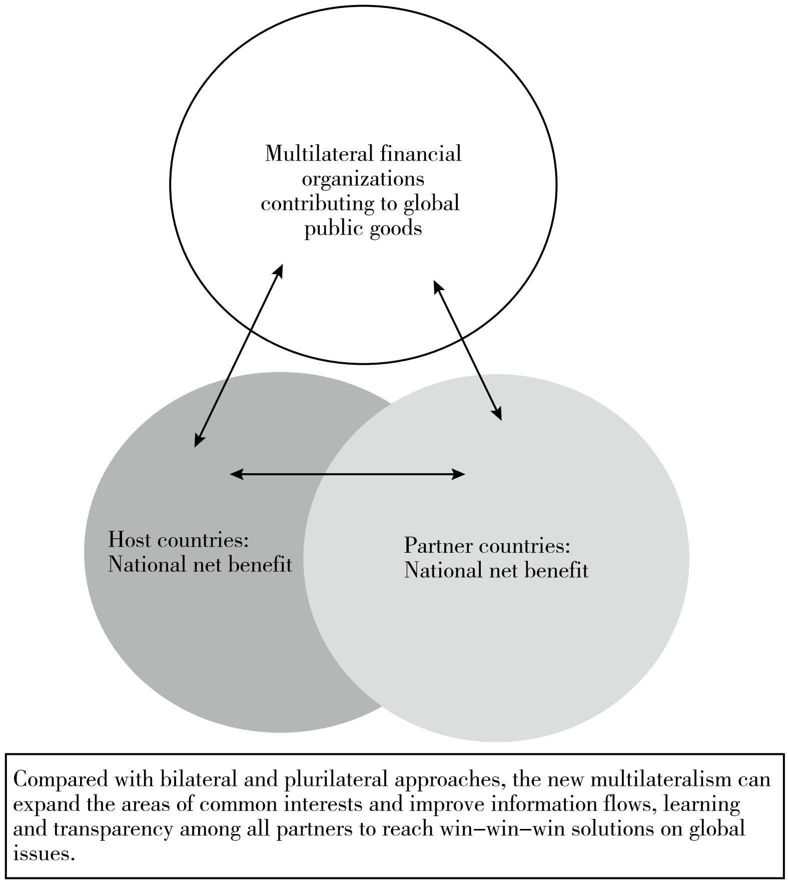

Figure 4.7 The new multilateralism can expand areas of common interest
Source: Authors.

6. Conclusions

China's transition from a largely bilateral approach to promoting a "new multilateralism"—contributing to both the existing multilateral organizations, as well as taking a lead on South–led multilateralism—is a win-win for itself and for the world. This trend has been confirmed by the outcome documents of the G-20 summit hosted by China in early September 2016.

G20 Leaders' Communique Hangzhou Summit points out that Industrialization is vital to each country' s development. In particular, at least 3 components are most relevant to the topic of this chapter: those on industrialization, on infrastructure, and on global governance. In addition to article 13 on New Industrialization, article 35 on Africa's industrialization is most critical to our work on SSDC. Second, the section on Inclusive and interconnectivity reflected the influence of China's experience, as explained earlier. On global governance, the following statements confirm China's efforts to promote new multilateralism by joining the existing systems, and to contribute to the existing international multilateral financial institution. The G-20 leaders reconfirm their support to the IMF quota and governance reform, as well as the World Bank's shareholding review "with the objective of achieving equitable voting power over time." They also "welcome China's continued regular participation in Paris Club meetings and intention to play a more constructive role, including further discussions on potential membership." (G20 Leaders' Communique Hangzhou Summit, 4-5 September 2016)

This reflects China's willingness to continue to learn to become a better development partner—by listening to the voices from partners and interacting with the governments, NGOs, and civil societies. China also needs to be more open and transparent in providing accurate data on international development finance and activities. Our view is that any deals made in the dark are more likely to be revoked or renegotiated by a client country's next government. The political economy dynamics must thus be taken into consideration when discussing with the current government of the client country.

This chapter emphasizes the need for real sector investment by stressing "very patient capital" such as Resource-financed Infrastructure (RFI), Public Private Partnership, joint equity investment in special economic zones and in light manufacture for job creation and broad development objectives. It also compares the pros and cons of bilateral and multilateral approaches. Through plurilateral and multilateral financial organizations, China and other BRICS countries will learn from each other and build communities of common fate and destination. The established OECD donors also need to see whether emerging countries' approach provides useful lessons to improve the effectiveness of the conventional North-South aid.

In the post-2015 era, development finance will come less from ODA but more from the other official flows (OOF), OOF-like loans, and OOF-like investments from development banks, sovereign wealth funds, and emerging economies. That is why we propose expanding the definitions of development finance, which could induce more contributions from SWFs and other public or private entities. The recent OECD–DAC decision to introduce a new and broader concept of Total Official Support for Sustainable Development (TOSSD) is in the right direction, though the details have yet to be worked out.

We are optimistic that a common ground can be found for partners from the North and the South to work together, as shown by the G-20 outcome documents, on multiple win solutions for structural transformation to achieve sustainable development in the South. If all countries work together investing in bottleneck-releasing infrastructure and providing global public goods, including China's One Belt One Road initiative and 10 proposals for Africa, the prospects for achieving SDGs and global peace will be enhanced.

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Part Ⅱ

Chapter 5

Global Value Chains and South-South Trade Cooperation: The Case of China*

1. Introduction

Since the 1980s, global value chains (GVCs) has become a new feature of international trade (Krugman, 1995). The emergence of this new trade model has changed the way people think about trade policies (Hoekman, 2014). It has also inspired developing countries to restructure their trade cooperation. China is an important GVCs player, and the One Belt and One Road (B&R) initiative provides a great opportunity for China to engage other developing countries in GVCs trade to promote inclusive growth. Furthermore, to steer and organize infrastructure projects along the line of GVCs development to improve the livelihood of the local communities could help lay the political economy foundation for the sustainable development of the B&R initiative. This is a new thinking for economic cooperation between China and other developing countries, and could also become an innovative model for South-South trade cooperation.

Except for minerals, agriculture and other primary products, traditionally, no distinct overall comparative advantages existed among developing countries in manufacturing. The traditional South-South trade mainly relied on primary industry and products. At micro level, significant comparative advantages in production technique and procedure may lead to trade in manufacturing inputs between developing countries, but potentials have not been fully realized their due to high

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transportation and communication costs. This is one of the reasons why South-South trade remains stagnant.

With the reduction of international communication and transportation costs, production processes could be divided into many separate parts, each being transferred to different locations of the world for production and assembly. This has led to a substantial increase of global trade and, in particular, China's processing trade in manufacturing. However, developing countries' GVCs participation is still limited to the North-South trade model, namely, technology-intensive components are developed and produced by advanced countries, then assembled in developing countries, and finally sold back to home countries or to other markets around the world. As far as South-South manufacturing trade is concerned, there has been no structural change. Moreover, some emerging markets participating in the North-South GVCs trade have experienced rapid growth of manufacturing exports, but have also brought shocks to other developing countries with fragile manufacturing industries. As a result, South-South trade imbalance deteriorates.

Needless to say, the problems in South-South trade have much to do with poor infrastructure and weak trade governance capacity on the part of developing countries. But the supply-side bottlenecks are not unique to South-South trade. They are also constraint on the development of trade relations between some developing countries, especially the least-developed countries (LDCs), and developed countries. Today, with ever closer South-South cooperation, developing countries have more opportunities to trade among themselves. Emerging markets, the bright spots in the developing world with ever stronger trade complementarity, are potential export markets and sources of foreign direct investment (FDI) and industry transfer for other developing countries. The root of the problems in South-South trade lies more in the lack of full appreciation of the successful experiences of the North-South value chains trade and in the lack of a clear strategy and a coherent policy package to translate these opportunities into inclusive trade growth and job creation in developing countries, and ultimately, to achieve poverty reduction and other development objectives. These opportunities are real, particularly in the economic and trade cooperation between China and other developing countries. Taking China as a case, this paper will closely examine the problems in South-South trade cooperation and offer policy suggestions for improvement.

The B&R initiative provides an important opportunity to reshape the South-South trade relations. Infrastructure investments in roads, ports and communications will certainly reduce the costs of goods transportation, facilitate the movement of people, and hence enable firms to arrange better and coordinate production and division of labour across a broader region. It is the shared hope of the people in the B&R region to develop labour-intensive manufacturing, increase employment opportunities and improve income distribution through closer connectivity with China. Chinese manufacturing has both emerging high-tech industries and traditional labour-intensive industries, and therefore, trade relations between China and other developing countries can be both complementary and competitive. On the other hand, in countries where the popular election is adopted, people affected by imports tend to vote for political parties that are against open trade, thereby slowing or even reversing the trade liberalization process. The outcome of the 2016 US presidential election is an example, and similar scenario can also happen in B&R countries because most of them are democracy with "one person, one vote" election system. The political inclination of workers in labour-intensive manufacturing sectors cannot be ignored, as they are often a key constituency nationalist and populist politicians are keen to woo in times of economic difficulties. Therefore, for China to take the GVCs opportunity to tap the potentials of economic complementarity while minimizing competition shocks to neighboring countries would be helpful not only in balancing manufacturing trade, but also in securing broad and sustainable public support for the B&R initiative.

This paper consists of six parts. The first part introduces the background and theme of this paper. The second part explains the importance for China to properly handle the offense market access issue in B&R development. The third part analyzes the status of value chains integration between China and other B&R countries, and then proceed to evaluate bilateral trade policies with a focus on the pressing issues such as the flood of China's manufacturing exports and the resulting political repercussions in B&R countries. To solve these problems and to ensure the steady and sustainable B&R development, the fourth part discusses China's successful experience of the "processing trade regime", which facilitates its GVCs integration and helps achieve poverty reduction through trade, and argues for the adoption of similar customs arrangement in other developing countries. The fifth part proposes to consolidate various regional value chains projects under the framework of WTO's "Aid for Trade (AfT)" program. Finally, the sixth part summarizes the paper.

2. Market Access and the B&R Initiative

Market access is a major issue in regional trade arrangement. There are two types of market access in regional trade negotiations involving China: the offense market access and the defence one. The former refers to the case when China seeks access to overseas markets, and the later refers to access to the Chinese market by foreign products. Generally speaking, in China's free trade negotiations with developed countries, such as Japan, South Korea and Australia, market access is mainly China's defence concern. However, in regional trade arrangements with other developing or least-developed countries, China's offense market access becomes their primary concern because these countries generally lack competitiveness in manufacturing. This is an outstanding problem in the B&R initiative, which, like China's other trade arrangements, is not just an economic initiative. B&R initiative is more of strategic and geopolitical significance, while its economic significance is only secondary as reflected in its shallow economic integration (Gao, 2009). In dealing with such an offense market access issue, export maximization shall not be the single policy objective. Rather, it should be coupled with other considerations. Mutually beneficial regional value chains can piece together diverse policy objectives and shall be an important guiding principle for the B&R initiative.

Depending on the supply chain status with China, the B&R countries can be divided into three groups. The first group is the countries that have established supply chain relations with China, such as the Association of Southeast Asian Nations (ASEAN); The second group are countries that are in the process of establishing a supply chain relationship with China, such as India, Pakistan and Sri Lanka and other South Asian countries. The third group includes African and South Pacific island countries that do not have a value chain linkage with China or have one but still in its infancy. Different in many aspects, these countries have one thing in common: most of them are democracies and poverty reduction through inclusive trade growth is a policy priority. The B&R regional trade arrangements should be made with consideration of these factors. Specifically, guided by the aid program that aims to promote trade, China's success story of mass poverty reduction through GVCs integration can be introduced to these countries to foster low-risk and sustainable trade and economic relations.

The processing trade regime is key to China's success in building the GVCs. About half of China's foreign trade falls into the category of processing trade. Compared to similar processing exports in other countries, the size of China's processing trade is unprecedentedly large. This can be attributed to China's preferential policies in support of foreign direct investment and export, and also to the institutionalized special customs arrangements. Despite its huge territory, this special customs regime enables China to effectively supervise and facilitate processing trade. This is pointed out by Naughton (1996, p. 302):

> "None of these concessions are unique. All are observed elsewhere in East Asia and, indeed, around the globe. The scale on which these provisions were introduced in China, however, is unusual. In most countries, such concessionary provisions are only applicable within a strictly policed export processing zone. In essence, China created a kind of gigantic export processing zone, defined not geographically, but by the juridical status of the enterprise involved. Although the SEZs attracted a lot of attention and were located near important economic centres in southern coastal China, they did not determine the extent of the export processing regime: export-oriented FIEs qualified, whether they were located in SEZs or not."

In this sense, processing trade regime itself is China's innovation. It helps spread labour-intensive assembly and processing across the country, create job opportunities for millions of migrant workers from the inland rural areas. China's success story is a good illustration of poverty reduction through inclusive trade growth and the poor's GVCs participation.

So, what are the practical problems for China in the B&R initiative? How could China's experience help solve these problems? Considering the specific circumstances of different regions, the paper will next elaborate on relevant issues with ASEAN, South Asia (India, Pakistan and Sri Lanka), Africa and South Pacific island countries.

3. Status of Value Chains in B&R Countries

3.1 ASEAN: Changing Asia-Pacific Value Chains[1]

The Asia-Pacific region has well-developed value chains and China and ASEAN are key the part of them. China's manufacturing industries have long engaged in low-end and low value-added exports with thin profit margins. This makes them vulnerable to overseas market downturns. Since the 2018 global financial crisis, China has been trying to make changes to its export strategy. The same policy movement is also happening in some ASEAN countries.

Economic development in China is not even across the country. ASEAN is not homogeneous either. Table 5.1 lists the per capita GDP for ASEAN members. One should be aware that although Brunei enjoys the second highest per capita GDP among ASEAN members, its economy is highly dependent on oil production and its per capita GDP is not a good indicator of the country's real economic and social development level. Except Brunei, the per capita GDP numbers can divide ASEAN members into three categories: high-income countries (Singapore and Malaysia), mid-income countries (Thailand, Indonesia and the Philippines), and low-income countries (Vietnam, Laos, Cambodia and Myanmar).

Table 5.1 ASEAN Per capita GDP, selected years at current USD

	1997	2000	2003	2006	2009	2012	2013
Brunei	16,227	12,751	12,973	31,452	28,454	42,445	39,678
Cambodia	320	293	314	515	735	977	1,047
Indonesia	1,128	731	1,141	1,636	2,362	3,578	3,467
Lao PDR	336	333	364	576	913	1,394	1,505
Malaysia	4,672	3,874	4,150	6,160	7,216	10,338	10,407
Myanmar	100	184	179	233	538	861	916
Philippines	1,157	980	976	1,408	1,829	2,565	2,707
Singapore	25,147	22,757	22,076	33,089	37,961	52,069	55,183
Thailand	2,656	2,026	2,239	3,162	3,947	5,391	5,678
Vietnam	361	403	487	732	1,129	1,596	1,909

Source: ASEAN Macroeconomic Database

1 This section is drawn from Yao et al (2014).

When Chinese coastal firms are starting parts and components production, its inland provinces are welcoming the traditional processing and assembly businesses. Similarly, when Singapore and Malaysia see more MNC move in their R&D centres (Athukorala, 2013), the low-income ASEAN members are embracing the opportunities out of the industrial adjustments in China and high income ASEAN countries. This increasingly finer division of labour within China and ASEAN is reflected in the changing patterns of trade in parts and components in electronics and machinery, and textile and clothing sectors, as shown in the following tables. In organizing the COMTRADE data, we use the United Nations Broad Economic Categories (BEC) classification to define parts and components.

Table 5.2 Chinese electronics & machinery imports: total and share of components, 1997-2013, US$

Year	Singapore and Malaysia		Thailand, Indonesia and Philippine	
	Total	Share	Total	Share
1997	2,473,665	75	665,924	70
1998	3,162,320	73	1,257,820	81
1999	3,635,103	70	1,813,598	75
2000	5,620,990	71	3,363,350	78
2001	6,347,620	75	3,962,382	80
2002	9,334,555	76	5,867,400	76
2003	14,626,641	73	10,741,213	69
2004	19,667,705	74	15,124,575	69
2005	24,253,822	77	20,794,834	67
2006	26,692,954	78	27,177,642	69
2007	29,013,142	78	35,184,507	71
2008	30,226,313	76	34,522,304	64
2009	29,898,793	79	25,716,588	53
2010	45,693,785	81	32,106,585	56
2011	52,680,807	80	33,687,027	55
2012	50,510,017	82	33,619,388	52
2013	52,100,644	86	28,808,834	60

Source: COMTRADE

Table 5.2 lists China's imports of electronics and machinery products for total value and for the share of parts and components over 1997-2013 from high-income and mid-income ASEAN countries. While the total imports of the products from the two groups of countries are skyrocketing, the shares of parts and components are changing in different direction. As expected, the share of parts in imports from Singapore and Malaysia has increased from lower the 70s to mid 80s in percentage, up by more than 10%. In contrast, the same share for parts in imports from Thailand, Indonesia and Philippines are declining in trend from the 70s to 50s in percentage, down by 20%. Clearly, there is a divergence between the two groups of countries within ASEAN in their roles of production sharing with China in electronics and machinery sector. In relation with China in electronics and machinery trade and production, the former is specializing towards R&D intensive parts and components production, while the latter is becoming less so. This pattern suggests that China is adjusting into somewhere between high-income ASEAN and mid income ASEAN for its position in global value chains in the said sector.

Table 5.3 Chinese exports to Vietnam, Cambodia, Laos and Myanmar total and share of components, 1997-2013, US$

Year	electronics & machinery		textile & clothing	
	Total	Share	Total	Share
1997	271,599	14	384,747	58
1998	343,633	19	394,813	53
1999	262,603	19	340,887	66
2000	323,138	25	331,176	88
2001	517,579	34	341,145	91
2002	752,497	39	582,435	85
2003	909,567	39	835,752	83
2004	1,143,743	39	1,077,106	88
2005	1,370,289	36	1,417,777	90
2006	2,026,148	36	1,813,211	92
2007	3,700,063	33	2,546,995	89
2008	5,417,107	33	3,330,831	84
2009	6,318,347	32	3,968,419	73
2010	8,496,394	35	6,325,552	76
2011	10,875,649	37	8,695,420	76
2012	12,657,988	46	11,239,111	62
2013	19,236,707	51	16,090,113	61

Source: COMTRADE

Table 5.3 lists China's exports of parts and components in two sectors, electronics and machinery, and textile and clothing, to the low-income ASEAN countries (Vietnam, Laos, Cambodia and Myanmar). Again, trade volumes are skyrocketing, but the shares of parts and components exhibit quite different patterns. For electronics and machinery, the share has experienced a sharp jump from merely 14% in 1997 to 51% in 2013, up by 37%.

For textile and clothing sector, an upward trend is also showing up, though at a much modest pace. The share was on rise from 58% in 1997 until 2006 reaching its highest 92%, and then started to decline reaching 61% in 2013. The rise in intermediates exports was the result of the Uruguay Round's decision to abolish the Multi-Fibre Arrangement (MFA) in 2005. When the MFA quota was expanding prior to 2005, China's rising share of parts and components exports to low income ASEAN reflects its strategy to take advantage of their cheap labour and newly acquired market access in US and EU, and to concentrate its own resources to high value-added yarn production. After 2005 when MFA was phased out but EU and US signed respectively with China special safeguard treaties as a new mechanism to restrict Chinese textiles and clothing exports to the two big markets. Almost at the same period, negotiations of the "Trans-Pacific Partnership Agreement (TPP)" were accelerated. Vietnam officially joined TPP in 2010. Regarding the rules of origin provision, the US always insisted on the "yarn forward" principle. It was expected that textiles and clothing containing Chinese yarn would not enjoy market access privileges under TPP. These factors contribute to the decline of the intermediates in terms of share in total textile and clothing exports after 2006. However, in terms of total volume, parts and components exports have been rising consistently over 1997-2013. Certainly, China has been helping set up sewing and assembly businesses in textile and clothing sector in these countries.

Table 5.4 Price comparison: electronic & machinery parts China made / high income ASEAN made

Year	number of common HS6	number of HS6 w/ price ratio < 1	share of HS6 w/ lower price
1997	118	92	78
1998	138	113	82
1999	134	93	69
2000	191	164	86
2001	202	168	83
2002	223	185	83
2003	229	185	81
2004	227	179	79
2005	222	177	80
2006	227	187	82
2007	211	171	81
2008	221	186	84
2009	213	154	72
2010	218	173	79
2011	224	198	88
2012	201	168	84
2013	155	136	88
Average			81

Source: authors' calculation based on COMTRADE data

For electronics and machinery parts and components, are there any differences between China made ones and those made in high income ASEAN made countries? Intuitively, we believe the former would be less technological sophisticated. To verify this, we compare the unit value of the same products, i.e., the same 6-digit HS codes, in Chinese exports to low income ASEAN countries and Singaporean and Malaysian exports to China. Table 4 list the results, as well as the number of products compared. Indeed, Chinese prices are consistently lower than those for the ones made by high income ASEAN countries. This is reflected in the share of products with a smaller than one ratio, ranging from the lowest 69%, to the highest 88%. On average over 1997-2013, there are 81% of the common products, i.e., electronics and machinery parts and components, for which China has a lower unit value.

Electronics and machinery, and textile and clothing are the two most outsourced sectors. Changing trade patterns in parts and component for the two sectors between China and ASEAN suggests that high-income ASEAN countries are increasingly specializing in R&D intensive operations in the value chains vis-a-vis China, and so is China vis-a-vis low income ASEAN countries. The consolidation of China as a processing and assembly centre for high income ASEAN parts and components, and the emergence of similar partnership between low-income ASEAN countries and China are an indication of more job opportunities being created for unskilled labours.

3.2 South Asia: The Emerging Value Chains

China-India

To achieve poverty reduction through revitalizing manufacturing and expanding exports is also the main theme of India's ongoing reform. India and China are comparable in many aspects. China's manufacturing and India's services are both important parts of the GVCs. However, India's IT-dominated services industry employs mainly skilled workers, and it cannot create enough job opportunities for its mass unskilled labour force. Therefore, its poverty reduction effect is quite limited. The Modi administration has taken it as the central task of its reform platform to revitalize India's manufacturing and to promote labour-intensive exports, which, if successfully implemented, would become a vivid replication of the "Chinese miracle".

In the 1960s and 1970s, the Indira Gandhi administration formulated a series of economic policies to promote and ensure equality. Despite of its original intention to protect workers and farmers on their own land, the Labour Law and the Land Act have today become obstacles to the development of large-scale labour-intensive manufacturing industry (Panagariya, 2008). The *China-India Regional Trade Arrangement Joint Feasibility Study* was completed in 2007. However, India decided not to go ahead with formal negotiations due to concerns about competition from Chinese manufacturing.

In recent years, with the economic slowdown, widening income disparity and the deterioration of unemployment and poverty, public discontent was on rise in India, especially against the background of China's rapid development. Buoyed by strong national aspiration for economic growth, the Bharatiya Janata Party who campaigned on a reform-for-growth platform won more than two thirds of the seats in the House of Commons in the 2014 election, which swept Modi to power. Professors Jagdish Bhagwati and Arvind Panagariya, both advisors to the new Indian administration and leading pro-trade economist at Columbia University, has even developed a blueprint for India's reform. In their book *Why Growth Matters,* which triggered debate on the country's future economic policy, they argue for further reform to liberalize labour and land markets to grant firms greater flexibility to hire and fire workers, and to reduce government interference with land transactions, both for the sake of labour-intensive manufacturing development (Bhagwati and Panagariya, 2013). Although a strong defender of the multilateral trading system, in commenting on South Asian economic integration, Panagariya believes that India should go for a free trade agreement with China so to usher in external competition in the manufacturing industry to spur domestic reforms. In place of the now defunct Planning Commission, the Modi administration installed in early 2015 the National Institution for Transforming India (NITI Aayog), chaired by the Prime Minister himself with Panagariya as his ministerial-level deputy, in charge of the overall development of India's reform strategy.

As part of India's manufacturing revitalization strategy, the Modi administration launched the Make in India initiative during the end of 2014 and the beginning of 2015. This initiative aims to encourage domestic and multinational companies to engage in manufacturing production in India, making it an important destination for foreign direct investment. It overlaps with China's interest in infrastructure investment in India and have also attracted investments from MIUI, Huawei, Lenovo and other Chinese high-tech companies. However, due to the shortage of skilled labour, development of India's high-tech manufacturing will face bottlenecks (Choudhury, 2016). Yet for low-skilled processing and assembly or other low-end manufacturing industries in China, this will be a rare investment opportunity.

This appears as an inevitable development, because it conforms to the reality of labour shortage and manufacturing upgrading in China. The two countries have high demographic complementary, as China has an aging population and rising labour costs while India has a young labour force. China's manufacturing upgrading and transfer abroad of its low-end labour-intensive industries (especially manufacturing processing and assembly) will certainly consider India a destination country, in addition to low-income countries in Southeast Asia.

However, supporting policies of the Make in India initiative are not in place yet. Would China's investments in India's low-end manufacturing industries be well received? Could products made with Chinese investments be sold in India? Although they would provide a large number of manufacturing jobs for low-skilled workers and help India to achieve its reform objectives, there is no policy guarantee such potentials would be unleashed. The majority of India's manufacturing firms are small or medium-sized mainly engaging in low-end production. Incapable to realize the economy of scale, they are very much concerned about opening up for Chinese trade and investments in the face of China's competitive advantages in the low-end manufacturing. This is precisely the reason why the *2007 China-India Regional Trade Arrangement Joint Feasibility Study* ended with no step forward and why reservations exist in the Make in India initiative about receiving the transfer of China's low-end manufacturing and even nationalist sentiments against Chinese products. To solve these problems require not only legislative reforms in India to clear the path for manufacturing development, but also institutional innovations on the part of both countries to reduce political oppositions to China's low-end manufacturing investment in India.

Manufacturing in South Asia, such as in Pakistan and Sri Lanka, are generally underdeveloped. For its own interest, China should try to avoid bringing in adversary shocks when promoting trade and investment projects in these countries, even in the absence of local political oppositions.

China-Pakistan

China and Pakistan started free trade agreement (FTA) negotiations at the beginning of this century, and reached an agreement in 2006. Like India, Pakistan does not have an established supply chain partnership in manufacturing with China. But the difference is that Pakistan is an all-weather ally of China, and depends heavily on China for economy, military and security. A country linking China's inland and the Indian Ocean, Pakistan is of great strategic importance for China. The China-Pakistan Free Trade Area does not only serve to enhance our bilateral economic and trade relations, but is also a key part of China's geopolitical strategy. It was China's original intention to fully consider the interests of Pakistan in the negotiations, which is also reflected in the final agreement. In terms of the number of tariff lines, China made more concessions.

However, in terms of utilization of the agreement, Pakistan actually made more concessions. For example, among all agreed tariff reductions, Pakistan has only used 301 tariff lines, compared to 3345 used by China. For sensitive product tariff lines, Pakistan has used only 49, as opposed to 556 used by China. Pakistani concessions covered not only intermediates, but also final products that competes with local production. In addition, for the products Pakistan has most export potentials, such as jewellery, textiles and plastic products, China's preferential tariffs for Pakistan are even higher than for ASEAN. The first-phase implementation of the agreement witnessed a huge influx of various Chinese products into Pakistan, while Pakistani exports to China were quite limited, mostly agricultural, raw materials and other primary products (Pakistan Business Council, 2013). In Pakistan, the FTA's negative impact has been felt across the manufacturing sector, and is also reflected in sharp decline of fiscal revenue and growing trade deficit with China. The Pakistani public even ask whether Pakistan has really benefited from the free trade agreement (Siddiqui, 2010; Maken, 2011).

The reasons for the undesired outcomes are two-fold: Pakistan has thin trade policy capacity; and lack of effective communications between trade negotiators and business community is also to blame. Without the involvement of business representatives in the negotiation process, government negotiators may not fully understand the real trade problems of the business sector. As such, even with genuine goodwill on China's part, it is hard to reach a trade agreement with full intended benefits for Palestinian firms.

It is undesirable for a trade agreement of great significance like this to generate unintended consequences simply because of flood of China's manufacturing products in Pakistani market, leading to political backlash and blurring its original strategic goals. It was at a time when the Western countries were imposing sanctions on Myanmar's military government, which is of equal geopolitical importance as China's alternative passage to the Indian Ocean. It was also the time when the US "Pivot to Asia" strategy has yet to be conceived. Today when China's neighbouring countries are undertaking political reforms and new regional and international environment is shaping up, Pakistan's strategic importance is further highlighted. The experience of China-Pakistan Free Trade Area suggests that trade policy capacity building be covered by Chinese foreign aid, including supply chain capacity building. This is particularly important now, as China and Pakistan economic and trade relationship is getting ever closer.

China-Sri Lanka

Sri Lanka is a transportation hub in the Indian Ocean, and is also on major Chinese shipping routes. Like Pakistan, Sri Lanka's manufacturing is weak and has not been integrated into the global value chains. However, it maintains good relations with India and other major powers, and enjoys multi-dimensional international space. In June 2014, China and Sri Lanka completed Joint FTA Feasibility Study, followed by formal negotiations started in September (Ministry of Commerce, 2014). Amid this development, major changes in domestic politics in Sri Lanka have made it a pressing issue to establish bilateral industrial linkages through supply chains and to avoid labour market shocks.

Sri Lanka is a democracy with popular elections of the president and members of the parliament. During the ten-year tenure of former president Mahinda Rajapaksa, Sino-Sri Lanka economic and trade relations have been developing rapidly with many large-scale investment projects launched. However, Maithripala Sirisena of the opposition won the presidential election in January 2015, and further consolidate his power in the August parliamentary elections. The new government has ever since changed its China policy and started to reassess China's investment projects. Obviously, to promote bilateral economic and trade relations needs to consider the new political climate in Sri

Lanka, especially the economic interests of the ordinary voters.

Before the FTA negotiations started, renowned scholars in Sri Lanka already got ready to help define the blueprint of the agreement. Saman Kelegama, Executive Director of the Institute of Policy Studies, argues that a future FTA must take care of Sri Lanka's two key concerns: more products entering China and protection of their mature import substitution industries. Given the asymmetry of the two economies and the unbalanced bilateral trade relations, the Sino-Sri Lanka agreement should give Sri Lanka full special and differential treatment (SDT), following similar provisions in the India-Sri Lanka FTA. To relieve the import competition pressure from Chinese manufacturing, specific measures need to be deployed, including a longer negative list. The deep GVCs integration of China's manufacturing industry places it in a position to help with Sri Lanka GVCs participation through manufacturing integration of the two countries (Kelegama, 2014).

Kelegama's advice was given to Sri Lankan negotiators but can also be borrowed to help formulate Chinese negotiating positions. The vast majority of Sri Lanka's exports to China are resources, raw materials and low-end manufacturing with only limited number of products under sensitive tariff lines. Therefore, it is not difficult for China to open its market to Sri Lanka to the maximum extent. As the local mature industries contribute to job-creation and formation of protection-seeking interest groups, forcing into Sri Lankan market with competing products would only incur strong political repercussions. Therefore, in the manufacturing market access negotiations, China should steer away from the local mature import substitution industries, towards industries not yet developed. For existing (mature or less-developed) industries, China should seek market access for parts and components, instead of final goods, with an aim to establish bilateral industrial linkages. These should be the issues to be considered in our negotiations on market access, investment, services and other areas.

Countries in South Asia are under-developed in manufacturing, but they are becoming part of the GVCs. Meanwhile, Africa and the Pacific island countries are among the least developed, yet to be integrated into the GVCs, but opportunities are available to them, brought mainly by Chinese investment and trade.

3.3 African and the Pacific Island Countries: Budding Value Chains

China-Africa

The African economy relies mainly on the resource extraction and agriculture, and manufacturing is marginalized. According to the Economic Development in Africa Report 2011 released by the United Nations Conference on Trade and Development (UNCTAD, 2011), Africa's manufacturing sector accounted for 10.5% of its total GDP in 2008, while the number for Asian developing countries stood at 35%. Africa's share in world manufacturing production and exports is even smaller, only 1.1% and 1.3% respectively. For Africa's manufacturing GDP, the share of its labour-intensive manufacturing fell from 23% in 2000 to 20% in 2008. In addition, African manufacturing businesses are mostly small and informal ones. The sluggish development of labour-intensive manufacturing inhibits job creations, giving rise to a string of social ills such as poverty.

Since the inception of the Forum on China-Africa Cooperation in October, 2000, China-Africa relations have entered a new stage, with the rapid development of economic and trade relations, and China's investments in Africa have bolstered the bilateral trade. The total amount of Africa's exports to China surged 20-fold from 2001 to 2012, the bulk of them mineral resources and products. China's investments, dominated by state-owned enterprises, in the resource sector are conducive to driving the economic development in Africa. Yet, due to the low added-values of the mining industry and the fact that distribution of interests is primarily confined to the local government and elites, which fails to fully benefit people's livelihood. Coupled with the ignorance of environmental and ecological conservations, labour disputes and other issues, there has been a strong political backlash. The African Progress Panel led by Kofi Annan, former Secretary General of the United Nations, has lately released a report entitled "Equity in Extractives: Managing Africa's Mineral Wealth", which lashed out foreign enterprises that wreaked havoc in Africa. The report also made some prudent criticisms on China's practices in Africa which are not transparent and devoid of social responsibility (Africa Progress, 2013). Against this backdrop, helping the development of labour-intensive manufacturing in Africa to create jobs for locals serves not only the needs of China in restructuring its economy through outbound industrial transfer, but also meets the requirements for the further development of the China-Africa relations.

Africa's market capacity is limited. The often-mentioned advantages of investing in Africa's manufacturing include the convenient duty free and quota free (DFQF) access to China and other international markets. However, the bottleneck of Africa's exports is supply constraint, namely a lack of infrastructure and capacity to accommodate the whole set of manufacturing projects. Not only did massive infrastructure investments take a long time to yield profits, but also a rise in production capacity of the Africa's manufacturing industry is not a sure thing due to a dearth of human resources and other facilities. Undoubtedly, Africa needs foreign aids. However, its weak governance capacity and the political instability induced investment risks are root causes of the chronic poverty in Africa (Mills, 2010). These constraints determine that an appropriate size of export-oriented manufacturing is choice that fits well with the local conditions, which in turn defines Africa's limited manufacturing GVCs integration. Nonetheless, cases of Africa's successful GVCs participation can serve as positive demonstrations. Located in Ethiopia's Oriental Industrial Park, the Huajian Shoe Factory combines Chinese design, technical equipment and marketing expertise with rich raw leather and cheap labour in Africa, and have made the country's footwear industry a part of the GVCs. While confined to the industrial park and without creating a greater number of low-skill jobs, the Huajian story involves infrastructure development, trade and investment policy innovation and many other practices required to build a value chain. It can showcase the promising prospects of China's possible Africa policy adjustments.

China-Pacific Island Countries: Services

If inadequate infrastructure and political instability are the reasons behind the bleak near-future prospects of the large-scale GVCs participation by Africa's labour-intensive, manufacturing, geographic remoteness renders the same fate for the Pacific island countries. More importantly, the geographic locations cannot be changed. For PICs, the economic and social development strategy of GVCs participation by labour-intensive and low-end manufacturing is simply not a viable option, and hence alternative route defined by their own comparative advantage needs to be explored in the services sector.

The Pacific island countries have a small population and tiny land areas, but cover the vast South Pacific Ocean that boasts rich marine and mineral resources. From the marine strategy perspective, they occupy the important geographic locations. In 2006, the "China-PICs Economic Development & Cooperation Forum" was launched and the bilateral relations have developed rapidly ever since. The 2006 military coup in Fiji, the large Pacific island country, prompted the western countries to impose sanctions on the military regime. This was another factor that helped strengthened the China-Fiji relations, which in turn helped leverage the development of China's relations with other PICs. This has resulted in soaring investment and trade volumes between China and PICs. China exports to PICs a variety of manufacturing products while importing minerals, forests and seafood. In PICs, China has become an important infrastructure investor in roads, ports, schools and other areas. As pristine tourist attractions, the PICs are a net exporter of services (Yao *et al.*, 2013).

The PICs are low-income countries, and the Western sanctions on Fiji affected their largest economy. Moreover, the PICs manufacturing lacks growth potentials because it is subject to constraints of small domestic markets and difficult access to international markets dues to their geographical remoteness. Therefore, there is limited space to achieve social and economic development by promoting manufacturing. In the meantime, their fragile ecological environment restricts the development of resource-related industries. On the other hand, however, as former British colonies, countries of the region belong to the Commonwealth and are rich in English-speaking human resource. Being in a unique time zone, they could become English call centres to serve Chinese businesses.

Compared to India, except the difference in size, what is special about the PICs English services industry? First of all, India's comparative advantage in services is not real. It shows up only as a result of labour market distortion and manufacturing depression. The Modi administration's "Make in India" initiative will improve the infrastructure, unify the labour market, and thus fully reveal the real comparative advantage industries of the Indian economy, namely, the labour-intensive manufacturing. By then, skilled workers would leave the services sector for manufacturing jobs, resulting in services shrinkage. For PICs, however, the prospect of comparative advantage swap between manufacturing and services does not exist and their comparative advantage in services will remain in the long run. Secondly, India's services industry part of the IT value chains of the English-speaking world (mainly the United States), and the low labour cost (not English itself) is the source of its comparative advantage in services. For Chinese manufacturing, PICs call centres would mainly provide specialized English services, making them more complementary. Thirdly, to best tailor services projects, the client countries need to maintain close economic and trade contacts and cultural exchanges with the providing countries. In recent years, China has become one of the region's most significant non-English speaking partners in trade and investment. The establishment of the Confucius Institute could serve as a platform for language project cooperation.

Chinese export-oriented firms are gradually getting into marketing and other high value-added businesses. Their transformation and going global demand high-quality English services. In our economic and trade cooperation with the region, it should become a key task to help tap the local comparative advantage in English language services derived from their unique geographic and historic conditions to forge supply chains with Chinese manufacturing.

After Fiji's democratic election in September, 2014, the western countries wasted no time to drop the sanctions and move swiftly in their return to the region. President Xi Jinping's visit to the South Pacific in November once again brought the region in the spotlight. To protect China's economic and strategic interests in the region's future political development, it is in pressing need to optimize our investment and development projects to benefit the people as much as possible.

4. General Applicability of China's Processing Trade Regime

China's processing trade regime can be borrowed in building value chains in the B&R initiative, as it provides the necessary policy support for transferring Chinese industries overseas and it is also required by the local conditions. In general, developing and the least-developed regions have a large poor population, especially in the rural areas, and they are in more pressing need for inclusive trade growth. At the same time, to protect domestic industries and fiscal revenue, trade protection is usually more stringent. These countries tend to be more on the defence in Doha non-agricultural market access (NAMA) negotiations, and are particularly concerned about China's labour-intensive manufacturing that competes directly with local firms.

This is very similar to China's situation. China's early industrialization emphasized capital-intensive heavy industries. In the reform era, policy support for technology-intensive strategic industries has remained in place, and China has always been trying to strike a balance between opening up trade and protecting its import competing industries. During the early years of China's opening up, its participation in international division of labour was mainly through the "foreign parts, domestic assembly and home sales" model, which was only the very basic form of value chain integration. Technically, it was not the real "value chain trade" because no domestic value-added was exported. Since the early 1990s, facilitated by the processing trade regime, value chain integration has been deepened through the "foreign parts, domestic assembly and export" model.

Export processing is not unique to China. But China's innovation is going beyond the usually confined processing trade zones to carry out large-scale export processing operations all over the country. The key to its success lies in its innovative customs management: no tariffs and value-added tax exemption for imports; and no domestic sales allowed to ensure the imports are exported. This processing trade regime works to facilitate large-scale cross-border flows of parts and components, protect domestic industries from external shocks and to avoid the loss of tariff revenues. It also helps create a huge number of processing and assembly jobs.

In comparison, practices of processing trade are still at the preliminary stage in the B&R countries. Some of them sell the final products at home (thus not really participating in GVCs production), such as the case of electronics and machinery in low-income ASEAN countries and in India. Some confine export processing activities to designated industrial parks, such as the case of the Huajian Shoes Company in Ethiopia's Oriental Industrial Park. Selling at home has the market limitation problem, while setting up small enclosed areas as processing trade zones to export assembled products is a good idea only for policy experiment. To achieve large-scale poverty reduction and inclusive trade growth, however, processing and assembly job opportunities need to be extended to the wider low-income population, and policy measures need to be in place to extend the processing trade operations to much larger geographic areas. Foreign academics and policy community are very interested in China's experience of manufacturing export. However, their focus is often on our Special Economic Zone (SEZ) (Aggarwal, 2012). The processing trade regime is a customs management system that goes well beyond SEZ, and is the coordinated supervision of foreign trade involving various agencies with jurisdiction over commerce, customs, quality inspection and quarantine, taxation, and foreign exchanges, which is fundamentally different from SEZ management. To successfully move China's manufacturing abroad, especially the processing and assembly industry, requires not only investment in industrial parks and other infrastructure, but also the establishment of a customs management system similar to China's export processing regime. In India, it is right time now for us to make hardware investment in industrial parks and other infrastructure, to introduce China's processing trade regime and other policy software, to re-visit the idea of a Sino-Indian FTA and to speed up bilateral manufacturing linkage with GVCs integration as a focal point. In Africa, a more realistic approach would be to experiment export processing management in enclosed industrial parks. While this cannot create a great number of jobs for low-skilled workers, it can serve as a good demonstration for future policy development. At the current stage of the B&R initiative, it is not only for the need of the B&R countries but also for the need of the go-global and domestic optimization strategy of China's processing trade industry that China provides aid for trade governance capacity building, helps install processing trade regime and supports physical infrastructure investment with matching policy software (State Council, 2016).

While Africa's export supply constraints make it unable to take full advantage of the preferential terms to access major international markets, i.e., duty-free and quota-free (DFQF) treatment for most products, the fact that ASEAN and some South Asian developing countries have growing market access opportunities in developed countries makes them good overseas destinations for China to transfer its processing trade firms. A good example is the evolution of the US Generalized System of Preferences (GSP), which is designed to give developing countries, including many B&R countries, preferential market access, i.e., tariffs lower than the most favored nation (MFN) rates, usually zero tariff, for their products. Moreover, the product and country coverage is also expanding. At the end of June 2016, the US government announced it would expand the zero-tariff treatment to all travel goods, which normally have 4%~20% MFN tariff rates. The zero tariff for travel goods applies to 38 African countries covered by the African Growth and Opportunity Act and 43 other "least developed" and "GSP" countries. The share of African zero-tariff beneficiaries in the US market is negligible, and the export supply constraints render zero-tariff treatment virtually ineffective in advancing poverty reduction and development in Africa. China, on the other hand, is a major exporter of travel goods: China and Vietnam make up 90% of the US travel goods market, or $5 billion. Chinese products are very competitive and zero-tariff treatment for African countries does not pose a threat to its presence in the US market. Due to their unfavourable investment and production environments, such market access incentives are not strong enough for firms to move from Asia to Africa. In light of this, the US government is considering to extend the zero-tariff coverage of for travel goods to all GSP countries.

This policy motion has important implications. If implemented, not only Cambodia and Myanmar, the two least developed ASEAN countries, but also Thailand, Indonesia, the Philippines, India, Sri Lanka and Pakistan and other B&R countries would enjoy zero tariff for their travel goods. These countries have very promising export prospects. For example, the Philippines' travel goods industry is expected to grow by $100 million per year and the government plans to increase investment in the industry over the next five years to create 75,000 jobs (Rushford, 2016). This is undoubtedly an important opportunity for China's processing trade industry to increase their overseas presence. In this context, to establish processing trade regime in these countries can promote the formation of the industry value chains, which would help bring closer the B&R countries through joint efforts to improve people's livelihood.

5. Building Value Chains Through "Aid for Trade"

Chinese aid in the B&R initiative is mostly in infrastructure. Although this aid strategy may ultimately promote trade in these countries and benefit the poor, assistance focusing on aid programs specifically designed to overcome trade bottlenecks and to bring low income people into the global trading system will be more effective and sustainable in terms of poverty reduction. This was also the vision of the "Aid for Trade (AfT)" initiative launched at the 2015 WTO Ministerial Conference in Hong Kong. This AfT initiative covers two main areas: infrastructure and human resources investment, and trade policy capacity-building. Although these elements are already present in our current foreign aid projects, it is of special significance to organize Chinese foreign aid in the B&R initiative under the AfT framework.

First of all, the AfT operational mechanisms include systematic diagnosis of trade and development needs for a country and the subsequent aid prescriptions. Since the AfT and B&R initiatives share the same vision, the former can serve as an organizational framework for the latter to coordinate and integrate aid projects, to create synergy among the projects and to ultimately improve their overall quality and efficiency. This will help solve the problem of the Chinese projects being loose, disorderly and fragmented in organization and implementation, making Chinese foreign aid more sustainable.

Secondly, empirical evidence suggests that AfT is particularly helpful for developing and the least developed countries with their GVCs participation. It is estimated that each AfT dollar will increase export by $8 for developing countries and by $20 for the LDCs. In addition, comparing with overall export, AfT is more effective in boosting with export of intermediate goods such as parts and components (OECD and WTO, 2013, Table 155 on page 155 and Figure 5.2 on page 158). Using the gravity model, Vijil (2014) studies the effectiveness of AfT in different areas and finds that AfT and regional trade arrangements are complementary. Aid in institutional capacity building (e.g. trade policy capacity building) gains the best result compared with that in infrastructure and production capacity building. Each additional aid dollar leads to $27 more exports by a recipient country to other member countries of the regional trade agreements. These studies provide empirical references for Chinese AfT projects in B&R countries, especially for aid in processing trade and GVCs management capacity building.

Finally, as part of China's foreign aid, AfT can serve as a bridge between China and Western countries in foreign aid cooperation. China's development assistance is growth-driven, with a focus on practical results, while OECD countries' development assistance is process-driven, with a focus on Western democratic process, such as good governance, accountability, transparency and participation. The two operate under different frameworks (Wang and Liu, 2012). This difference makes the China model susceptible to Western criticism. The Chinese government has been well aware of the need to make appropriate adjustments in matters of non-principle to reduce political friction. It has become a consensus in Chinese policy community to upgrade Chinese aid program by providing more aid through multilateral agencies in parallel to bilateral aid efforts. Assistance to B&R countries under the WTO AfT framework is in line with the development of China's foreign aid policy (China WTO Society, 2014).

To build the B&R value chains through the installation of processing trade regime requires the support of a package of policies and infrastructure projects. Each B&R country has its own unique conditions that requires specially tailored aid package. With the success of its processing trade regime and as a major donor in the South-South cooperation framework, China has much to do in AfT initiative for B&R countries.

6. Conclusion

In China's trade cooperation with other developing countries, China can borrow its successful experience in the South-North trade cooperation. China's infrastructure investment in industrial parks has attracted FDI engaging in GVCs production and trade. China's participation in the GVCs dominated by developed countries has created job opportunities for its surplus rural population and contributed to its poverty reduction. Today, China has joined the rank of high-income developing countries, deepening its GVCs relations with developed countries and upgrading its industries on one hand, and transferring its low-end manufacturing to other developing countries, especially to low-income developing countries, on the other hand. With the funding support of the B&R initiative, the AIIB and the BRICS Development Bank, the pattern of "flying geese" in manufacturing is emerging across the B&R region.

However, these developments alone do not suffice to make a replication of the "Chinese miracle" in achieving large-scale poverty reduction and inclusive growth. The B&R countries still quite a lot of low-income and low-skilled people but their labour-intensive manufacturing is underdeveloped. Under the political systems characterized by popular election, the trade liberalization process can be swayed by manufacturing voters. Under such conditions, to translate the intrinsic economic logic of poverty reduction through massive GVCs trade into a win-win reality requires the support of the processing trade regime, so as to avoid political repercussions induced by manufacturing trade frictions with China. The processing trade regime is China's innovation, and is also the supporting policy software to match the hardware development in infrastructure and industrial transfer, which should be an important part of the B&R value chains development.

It is evident that other developing countries are in need of capacity building for trade cooperation with China in the GVCs era. To ensure a sustainable development of the B&R initiative, China needs to reform its foreign aid policy, to consolidate its foreign aid projects under the AfT framework, and to incorporate processing trade management into its trade policy capacity building program.

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Chapter 6

South-South Development Assistance*

1. Introduction

South-South Cooperation originated from the 1950s and has been developing for more than 60 years now. Many international organizations such as the United Nations Office for South-South Cooperation (UNOSSC), the United Nations Development Program (UNDP), etc. have their definitions of South-south Cooperation, Although the definition of South-South Cooperation varies by institutions, their core essence is generally consistent. South-South Cooperation is broadly defined as cooperation at bilateral, multilateral, regional or interregional levels which is initiated, organized and managed by developing countries themselves, in order to promote political, economic, social, cultural and scientific development.[1] The Buenos Aires (1979) Conference clearly outlined South-South Cooperation as being made up of technical cooperation as well as economic cooperation between developing countries.

Modern development assistance started with the European Recovery Plan (the Marshall Plan) by the United States in 1947. Developed countries have been dominant in the field of development assistance, and the international development assistance system is established and regularized by

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1 Meibo Huang and Luping Tang. South-South Cooperation and China's Foreign Aid[J]. International Economic Cooperation, 2013(05): 66-71.

the OECD Development Assistance Committee (DAC).[1] With the development of society and economy, some traditional recipient countries began to take part in international development assistance becoming recipient and donor countries at the same time. Especially in the 21st century, development assistance by some non-DAC donors is starting to get the attention of the international community. But, not all the development assistance provided by non-DAC donors can be called South-South development assistance in a strict sense. According to some common features of non-DAC donors, Felix Zimmermann and Kimberly Smith (2011) divided non-DAC donors into three groups: The first is emerging donors, consisting mainly of new member states of the European Union (EU), but also including Israel, Russia and Turkey. Their laws, strategies and institutions for development assistance are, for the most part, similar to those of most DAC members. The second is Arab donors, mainly including Kuwait, Saudi Arabia and the United Arab Emirates. These countries feel satisfied with the donor label, but their administrative system for development assistance are weak, both at headquarter and at field level, and their focus is on project delivery. The third are providers of South-South development assistance. Middle income and emerging economies, including Brazil, China, India, South Africa, Chile, Colombia, Mexico, and Thailand, are the most active South-South development assistance providers.[2]These countries provide financial support and expertise to other developing countries, but they remain hesitant to use terms like "donor" and "aid" to describe the support they provide.

South-South development assistance, therefore, refers to the development assistance provided by South-South Cooperation partner countries to other developing countries. Different from the ODA(official development assistance) provided by traditional DAC donors and other non-DAC donors, firstly, south-south development assistance is guided by the spirit of the Bandung Conference (1955) (the principles of South-South Cooperation, namely, adherence to the respect for partners' sovereignty and non-conditionality in the field of politics, emphasizing mutual benefit and win-win cooperation, as well as the promotion of economic development of both sides), which makes south-south development assistance Secondly, south-south development assistance is more multi-faceted, which includes development assistance which is provided bilaterally or multilaterally on grant or concessional terms, and other related economic and technical cooperation, such as trade, investment, capacity building, technology and knowledge transfer[3].

1 Luping Tang. Developing Countries' Foreign Aid and the Future Prospects: Take China, India and Brazil as Examples. [D]. Xiamen: Xiamen University, 2014:1.

2 Zimmermann, F. and K., Smith. New Partnerships in Development Co-operation[J]. OECD Journal: General Papers, 2011, Vol.2010/1:37-45.http://www.keepeek.com/Digital-Asset-Management/oecd/economics/new-partnerships-in-development-co-operation_gen_papers-2010-5kgc6cl34322#.V9ToMuyerVc

3 Neissan, B., Kelebogile, K. and M., Moilwa. Developing a Conceptual Framework for South-South Cooperation[R]. NeST, 2015:9-10.

2. An Overview of South-South Development Assistance

The major participants in South-South development assistance are non-DAC donors following the principle of South-South Cooperation in development assistance, such as China, India, South Africa, Chile, Colombia, Mexico, Thailand, etc. In recent years, the size of the South-South development assistance providers has been on the rise. As the development assistance of these countries is within the framework of South-South Cooperation, there exists certain commonality among these countries regarding the scale of aid, regional distribution, sector distribution, aid approaches, aid channels, aid management, etc. However, due to their difference in historical conditions, development situations, surrounding environment, etc., the development assistance of these countries also has its unique features, and they usually make use of development assistance to serve their own diplomatic, political and economic objectives.

2.1 Regional distribution of South-South development assistance

The South-South development assistance providers tend to take neighbouring countries and countries whose economic development is similar to that of their own, as their priority regions. With the increasing concern of international community for Africa's development in recent years, South-South development assistance providers have also begun to focus on African countries. Brazil, for example, takes Central and South America and the Caribbean as priority countries of its transfer of successful experience and technology, as these countries have a close relationship with Brazil either in history or culture. However, the purpose of its cooperation with Africa is to

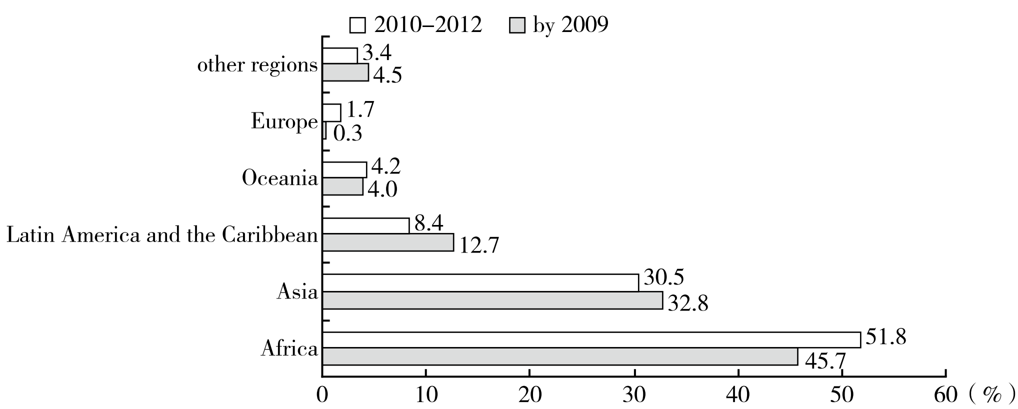

Figure 6.1 The regional distribution of China's foreign aid by 2009 and from 2010 to 2012

Source: Summarized by the author according to data in *China's Foreign Aid White Paper (2011)* and *China's Foreign Aid White Paper* (2014).

solve the historical debt problem born in the period of slavery.[1] In China's development assistance, Africa has always been the most important region. By 2009, China's development assistance to Africa accounted for 45.7% of the total funds, and it rose to 51.8% from 2010 to 2012.

Table 6.1 Regional distribution of South-South development assistance providers

Donors	Donors' region	Priority regions	Priority countries
Brazil	Latin America	Africa's Portuguese-speaking countries, Central and South America and the Caribbean, Asia and Eastern Europe	Mozambique, East Timor, Guinea-Bissau, Cape Verde, Haiti, Uruguay, Guatemala
China	East Asia	Africa, Asia, Latin America and the Caribbean	—
India	South Asia	South Asia and West Africa	Bhutan, Afghanistan, Bangladesh, Nepal, Sri Lanka
South Africa	Africa	Africa (especially Sub-Saharan African countries) and mainly the neighbouring countries of South Africa	Zimbabwe, Democratic Republic of the Congo, Uganda, Madagascar, Lesotho, Mali
Chile	Latin America	Latin America and the Caribbean	Mexico, Haiti, Bolivia
Colombia	Latin America	Central America and the Caribbean	—
Mexico	Central America	Latin America and the Caribbean, especially Central America	—
Thailand	East Asia	East Asia	Cambodia, Laos, Burma, Vietnam

Source: Summarized by the author using information mainly from Xiaoyun Li et al. International Development Assistance of Non-OECD/DAC Countries[M]. Beijing: World Affairs Press, 2013:7-8.

2.2 Sector distribution of South-South development assistance

In general, most South-South Development Assistance Providers (SSDAPs) have huge difference in their sector distribution. The main concern of SSDAPs is closely linked to the scale of aid and aid approaches. Donors with large aid scale, deliver aid mainly through preferential loans and pay more attention to economic infrastructures such as energy development, transportation and warehousing. However, social development also remains one of their concerns. This group of countries includes India, China, etc. Countries with small aid scale, mainly deliver aid through technical assistance, concentrating on social development, such as education, health and employment. This group includes Chile, Thailand, etc. In addition, compared with DAC members, SSDAPs pay more attention to development assistance in the field of agriculture. Typical examples include Brazil, India, etc.

1 Meibo Huang and Qi Xie. Brazil's Foreign Aid and Its Management System[J]. International Economic Cooperation, 2011(12): 21-26.

Table 6.2 Sector distribution of South-South development assistance providers

Donors	Priority sectors
Brazil	The main areas of technical assistance focus on the field of agriculture, health and education, and put a greater emphasis on agriculture in Africa
China	Focus on the field of economic infrastructure, public infrastructure, agriculture, industry, human resource development and cooperation, etc.
India	The main areas of grant is rural development, education, health and technical cooperation, while loans focus mainly on the field of infrastructure
South Africa	Focus on promoting democracy and good governance, preventing and resolving conflicts, humanitarian aid, human resources development, the social and economic integration, and cooperation with other countries
Chile	Focus on the field of society, system and modernization construction, production development, among which the society field has been relatively more important, including culture and cultural management, environmental, social development, poverty eradication, health and education
Colombia	Focus on the field of government management, environment, education, arts and culture, production development and factories, etc.
Mexico	Focus on the field of agriculture, energy, infrastructure, education, etc.
Thailand	Focus on human resource cooperation in the field of education, health and agriculture, which the specific activities include training, sending Thai experts, providing equipment and tailor-made training programs according to partners' needs

Source: Summarized by the author according to information mainly from Xiaoyun Li et al. International Development Assistance of Non-OECD/DAC Countries[M]. Beijing: World Affairs Press, 2013:9.

With the change in international environment and the conditions of the donors themselves, SSDAPs have made some adjustments to their sector distribution. According to the White Papers of *China's Foreign Aid (2011)* and *China's Foreign Aid (2014)*, China has been emphasizing economic infrastructure construction by 2009, but this emphasis weakened from 2010 to 2012, with aid funds in this sector falling from 59% to 44.8% between 2010 and 2012. At the same time, China attaches more importance to social infrastructure, with aid funds flowing to this area rising from only 3% of total aid volume during1951 to 2009, to 27.6% during 2010 to 2012. In addition to social infrastructure, more attention is given to human resources development and cooperation, with 3.6% of aid funds flowing to this field between 2010 and 2012, compared to a negligible amount before. Therefore, China's main sectors in development assistance show a shift "from economic infrastructure to social infrastructure" and "from hardware construction to capacity building".

2.3 Aid approaches and channels for South-South development assistance

With regard to aid approaches, DAC members usually delivery aid through financial aid, while SSDAPs like Brazil, India, Chile, and Mexico delivery aid mainly through project aid and technical assistance.

Table 6.3 Aid approach of South-South development assistance providers

Donors	Aid approach
Brazil	Mainly provide technical assistance, debt relief, food aid and urgent humanitarian assistance with a small proportion of grant.
China	Including 8 approaches: Complete sets of projects, general foreign aids, technical assistance, human resource development assistance, medical team, urgent humanitarian assistance, volunteer, debt relief, and with complete sets of projects as the principal
India	Project aid, technical assistance, debt relief, preferential loans
South Africa	Mainly delivering aid through New Partnership for Africa's Development (NEPAD) and African Renaissance and International Co-Operation Fund (ARF), in the form of technical assistance humanitarian aid and debt relief
Chile	Technical assistance, scholarships
Colombia	Humanitarian assistance, etc.
Mexico	Mainly in the forms of technical assistance, especially sending experts and technical personnel to carry out training in a trilateral cooperation setting
Thailand	Technical assistance, especially human resource cooperation

Source: Summarized by the author according to information from Xiaoyun Li et al. International Development Assistance of Non-OECD/DAC Countries[M]. Beijing: World Affairs Press, 2013:11.

There are three kinds of aid channels: bilateral, multilateral and trilateral cooperation. Although DAC members attach importance to providing aid through international multilateral institutions, the major aid channel for DAC members is bilateral aid in terms of the total funds delivered. The proportion of aid funds delivered through international multilateral institutions in total aid is about 30%. SSDAPs have two kinds of different patterns of the use of bilateral and multilateral channels. One group of countries deliver development assistance mainly in the forms of the bilateral aid, and make less use of international multilateral institutions, such as Brazil, India, China, etc. The other group of countries seldom provide bilateral aid, and mainly provide development assistance through the platform of international multilateral institutions, such as South Africa, Thailand, etc. Before the establishment of South African Development Partnership Agency (SADPA) in 2011, 75% of South Africa's development assistance was delivered through multilateral channels, such as Southern African Development Community, Southern African Customs Union and so on. South Africa' development assistance also flows to African Renaissance and International Co-Operation Fund (ARF).

Trilateral cooperation is a relatively new form of development assistance, in which a donor country cooperates with another donor country or international multilateral institution, to provide development assistance to a third country. In the common mechanism for SSDAPs' trilateral cooperation with DAC countries, usually traditional donors or international multilateral institutions provide funds and management experience, while SSDAPs provide technical inputs such as technicians, venues and facilities. And the main area of this kind of trilateral cooperation is technical cooperation, especially training cooperation. Trilateral cooperation has received more attention from South-South development assistance providers like Brazil, India, Chile, Mexico, Thailand, etc. Take the triangular cooperation between Chile and the United States as an example. The State Council, Ministry of Treasury and Ministry of Agriculture of the United States jointly provide law enforcement support while the Chilean government provides technicians from many departments to support the aid projects. A report by OECD indicates that Mexico is one of the most active countries in trilateral cooperation in international development assistance, and its major trilateral cooperation partners are Japan, France and Germany[1]. Trilateral cooperation with non-DAC donors usually adopts the method of joint fund contribution. For example, Mexico and Argentina each halved the aid funds in their trilateral cooperation; SSDAPs like India, Brazil and South Africa provide aid to other developing countries by setting up common funds.[2]

2.4 Aid management of South-South development assistance providers

DAC countries have the relatively standard arrangement in aid management. They mostly have special institutions to manage aid affairs and foreign aid and diplomacy have relatively equal position in the national institutional set-up. However, most South-South development assistance providers haven't set up independent institutions for aid management, and aid affairs are usually concern of the country's Ministry of Foreign Affairs, Ministry of Commerce and other relevant ministries. SSDAPs mainly have two types of institutional settings for aid management: management by international cooperation agency affiliated to Ministry of Foreign Affairs and joint aid management by multiple ministries. The more common practice amongst these is to establish an international cooperation agency affiliated to Ministry of Foreign Affairs. Countries adopting this pattern include Brazil, South Africa, Chile, Thailand, etc. Some countries, such as India, deal with aid affairs through cross-ministry coordination and management. However, no matter what structure of aid management system is adopted, the common characteristics of SSDAPs in aid management are that most countries don't have a unified aid management system yet, and the multi-ministry participation in aid affairs is quite common. Even if some countries have set up a dominant committee or agency to coordinate aid affairs, they still have problems about aid coordination between different ministries.

Take Brazil as an example. Agencia Brasileira de Cooperacao (ABC), established in September 1987 and affiliated to Ministerio das Relacoes Exteriores (MRE), is responsible for technical assistance of Brazil and the corresponding technical standards and foreign policies. In terms of management system, on the one hand, ABC has established an aid management system based on its management functions with six coordinating ministries. On the other hand, though ABC

1 Meibo Huang and Lianghe Song. Mexico's International Development Assistance: The Evolution and Tendency[J]. International Economic Cooperation, 2014(01): 72-76.

2 Xiaoyun Li et al. International Development Assistance of Non-OECD/DAC Countries[M]. Beijing: World Affairs Press, 2013:12-13.

management system has already been shifted to a function-based operation, the geography-based management system structure remains in practice, because previously ABC carries out bilateral negotiations with recipient countries according to the geographic location at the beginning of delivering development assistance. In addition to the Ministry of Foreign Affairs to which ABC is affiliated, the other main participants in technical assistance include federal government ministries (such as the Ministry of Agriculture, the Ministry of Health, Ministry of Education), local government departments (such as states, cities), state-owned enterprises (such as Empresa Brasileira de Pesquisa Agropecuaria), public research centres (such as Fundaaco Oswaldo Cruz), financial institutions (such as Banco Nacional de Desenvolvimento Economico e Social), as well as some private and non-governmental organizations.[1]As the existing laws in Brazil only govern the bilateral and multilateral aid projects of which Brazil is a recipient country, there is a lack of legal framework to regulate the development assistance activities of Brazil as a donor country. According to the laws and regulations, whether ABC could actually intervene and coordinate is not clear when various ministries perform specific projects under the same framework. In addition, the experience exchange and cooperation between ABC, various ministries and other stakeholders are also inadequate.[2] ABC has operated for about 30 years, but the fragmentation of organization and the lack of central control still exist in Brazilian aid management system.

3. The Characteristics of South-South Development Assistance

Although traditional development assistance (north-south development assistance) still dominates the international development assistance system, south-south development assistance is gradually rising and is becoming important in the international development assistance system. On the one hand, the objective of both kinds of development assistance is to help recipient countries achieve the UN development goals as well as promote economic and social development in recipient countries. On the other hand, as north-south and south-south development assistance originated from different historical conditions, their understanding of development is quite different, which makes them distinct in some aspects.

3.1 The convergence of South-South and North-South development assistance

The Paris Declaration on Aid Effectiveness ('Paris Declaration' for short) (2005) specifies the

1 Shaosa Lv. Brazil's Management System of Foreign Aid and Its Challenges[J]. International Economic Cooperation, 2013(10): 65-70.

2 Jixia Lu and Xiaoyun Li. The Characteristics of Brazil's International Development Assistance and Its Revelation [J]. International Economic Cooperation, 2013(05):77-81.

principle of ownership, alignment, harmonization, managing of results and mutual accountability, in order to improve aid effectiveness. In comparing these five principles with the main principles of south-south development cooperation raised in Buenos Aries Plan of Action (1979) and at meetings of Southern partners (such as the Delhi Conference of Southern Providers (2013), the Bogota (2010) and Nairobi (2009) conferences), we can find some similarities between them, which lays a solid foundation for dialogue and cooperation between north-south and south-south development assistance structures.

3.1.1 The principle of ownership

The principle of ownership means that the development assistance is oriented to the development of recipient countries, and that recipient countries should be in a dominant position at various stages of development aid programs. The Paris Declaration, the Accra Agenda for Action as well as in the Busan Partnership for Effective Development Co-operation mark the shift from aid effectiveness to development effectiveness and listed the principle of ownership as one of the main principles of North-South development assistance. The Paris Declaration states that recipient countries shall play leading role over their development policies, strategies and development cooperation[1], and the Busan Partnership for Effective Development Co-operation emphasizes recipient countries autonomy over development priorities, defining that these countries should be allowed to choose the development model that they desire[2]. Development assistance in the framework of South-South Cooperation is based on the Five Principles of Peaceful Coexistence, namely mutual respect for territorial integrity and sovereignty, mutual non-aggression, non-interference in each other’s internal affairs, equality and mutual benefit and finally, peaceful coexistence. The Ten Principles of the Bandung Conference in 1955, also called the principle of South-South Cooperation, were derived from the Five Principles of Peaceful Coexistence. With the constant development of South-South Cooperation, some adjustments have been made to its principles, but the principle of sovereignty remains. Buenos Aries Plan of Action (1979) sets out 9 goals for technical cooperation among developing countries, the first of which is to build the self-development capacity, on the premise of respecting the value, pursuits and special needs of developing countries themselves.

3.1.2 Demand-oriented and capacity building

Under the guidance of the principle of sovereignty, both North-South and South-South development assistance claim that development assistance should be demand-oriented. With North-South development assistance, the Accra Agenda for Action points out that donors’ support

1 The Paris Declaration on Aid Effectiveness[Z]. OECD, 2005.

2 The Busan Partnership for Effective Development Cooperation[Z]. OECD, 2012.

for capacity building of developing countries should be demand-oriented, and should respect the sovereignty of recipient countries. In South-South development assistance, it is pointed out in the documents of the Nairobi conference that aid should be provided to enhance development capacity and to solve the development problems faced by developing countries on the premise of meeting their needs, with an emphasis on meeting the needs of developing countries. In the conference documents of the Bogota and Delhi conferences, "demand-oriented" principle is further emphasized.

In addition, both North-South and South-South development assistance have realized the importance of recipients' capacity building, and put emphasis on strengthening the capacity of recipient countries in order to enable them to make their own decisions. In North-South development assistance, the Accra Agenda for Action states that developing countries couldn't fully hold and manage the development process without powerful institutions, system and local professional knowledge. In South-South development assistance, capacity building is listed as one of the principles in the conference documents of the Buenos Aires, Nairobi, Bogota and Delhi conferences.[1]The feature of demand-orientation has been represented very well in South-South cooperation practices, which can be shown in all of the three south-south development assistance cases in section 3.

3.1.3 The principle of broad participation

Broad participation of various parties has been encompassed in the principles of both North-South and South-South development assistance. Both the Accra Agenda for Action and the Busan Partnership for Effective Development Cooperation stress the importance of broad participation. For example, the Accra Agenda for Action points out that all development partners, including OECD-DAC donors, other donor countries, developing countries, foundations, private groups and so on, need to fully participate in the development process[2]. The Busan Partnership for Effective Development Cooperation also points out that development relies on the participation of various actors, and these actors could play different and complementary roles[3]. Within South-South development assistance, the conference documents of the Nairobi conference state that South-South Cooperation encourages the participation of various parties and stresses that non-governmental organizations, private groups, academic institutions as well as individuals should work with governments. In the Bogota Declaration, the principle of broad participation is also listed as one of the principles of South-South Cooperation. In practice, many South-South

1 Neissan, B., Kelebogile, K. and M., Moilwa. Developing a Conceptual Framework for South-South Cooperation[R]. NeST, 2015:26.

2 The Accra Agenda for Action[Z]. OECD, 2008.

3 The Busan Partnership for Effective Development Cooperation[Z]. OECD, 2012.

Cooperation projects have broad participation from different parties. The Project of Agricultural Technology Demonstration Centre in the United Republic of Tanzania in next section is a good example. However, some projects need more effort in broad participation, such as the case of China's Aid Projects of Juncao Technical Cooperation in Papua New Guinea.

3.1.4 The principle of mutual accountability and transparency

The principle of mutual accountability defines that the participants in the development assistance should be equally responsible for their commitments. The Paris Declaration points out that both donors and recipients are responsible for development results[1].The Bogota Declaration also acknowledges the importance of mutual accountability. The implementation of the principle of mutual accountability depends, to a large extent, on the degree of information disclosure in the process of development assistance, and therefore both the participants of South-South and North-South development assistance should make an effort to improve the transparency of aid. In the Accra Agenda for Action, donors admit that a greater degree of accountability and transparency is a promotes development and the documents of the Nairobi conference state that the enforcement of mutual accountability and the improvement of transparency are necessary for the effectiveness of South-South development assistance.

3.1.5 Results-based principle

Results-based principle specifies that both South-South and North-South development assistance regard development as the ultimate goal, and thus the assessment of development assistance results is based on its contribution to the economic, social and environmental development of the recipient countries, instead of the sum of resources spent in development assistance. In North-South development assistance, the results-based principle is embedded into the principle systems of the three documents used to evaluate aid (development) effectiveness, namely the Paris Declaration, the Accra Agenda for Action, and the Busan Partnership for Effective Development Cooperation. The Paris Declaration, for example, emphasizes management for results[2]. The Accra Agenda for Action points out that aid should focus on its practical and measurable impacts on development[3], while the Busan Partnership states that the driving force for the formulation of investment and development policies should be sustainable impact[4]. In South-South development assistance, the documents of the Nairobi conference regard the results, effects and quality as the principles to measure the cooperation results.

1 The Paris Declaration on Aid Effectiveness[Z]. OECD, 2005.

2 The Paris Declaration on Aid Effectiveness[Z]. OECD, 2005.

3 The Accra Agenda for Action[Z]. OECD, 2008.

4 The Busan Partnership for Effective Development Cooperation[Z]. OECD, 2012.

3.2 The differences between South-South and North-South development assistance

While south-south development assistance has some similarities with north-south development assistance, it also has its own characteristics.

3.2.1 With a wider range of cooperation contents

Compared to North-South development assistance, south-south development assistance providers have not made consensus on the definition of south-south development assistance. But the broad range of areas of cooperation under south-south development assistance can surely be identified. The Buenos Aires Conference clearly outlines South-South Cooperation consisting of technical cooperation as well as economic cooperation between developing countries. It includes trade, investment, aid, loans, technology and knowledge transfer, and capacity building[1]. According to the concessional fund level, it could be decomposed into three parts: DAC-defined ODA, development financing activities which cannot meet the concessional terms of DAC-defined ODA standard, and some development-related trade and investment. South-South development assistance providers argue that a country's long-term development should depend on their own capacity, and development assistance can only guide and promote its development. The comprehensive cooperation contents of South-South cooperation could provide more opportunities and choices for the development of developing countries. In recent years, the wide range of cooperation contents of south-south development assistance has been recognized by traditional donor countries to some extent. For example, "development beyond aid" recently emphasized by traditional donor countries indicates that the DAC countries have begun to think about the broader ideas of development.

3.2.2 Mutual benefit and win-win cooperation

Related to the wider range of cooperation contents South-South development assistance puts more emphasis on the principle of mutual benefit and win-win cooperation, which is reflected in the documents of the Bandung, Buenos Aires, Nairobi, Bogota, and Delhi conferences. The South-South development assistance often focuses on infrastructure sectors, which is committed to promoting bilateral trade, investment and other business activities through aid[2]. This characteristic of South-South development assistance aims to meet the interests of both donors and recipients. From the perspective of the recipient countries, inadequate infrastructure which hinders the primary task of economic development can be overcome by investment in infrastructure. Agenor et al. (2006) and Straub (2008) finds that the increase of infrastructure stock has positive effects

1 Neissan, B., Kelebogile, K. and M., Moilwa. Developing a Conceptual Framework for South-South Cooperation[R]. NeST, 2015:9.

2 Nkunde, M. and Y., Yang. BRICs' Philosophies for Development Financing and Their Implications for LICs[R]. IMF Working Paper WP/12/74,2012:3-4.

on economic growth, and within that communication, roads and electricity networks have the greatest influence[1]. In addition, the construction of infrastructure could also help to cut operating costs of trade sectors and non-trade sectors and thus promote the expansion of trade and investment to recipient countries. From the perspective of donor countries, South-South donors have more experience and cost advantages in the field of infrastructure construction, therefore focusing South-South development assistance toward infrastructure construction is a better choice for both recipient and donor countries. Case 3 in next section is a good example which shows the mutual benefit and win-win cooperation characteristics of South-South development assistance.

3.2.3 Non-political conditions attached

Both North-South and South-South development assistance stress the ownership and demand-oriented capacity building of developing countries, but they have different positions on whether or not to attach political conditions to development assistance. North-South development assistance is often associated with political conditions, such as human rights, legal reforms, better governance, etc.[2]On the contrary, no political conditions are attached to South-South development assistance, which is based on the diplomatic principle of non-interference in others' internal affairs. On the one hand, the political conditions attached to development assistance could promote recipient countries to establish western-style democracy and governance system, which might be beneficial to the supervision of the use of aid fund by recipient countries. However, on the other hand, the attached political conditions mean a loss of sovereignty for recipient countries and the violation of demand-oriented principle. South-South development assistance providers argue that a country's development is rooted in its environment and the complexity and dynamics of the development environment make it hard for donor countries to find out the development needs of recipient countries timely and comprehensively, so the attached political conditions might not be suitable for recipient countries. In addition, the attached political conditions of donor countries keep changing with the change of aid ideas of donors in different time periods, which shows the domination of donor countries in the development process. It also potentially hinders the recipients from formulating long-term development planning to some extent. Section 3 will give an example for Chinese south-south development assistance without political conditions attached.

4. Case Study of South-South Development Assistance

South-South Development Assistance shares some common principles with North-South

1 Nkunde, M. and Y., Yang. BRICs' Philosophies for Development Financing and Their Implications for LICs[R]. IMF Working Paper WP/12/74,2012:13.

2 Neissan, B., Kelebogile, K. and M., Moilwa. Developing a Conceptual Framework for South-South Cooperation[R]. NeST, 2015:26.

development assistance but also has its own features. This section is going to give three cases to demonstrate these distinct features of South-south development assistance projects. Their problems will be further discussed in section 4.

4.1 Case Study of India's Aid Projects of Sugar Industry Development in Ethiopia[1]

In 2006, with Ethiopia's identified priorities, India extended support for the growth of a sugar industry and its related infrastructure to encourage expansion in associated trade. The fact that Ethiopia recognized sugar as a priority sector and India extended support across the board is a demonstration of India's commitment to development. Finance is always a challenge in the sugar industry in Ethiopia and so development assistance assumes a greater significance. In the area of development finance, India provided major LoCs to Ethiopia which in a way has changed the dynamics of cooperation and also reflects a growing realization within the Ethiopian Government of the need to strategize economic growth. Adequate measures are also needed for the assimilation of technology to ensure regularity and continuity of production with consistent quality. India assisted specifically in providing better germplasm for sugar strains. Whereas, packaging support came from a new jute bag plant. Overall, this program is a clear case of support across the value chain.

4.1.1 Project introduction

The objective of the Ethiopia's Growth and Transformation Plan (GTP) is to ensure sufficient domestic production and in addition to establish an energy generating plant to power key economic activities. GTP has established precise targets for the sugar sector. It envisages facilitating human resource development, building institutional capacity and supporting necessary R&D in the sugar industry, which in Ethiopia is largely government-owned; private firms are trying to make an entry but the sector is heavily dominated by the public sector.

This project has assumed great significance given that Ethiopia identified the sugar sector as one of its engines for economic growth. Construction of rail links is also very much part of the effort to ensure connectivity for the export of agricultural produce. The Ethiopian Government approached India not only for support for the development of sugar industry but also for help with a rail network as an activity linked to facilitating sugar exports. By satellite mapping technology, three rail corridors have been identified, covering a total of 2,359 km that would help in the expansion of connectivity to dry ports and to the seaport at Djibouti.

(1) Value chain development of sugar industry

India has agreed to support three different sugar factories, total production of which is likely to be

1 Source: Chaturvedi, S.the Logic of Sharing: Indian Approach to South-South Cooperation[M]: Cambridge University Press, 2016: 127-142.

around 1.58 million tonnes by 2015. The initial target of the GTP was an annual production of sugar and ethanol of 2.25 million tonnes and 304,000 m^3 respectively. Additionally, it aimed to generate 607 MW of electric power by the end of the plan period. This was to be achieved by bringing an additional 200,000 hectares under sugarcane plantation with the productivity of 155 tons per hectare. The GTP expects to earn USD 661 million from sugar exports and create 200,000 new jobs. The project is also aimed at reducing growing import dependence, as domestic demand for sugar has multiplied considerably in the past few years. Ethiopia plans to build seven sugar factories within the next five years.

The support for the development of the sector was envisaged through a LoC of USD 640 million over the period 2007-2012.This LoC was provided through disbursements over five years in phases of USD 122 million (2007), USD 166.23 million (2009), USD 213.31 million (2010), USD 91 million (2011) and USD 47 million (2012). The project covered three sugar factories, Wonji/Shoa, Finchaa and Tendaho.

Production by the three factories under review for the period 2014-15 is estimated around 1.2 million tonnes of sugar and approximately 93,000 m^3 of ethanol. The total value of the sugar and ethanol output will be USD 977million. The plants will create jobs for some 81,000 people. In 2009, the Finchaa factories had only about 2,200 permanent and 5,000 temporary workers, and the Wonji/Shoa factory 2,750 permanent and 1,430 temporary employees. According to the Sugar Corporation of Ethiopia (ESC), if the Tendaho factory reaches its full production capacity, it will create jobs for nearly 50,000 people, which would open the doors to more spin-off employment for Ethiopians and people from adjoining countries.

(2) Addition of railway line

India has provided a USD 300 million LoC for financing machinery, equipment and services, including consultancy services for the new Ethiopia-Djibouti railway line which is a connection between India and Asaita-Tadjourah railway line. Funding for the railway is one element of India's support for Africa's regional integration and the project is one of the first that India has undertaken to cover more than one country. The railway will enable Ethiopia to increase its trade through the Port of Tadjourah on the Red Sea in Djibouti. The project was in place by June 2013. Ethiopia exported sugar worth USD 570,000 to Djibouti in 2009, but with better rail connectivity, exports will rise dramatically.

4.1.2 Analysis of the Project's Features

The project has tried to address growing pressures for better integration between production and transport sectors. So, one feature emerging from this project is the collective participation of almost all stakeholders in the chain. A further unique gain is the creation of a different context for development of a value chain. In the past, most DAC donors assisted in support of private sector involvement in development projects; however, in this case the support benefits the Sugar Corporation of Ethiopia (ESC), which has a much more ambitious business plan of becoming one of the top 10 global sugar exporters with 15 years. Moreover, this project reflects some features of South-South development assistance.

(1) Demand-oriented development cooperation

The development of sugar industry is one of Ethiopia's targets in its GTP. There are several precise targets for the sugar sector, including ensuring sufficient domestic production and establishing an energy generating plant to power key economic activities. For connectivity for the export of agricultural produce, Ethiopia and India also took the effort to the construction of rail links.

Based on the demand of Ethiopian government, India provided what Ethiopia wanted, reflecting the demand-oriented feature of South-South development assistance. India assisted specifically in providing better germplasm for sugar strains and packaging support, providing assistance not only for the construction of sugar factories but also for sugarcane plantation. At the same time, India also helped to fiannce a rail network for export of the sugar production. Overall, this program is a clear case of support across the value chain, providing more systematic assistance for the sugar industry. Indian development assistance covered a wider range of contents, which makes the assistance an engine for economic growth in Ethiopia.

(2) Poor management in implementation of the projects

India's assistance in has effectively promoted the development of Ethiopia's sugar industry, but it also shows some common problems in the field of aid, especially in aid project management. Discussions with officials in Addis and with independent experts reflected disappointment at the delays in implementation of the projects.

The delays in implementation of the projects indicated that India needs to change or at least reconsider its approach to LoCs. They should not be viewed as one-time projects, which the engineering, procurement and construction company comes and picks up the jobs and walks out once the project is over. In such a case the EPC has no long-term commitment nor does it have an interest in delivering turn-key projects on time or ensuring their long-term sustainability. It is this limitation that delays almost all LoC projects, in some of which traders rather than administrators are ruling the roost. In the light of this experience, it is important that a broad lesson is derived in terms of reviewing the LoC process for optimal gain. Postponement of funds released by Exim Bank of India to the Ethiopian Government also reflects problems of communication between partner and implementing agency. As noted above, any review should not only involve the relevant division of Ministry of External Affairs (MEA) and Exim Bank but should also receive greater input from the India development assistance agency, Development Partnership Administration(DPA) can then gradually evolve a rich database of companies that are merely trading and can discourage them from bidding. It is also important to build up capacity at the partner country end, mainly in terms of handling the bidding process and identifying the right kind of companies for the project. For instance, in this project, more than 18 companies participated, which in itself presented a major challenge for the Ethiopian Government.

4.2 Case Study of China's Aid Project of Juncao Technical Cooperation in Papua New Guinea[1]

Juncao technology is a low-cost, high-yield technology with a short cycle and quick effect as China's featured agricultural technology[2], which has been widely promoted in China for technology promotion and poverty alleviation, and achieved remarkable economic and social benefits[3]. Since the 1990s, China began to promote Juncao technology to other developing countries through foreign aid. This case will study China's foreign aid features based on China's aid projects of Juncao technical cooperation with Papua New Guinea.

4.2.1 Project introduction

Papua New Guinea's Juncao training project was launched in 1998 and completed in 2003. The project was implemented by Fujian Agriculture and Forestry University.

In its Juncao technology aid to Papua New Guinea, China mainly provided training, demonstration and relevant agricultural means of production to help local farmers master Juncao technology and produce mushrooms and other agricultural products, so as to solve the farmers' food and living problem. The project strived to enrich the recipient countries' agricultural economic structure through integrated development and the cultivation of Juncao industry, and to improve their economic development capacity.

Juncao technology was first provided by international organizations as foreign aid to developing countries. In 1994, Juncao technology was incorporated into the "South-South Cooperation" program and the UNDP's "priority cooperation project for China and other developing countries".

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1 Source: Huang Meibo. South-south Cooperation and Chinese Foreign Aid Case Studies[M]. China Social Science Press, 2017: 89-101.

2 In order to tackle the contradiction between mushroom production and tree protection, Professor Lin Zhanxi from Fujian Agricultural and Forestry University invented the Juncao technology in 1986, utilizing the grass instead of timber to cultivate eatable mushroom and medical mushroom, of which application can be extended to the fields of livelihood feed, biological energy, and environmental protection.

3 It have been proved by the experiments that the eatable mushroom and medical mushroom cultivated by the Juncao technology can efficiently provide the protein food for the human beings, with high yield of 60-75 dun mushroom per hectare Juncao grass; Meanwhile, the Juncao grass can supply abundant high-quality feed to development livelihood and fishery, with more than 15 duns of fresh grass per mu; The Juncao grass can be used to produce methane, which is two times more than that from straws of crops; The Juncao grass also can be used to generate electricity. The electricity generated from the grass per dun can be equivalent to that generated from 4 duns of coal; The Juncao grass can help to prevent and treat water loss and soil erosion, to improve the desert and sand land, and absorb CO2. In the south of China, the Juncao grass can absorb 6 duns of CO2. In the field of Juncao processing, the eatable mushroom and medical mushroom cultivated by the Juncao technology can be used to produce health products and the environmental protection materials, such as beaverboard, paper pulp. Since 1980s, Juncao technology has been listed as the major technology promotion projects and primary poverty reduction project, which has been applied in 31 provinces and 405 cities and counties in China.

After this, regular international Juncao technology training were held for developing countries in Fujian Agriculture and Forestry University. Through these training, the Eastern Highlands Province of Papua New Guinea got acquainted with the Juncao technology, established contacts with Fujian Agriculture and Forestry University and signed an inter-provincial cooperation contract with Fujian Province. Thus, Juncao technology was successfully demonstrated, arousing the attention of heads of Government of Papua New Guinea. In view of the bright prospect of Juncao technology in Papua New Guinea, the Chinese Ministry of Foreign Trade and Economic Cooperation[1] carried out a study on the feasibility of the project. In 1998, as a result, China and Papua New Guinea reached an agreement on the technical cooperation project of Juncao technology training in Eastern Highlands Province.

During the five years from 1998 to 2003, the aid project in Papua New Guinea was mainly in two forms–holding short-term Juncao technology training courses and dispatching experts to provide technical assistance in the local area. With the Chinese government's assistance, Papua New Guinea set up the Juncao production, demonstration and training bases in Lufa District of Eastern Highlands Province. Chinese experts guided Juncao production for two years from 1998 to 2000 and held five Juncao technology training courses successfully in 1998 and from 2001 to 2003, training 143 technicians for Eastern Highlands Province. Through technical cooperation and training, Juncao production was promoted from Lufa Base to the Goroka, Burnett, Azzaro, Hengen Nofi and Kainantu of Eastern Highlands. 521 rural households participated in the Juncao production and many rural households achieved significant benefits[2].

Table 6.4 Implementation of the Juncao Technology Aid Project in Papua New Guinea

	Contents of Aid	Implementation Time
1st Phase	China sent an expert group to hold Juncao technology trainings in Eastern Highlands Province	July–Sept. 1998
2nd Phase	China sent an expert group to hold Juncao technology trainings in Eastern Highlands Province	June–August 1999
	China sent two experts to guide the Juncao production in Lufa Juncao Demonstration Base for one year	Sept. 1998–Sept. 1999
3rd Phase	China sent an expert group to hold Juncao technology trainings in Eastern Highlands Province	2000
	China sent two experts to guide the Juncao production in Lufa Juncao Demonstration Base for one year	Sept. 1999–Sept. 2000
4th Phase	China sent an expert group to hold Juncao technology trainings in Eastern Highlands Province	July to Sept. 2001
5th Phase	China sent an expert group to hold Juncao technology trainings in Eastern Highlands Province	March 2003

1 In 2003, the Chinese Ministry of Foreign Trade and Economic cooperation had been merged into the Ministry of Commerce.

2 Materials provide by Fujian Agricultural and Forestry University.

4.2.2 Analysis of the Project's Features

At present, developed countries mainly provide assistance from the perspective of global food security, focusing on food production, food supply and the nutrition of urban and rural residents. Compared to that of developed countries, China's agricultural assistance attaches importance to increase yield, technology demonstration and promotion and technology transfer, by completely utilizing China's comparative advantage in agricultural technology[1]. After years of exploration, China has constantly improved the implementation mechanism for agricultural technical cooperation and achieved tangible results. China's Juncao technical cooperation with Papua New Guinea reflects China's successful experience in agricultural technical cooperation, and presents significant features of South-South development assistance.

(1) Attaching no political conditions, equality and mutual benefit.

China does not take foreign aid as a means of interference in other countries' internal affairs or a way to seek political privileges. China's Juncao technical cooperation with Papua New Guinea did not attach any political conditions. China's Juncao technical cooperation with Papua New Guinea was on the basis of equality, emphasizing cooperation. China carried out the Juncao technology research jointly with the recipient countries and combined the Juncao technology aid with the development of commercial investment, so as to improve the scale and efficiency of the Juncao project through enterprise operation.

(2) Demand-oriented with focus on the transfer of appropriate agricultural technology

The Juncao technology cooperation project approval and implementation were completely based on the actual needs of the recipient countries. Learning from China's development experience, the Juncao technology cooperation project was designed to help the recipient countries address problems in development, taking the impact made as the standard to check whether it is a successful project.

Agriculture is an important basic industry in China and other developing countries. China has a wealth of experience in changing its role as a backward agricultural country. In terms of the production structure, China's agricultural production is similar to that of most developing countries, focusing on small-scale production of rural households. From the perspective of production technology, with diverse climatic and geographical environment, China has accumulated rich production and management experience in crop growing in paddy fields, dry farming, nomadic and

1 In 1960s and 1970s, China's agricultural aid adopted the form of completed projects, such as large scale of farms and agriculture technology promotion station. Such projects had achieved great success in the initial stage of construction, but encountered the problem of poor operation after being transferred to the recipient countries. Based on the lessons learned from the previous projects, China has gradually to improve the forms of agricultural aid, attached more importance on the intellectual cooperation, such as technology transfer and training. Through transferring the suitable agricultural technology with comparative advantages, China's aid can help the recipient counties realize self-reliance and independent development.

commercialized agriculture. Thus, China has unique advantages in the agricultural technological cooperation with developing countries.

At the same time, the basis of successful technical assistance is the applicability of the technology. Therefore, it is important to understand the actual situation of the recipient countries and conduct targeted agricultural technology transfer, according to the local farmers' production and living needs. Juncao technology is a mature project promoted in large scale at home, but a large number of feasibility studies were carried out before the implementation of the aid projects in Papua New Guinea. The implementing unit-Fujian Agriculture and Forestry Universit-demonstrated the technology in Papua New Guinea and fully addressed the applicability problem of the recipient countries, laying a foundation for the successful implementation of the project.

4.3 Case Study of Chinese Agricultural Technology Demonstration Centre Project in Tanzania[1]

Among China's foreign aid recipients, Africa is the least developed with the lowest income countries in its continent, and hence has received the most amount of China's foreign aid. Because of its intimate connection with food safety, poverty alleviation and the improvement of people's livelihood, agriculture remains the priority of China's foreign aid. Agricultural Technology Demonstration Centre Project has been one major form of China's foreign agricultural aid in recent years. Using participatory observation, open-ended interview and second-hand material analyzation, this case deeply studies China's foreign aid project in Tanzania.

4.3.1 Project introduction

In order to implement the eight aiding measures put forward by former President Hu Jintao in Beijing Summit of China-Africa Cooperation Forum, Chongqing government appealed to the Ministry of Commerce for permission, and confirmed Chongqing Zhongyi Seed Co. Ltd. (subordinate to Chongqing Academy of Agricultural Sciences) as the major party to form the Chongqing Sino-Tanzania Agriculture Development Co. Ltd., to provide construction assistance for Tanzania agricultural technology demonstration centre project.

From the end of 2007 to the beginning of 2008, a study group gathering experts from the Ministry of Commerce, the Ministry of Agriculture, Chongqing Government, Chongqing Academy of Agricultural Sciences and Chongqing Zhongyi Seed Co. Ltd., has come to Tanzania twice to conduct a professional survey. In the first time, the group confirmed the construction site of agricultural technology demonstration centre project and the key field. In the following survey,

1 Source: Huang Meibo. South-south Cooperation and Chinese Foreign Aid Case Studies[M]. China Social Science Press, 2017: 65-75.

they evaluated the macroeconomic situation, agricultural resource, technology condition, related laws and policy background. Further they consulted with the Tanzania Ministry of Agriculture and other related ministries, about project planning, implementing scheme, operational patterns and bilateral cooperation, and finally signed the protocol. The site selected by the project was located in a village in Tanzania where agriculture was the major product, next to the Swift Horse Agriculture Research Institute under the Tanzania Department of Agriculture. The total investment in the project was around RMB 40 million Yuan. The centre was set up in an area of 62 hectares, which included office, training area, experiment demonstration area and production demonstration area.

The project was implemented and operated by Chongqing Zhongyi Seed Corporation and reviewed by the Ministry of Commerce and the Ministry of Agriculture. According to the project, the demonstration centre covered five fields which included the tissue culture technology of rice, corn, vegetables, bananas, as well as single-class cultivation. In September 2010, the demonstration centre project finished the construction of garden offices, training rooms, producing and living rooms, the repairing and constructing of filed roads, irrigating facilities, the preparation of experimental apparatus, farming equipment, agricultural machinery, teaching and training facilities, and was examined and approved by the government of Tanzania in the November of 2010. On 2nd of April, 2011, the demonstration centre project was successfully handed over to the Government of Tanzania. The construction enterprise finished sending agricultural and technical experts by the end of March in 2011.

After the completion of the project garden construction and hand-over, the next stages were technological cooperation and sustainable development period. The technological cooperation period would last for three years during which the demonstration centre would perform three functions: experimental study, technology training and demonstration promotion. Experimental study focused on introducing new species and hybrid technology of rice, corn and vegetables. It also enhanced the study of integrated cultivation technology and selected new species and technology, appropriate for local agricultural condition. Technological training aimed at popularizing modern agricultural knowledge, use of new species and application of new technology amongst students of Tanzania through lectures by Chinese experts. It aimed to improve their income, gradually enhance their market awareness, and finally realize the goal of independent agricultural development in Tanzania. The content of training mainly involved integrated cultivation technology of rice, corn, vegetables, and the scientific breeding technology and management of laying hens. The trainees were divided into two levels, agricultural researchers/promoters (including agricultural technology officials, agricultural service station technicians and technicians from agricultural corporations), and normal agricultural workers. The training plan was an infusion of classroom teaching, on-the-spot teaching and video teaching. The number of technological trainees was planned to be 300 people in each year and 900 people in three years. After the period of technological cooperation, the demonstration centre project moved into the period of sustainable development. According to market needs, the construction enterprise proceeded to industrial development, conducting operational activities of producing, making profit for the enterprise as well as maintaining its public welfare function.

This project had achieved attractive results in the following three aspects: Firstly, rice, corn and other vegetable species and high yield cultivation technology experiment have made great progress. Secondly, the demonstration centre played the role of a platform successfully. It promoted advanced agricultural technology of China, and facilitated international cooperation. Thirdly, the demonstration centre adjusted strategies for further industrialized development. The centre introduced two Chinese enterprises to participate in international cooperation, seeking opportunity to cooperate with the local market in the beneficiary country and exploring the road for sustainable development.

4.3.2 Analysis of the Project's Features

(1) The principle of mutual benefit

Considering the historical tradition of Sino-Africa relations, the demonstration centre project adopted the pattern of "collaborative operation" between China and the beneficiary countries. Firstly, the project designed an organizational structure between China and the beneficiary countries. Secondly, the project site located near the Swift Horse Agriculture Research Centre was convenient for communication and cooperation. Thirdly, the contents of demonstration centre research were like the ones from the Swift Horse, which both mainly dealt with rice, corn and vegetable research. Additionally, in the project feasibility report and the budget, office expenses (including the fees for mobile and network communication, traveling fees and other fees) provided for staff appointed by beneficiary countries were included under the experts and technician training fees.

However, in reality, because of the differences of two country's system, the "strong government" model of Chinese government dominated in development cooperation met with "weak government" model in beneficiary country. The local government could not actively and effectively assume the duty of basic construction and assistance, could not provide qualified personnel and enough funding, which made the work between project centre and the research facility hard to proceed. Instead, a loose cooperation relation was established and the project was mainly depending on non-formal relations in practice.

(2) Demand-oriented and small farmers reached

The Chinese agricultural experts of the demonstration centre focused on the needs of small farmers', by analysing their local condition and accordingly adjusting agricultural technology. When promoting corn planting technology, Chinese corn experts found advantages from local technology after studying the local corn planting technology. At first, Chinese experts wanted to promote Chinese corn species to the local farmers, but they found these species inadaptable to the local soil conditions. Because of mutual spreading of pollen, Local corn species left seeds automatically and thus had hybrid advantages. In addition, for the soil covering stage in corn planting, Chinese technology normally used hoes to cover soil while the locals would step on the soil by foot. Even though Chinese experts would not suggest foot stepping, it did make sense because the local soil contains great amount of sand and vaporizes greatly. Foot stepping would make these seeds adapt to the dry environment well.

(3) Promoting sustainable development of the project under the principle of "led by the government, centred on the enterprise and operated by the market"

As the government's official agricultural aid project, the demonstration centre project introduced the enterprise as the major party for constructing and implementing the project. Enterprise participation in aid, is a new attempt based on the experience of Chinese foreign aid history, domestic development experience and going-out strategy. After a period of three years' technology cooperation, the sustainable development period required the enterprise to achieve industrialized development, realizing the dual goal of profiting for the enterprise and the project's public welfare.

The aid project construction enterprise aimed at profit maximization limited by the principle of public welfare. The enterprise was also constrained by the government's formal and informal regulations. The design of demonstration centre's rule combined the profit and welfare of the project at the stage of sustainable development. When the project can no longer receive funding from the government, the motivation for enterprises to keep honouring the duty of public welfare mainly came from two points: one is the relationship between the construction enterprise and its superior governmental or public institution, which made the enterprise to consider the nation's position; the other is the enterprise's trust capital accumulation strategy. Usually the construction enterprise can benefit from the project fund, so it always had potential estimation of the aiding project. So, in order to gain trust and relation capital from the central and regional governments, enterprises honoured the project's mission in their contract with governments and protected national interests and image when conducting project's activities. However, through investigation of the enterprise's operations, it was found that due to lack of supervision and evaluation from the government, enterprises usually put public welfare aside when they cannot get satisfied profit. They just aimed at merely finishing the minimum duty of providing public welfare which leads to the development results unsatisfactory.

In the operation process of Tanzanian agriculture technology demonstration centre, the aims profit-making could not be achieved along with public welfare due to insufficient understanding of local market and related policies. This made the industrialized path for sustainable development difficult for the enterprise, and left them with no other choice but to alter their strategy to find other paths for industrialized development. Eventually, development that followed compromised the aims of the project after the withdrawal of governmental funding. Thus, to undertake the aid project, careful consideration must be done in selecting the construction enterprises and project design, integrating enterprise profit and public welfare.

Chinese aid to Tanzania was the first batch of demonstration centre projects of China's foreign aid and the problems and experiences of this project can be referred to for future improvements.

4. The Shortcomings and Challenges of South-South Development Assistance

In the long-term practice of development assistance, the South-South and North-South development assistance models have formed their own features, and also show a trend of mutual complementation and mutual learning. South-South development assistance has certain reference value for the reform of the international aid system. But there are also some shortcomings in South-South Cooperation. The three cases in section 3 have indicated some problems in the practice of South-South Cooperation. As new participants in the international development assistance system, South-South development assistance providers have so much to learn from the aid management of traditional donors.

4.1 The shortcomings of South-South development assistance

A country's development assistance builds on development philosophy it holds. The ideas, principles, priority regions, countries, sectors, aid approach and channels as well as aid management, all have a close relation with the country's development philosophy. Compared with traditional donors, South-South development assistance providers don't have institution like DAC to unify and normalize South-South development assistance system. Due to the lack of unified and systematic development assistance definitions and norms, the policy and management of South-South development assistance are relatively diversified. South-South development assistance has room for improvement in aid policy, aid management, aid evaluation etc.

4.1.1 Lack of clear development assistance ideas, policies and guidance for practice

Most South-South development assistance providers haven't set up specialized development assistance policies to identify the principles, priority regions, countries, sectors, approaches and channels.

Firstly, there is currently no unified definition of "development assistance" by South-South development assistance providers and each of these countries has their own explanation for the intension and extension of "development assistance", which leads directly to incomparability of aid data of SSDAPs. As regard to aid data of South-South development assistance, there doesn't exist an institution like DAC to unify the statistical standard. Except for Thailand, other south-

south development assistance donors don't report aid data to DAC. Due to the lack of unified development assistance ideas, South-South development assistance providers carry out aid activities under the guidance of their own development experience, and thus the choice of projects shows certain randomness resulting from the lack of advanced planning.

Secondly, due to multi-ministry participation and poor coordination within various ministries in donor countries of South-South development assistance, the lack of overall coordination between aid projects of all ministries could result in a country's aid projects constrained in a single field and wastage of aid resources. For instance, in Brazil, there doesn't exist any coordinated and overall planning for international development assistance, and is mainly carried out through various ministries. The policy vacuum in Brazilian development cooperation can lead to discrepancies between aid purposes and aid results.[1]

The unclear definition of "aid", opacity of aid data and poor coordination among development departments will be harmful to the South-South development assistance donors to work in cooperation with a due division of labour and pool resources to their advantage fields. And it will be not good for further improvement in aid effectiveness. From the perspective of recipient countries, the clarity of aid ideas and policies by South-South development assistance donors could help them identify the donors' preferences, which would help both sides to carry out aid activities more effectively.

4.1.2 Defects in aid agency and poor personnel management

The ineffective aid management of South-South development assistance has always been criticized by traditional donors due to the defects in aid agency and lack of professional personnel.

The aid management agencies of South-South development assistance providers are often affiliated to the Ministry of Foreign Affairs, and foreign aid is inevitably affected by the country's diplomatic policies, resulting in the lack of independence. In Brazil, ABC is not given autonomy in framing the development assistance policy, in aspects such as financial affairs, human resources management etc., which greatly limits the agency's ability to form policies and coordinate its practice[2]. However, some of the countries have realized the importance of establishing independent development assistance agencies, and are gradually restructuring their aid management institutions. It must be noted that in practice, the participation and coordination between multiple ministries and aid agencies is less than satisfactory because of intersectional and overlapping elements which results in the waste of resources. In addition, the lack of effective coordination agency among these ministries also results in the lack of platforms for sharing experience, discussing complementarity,

1 Jixia Lu and Xiaoyun Li. The Characteristics of Brazil's International Development Assistance and Its Revelation [J]. International Economic Cooperation, 2013(05): 77-81.

2 Jixia Lu and Xiaoyun Li. The Characteristics of Brazil's International Development Assistance and Its Revelation [J]. International Economic Cooperation, 2013(05): 77-81.

etc. In January 2012, India's Ministry of External Affairs established the affiliated Development Partnership Administration (DPA), which is responsible for the coordination of development assistance and development cooperation of India. DPA coordinates the training and technical assistance provided by International Technical and Economic Cooperation (ITEC) with other aid agencies within the Ministry of External Affairs, and tracks the management of loans provided by Export-Import Bank of India. Although the Indian government is trying to centralize the management of its development assistance through DPA, DPA still lacks financial and material resources to coordinate, supervise and unify the development assistance of different ministries. The conflicts of interest between ministries and even within a ministry make it even more difficult for India to realize the unified management of development assistance, and the power to make decision on development assistance policy for individual countries still remains in the hands of individual leaders of Ministry of External Affairs. In addition to the problems in aid management agencies, there exist problems in human resources, mainly reflected in the relative instability and insufficiency of staff in aid agencies.

4.1.3 Insufficient supervision and assessment and lack of effective evaluation

As mentioned above, there are some problems in South-South development assistance from planning to implementation. Such as lack of unified definition and norms of development assistance, lack of a unified statistical standard and transparency, haven't established a set of complete mechanisms for development assistance supervision and assessment. For instance, much of the aid information of South African government is not available due to the lack of transparent and efficient information management system. The supervision and assessment mechanism of the aid management system of South Africa is not complete. Though there are separate supervision and evaluation functions within SADPA, the development assistance of other ministries has not been effectively supervised and assessed. The lack of a complete mechanism for development assistance supervision and assessment greatly reduces the aid effectiveness and is not conducive to the analysis of the problems existing in the aid process. It also makes it difficult to ensure accountability to local citizens, development partners and other stakeholders in development assistance.[1]

With the shift from aid effectiveness to development effectiveness, effectiveness assessment of a country's development assistance by itself becomes particularly important and more emphasis needs to be put on management for results principle when implementing foreign aid Also assessment of aid effectiveness of South-South development assistance can have a great impact on its status in the international aid system. However, in the practice of South-South development assistance, most emerging donor countries lack assessment feedback system and their effectiveness

1 Meibo Huang and Zixuan Li. A Research on the Management System of South Africa's Foreign Aid [J]. International Economic Cooperation, 2013(11): 78-83.

evaluation are relatively weak which makes it difficult for South-South development assistance providers to provide valid evidences to their argument that their development assistance has indeed promoted the development of recipient countries.

4.2 The challenges of South-South development assistance

Recently, South-South development assistance has made great progress and attracted the attention of the international community, playing an important role in the reform of the international aid system. However, many deficiencies still exist. Moreover, the 2030 Agenda for Sustainable Development has put forward new requirements in front of South-South development assistance.

The ultimate goal of development assistance is to promote development of recipient countries. Under the premise that Millennium Development Goals (MDGs) have achieved fruitful results, Sustainable Development Goals (SDGs) have displaced the MDGs as the key basis for development policy-making of various countries. Therefore, the policy making of international development assistance and its goal setting are guided more by the SDGs. The MDGs mainly applied to poor countries, with relatively low standards. The developed countries just needed to provide financial and technical assistance to poor countries. However, SDGs have tried to set proper development goals for all countries. These goals set higher standards and fully involve the existing development problems, with an emphasis on balance among economy, society and environment keeping the current and future generations in mind.[1]In addition, the SDGs also cover problems ignored by the MDGs-such as global governance, security, income, inequality of opportunity- which is important in order to better meet the need of global and national development.[2]

The 2030 Agenda for Sustainable Development includes seventeen goals, of which the first sixteen are the goals the international community is trying to achieve, while the last (global development partnership) is the approach to achieve the first sixteen. In the last development goal, the importance of South-South Cooperation or South-South development assistance has been affirmed.[3]This progress is closely related to the new pattern and new trend of international development assistance. In the international aid system, the proportion of development assistance provided by traditional donors is falling, while there is a rapid growth in the development assistance provided by non-DAC donors. Amongst the non-DAC donors, the emerging donor countries such as China and India are the most impressive ones. It has become the primary challenge for South-

1 Sachs, J. D. From Millennium Development Goals to Sustainable Development Goals[J]. The Lancet, 2012, 379(9832): 2206-2211.

2 Bates-Eamer, N. et al. Post-2015 Development Agenda: Goals, Targets and Indicators[R]. the Centre for International Governance Innovation (CIGI), 2012: 4. http://sustainabledevelopment.un.org/content/documents/775cigi.pdf

3 Wenxing Cui. The UN 2030 Agenda for Sustainable Development and China's South-South Cooperation[J]. World Outlook, 2016(1): 34-55.

South development assistance to adapt to the trend of international development assistance and to expand the influence of South-South development assistance in the field of international assistance system. Specifically, South-South development assistance providers need to solve three problems: the first is the problem of ensuring the sufficiency of aid resources when traditional donors lack aid funds; the second is to draw lessons from the aid management experience of traditional donors in order to achieve "development effectiveness" and "aid effectiveness" simultaneously; the third is to fully assess and summarize effectiveness and experience of South-South development assistance, solidify this experience and result, build communication platforms and share experience with other development partners, in order to expand the influence of South-South development assistance in international aid system.

4.2.1 To broaden the scope of participants in foreign aid and ensure the sufficient supply of aid funds

At present, the international aid system is still dominated by developed countries. The status of emerging countries has been rising, but they are still playing a complementary role and the status of recipients has improved marginally. At the same time, a country's development assistance activities are still largely dominated by the government, and the role of the non-governmental sector has only increased marginally. International aid system should establish the comprehensive partnership among all participants such as traditional donors, emerging donors, recipient countries, multilateral institutions, private sector, civil society groups, etc. In order to achieve SDGs quicker and more efficiently, to improve the status and role of South-South development assistance providers and to upgrade the status of recipient countries in development all participants must collabourate and inspire one another to jointly push forward the process of development assistance. For instance, in the Feed the Future program the United States attaches great importance to mobilization of various stakeholders for assistance and cooperation with the main donors, recipient governments, business circles, small-scale farms, research institutions and social organizations. Whereas in Case 2 in last section showed that China paid insufficient attention to multi-stakeholder participation in its agriculture development assistance. In addition to inter-governmental aid cooperation, many other parties can play a positive role. Involving various stakeholders in the agricultural development of the recipient countries can help address problems of the recipient countries more effectively and rapidly.

Firstly, active involvement of non-governmental organizations in development assistance is important. At present, the major aid participants in most of the South-South development assistance providers are governments with only a few non-governmental organizations. Compared with government channels, non-governmental channels are more flexible and diverse and are able to reach the grass-roots, directly benefiting the civilians.[1]The Japanese government has

1 Xiaojing Mao. The Tendency of International Assistance Structure and the Positioning of China's Foreign Aid[J]. International Economic Cooperation, 2010(09): 58-60.

stated that it will strengthen cooperation with non-governmental organizations, local self-government institutions, small and medium-size enterprises (SMEs)and universities to enable joint collabouration with official and civil organizations. South-South development assistance providers need to attract more non-governmental participants in order to increase their role in development assistance and accumulate the experience of working with non-governmental actors. This will enable the expansion of the sources of aid funds and improve aid effectiveness. In the future, the proportion of official development assistance(ODA) will decrease and non-governmental organizations such as the private sector and civil society groups will provide more funds and play an even more important role.

For Chinese Juncao Technical Cooperation aid project, it is suggested that China should involve all the stakeholders in aid project approval, implementation and follow-up cooperation to guarantee the effectiveness of the project. For instance, local governments can recommend suitable aid projects, whereas research institutes have strong capacity in experimental agricultural technology research and promotion. At the same time, agricultural technology companies can play an active role in the sustainability of agricultural assistance and simultaneously achieve their own goals by participating in the aid.

Secondly there is a need to actively develop new streams of funds for foreign aid and encourage the development of new financing mechanisms. In recent years, a huge gap has emerged between traditional ODA funds and actual aid demand. Therefore, donor countries need to continuously explore new sources of aid funding and innovate on the existing financing mechanisms. The innovative financing mechanisms that developed countries have considered or implemented are global taxes on currency transactions and energy use, solidarity taxes on air tickets, Advance Market Commitments (AMC), sovereign wealth funds, SDR, etc. However, these financing mechanisms are always supplementary and can't replace the dominant role of traditional financing. On the other hand, the progress of developing countries in the innovation of financing mechanisms and channels has been limited.

4.2.2 To improve the management of foreign aid in order to enhance "aid effectiveness" and "development effectiveness"

In recent years, the international society has tried to use the DAC's standard tools such as aid effectiveness, to evaluate South-South development assistance. Traditional donors also mainly use "aid effectiveness" to evaluate their ODA according to the twelve indicators in the Paris Declaration. However, most emerging donors emphasize the effect of development assistance on economic development and poverty reduction, employment, etc., and hence pay more attention to "development effectiveness". From the perspective of SSDAPs, the improvement of "development effectiveness" is a requirement for the improvement of the impact of south-south development assistance and is also the aim of these countries in this field. However, "aid effectiveness" is a requirement for donor countries from DAC with the aim to manage aid efficiently. Emerging donors are not members of OECD/DAC, so they don't need to completely adopt all the standards and indicators for aid effectiveness, but they can absorb some of the useful contents to improve the management of South-South development assistance. Their efforts to improve the aid management could include the following aspects.

The first is to set up foundations for the laws and policies of foreign aid. They should consider the establishment of strategic and operational development assistance, which reflects the international trend. They should systematically set out the strategy, policy, objectives and priorities of foreign aid, raise the attention of various ministries to development assistance issues, and guide the medium-to-long term development assistance work. Before the relative legislation is made, the government could define the role of development assistance through a policy statement. The policy statement includes priority geographic range, sectors and global, regional and national strategy. It can also include the principles of aid effectiveness, which can supplement the temporary lack of legislation to some extent.

Second, task is to continue the reform of the aid management system. Besides establishing scientific and complete management institutions for development assistance, strengthening the relevant personnel recruitment and training is also very important, which includes cultivating professional administrative talents for foreign aid projects, intensifying training and management of the aiding staff and aiding awareness and understanding of the culture and customs of the beneficiary country. Case 1 and 3 show us that in order to explore effective mechanism to implement "cooperative business operation", and to improve work efficiency of the project, increasing communication and cooperation among governmental departments and enterprises of both sides is necessary. Corresponding measures include more effective cooperation mechanism, detailed data, stricter management, professional staff, etc. Taking more effective cooperation mechanism as an example, both parties should appoint only one institution to manage aid issues, and thus reduce the time spent on communicating and collecting information.

The third task is to monitor aid projects for the whole period. The measures include carrying out results-based management, establishing a complete supervision and assessment system (including internal and external supervision and assessment), supervising the process of project implementation and the analysis of project results.[1]

It is important to strengthen research the demand and feasibility of the project before approval. Before selecting the project, complete understanding of the development targets of development partners ensures that aid projects conform to overall development goals. After that, researching

1 Chaofeng Lv, Dandan Zhu, and Meibo Huang. The Trends of International Development Assistance and the Reform of China's Aid Management System[J]. International Economic Cooperation, 2014(11): 41-46.

the actual situation of the project in context of development partners ensures understanding of the natural environment, policies, laws, market and fundamental conditions of the beneficiary country. This helps in making the design of the project fit into the practical situation of the beneficiary country more smoothly.

Both case 1 and case 3 show the importance of aid project supervision and evaluation, which includes introducing more detailed indicators for supervision and evaluation, establishing information communication and feedback mechanism among different government departments, enterprises and monitoring and evaluation institutions. What's more, establish the in-out mechanism for the implementing enterprises based on supervision and evaluation results.

The fourth task is to strengthen systematic assistance and maximize the synergistic effect of foreign aid. Take case 2 as an example, agriculture assistance includes the whole process of agricultural production, local farmers' tradition, culture and lifestyle. Therefore, China should not only provide technical aid, but also take into account the linkage between agricultural upstream and downstream industries in order to maximize the effectiveness of technical assistance. In addition, China should also help the recipient countries develop overall planning of agricultural policy deriving lessons from China's agricultural development experience.

4.2.3 To build platforms for experience sharing and expand the international influence of South-South development assistance

To expand the international influence of South-South development assistance, south-south development assistance must solidify the experiences and results of South-South development assistance, build platforms for experience sharing, and increase communication in the field of international development assistance.

Firstly, South-South development assistance needs to establish regular aid communication mechanism and build communication platforms for South-South development assistance providers. This is also beneficial for summarizing and refining the experience and results of South-South development assistance. South-South development assistance providers should clarify the definition of "south-south development assistance", and thus unify the understanding of the term, standardize the aid data statistics and measurement. What's more, sum up a clear set of South-South development assistance ideas and accurately position South-South development assistance in the international development assistance system.

Secondly, in addition to improving communication among themselves, South-South development assistance providers need to strengthen the cooperation and communication with traditional donors, international organizations and other non-DAC donors. South-South development assistance providers need to actively participate in multilateral cooperation, in order to expand its influence in the field of international development assistance.

Chapter 7

South-South FDI Development*

Foreign direct investment (FDI) refers to an investment activity in which an investor (natural or legal) of the certain country performs cross-border capital (or other factors of production) investments, with a core objective of obtaining or controlling the management of certain business. The form of such investment includes mergers, acquisitions, construction of new facilities, and overseas business profits reinvestment. Foreign direct investment was originally a unique economic phenomenon in developed countries, who dominated this field for a long time. Relatively large-scale foreign direct investment started emerging in the developing countries in the late 1970s. However, even in the 1980s, over 90% of global FDI were still originating from developed countries (UNCTAD, 2005).

In recent years, with the deepening of economic globalization, many developing countries, managed to attract a lot of foreign direct investment. Since 2004, the shares of developing countries and transition economies have been rising in global FDI, which began to draw the world's attention. Foreign direct investment between developing countries is known as South-South FDI

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(South-South Foreign Direct Investments). The developing countries will soon become a source of investment with their companies playing an important part in the international arena leading to a significant role of South-South FDI in global economic trade cooperation and development.

This paper comprises of five chapters; the historical development process of South-South FDI, the current situation of South-South FDI, the role played by South-South FDI, successful experiences of South-South FDI, challenges and future of South-South FDI.

1. The Development Process of South-South FDI

Since the 1970s, FDI in developing economies has increased. Apart from the short-term variabilities in 1990-1991, 1998 and 2002-2003, the FDI in developing economies has grown steadily in the past twenty years because of a variety of factors. The proportion of total FDI in developing economies varied between 4% -18%. In the 1980s, FDI in developed countries was dragged down because of the economic recession triggered by the second oil crisis, while the FDI share of developing economies reached the peak of 10% in 1982, which further increased in 1990, and reached 15% between 1993 -1997. However, the Asian financial crisis slowed down the expansion of Asian multinational companies and South-South FDI decreased. Then as the data shows, the stock of FDI in developing economies became increasingly significant. In 1990, the FDI stock of merely six countries exceeded 5 billion USD; however, by 2005, 25 developing and transitional economies were over this threshold. This number increased to thirty-nine in 2015. (UNCTAD, 2006; World Bank, 2011; UNCTAD, 2016).

FDI flows to developing economies reached $765 billions in 2015, equivalent to about 43.5% of the global outbound investment (Figure 7.1). Half of the foreign direct investment recipients (FDI) now are developing economies. The FDI stock of developing economies in 2015 is estimated around 8.37 trillion USD, accounting for about 34% of the global total. This amount in 2005 was 1.4 trillion, about 13% of the world’s total (UNCTAD, 2016).

This chapter divides the development process of South-South Cooperation in four stages: inception stage (the 1970s), the initial stage (the 1980s), steadily progressing stage (the 1990s), fast development stage (early 2000s to date).

1.1 Inception Stage (1970s)

Before World War I, developing countries played the role of capital-importing countries and FDI from developing countries was a rare phenomenon. The earliest FDI by developing countries was in the Americas in the 19th century. “Back in the late 1800s, multinational companies of the third

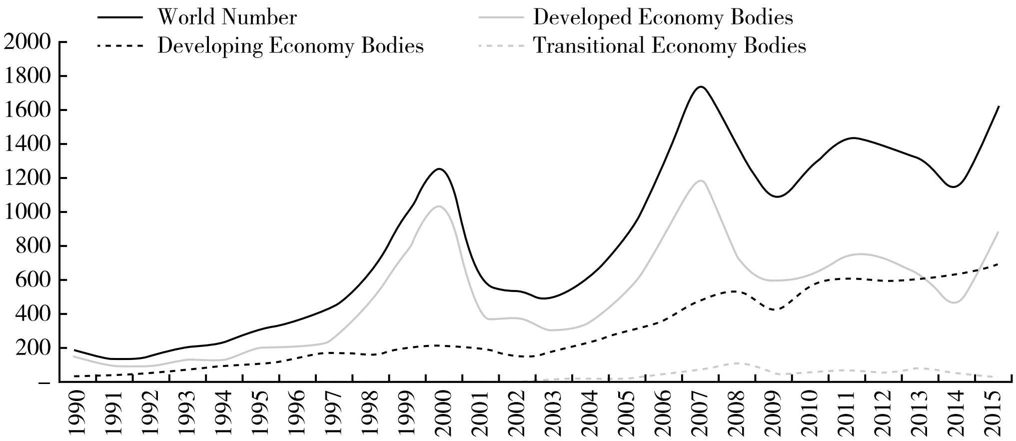

Figure 7.1 Global FDI Inflow Categorized by Economy from 1990 to 2015

Source: UNCTAD, FDI / MNE database (www.unctad.org/fdistatistics).

world had already appeared in Argentina."[1]Companies such as the famous Argentine agricultural multinational 'Bungey Born' and footwear manufacturer 'Alpargatas'[2] were established in Argentina. In 1928, an Argentinean company "American Industrial Machinery Company" established a subsidiary in Brazil to manufacture oil pump, opened factories in Chile and Uruguay and set up trade offices in New York and London.

During the 1940s, with the disintegration of the colonial empires and colonies becoming independent, the issue of development of these new countries was on the agenda. However, foreign direct investment among developing countries started to have a significant economic impact only in the 1950s and 60s.

Between mid-1950s and 1960s, developing countries began to set off nationalization campaign against the colonial economic system. Since the 1960s, Argentina, Brazil, Mexico, Venezuela in the Latin America and India, Korea, Singapore, Philippines and China in Asia, began to get involved in outward direct investment gradually. However, due to shortage of funds, particularly the lack of foreign exchange, foreign direct investment by developing countries were small and mainly among neighbouring countries. In the late 1970s, some Middle East members of the OPEC shifted their investment from loans to indirect investments, and then to direct investment.

In terms of the investment outflow, in the 1970s, the overall global FDI outflow was small, and that from developing countries and regions was negligible. During this period, the developing countries were mainly FDI recipient countries, and the global FDI outflow was mainly from

1 Beausang F. Third World Multinationals: Engine of Competitiveness or New Form of Dependency? [M]. Springer, 2003.

2 Alpargatas was later merged by a Brazilian investor, but still remained as a famous and world renowned shoe brand with distinct Americas features.

developed countries. Throughout the 1970s, the share of outflow of FDI from developing countries and regions was less than 2% of the world's total.

1.2 Initial Stage (1980s)

In the 1980s, developing countries began to increase their overseas FDI in order to obtain overseas markets, natural resources and trade supports, but volume was still very limited. This share increased over time but remained below 10%.

From 1970 to 1982, the scale of South-South trade and its share in the global total slowly increased, as the developing countries had strong economic growth whereas the developed economies were growing slowly. During the following three years, the South-South trade decreased because of the 1982 debt as reflected in the GATT data. After this, many developing countries entered the phase called "lost decade" (Ventura-Dias, 1989; GATT, 1986-90, annual), in which the share of South-South trade in the world reached a record low of 5.1% in 1985.

Some studies suggest that, at this stage, transnational companies from the South gradually strengthened technological capabilities, cultivated specific business advantage, and expanded its business in other countries (Aykut and Ratha, 2004). In accordance with the Investment Development Path proposed by John H (the IDP method), these companies invested in adjacent or other developing countries and then expand their presence around the world (Dunning, 1979, 1993; Narula, 1995). Country case studies (Dunning et, 1997; Dunning and Narula, 1996; Zhang and van den Bulcke, 1996; Whitmore, etc., 1989; Lall, 1983) show that different developing countries had different investment and development path and the investment motivation of their multinational companies varied.

1.3 Steadily Progressing Stage (1990s)

The South-South FDI inflow, though relatively small in the early 1990s, started to increase steadily during the 1990s. As the data shows, the south-south FDI inflow in 1980 was $ 3 billion, rose to $ 13 billion in 1990, and reached the peak of $ 14.7 billion in 2000.Thanks to the rapid growth in terms of income and wealth in some developing countries and regions, the FDI inflow to these countries increased significantly. Meanwhile, as the income and wealth growth rate of developed countries slacked in the 1990s, the attractiveness of developing countries and regions for FDI strengthened. In 1997, FDI inflow to developing countries and regions was 38.6% of the world total. By the late 1990s, more than one-third of developing countries and regions' FDI came from other developing countries and regions.

Since the 1990s, more developing countries and regions have become FDI exporter, accounting for 16% of global FDI outflow in 1994, a record high. In the 1990s, South-South FDI experienced slowed and the share of FDI outflow of developing countries dropped to 6% in 1998 due to the economic recession caused by the financial crisis, during which the economic growth of developing countries in

Asia dropped dramatically. However, thanks to the buffering effects of currency devaluation, policies liberalization and the liberalization in the field of mergers and acquisition, the FDI inflow to Asian countries and regions only suffered a modest decline. It is also due to the declined inflow of FDI in Asian countries and regions, which the share of developing countries shrank in 1998.

South-South FDI in the 1990s had the following characteristics: Firstly, in the 1990s, South-South FDI grew faster than North-South FDI; by 2000, about one-third of FDI went to developing countries. Secondly, South-South FDI volume increased substantially, the reasons were similar to that of North-South FDI but were also subject to the impact of structural, cyclical and policy factors. Further contributing factors included the growth of emerging economies, multinational corporations seeking higher returns through decentralized management, opening up of the capital account by some developing countries, foreign investment by local enterprises and liberalization of financial regulation. Thirdly, preferential treatment by some countries (such as China) also motivated foreign investors in invest in their countries.

Table 7.1 Factors to South-South FDI 1-1 1990s

Project	Structural Factors	Cyclical Factors	Institutional / Policy Factors
Driving Forces	Rapid growth of wealth in emerging economies pumps up the supply of capital; increase in labour costs and non-trade cost motivated the manufacturers to shift it to lower-cost areas; break the monopoly and other domestic restrains to promote competition, prompting some large enterprises to establish branches in other countries	Industrialized countries with low interest rates and low growth rate, prompting capital flow from developing countries to fast-growing developing countries	allow local enterprises to invest abroad; regional trade agreements promote the South-South cooperation with more investment agreements; tariff and non-tariff barriers prompt production sectors to reconfigure themselves among developing countries; governments encourage foreign investment; foreign investors are allowed to run business locally, enterprises are encouraged to carry out mergers and acquisitions; overseas investments by enterprises can enjoy preferential treatments.
Pulling Forces	Growing and thriving domestic market; geographical proximity, ethnic and cultural factors; low labour supply; abundant raw materials	—	Geopolitical factors
Strategic Aspects	Obtain important elements of production, such as oil	—	

Source: Aykut and Ratha, 2004.

Overall, since the1990s, the developing countries have become an attractive destination for FDI. In this period, the main investment destinations where East Asia, South Asia, Southeast Asia and the Caribbean, while the inflow of foreign direct investment to Africa was increasing. FDI inflow to developing countries and regions mainly went to few countries like China, Brazil, Mexico, Singapore and Indonesia, whose FDI intake accounted for more than half of the total inflow of FDI to developing countries. The amount of FDI flowing to the least developed regions was relatively small, less than 1% of the global flows.

1.4 Rapid Development Stage (early 2000s-present)

In the 21st century, with the collective rise of emerging economies, the FDI flow to developing countries and regions increased rapidly. Other than specific years (like 2009), FDI in developing countries and regions has been growing year by year.

1.4.1 FDI Inflow

From 2001 to 2003, the total amount of global FDI and the FDI inflow to developed countries had continued to decline for three consecutive years, and reached its lowest point since 1998. The main reasons for the decline were weak economic growth, slump in cross-border mergers due to the stock market crash, slow privatization and other institutional factors. In contrast, the amount of FDI flows to developing countries and regions were almost unaffected. The FDI inflow to developed countries dropped by 59% compared with that of 2000, while FDI inflow to developing countries and regions suffered a slight decrease in 2001.

The South-South FDI inflow during this period remained a steady up as African and Asia-Pacific countries attracted a great deal of natural-resource-based FDI at that time. In 2005, South-South FDI accounted for 17% of global FDI flows. The majority of FDI outflow came from a small number of economies. FDI from developing and transition economies reached $ 133 billion in 2005 (UNCTAD, 2006).

In 2008, because of the global financial crisis, FDI inflow to developed countries slumped again, Whereas, FDI inflow to developing countries and regions increased, and South-South FDI maintained strong upward momentum because of low integration of their financial systems with the US and European banking system. Compared with developed countries, developing countries and regions withstood the global financial crisis much better.

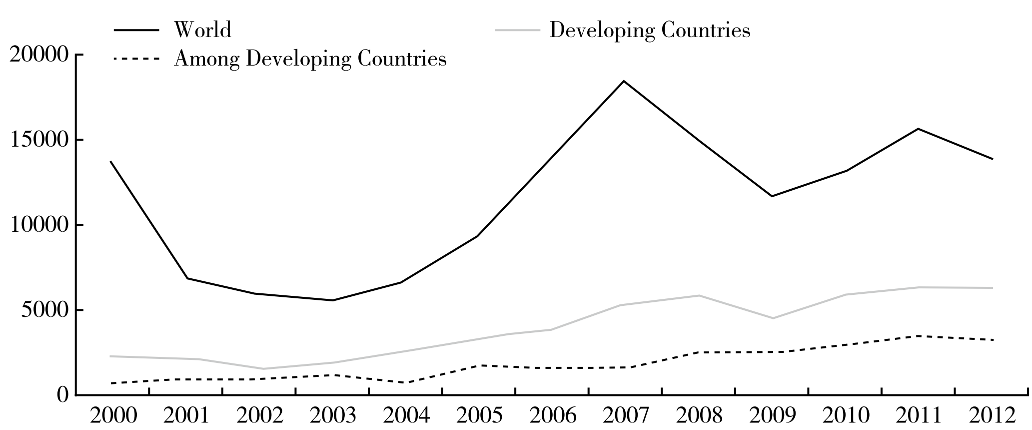

Figure 7.1 Developing Economies FDI Inflow in the 21st Century (Hundred Million USD)

Source: UNCTAD, FDI / MNE database (www.unctad.org/fdistatistics), calculated using data from Aykut and Ratha (2004)

Since 2009, more than half of the FDI inflow to developing countries and regions' have come from other developing countries and regions. South-South FDI flows were growing faster than North-South FDI. South-South FDI accounted for 1/5 of the world FDI. South-South FDI has remained relatively strong in the post-crisis phase.

Since 2012, due to the structural weaknesses of the global financial system, the risk of deterioration of the macroeconomic environment, changes in regional policies that can affect investor confidence significantly, and weak growth in the EU area in particular, FDI inflow decreased in both the developed world and globally. In 2012 and 2013, FDI inflow to developing countries and regions were 45.5% and 45.7% of the total global FDI inflow. In 2013, the inflow and outflow of FDI in developing countries (the South) were $ 88.6 billion and $ 553 billion respectively, accounting for 61% and 39% of global total. It is equally impressive that China's foreign direct investment inflows surpassed that of Japan in 2010 and reached $ 69 billion for the first time ($101 billion in 2013) (UNCTAD, 2015). Additionally, the South-South foreign direct investment flows equalled 63% of all developing countries outflow in 2010 (UNCTAD, 2011).

Overall, in the 21st century, South-South FDI enjoyed a more robust and steady increase.

1.4.2 FDI Outflow

FDI outflow from developing countries and regions started to recover in 2004 and recovered to the level before the Asian financial crisis hit. After this, the percentage of FDI outflow of developing countries and regions in global FDI outflow was on a steady increase year by year. Similar to the situation of FDI inflow, the global FDI outflow suffered sharp reduction by the impact of 2008 global financial crisis. In 2011, global FDI outflow increased by 16.2% year on year, which could be attributed to the increase of FDI outflow from developed countries and the decrease of FDI from Latin America and the Caribbean, the slow investment growth in Asian developing countries and regions, and damped growth of South-South FDI outflow.

From the comprehensive analysis of south-south FDI outflow, we can see that foreign direct investment in developing countries and regions, started to enjoy rapid development from the late 20th century, especially in the 21st century.

1.5 Brief Summary

Since the 1990s, many developing countries and regions have become the main source of FDI for other developing countries and regions. Compared with developed countries in frequent FDI fluctuations, the cooperation among developing countries and regions deepened, and South-South FDI maintained a strong growth momentum. Impacts of the various financial crisis on developing countries and regions were less than those in developed countries, and developing countries and

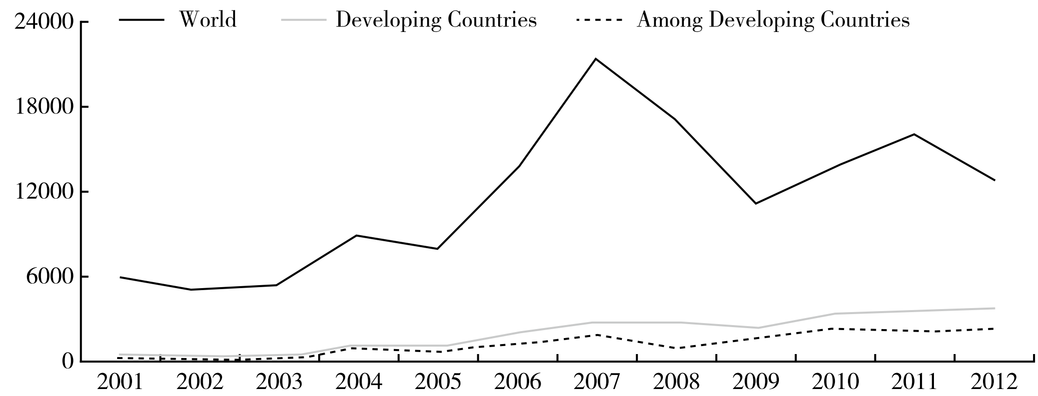

Figure 7.2 South-South FDI Outflow between 2001-2012 (Hundred Million USD)

Source: UNCTAD, FDI / MNE database (www.unctad.org/fdistatistics), calculated using data from Aykut and Ratha (2004).

regions showed more resilience to the crisis (which may attribute to the fact that the South-South foreign direct investment was less dependent on debt financing and therefore could secure a speedy recovery). As trade agreements between developing countries and regions continue to forge ahead, and capital account liberalization implemented, the South-South FDI will play an increasingly important role globally.

2. Current Status Quo of South-South FDI Development

In 2015, the growth of the world's industrial production was slow; trade continued to slump, and the overall recovery of the world economy was weak. However, FDI was strong; FDI flows reached a record high of $ 1.76 trillion, hitting the highest level since the financial crisis, and outflows reached a new high since 2011(although they remained 10 percentage points below the 2007 peak) (UNCTAD, 2016). FDI inflow to developing countries reached $ 765.9 billion in 2015 (9 % higher than that in 2014), another new high after the peak of $ 681 billion in 2014. FDI outflow from developing countries reached historical high in 2014. In terms of policy support, BITs among South-South countries accounted for about 40 percent of global BITs (Bilateral Investment Treaties), and more than 100 developing countries signed trade agreements with other developing countries[1].

This chapter first will introduce the current situation of South-South FDI, and then introduce the status of investment and trade cooperation in Africa, East Asia, Southeast Asia and China, which have the important impact on South-South FDI.

1 Poulsen, L. S. (2010). The significance of south-south BITs for the international investment regime: A quantitative analysis. Northwestern Journal of International Law & Business, 30(1), 101-130.

2.1 Overview of South-South FDI

In 2015, 72% of global FDI outflow were from developed countries, and the share of developing economies was small (UNCTAD, 2016). Decreased aggregate demand, lower commodity prices, and devaluation of currencies led to a significant reduction in FDI outflow from developing countries.

According to the World Investment Report 2016, FDI flows to developing economies (including the financial centre in the Caribbean) in 2015 reached the US $ 765 billion, an increase of 9 percentage points from 2014, while those flowing to transition economies fell by 38% to 35 billion USD. As a result, developed countries' share of global FDI inflow rose from 41% in 2014 to 55% in 2015, reversing the fact that developing and transition economies had been the main recipient of global FDI for five consecutive years.

The main catalyst for the decline of FDI inflow to developing and transition economies was the continuous fall in commodity prices, particular prices of crude oil, metals and minerals. The sharp drop in oil prices in the second half of 2014 had severely affected FDI of oil-exporting countries in Africa, South America and the transition economies. Foreign direct investment in oil-producing countries did not only get less planned capital support due to the price decline, but also experienced a sharp drop in income reinvestment, because of shrinking profit margins. FDI in mining-dominated economies also declined for similar reasons. Another reason for the suppression of investment activities was the relatively slow growth of emerging market economies. The FDI in transitional economies were one-third of that in developing countries. However, the economic environment of economies in transition was not positive, as Brazil and Russia were in recession, South Africa was experiencing slow economic growth and China's economic growth was slowing down, with only India's economic growth remaining relatively stable. In addition, the devaluation of domestic currency resulted in increased pressure on profits re-investment.

2.1.1 Regional Distribution of South-South FDI

Overall, FDI to developing and transition economies increased by 6 percent in 2015, largely due to the continuous and substantial growth of FDI in Asian economies, as well as the decline in FDI inflow in almost all other developing or transitional economies. FDI inflow to Asian developing economies increased by 16% in 2015 to a historical high of $ 541 billion. Asia continued to be the largest recipient of foreign direct investment in the world, driven primarily by the strong performance in East Asia (such as China and Hong Kong China), South Asia (India) and Southeast Asian economies. Africa's investment flow declined by 7% to $ 54 billion, Latin America and the Caribbean declined by 2% to $ 168 billion, and the economies in transition declined by 38% to $ 35 billion. Even though the growth of FDI in developing and transitional economies was slow, half of the global FDI recipient countries were still developing economies. The top ten destinations for foreign investment in the world in 2015 were the United States, Hong Kong, China, Ireland, Switzerland, Singapore, Brazil, Canada, India and France. (Figure 7.3a). Among them, China's FDI flow in 2015 was just less than that of the U.S. and surpassed Japan to be the world's second highest.

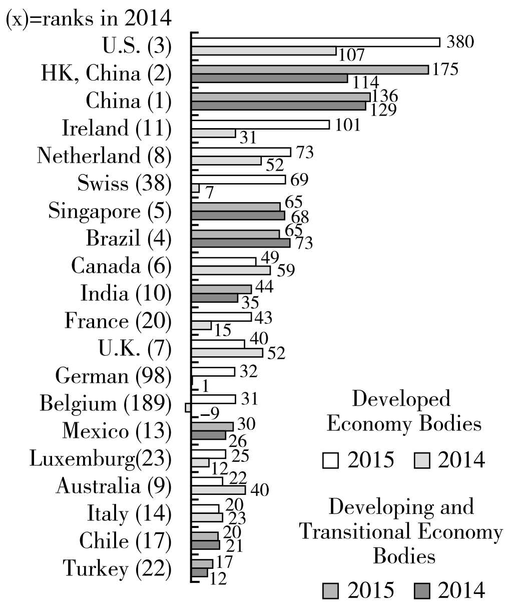

Figure 7.3a Top 20 Economies with the Largest FDI Inflow

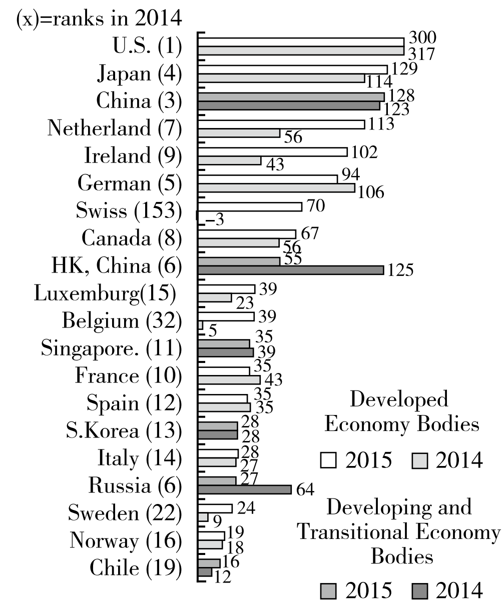

Figure 7.3b Top 20 Economies with the Largest FDI Outflow

Source: UNCTAD, FDI / MNE Database (www.unctad.org/fdistatistics)

Among the top 20 FDI outflow countries, there were 6 developing and transition economies in 2015 (Figure 7.3b), but FDI outflow from these economies accounted for a small proportion. In 2015, multinational companies in developing countries and economies in transition reduced their foreign investment. For instance, foreign direct investment by multinational companies in developing economies in Asia, decreased by 17% to US $ 332 billion, of which 56% was due to a decrease of FDI from Hong Kong (China). In addition, some regulatory cases and geopolitical considerations also affected the FDI outflow. For example, Russia increased the difficulty of international capital market accessibility and adopted some policy to reduce the "borrowing arbitrage", leading to a sharp drop in the outflow of foreign direct investment from Russian multinationals. Additionally, the West Asia regional conflict also investments. Although FDI outflow declined, a small number of developing countries experienced a rapid growth. Comparing the data for 2014 and 2015, FDI outflow from China increased from $ 123 billion to $ 128 billion and was the third largest after the United States and Japan. Kuwait increased from $ -10.5 billion to $ 5.4 billion, Thailand increased from $ 4.4 billion to $ 7.8 billion, and Latin America saw an increase of 5%.

2.1.2 Industrial Distribution of South-South FDI

Over the past 10 years, FDI continued to shift to the service industry. The liberalization of the service industry increased the possibilities of trade in services. In 2014, service industry accounted for 64% of global FDI stock, followed by 27% in the manufacturing industry and 7% in primary industry (UNCTAD, 2016). In addition to the long-term trend of the world economic structure, there were a number of other factors behind the increase in the volume and proportion of FDI in services. These were, liberalization of the service sector in host countries, information and communication technology development that made services more suitable for transactions, the internationalization of services from the manufacturing industry.

The overall industrial distribution of inward investment in developing countries was similar to that of the world, but within the developing economies, there were some differences (see Figure 7.4). The share of primary sector in Africa was 6% higher than Latin America and the Caribbean (22%), while it was 26% higher than that in developing Asia (2%). The 70% share of services in developing Asia was mainly due to Hong Kong China. As commodity prices fell sharply, FDI began to shift significantly to developing economies, particularly to Africa, Latin America and the Mediterranean.

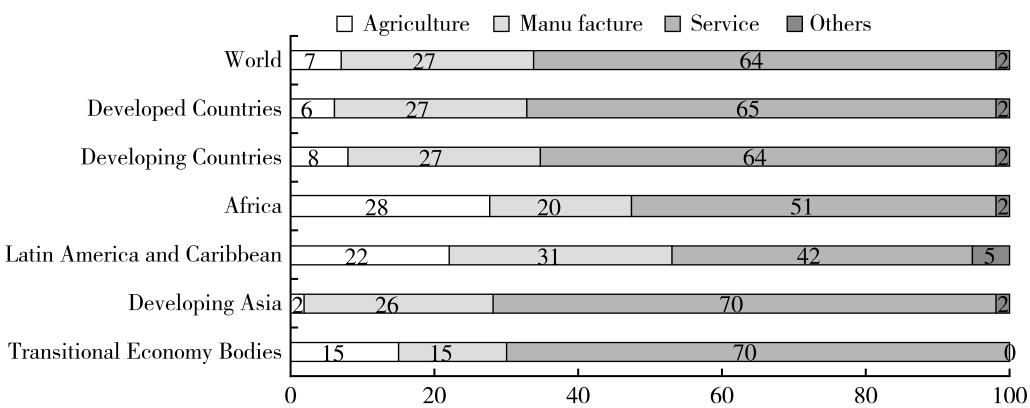

Figure 7.4 Structure of FDI Inflow Stock Classified by Industries in 2014
Source: UNCTAD, FDI / MNE Database (www.unctad.org/fdistatistics)

FDI inflow to Latin America and the Caribbean (excluding offshore financial centres) were $ 168 billion in 2015, similar to that in 2014. In South America, FDI fell due to declining commodity prices and the economic downturn. In comparison, the increased foreign capitals inflow to manufacturing industry boosted the FDI inflow to Central America.

2.2 Overview of FDI in Africa

The reason for increased FDI in Africa was the rise of multinational enterprises in developing countries. Some developed countries (especially France, the United States and the United Kingdom) had a huge amount of net divestment from Africa in 2014 and investors in developing economies wanted these assets. As a result, mergers and acquisitions in Africa rose from $ 3.8 billion in 2013 to $ 5.1 billion in 2014, up by 32%, particularly in the oil, gas and financial sectors. Among Africa's FDI inflow stock, the service sector took up the largest portion, though the number was lower than that in other regions. The FDI was also concentrated in a relatively small number of countries, including Morocco, Nigeria and South Africa. The financial sector accounted for the largest share of Africa's services FDI stock; by 2012, more than half of FDI stock in Africa's service sector was in the financial sector (56%), followed by transport, storage and communications (21%) and business activities (9%).

Africa's FDI inflow fell by 7% to $ 54 billion in 2015. FDI in North Africa increased, but FDI in sub-Saharan Africa, particularly in West and Central Africa, fell sharply. The sharp decline of commodity prices severely affected the trade, investment, balance of payments etc. of African countries that depended on the export of natural resources.

However, economic ties between Africa and China increasingly strengthened in recent years. Despite the relative decline in economic growth, Africa was still one of the world's fastest-growing areas. FDI in Africa grew by 7% in 2015 and was one of the only two growing regions in the world. FDI in Africa reached $71.3 billion in 2015, down from $88.5 billion in 2014 but was still higher than the average of $68 billion during 2010-2014. In terms of regions, East Africa accounted for 26.3% of total foreign investment projects in Africa, while West Africa accounted for 16.2%. At the same time, the United States was Africa's largest source of foreign capital in 2015, with 96 investment-projects worth 6.9 billion USD. In addition, the structure of the absorption of foreign capital in Africa has also changed, from the original focus on few countries and industries (in 2014, coal, oil, gas and manufacturing were the most attractive sectors, with 38% and 33% of total FDI in Africa in 2014), to more diversified areas like business services, automotive industry, environmental technology and life science.

In terms of investment, the international community invested $47.01 billion in green field investment and mergers and acquisitions in Africa in 2012. In terms of industrial sectors, the primary, manufacturing and service industries accounted for 15.9%, 44.4% and 39.7% of the total greenfield investment in Africa respectively, totalling $46.985 billion in 2012, according to UNCTAD's industrial classification. It is noteworthy that the vast majority of investment in African manufacturing industry was also associated with the primary processing of natural resources among which, food and tobacco, cocoa, refinery and nuclear fuel, metal and metal products, accounted for 10.7%, 27.1% and 21.4% of manufacturing FDI inflow respectively and took up to 4.7%, 12% and 9.5% of the total FDI inflow in Africa respectively.

2.3 Overview of FDI in East and Southeast Asia

Before the 1990s, FDI inflow and outflow in East and Southeast Asia were small. Compared with Latin American countries, the East and Southeast Asian developing economies began to develop relatively later but showed a strong momentum of development in the 1980's.

On average, the inflow of FDI in developing countries and regions in East and Southeast Asia accounted for 30% of FDI inflow of developing countries and regions before the 1990s, 10% of the world's FDI inflow, and 50% of the inflow of developing countries and regions in some specific years (1974 and 1980).

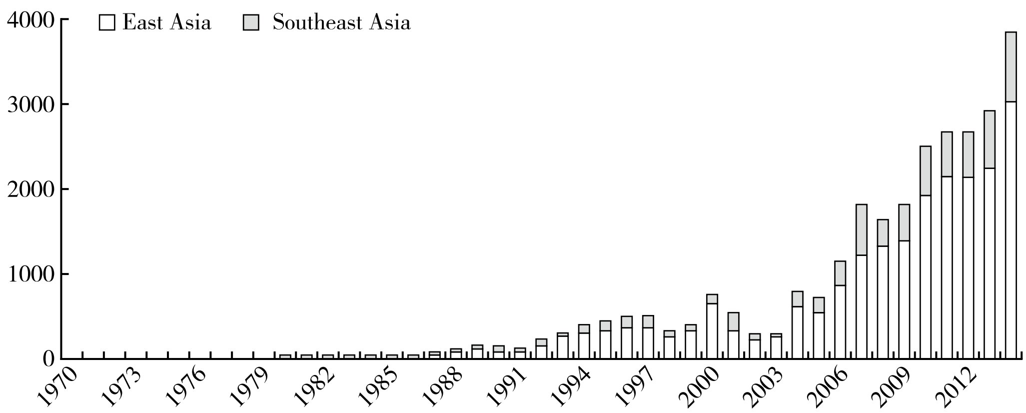

Figure 7.5 FDI Inflow of East Asian and Southeast Asian Developing Countries and Regions (Hundred Million USD)
Source: UNCTAD, FDI / MNE Database (www.unctad.org/fdistatistics)

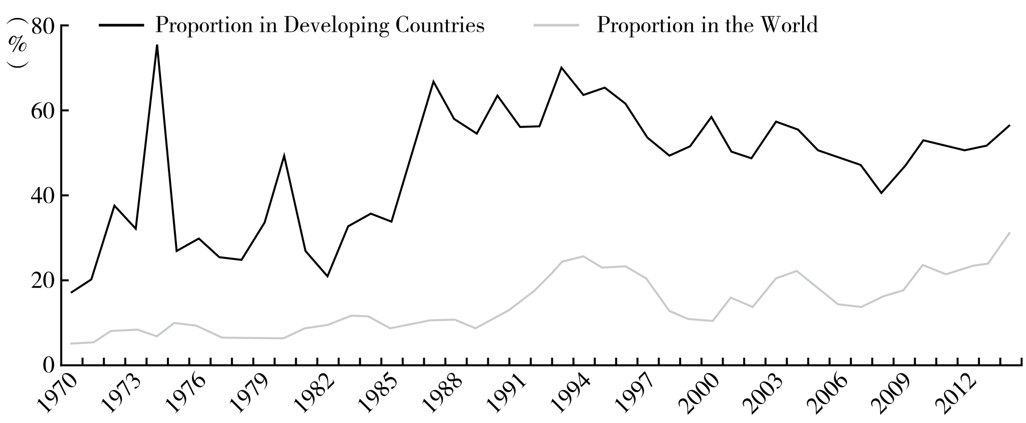

Figure 7.6 East and Southeast Asia FDI Inflow as a proportion of Developing Economies
Source: UNCTAD, FDI / MNE Database (www.unctad.org/fdistatistics)

Before the 1990s, FDI outflow from developing countries and regions in East and Southeast Asia were relatively small. Compared with the developing countries and regions of Latin America, developing countries and regions in East and Southeast Asia began to increase FDI outflow later but showed a strong momentum of development in the 1980's. By mid-1980s, the FDI outflow of developing countries and regions in East and Southeast Asia reached more than 75% of the FDI outflow in developing countries and regions and reached more than 80% after1990s. Although the FDI outflow of East and Southeast Asia had declined since 2001, it showed a rapid recovery trend in recent years, reaching more than 75% of the total outflow of FDI from developing countries and regions in 2014. In terms of both speed and scale, FDI outflow from East and Southeast Asian developing countries and regions was in a leading position in developing countries and regions.

East and Southeast Asia represent developing economies, both for FDI inflow and outflow, and can serve as models in South-South and global FDI. Because of limited data, this section will

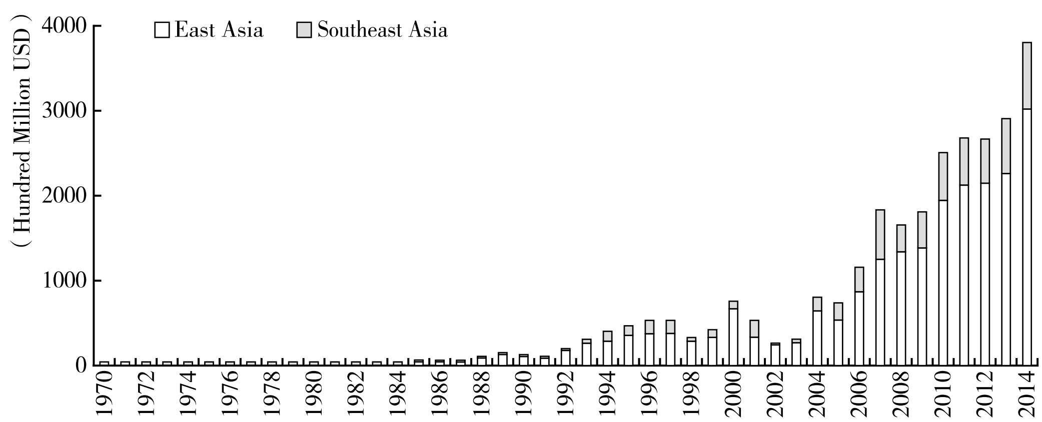

Figure 7.7 FDI Outflow of East Asia and Southeast Asia Developing Countries / Regions (Hundred Million USD)
Source: UNCTAD, FDI / MNE Database (www.unctad.org/fdistatistics)

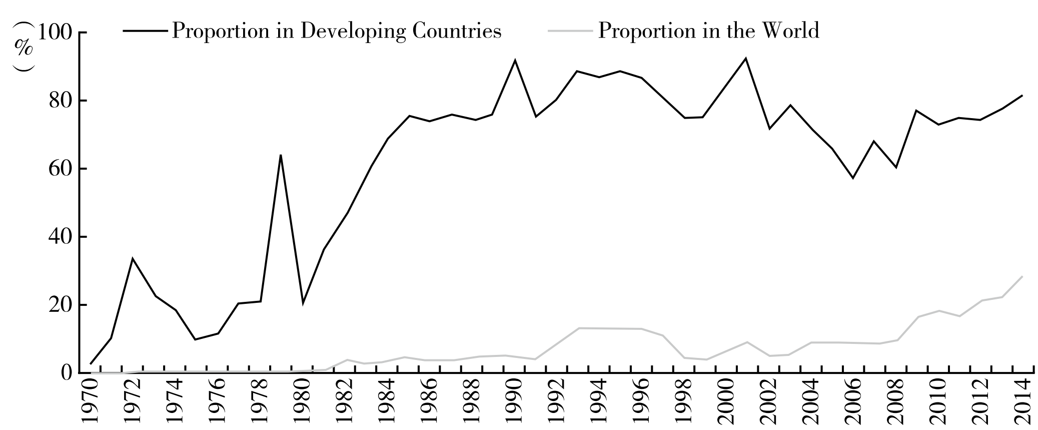

Figure 7.8 East and Southeast Asia FDI Outflow Proportion in Developing Economies
Source: UNCTAD, FDI / MNE Database (www.unctad.org/fdistatistics)

briefly introduce the situation based on the data of China, Hong Kong China, Korea, Malaysia, and Thailand.

As shown in Figure 7.9, since 2001, FDI inflow in five countries have accounted for more than half of foreign direct investment in developing countries of East and Southeast Asia, and more than half of them have come from other developing countries and regions.

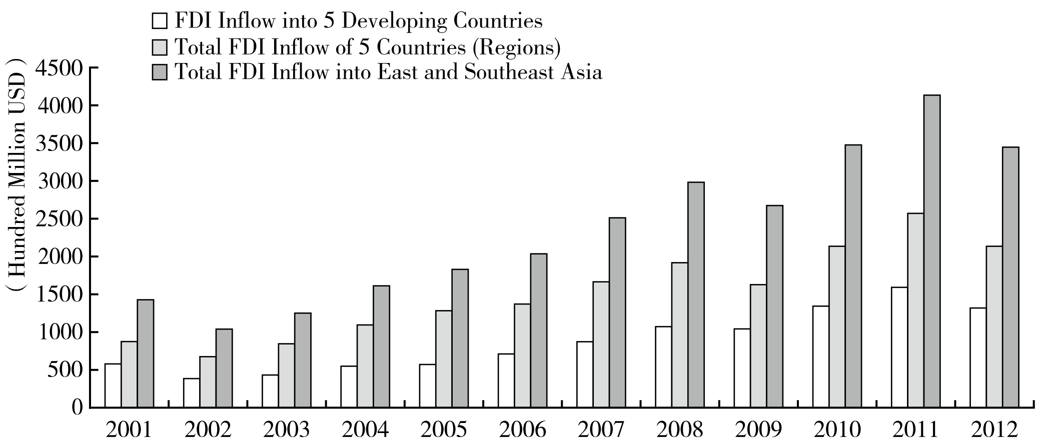

Figure 7.9 FDI Inflow of Five Countries (Regions) in East and Southeast Asia from 2001 to 2014 (Hundred Million USD)

Compared to the development of FDI inflow, FDI outflow from the five countries played a greater role in FDI outflow from East and Southeast Asia (As shown in Figure 7.10). Since 2001, FDI flows to other countries from East and Southeast Asia have mainly come from China, Hong Kong China, Korea, Malaysia and Thailand. Since 2008, FDI outflow from the five countries

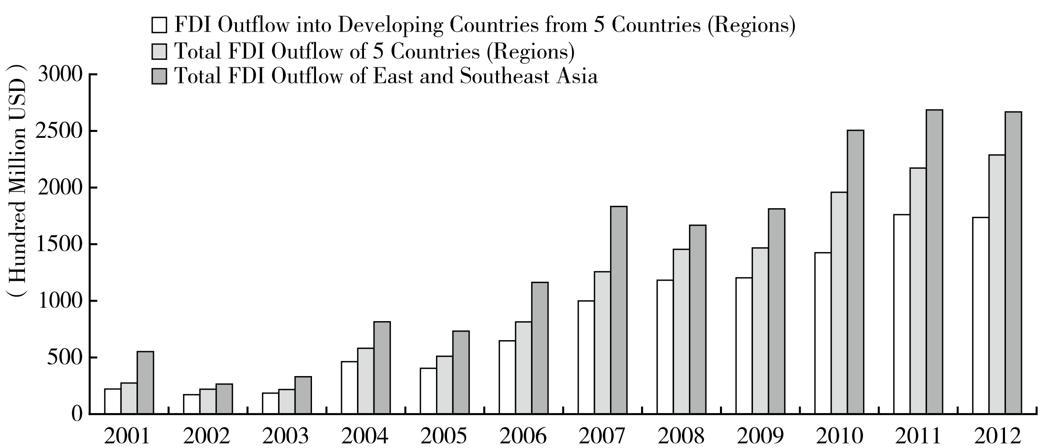

Figure 7.10 FDI Outflows of Five Countries in East and Southeast Asia from 2001 to 2014 (Hundred Million USD)

(regions) have accounted for more than 80% of FDI outflow from developing countries and regions throughout East and Southeast Asia, and more than 75 % of them have gone to other developing countries and regions.

2.4 Overview of China's FDI

Since the reform and opening up, FDI by China's enterprises has grown rapidly. In 2013, China's net FDI exceeded 100 billion USD for the first time and reached 145.6 billion USD in 2015, its highest point in the history.

There are three reasons for China's FDI increase: the first is the reform and opening up of China in 1978; the second is that China formally joined WTO in 2001; the third is that China's FDI was tested and tried in the global financial crisis of 2008. This report divides the development of China's FDI into three stages on the basis of scale, industry and investment zone: early stage (1978—2000), quick development stage (2001—2007)and rapid development stage (2008-now). Since 1983, the amount of foreign capital China used and its FDI have grown rapidly. Particularly since 2000, the amount of foreign capital China used and its FDI have come into a new quick development stage.

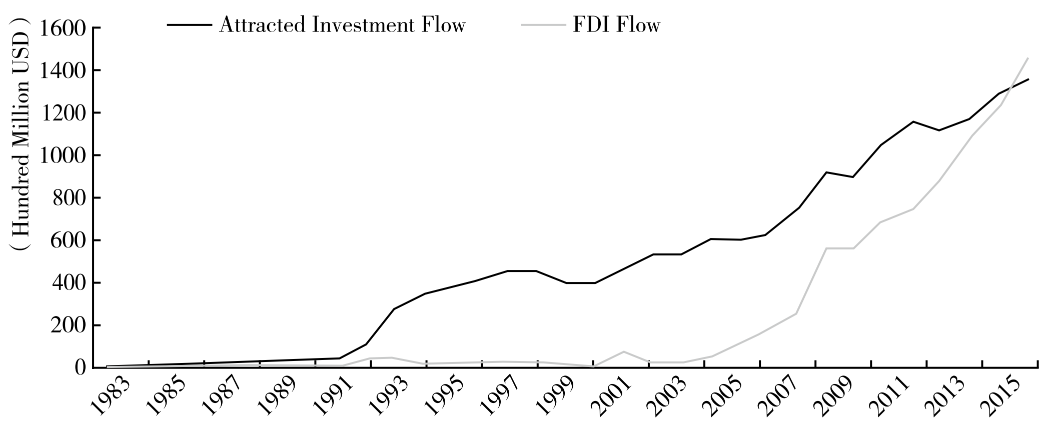

Figure 7.11 Amount of Foreign Capital China Used and Its FDI from 1983 to 2015 (Unit: Hundred Million USD)

Source: Data from 1982 to 2002 originates from *2003-2013 Foreign Direct Investment Statistical Bulletin* in UNCTAD database.

The stock of FDI in Asia has been on downward trend since 2009 while that in Europe and North America has been on an upward trend, reflecting the change in regional preference of Chinese FDI from developing to developed nations. However, Asia was the top recipient of China's FDI followed by Latin America and Europe. In 2015, China's FDI rose to 145.67 billion USD after a consecutive increase for 13 years. China's FDI in 2015 was more than its used foreign capital (135.6

billion USD) in the corresponding period. The stock of China's FDI was 109.786 billion USD, accounting for 4.4% of the global FDI stock. It increased from previous 2.2% and hence China's ranking of the FDI stock has risen from 25th to the 8th. At the end of 2015, gross assets of China's overseas enterprises reached 4.37 trillion USD.

2.4.1 Industrial Distribution of China's FDI

The proportion of the tertiary sector in China' FDI is very high. It started to rise from 2003, kept over 60% from 2006, but was on downward trend in recent years with commercial and financial service sectors mainly concerned. The proportion of the primary sector, including agriculture, forestry, animal husbandry and fishery, was very small, only amounting to 1.5%. The proportion of the secondary sector in China's FDI went down from 2003, and mainly focused on the mining industry. By the end of 2015, China's FDI covered all industrial sectors and the proportion of manufacturing industry, financial industry, information transferring/software and information service industry rose by 108.5%, 52.3%, and 115.2% respectively, year on year. The investment that went into equipment manufacturing industry reached 10.05 billion USD, rising 158.4% year on year basis and accounted for 50.3% of investment in the whole manufacturing industry, which drove the "going out" of equipment, technology, standard and service.

Although China's FDI was involved in various categories, the industrial distribution of it was relatively concentrated. The total investment stock in five industries namely rental and commercial service, finance, wholesale and retail, manufacture and mining, was 548.6 billion USD, occupying 24.9%, 16.6%, 13.7%, 13.2% and 7.7% respectively of the gross stock of China's FDI in 2015. It is

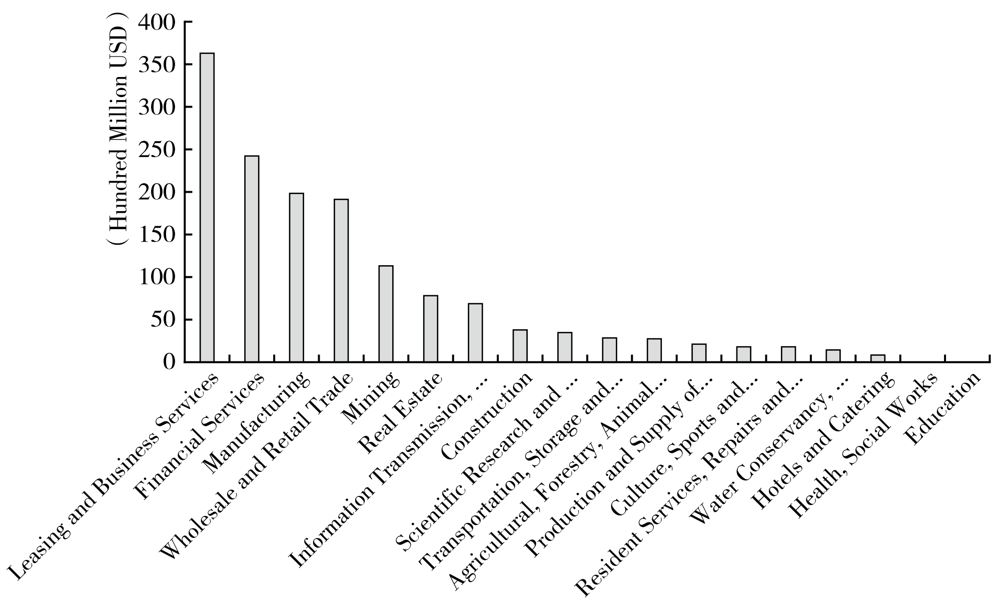

Figure 7.12 Industrial Distributions of China's FDI Stock in 2015

Source: *2015 Foreign Direct Investment Statistical Bulletin*, China Statistic Press especially noteworthy that the proportion of service industry was larger than that of manufacturing and this trend is on the rise. In China's direct investment in 2014, rental and commercial service industry was 37.2 billion USD (36.2%), mining industry 19.33 billion USD (18.8%) and wholesale and retail industry 17.27 billion USD (16.8%), these three industries make the highest proportion of foreign direct investment (71.8%). China's investment in the service industry in 2014 rose sharply by 27.1% and the share of the service industry went to 64.6%. In 2015, China's FDI in the rental and commercial service industry was 36.26 billion USD (24.9), in financial industry 24.25 billion USD (16.6%), in manufacturing industry 19.99 billion USD (13.7%). Those three industries were the most concentrated fields of FDI (55.2%).

2.4.2 Geographical Distribution of China's FDI

By the end of 2015, there were around thirty thousand overseas enterprises undertaking FDI in 188 countries and regions, accounting for 80.7% of a total number of global countries and regions. The main investment destinations were Hong Kong and South Korea in Asia, British Virgin Islands in Latin America and the Cayman Islands. In 2015, there were 116.44 billion USD flowing to Hong Kong, Netherland, Cayman Islands, British Virgin Islands and Bermuda Islands, accounting for 79.7% of the gross flow of that year. The investment in specific Asian countries and regions reflected that China's enterprises preferred regions that have similar culture and nearby location, at the early stage of FDI. The Cayman Islands and British Virgin Islands were the world-renowned tax havens. Besides, China expanded its investment in the countries along the Belt and the Road Initiative. At the end of 2015, the stock of China's FDI in relevant countries along the Belt and the Road was 115.68 billion USD, accounting for 10.5% of the gross stock of China's FDI.

Considering continental distribution, all six continents have received China's FDI of which Asia and Latin America have received the highest. Till 2004, Asia was the largest receiver of FDI by China's enterprises. However, in 2005-2006, Latin America surpassed Asia. But in 2008, Latin America received the lowest FDI from China compared to other years between 2004 and 2015. The general flow of China's FDI in Europe, North America, Oceania and Africa maintained a rapid growth while their respective proportions in China's FDI were not high. At the end of 2015, China's investment stock in Asia was 768.9 billion USD (70%) and Asia continued to be the largest market for foreign investment. Asia was the largest destination of China's FDI as well as for foreign contracting projects and labour cooperation. China's investment stock in Latin America was 126.32 billion USD, occupying 11.5%; in Europe was 83.68 billion USD, occupying 7.6%; in North America was 52.18 billion USD, occupying 4.8%; in Africa was 34.69 billion USD, occupying 3.2%; and in Oceania was 32.09 billion USD, occupying 2.9%, of total Chinese FDI.

Africa is also an important destination for China's investment. However, economic and trade cooperation between China and African countries mainly relied on aid and trade before the 1970s. From the early 1980s, China's investment in Africa gradually increased in scale with diversified cooperation methods and multiple collaborative agents. At the end of 2014, the stock of China's investment in Africa was 32.35 billion USD, accounting for 3.7% of the stock of China's FDI and there were over 3000 Chinese enterprises established in Africa, occupying 10.6% of the total quantity of Chinese overseas enterprises. The rate of investment coverage was as high as 86.7% with most investment concentrated in Nigeria, Zambia, South Africa, Ethiopia, Tanzania, Ghana, Kenya, Angola, Sudan, and Algeria, etc.

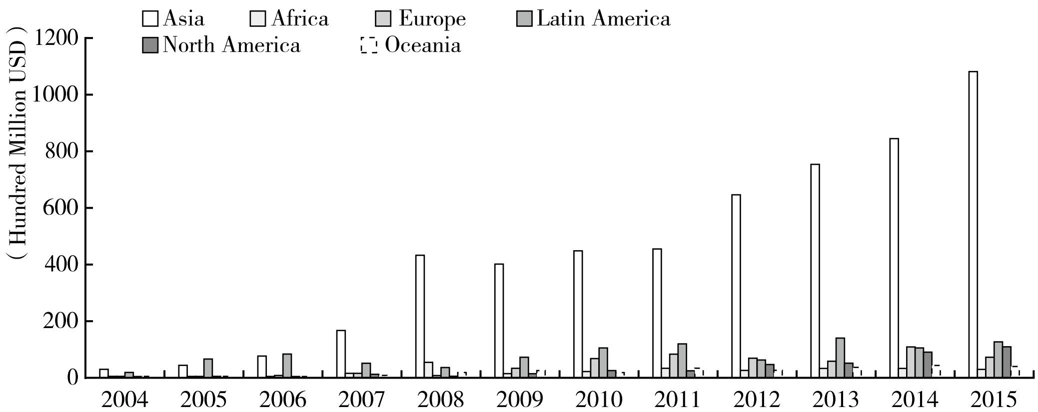

Figure 7.13 Geographical Distributions of China's FDI Flow from 2004 to 2015
Source: 2004-2015 *Foreign Direct Investment Statistical Bulletin*, China Statistic Press

At the end of 2015, China's investment stock in developing economies was 920.887 billion USD, accounting for 83.9% of investment stock in developing economies (as is shown in Figure 7.14). China's FDI stock in Hong Kong was 656.855 billion USD, accounting for 71.3% of its

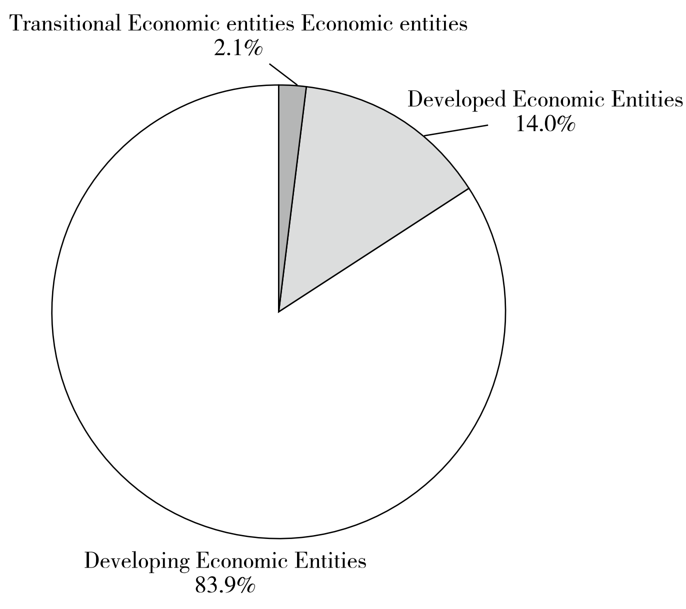

Figure 7.14 Composition of China's Direct Investment in Economic Entities at the End of 2015
Source: 2004-2015 *Foreign Direct Investment Statistical Bulletin*, China Statistic Press

investment stock in developing economies; in ASEAN, was 62.716 billion USD, accounting for 6.8% of its investment stock in developing economies. China's investment stock in developed economies was 153.652 billion USD, accounting for 14% of its gross stock. At the end of 2015, China's direct investment stock in transitional economies was 23.321 billion USD, accounting for 2.1% of the gross stock.

3. Effects of South-South FDI

As the main channel of global capital flow, FDI can have the following two effects. On the one hand, economic development of home countries is limited due to the decrease of domestic capital factor. On the other hand, the benefits provided by foreign investment is associated with economic growth, international trade, employment, technology and structure upgrading of the home countries, which caused by the mobility of capital factor, population and technology.

South-South FDI has five effects on developing countries and regions: economic growth, employment, trade development, technology and industrial structure adjustment. In the analysis of different effects of South-South FDI on developing countries and regions, we select typical countries to carry out statistical considering the effects of FDI on different countries and regions.

3.1 Effects on Economic Growth of Host Countries

South-South FDI affects the host countries and home countries differently. For host countries, FDI complements their capital, knowledge and technology and can promote economic growth. However, it can also crowd out domestic investment and damage their financial creativity. For home countries, FDI has substation effect and complement effect on the national economy.

3.1.1 Effect of FDI on the economy of host countries

Developing countries, especially those with relatively abundant labour forces, can gain by attracting labour-intensive enterprises. Especially in South Asia, rare entrepreneurship and capital investment have always been the top constraining force of competitive manufacturing industry (Justin Yifu Lin, Yan Wang, 2016). Local enterprises can overcome these restraints by foreign investment and seize the opportunities for industrial transfer in developing and emerging countries.

The report of Global Economic Prospects indicates that developing countries and regions raised their economic growth rate from 4.8% in 2013 to 5.3% in 2014, similar to the pace of South-South FDI. This phenomenon indicates the certain relationship between them.

The effect of South-South FDI and North-South FDI are different on host countries. Firstly, South-South FDI is mainly distributed in industries such as textile and clothing, food, wood processing, paper manufacturing and rubber products. However, North-South FDI tends to concentrate in industries such as chemical products, transportation and communication facilities as well as part of machinery manufacturing. Secondly, in terms of scale (measured by output value and labour force quantity), developed countries have larger scale enterprises in general. Thirdly, enterprises in developed countries have higher productivity. For example, in Indonesia, Japanese enterprises, on average have higher productivity than those of other Asian developing countries. However, this difference is not prominent in those industries where South FDI has an important role, such as food, textile, wood processing and furniture manufacturing.

UN data shows the huge influence of FDI on import-export volume of developing countries and regions. Using FDI, transnational companies invest in host countries, thus increasing their exports and at the same time import raw materials from home countries, strengthening the relationship between the two.

However, this kind of FDI may cause spill-over effects on economic growth in the long term. For instance, after merging and acquiring the local competitor Tata Mills Oil Plant, as a subsidiary Unilever India gained control of 75% market share of bath soap and 30% market share of detergent in India. Transnational companies may create monopolies and stifle the development of domestic companies in host countries. Moreover, this kind of long-term FDI can also cause long-term environmental damage.

3.1.2 Effect of FDI on economy of home countries

In the activities of South-South FDI, FDI has substitution and complementary effects on the host economy. Substitution effect means that FDI moves domestic production to overseas market and reduces gross domestic output. Complementary effect means that the overseas production activities of transnational enterprises can enable economic growth of home countries by increasing their exports.

As one of the four Asian tigers, Hong Kong gradually recovered and started a new round of rapid development after 2002, after being hit by the 1997 Asian Financial Crisis. GDP and GDP per capita in Hong Kong respectively rose from 28.818 billion USD and 5691.8 USD in 1980 to 210.57 billion USD and 29805 USD in 2009, increasing by 6 times and 4 times. The rapid growth of gross production in other regions closely related to the FDI activities. In 2001, Hong Kong invested 16.823 billion USD in developing countries and this figure increased by about 3.3 times to 73.023 billion USD in 2013. Regression analysis between FDI data flow in Hong Kong and its gross domestic growth shows a strong relationship between the two.

We find that FDI of this kind crowd out domestic investment and affects domestic economic growth in small countries. However, for those countries with large economies such as China and India, FDI has a positive effect on their domestic economic growth; thus, being complementary rather than the substitute.

The complementary effect is reflected in the following aspects: firstly, production and management scale can be extended after the establishment of production headquarters or sale networks in other developing countries by the method of FDI; secondly, production and management cost can be reduced through the configuration of producing elements because developing countries have diverse characteristics in terms of resources storage, technique development and consumption habits.

Concluding from the above discussion, FDI promotes economic growth for most developing countries and regions. However, for countries with small economies, FDI can do more harm than good in the long term.

3.1.3 Effect on Trade Development of Developing Countries and Regions

After the 1990s, South-South trade volume experienced a quick, strong and sustainable increase due to the economic globalization and rise of emerging economies. From 1990 to 1999, South-South trade volume increased 14% annually (all in real dollars of every year). From 2000 to 2001, it increased 16% annually. The share of South-South trade volume in global trade grew to 10.2% between 2000 and 2001 from 7.4% between 1990 and 1991. The share further increased to 15.4% between 2009 and 2010. During the whole period of the 1990s, South-South export volume kept nearly unchanged and its share in gross cargo export of developing economies increased to 39% from 33.7%. From then on, this kind of share rose to 57% of 2012 from 44% of 2000, and the share of import increased more rapidly, from 44% to 59%.

Effect of FDI on trade development covers 4 aspects: the first is trade substitution effect, which means investment substitutes trade to some extent. The second is trade creation effect, which means FDI can create new trade opportunities between host countries and home countries. FDI can promote the export of capital goods, technologies and services of home countries and hence increase the trade volume of home countries. Simultaneously, the establishment of close mutual connection can help reduce the communication cost, increase trade efficiency, and promote the transnational flow of information. The third is trade complementary effect. When FDI creates trade opportunities, usually it can bring some subsequent economic opportunities. Therefore, FDI is not a short-term event but a long term one which can promote and increase the trade opportunities between host countries and home countries. The fourth is market expansion effect. Multinational companies produce and sell commodities overseas and penetrate and expand local markets, which is beneficial for the trade of other commodities from home countries and the increase in trade volume.

In term of trade data, the export trade value of every country presented above in the graph, rose from 1990 to 2015. Especially, China's export volume increased by 26.6 times, from 84.94 billion USD in 1992 to 2.34 trillion USD in 2014. At the same time, China's import volume also rose rapidly (as illustrated in Figure 7.15 and 7.16). Besides, in 2008, import and export volume of every country presented above plunged due to weak global economy caused by financial crisis. However, trade

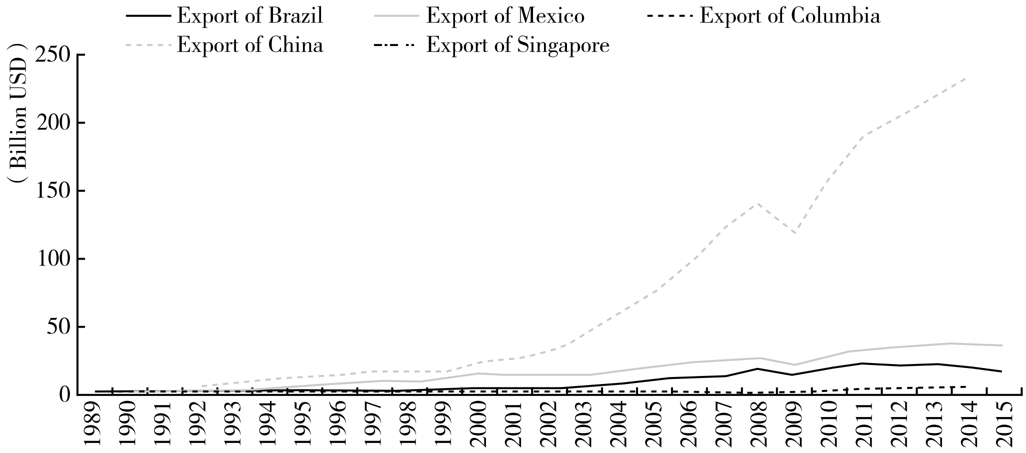

Figure 7.15 Trade Export of China, Brazil, Columbia, Singapore and Mexico from 1989 to 2015 (Billion USD)
Source: UNCTAD (Commodity Trade Statistics Database)

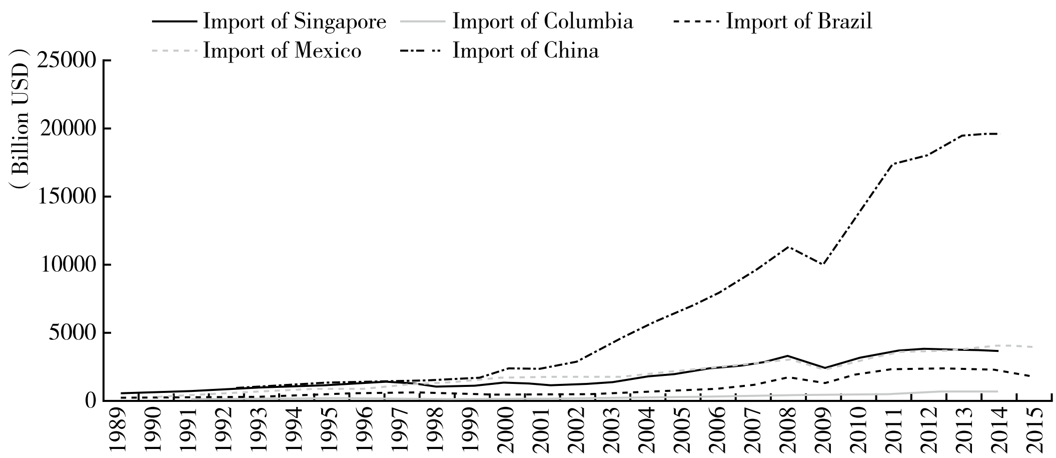

Figure 7.16 Trade Import of China, Brazil, Columbia, Singapore and Mexico from 1989 to 2015 (Billion USD)
Source: UNCTAD (Commodity Trade Statistics Database)

volume of every country recovered gradually and kept growing after 2009. We find that China had a trade surplus every year except 1993 and China's net traded value rose constantly. However, the net traded value of Columbia and Mexico stayed in deficit. In Singapore, the net traded value was in the deficit between 1989 and 1997, but after 1997, the net traded value rose constantly and changed to surplus.

Import and export volume of developing countries and regions are closely related with their own FDI. Regression analysis of total export and net inflow and outflow of FDI of the above five countries shows a positive correlation between export and FDI. Data from China, Singapore, Mexico and Columbia shows that FDI has complementary and expansion effect on domestic trade. However, data from Brazil shows negative correlations with trade crowding out effect, pointing to negative effects of FDI on domestic trade. In brief, FDI can promote trade volume of developing countries and regions in the long term. Although negative effect might exist in the short run, expansion and complementary effect offset this eventually. Therefore, the strengthening of South-South foreign investment cooperation has a creative effect on developing countries and regions as well.

3.2 Effect on Employment of Host countries

Developing countries and regions usually face great employment pressure, which could be eased through more jobs brought by South-South FDI. Singapore's experience has shown that foreign investment from 1996 to 2000 created 33600 jobs in manufacturing sector. This foreign investment has both positive complementary effect and negative substitution effect for home countries. In total, the complementary effect will finally offset substitution effect. For host countries, it is beneficial to receive foreign investment, including investment by transnational companies to create jobs and ease employment pressure.

According to rough estimates, China's manufacturing industry employed 124 million workers nationwide in 2014, most of which were concentrated in labour-intensive sectors (about 85 million). Continuously increasing labour costs forced Chinese enterprises to upgrade themselves to high value-added products and use more capital. This led to the transfer of jobs to other countries with lower labour cost. Currently, India employs about 9 million workers and Brazil employs about 13 million. These emerging countries hired about 1100 million workers whose jobs would be transferred to other developing countries over the next decades. The African population is 1 billion with an average income of a quarter of Chinese workers' and with many other countries being even lower than one-tenth of Chinese income level. Certain scholars initiated to transfer Chinese manufacturing sectors to Africa, which can make the Chinese acquire largest processing and manufacturing bases and promote transformation and upgrading of industrial structure, and create a large number of jobs for African countries.

Starting from 1990 to 2013, the employment rate in Philippines stayed around 60% and that of Chile fluctuated around 50%, which started to grow after 2009. In 1997, financial crisis lead to a decrease in employment rates of in many of the East Asian countries except mainland China. After that, employment and income of every country recovered to the previous level, and grew stably.

Concerning income level, salary per hour in Chile was 45.67 peso in 1973, which increased by 1.7 times to 122.74 pesos in 2008. In the Philippines, monthly salary increased even higher, by 2.3 times, from 4259 pesos in 1990 to 9796 pesos in 2008. Data shows that FDI can improve employment and salary levels in the country.

FDI in developing countries exercises apparent influence on local employment level according to the correlation analysis to the inflow and outflow of FDI in those countries. Firstly, FDI promotes the commercial connection between home and host countries so that demand of traded products increases, which can improve employment levels in home countries. Secondly, FDI, usually in the form of transnational corporations, can create more job opportunities for administrative, management and legal departments. Finally, economic growth because of FDI can raise the salary level in home countries to the certain extent as well.

3.3 Technology Spill-over Effect on Host Countries

FDI is a crucial carrier for technology transfer and an important channel for developing countries to acquire foreign currency. Multinational corporations bring capital and advanced production technologies and management capabilities, contributing to technology spill-over (Crespo & Fontoura, 2007; Narula & Driffield, 2012). Besides, entry of transnational corporation can break monopolies, improve resource distributions, promote local technological efficiency and accelerate technology transfer and diffusion. Finally, this can lead to improved productivity of host countries.

A number of empirical results demonstrate that developing countries need to have the certain level of human capital in order to gain benefits from technology spillover of the transnational corporation. Moreover, economic development level of host countries, availability of skilled labour and administrative personnel, availability of capital, distortion level of factor price, also play a role. Technology spillover of transnational corporation is restricted by following factors: the scale of domestic enterprises, technology management, property rights system, internal systematic structure, factor market and product markets. (Du Lanying and Zhoujing, 2002). For instance, research by Aggatural finds that, in the Indian manufacturing industry in 1969, quality of labour force among 65% of foreign funded enterprises was higher than that of local ones and only 16% of foreign funded enterprises were capital intensive[1].

The technological effect of South-South FDI works in two directions: the first is the technical effect of home countries on host countries. Home countries bring advanced production technology, management methods and conduct research and development through investment in host countries, promoting local technology advancement. In the long term, technology advancement affects GDP growth of host countries as has been demonstrated by the famous Cobb-Douglas production function. The second effect is technology spillover effect of host countries on home countries. Technologies acquired by FDI enterprises in host countries can help home countries in two ways: internal transfer or spillover effect. Internal transfer means multinational companies in host countries delivered technology to home countries through economic behaviours. Spillover effect refers to industry connections between enterprises from home countries and host countries, including supporting industry products, services exports.

1 Lanying Du, Jing Zhou, On the Technology Spillover Effect of Transnational Corporations in Developing Host Countries. Journal of International Trade. 2002(7): 53-57.

3.4 Effect on Industrial Structure of Host Countries

Investment plays a great role in industrial restructuring in mainly two ways: the first is to form realistic demand and the second is to create new production capacity. These two factors create new demand in the society and hence industries readjust. Moreover, compared with industries without investment, industries receiving investment grow faster, and thus change the existing industrial structure (Yang An, 2013).

South-South FDI leads to industrial restructuring in developing in two ways: one is that capital, in the form of transnational corporations, flows into host countries and creates new jobs facilitating the up gradation and transformation of old industries. Successfully transformed host countries then deliver the relevant experience to other countries by way of FDI. The other is that capital-exporting countries benefit from such activities because home countries are able to replace weak industries with those that have a comparative advantage by exporting capital, which then facilitates the up gradation of the nationwide industrial structure. Additionally, the transformation and upgrading of every industry affect the proportion of primary, secondary and tertiary sectors.

The proportions of primary industry in GDP in every country and region present a downward trend (as illustrated in Figure 7.17). Proportion of primary industry in every country fluctuates but there has been a downward trend. Figure 7.18 shows the proportion of secondary industries in these countries and regions and we can see an inverted U trend. The trend in Figure 7.19 is much clearer showing that the proportion of tertiary industry in developing countries has been rising.

Both inflow and outflow of FDI are correlated to the decline in the share of the primary industry. However, no correlation was found between the share of tertiary industry and the stock and flow of FDI, except for the case of China where the relation was positive.

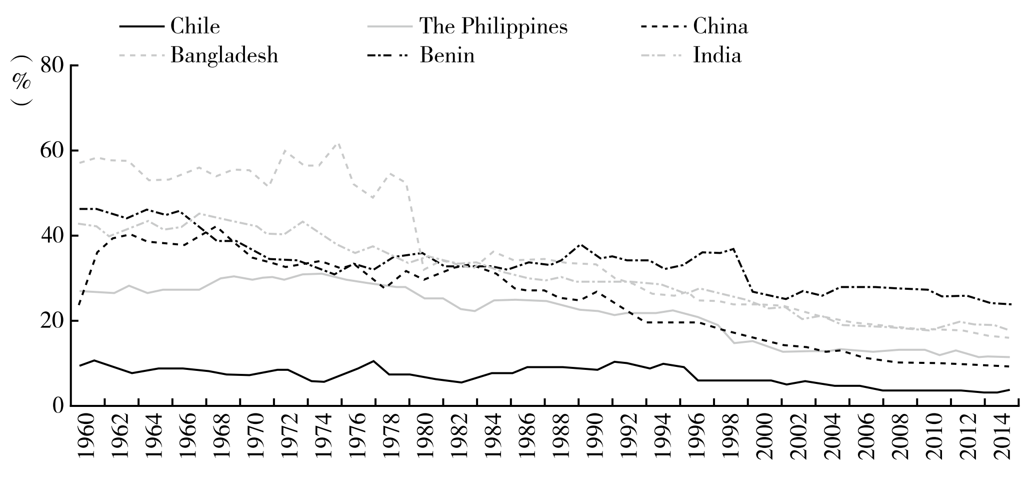

Figure 7.17 Proportions of Primary Industry in Developing Countries and Regions Like China and Chile from 1960-2014

Source: UNCTAD (The World Bank)

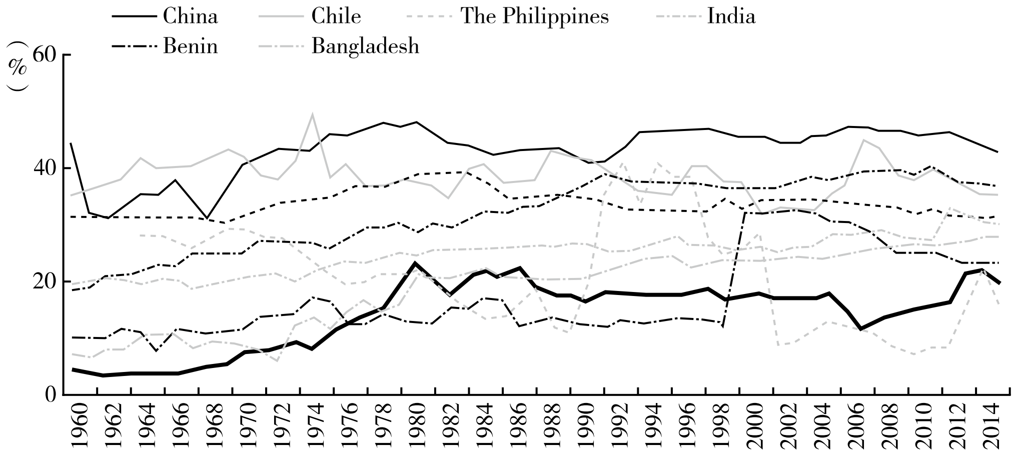

Figure 7.18 Proportions of Secondary Industry in Developing Countries and Regions Like China and Chile from 1960-2014
Source: UNCTAD (The World Bank).

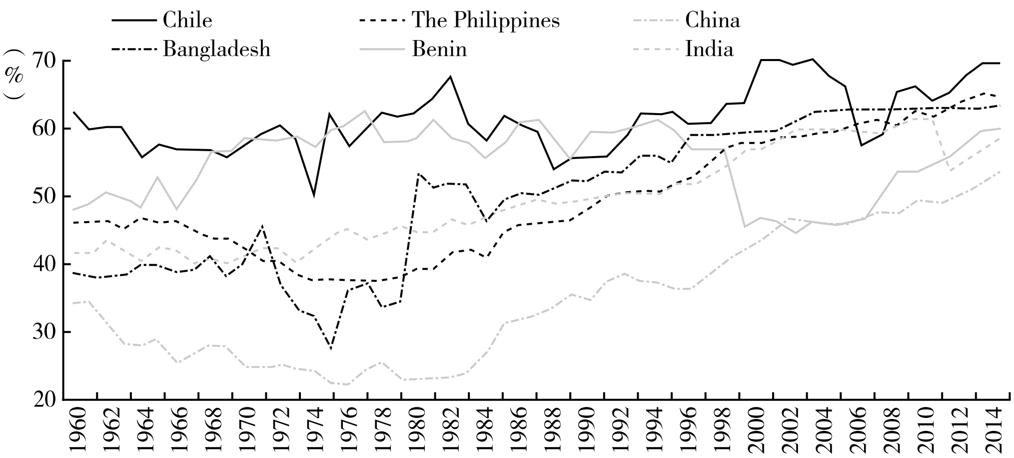

Figure 7.19 Proportions of Tertiary Industry in Developing Countries and Regions Like China and Chile from 1960-2014
Source: UNCTAD (The World Bank)

In summary, South-South FDI facilitates the transformation and up gradation of primary, secondary and tertiary industries to some extent, however, its role is limited in the case of tertiary industry.

3.5 Brief Summary of Section 3

South-South cooperation, in the form of foreign investment, affects the economy, employment, technology and industrial structure of developing countries. In the short run, FDI plays an important role in facilitating these countries and regions even if there are some negative effects. Overall, South-South FDI is critical for both host and home countries. Developing countries should make good use of positive effects of FDI to facilitate economic growth, employment improvement, trade increase, technology advancement and upgrading of industrial structure.

4. Experiences from South-South FDI

Development achievements of FDI in developing countries have largely results achieved in Eastern and South-eastern economies since 1990's. In World Investment Report, global FDI in 2014 decreased by 16% to about 1.23 trillion USD the lowest point since the financial crisis. In contrast, the inflow of FDI from Asian developing economies hit a new record high, making them the leading force in global investment.

Considering that FDI has become an important source of investment and capital formation, many countries have taken actions to improve and coordinate the institutional environment in the hope of attracting FDI. From 2000 to 2012, 55 countries passed 1082 laws related to organization and policy reform in order to create a better environment for foreign investors. Moreover, by the end of 2013, 9175 bilateral investment agreements were signed, which included the clause of improving and readjusting institutional setup of host and home countries. (UNCTAD, 2014).

4.1 Interconnection and Interworking of Infrastructures

The development of developing countries in East and Southeast Asia can be regarded as the model for FDI development for many developing countries. Moreover, investment in neighbouring countries strengthens regional cooperation in the field of infrastructure, commercial and institutional cooperation.

From the beginning, regions in East and Southeast Asia have cooperated with each other within regional and bilateral frameworks, so that more and more regional free trade and economic arrangements can be initiated. The establishment of free trade zones like ASEAN-China Free Trade Zone and regional investment cooperation (ASEAN investment zone) provide the guarantee for market access, facilitates production of inputs, resource procurement and increases efficiency. Regional cooperation has greatly influenced the East and Southeast Asian areas. For example, the establishment of Great Mekong Sub-Regional Economic Cooperation Program (GMS) provides facilitates economic connections among Cambodia, Laos, Myanmar, Thailand, Vietnam and Yunnan province of China. Besides, GMS also promotes infrastructures interconnection and interworking of CLMV (Cambodia, Laos, Myanmar and Vietnam) with other countries within this region.

Driven by regional integration, transnational infrastructure projects strengthen regional interconnection in electricity, road and railway and various other industries. Using "Growth

Triangle" (like Indonesia, Malaysia and Thailand), economic corridors and growth regions, ASEAN countries improved regional economic cooperation. Recently suggested cooperation mechanisms, including international (China's One Belt, One Road) as well as regional and ones (AIIB), further push regional integration and interconnection. The growth of investment in infrastructure industries does not only help to improve the investment environment, but also make the whole region more attractive for foreign investment.

Ibrahim Hassane Mayaki, former PM of Niger and CEO of New Partnership for African Development (NEPAD), on the eve of the 25th Summit of AU, said in an interview with Xinhua News Agency, that China's aid to Africa in infrastructure building is remarkable. NEPAD has already identified 16 projects for further investment, which are expected to bring profound social and economic benefits. These projects will address the long-term economic problems of remote areas of Africa. In the long run, China will keep providing aid for Africa's infrastructure needs. China has completed 1046 turnkey projects, 2233km of railways and 3350 km of roads. In 2014, Prime Minister of the State Council of China, Li Keqiang, proposed the initiative to build "Three Major Traffic Networks" including railway, road and air through the cooperation between China and Africa during his visit to Africa. This is aimed to promote African integration and interconnection by breaking the bottleneck in infrastructure.

Interconnection of facilities is an important part of "One Belt, One Road". Most Asian countries require a huge amount of capital for infrastructure construction in the road, railway, harbour, power station, clean water, energy source, reproducible energy source, health, education and other fields. The Asian Development Bank Institute (ADB) delivered a policy brief, showing that from 2010 to 2020 about 8.22 trillion USD will be needed for Asia's infrastructure up gradation of which East and Southeast Asia takes up over 50%, and just India (South Asia) needs about 2.1 trillion USD. The great demand provides plenty of opportunities for China to increase its efforts to invest in and construct within this region.

4.2 Institutional Environment and Policy Measures

Multinational companies choose their destinations based on different resources, labour force and services. The soft and hard environment are the two factors affecting foreign investment. Soft environment includes stability of national macro economy and government, well-functioning legal systems, accounting systems in line with international standards as well as protection of intellectual property rights and mechanism for dispute settlement. Moreover, all systems related to investment, including procedures for enterprise setting up, limitations and requirements on foreign capital, investment stimulating mechanism, consistency and transparency of policies, administrative efficiency, coordination of policy, foreign trade and foreign capital liberation policies as well as development status of private enterprises, could exert a direct effect on the native capability of attracting foreign capital. Hard environment refers to the availability of water, electricity and natural resources, reliable traffic and communication infrastructure, skilled labour forces and developed industries.

China is regarded as the most successful example to attract FDI. In 2015, China received 135.6 billion USD, ranking third in the world. It is generally acknowledged that the reason for this success is labour forces with low cost but high quality, huge population, large market scale, and bright development prospects. Except these, another critically important factor is China's preferential policies for foreign investment. The preferential policies mainly include relief and reimbursement of income tax and supply of concessional loans. After joining the WTO, Chinese government changed the policies for foreign investment to some extent, moving from preferential policies to relaxed restrictions on foreign investment. The measures adopted included: relaxing restrictions on requirement for domestic content in all products, extending export limitations, opening the current account, gradually lifting limitations on the balance of foreign exchange receipts and expenditures, relaxing qualification restrictions of foreign investment as well as eliminating entry barriers for high-profit and sensitive sectors (Pan Jin'e, 2005).

Malaysia is another model where FDI increased after the 1997 financial crisis, which gained by reforming policies, opening up and fulfilling its commitments made in regional and global agreements. The direct measures adopted by the government included exploring domestic competition, building fair and competitive environment, increasing the examining and approving efficiency for FDI, emphasizing on the priority of advanced technologies, capital and skills, actively participating in regional cooperation and introducing preferential policies. The indirect policies included increasing funds for education and training and providing technical and fiscal supports.

It is generally acknowledged that enterprises from developing countries are at a disadvantage in the process of FDI. The reason is weak brand marketing and poor technology (Cuervo-Cazurra and Genc, 2008). Moreover, host countries prefer developed countries in the north, and they can provide advanced technologies and larger international market network (Stopford & Strange, 1992). However, enterprises in developing countries also have certain advantages, at least when they invest in developing countries. Developing countries usually have poor market mechanism, unclear property rights system and weak infrastructure. However, these experiences are familiar for investing enterprises as they face a similar situation in their home country, which gives them an advantage in understanding the market.

4.3 Experiences of Industrial Cluster and Special Economic Zone

Special economic zones (SEZs) were designed in East Asia and Latin America in the 1970s to attract multinational companies from other countries to invest into their labour-intensive manufacturing industry.

According to the report on special economic zones by International Labour Organization (ILO), the SEZs increased from a total of 176 in 47 countries in 1986 to 3500 in 130 countries in 2006 (Boyenge, 2007). Special economic zones and industrial parks yield dual benefits. The first is "static" economic benefits, such as the creation of jobs, promotion of exports, increase in government benefits and foreign exchange income; the second is "dynamic" economic benefits, such as technology up gradation, innovation, economic diversification and increased production by local enterprises (Zeng, 2010).

Industrial park development has been an integral part of the rapid economic in China (Zeng, 2010). In recent years, over 40 countries proposed to jointly build Economic and Trade Cooperation Zone (ETCZ) with China. Overseas ETCZs (OETCZs) bring deeper cooperation in economy, politics, society and culture of the local country, and has become an important business card of "Going Out" and a significant channel for the output of Chinese soft power such as development model, management philosophy, cultural and value ideas.

The Chinese government supports competent enterprises to go overseas and develop mutually beneficial cooperation in order to promote joint development with host countries. Chinese enterprises invest overseas and set up ETCZ keeping enterprise as the main body, business operation as the basis and mutual benefits as the goal. Market conditions, investment environment in host countries and investment policies, play an important role in the decision of setting up an ETCZ. Host countries can attract more enterprises through the development of ETCZ[1] for investment and reap additional benefits.

Because overseas ETCZ fits into the requirement of economic and industrial development in local countries, it becomes an important part of "One Belt, One Road" as well as a significant platform for the industrial structure adjustment of Chinese enterprises and global distribution of industries. Besides, it also helps in clarifying the win-win model of Chinese international cooperation. Chinese enterprises going overseas face many hardships such as weak industrial infrastructure, poor supporting industries, lack of external supporting conditions like water, electricity and traffic. Cooperative zones provide a platform for Chinese enterprises, help them expand overseas, create favourable conditions for development of industrial clusters, help in coordination and hedge against risks.[2]

Since 2006, the Ministry of Commerce, together with relevant government departments, has worked actively to promote enterprises to set up cooperative zones. The Ministry of Commerce has

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1 Economic and Trade Cooperation Zone (ETCZ) refers to the industrial, agricultural and service parks, with relatively complete infrastructures and industrial chains, strong capacity of driving and affecting local development, and relatively large influence, set up or assisted by Chinese enterprises in foreign countries or regions of good conditions, aiming to attract investment for prosperity from China or other countries.

2 Zhao Xing, Building Overseas Economic and Trade Cooperative Zone into Effective Platform of "Going Out" of Industries, China Financial and Economic News, July, 2015

worked out a series of assessment methods to verify and examine cooperative zone annually. They have negotiated and signed cooperative zone agreements with North Korea, Cambodia, Belarus, Malaysia, Laos, Indonesia, Ethiopia and other countries; implemented investment promotion in Canton Fair, China Zhejiang Investment & Trade Symposium, China International Fair for Investment and Trade (CIFIT) and ASEAN EXPO; and organized training sessions for relevant personnel in countries where cooperative zones already exist.

OETCZ becomes an important platform for China's cluster investment in Africa, creating a new model for Sino-Africa cooperation. By the end of November 2015, 20 overseas ETCZs are located in Africa, of which Zambia-China Economic and Trade Cooperation Zone (ZCCZ) is the first OETCZ of China in Africa, which has been declared the first multifunctional economic zone by the Zambian government. Cumulative investment for this zone reached nearly 1.5 billion USD with 35 enterprises stationed inside. Further, Chinese enterprises have established Eastern Industry Zone in Ethiopia, Suez Economic & Trade Cooperation Zone (SETCZ) in Egypt, Lekki Free Trade Zone in Nigeria and others[1].

Chinese enterprises are constructing 75 overseas ECTZs right now, of which 13 have been confirmed. These are: Haier & RUBA Economic Zone in Pakistan, Thai-Chinese Rayong Industrial Zone in Thailand, Cambodia Sihanoukville Special Economic Zone, Long Jiang Industrial Park in Vietnam, ZCCZ in Zambia, SETCZ in Egypt, Lekki Free Economic Zone in Nigeria, Eastern Industry Zone in Ethiopia, Ussuriysk Economic and Trade Cooperation Zone in Russia, Sino-Russia Tomsk Forestry Economic and Trade Zone in Russia, Longyue Forestry Economic and Trade Cooperation Zone in Russia, China-Russia(Primorsky Krai) Modern Agriculture Industry Cooperation Zone and China-EU Commercial Logistics Cooperation Zone in Hungary.

Overseas ETCZ is an innovative model as it deepens practical cooperation between China and host countries, builds a platform for enterprises to share international market resources and take part in global economic cooperation helping China bypass trade barriers and reduce the possibility of disputes. At the same time, overseas ETCZ could provide effective channels for enterprises to utilize their excess capacity and ease domestic pressures coming from production and management costs.

4.4 Combination of Assistance and Investment

The Chinese model is different from other assistance providers in South-South development cooperation. It pushes South-South cooperation by combining assistance, trade and investment, and promotes poverty reduction and economic growth in recipient countries so that the development can cement the friendship between China and other developing. Except "One China" policy, China

1 http://www.mofcom.gov.cn/article/zt_jwjjmyhzq/

asks for no other additional political conditions in cooperation. Chinese government "never regards this aid as a unilateral gift but mutual help for each other" (Eight Principles for Economic Aid and Technical Assistance to Other Countries, 1964).

As a developing country, China promotes trade development in developing and least developed countries by strengthening infrastructure, improving production capacity, providing duty-free preferential treatment, assisting in multilateral trade system and training local talent in economics and trade[1]. These steps are further elabourated below:

a. Improving trade-related infrastructures: From 2010 to 2012, China helped to build nearly 90 large and medium size infrastructure projects which were related to trade, effectively improving trade transportation conditions of recipient countries and extending the interconnection with other regions. China made full use of its advantages in technology, equipment material, human resource and other fields to reduced investment cost ensuring quality at the same time.
b. Improving trade-related production capacity: China has built a number of trade-related productive projects, to improve the production capacity and the commodity structure of relevant industries in aid-receiving countries. In December 2011, during the 8th ministerial meeting of WTO, China reached cooperation agreements with the "Cotton Four", Benin, Mali, Chad and Burkina Faso. The support included technology up gradation and extension of industrial chain through the provision of finer cottonseeds, agricultural machinery and fertilizers, new planting technologies, and training.
c. Providing duty-free preferential treatment: In order to help developing countries to export to China, China introduced duty-free policy for 190 taxed items from 25 least developed countries in Africa for the first time in 2005. Later, China continuously expanded the range of countries receiving duty-free treatment. In November 2011, Chinese leaders in the Cannes Summit of G20 declared that China would provide duty-free treatment covering 97 percent of taxed items from least developed countries. At the end of 2012, nearly 5000 taxed items exported to China from least developed countries received duty-free treatment. Since 2008, China had been the largest export market of least developed countries for 5 consecutive years, receiving 23 percent of the export from least developed countries.
d. Supporting least developed countries to take part in multilateral trade system: China works hard to actively participate in the working mechanism of "Aid for Trade" initiated by WTO. From 2008 to 2010, China donated 200 thousand USD every year for this program, and from 2011 the donation was increased to 400 thousand USD every year. Using these donations, China set up the China Program for Assisting the Least Developed Countries' Accession to

1 Source: Whiter Paper of Chinese Aid to Arica (2014)

the WTO. It held related seminars on accession to the WTO for these countries, financed their personnel to attend important WTO meetings and funded internships at the WTO Secretariat. From 2010 to 2012, China held 18 seminars, sharing its experience with over 400 government officials from other developing countries. The establishment ceremony for Institute of South-South Cooperation and Development at Peking University (hereinafter referred to as "South-South Institute") was held at Lang Run Park, National School of Development at Peking University in April 2016. The South-South Institute was proposed by the General Secretary Xi Jinping on September 26, 2015, during the Round Table Meeting on South-South Cooperation held at the UNHQ in New York. The institute will become a platform for communicating development philosophies, summarizing development regularities and providing better wisdom and talent support for developing countries.

Regression analysis shows that China's investment and assistance for economic growth of Africa produced positive influence (Wang Wenqing, Zhao Zhongxiu, 2014). Moreover, the assistance for social infrastructure sector will accelerate Chinese investment in Africa.

5. Challenges and Prospect of South-South FDI

South-South FDI has made outstanding achievements in development and showed great vitality and energy. But there are inevitable challenges facing South-South FDI in development.

5.1 Challenges Facing South-South FDI

5.1.1 Sluggish Global Growth and Rising Trade Protectionism

Since- the breakout of international financial crisis, insufficient market demand has become a stable problem and global trade protectionism has increased. The growth of global trade has reduced for five consecutive years and international trade growth has been slower because of trade protectionism. 80% of trade protection measures made by G20 members are still in implementation, affecting 4% of total volume of global import and export, according to WTO data. Compared to 2014, in 2015, trade restriction measures implemented in the world increased by 50%, equivalent to 3 times of free trade measures, according to a report by Global Trade Alert Organization, which monitors trade protection activities. From 2010 to 2015, there were only 50-100 trade protection measures in the first four months of every year. However, in the first four months of 2016, 150 measures were already implemented.

Currently speaking, the U.S. adds uncertainty to the prospect of global economic growth, developed countries have the tough way ahead to recover their economies and emerging economic entities need more momentum to drive economic growth. Therefore, the world economy is seeing a low rate of growth and stays in adjustment and differentiation, protectionism is to make the crisis worse under the circumstance of weak global economic recovery.

5.1.2 More Unstable Factors and Higher Political Risk

The investment environment for FDI is not conducive because of major barriers like political and security risks.

In Africa, on the one hand, although the general situation has become more stable in recent years, regional turbulences still happen occasionally. Especially the political turbulence in North Africa in 2011, created a new round of intensive uncertainty in parts of the African continent. Regional battles, conflicts and terrorist attacks occurred in some African countries and regions, resulting in hampered peace and security. Moreover, because of historical reasons, the political systems of African countries are still incomplete with low government capacity and fragile economic autonomy. Conflicts among social, ethnic and religious groups are serious. There are five major security problems: political unrest, armed conflict, terrorist attack, organized crime and public security. Security problems put Chinese investment and personnel under risk and negatively affect the cooperation and development of South-South FDI[1].

In Asia, some countries and regions face greater political risks. Successful development of economic and trade cooperation needs peaceful and stable political environment. Rising political risks in certain Asian countries also endanger foreign investment and cause direct economic loss and sometimes even loss of life. Therefore, enterprises should do proper due diligence to reduce risks.

Regarding international policies, the quantity and influence of international investment agreements continue to be strengthened. In 2015, 31 new agreements were reached by various countries putting the total of international investment agreements at 3304. Although the number of new international investment agreements have been going down, their influence on economy and politics are still strong because of the involvement of more and more countries in these agreements. Latest data shows that by the end of 2016, nearly 150 economic entities were in negotiation concerning at least 57 new international investment agreements.

Besides, arbitrary cases between investors and host countries continue to increase. In 2015, there were 70 new arbitrary cases of disputes between investors and countries, hitting a new record high.

5.1.3 Higher International Competition Pressure and Security Risk

In Africa, developed countries and emerging entities compete with each other to increase investment in Africa and therefore increase competition. Large-scale international contractors are

1 Report on African Development:2015-2016, Institute of West Asia and Africa, Chinese Academy of Social Studies.

adjusting their business distribution to invest in Africa; Enterprises of South Korea and Japan, under the support of their government, increased their activities in Africa; Russia and Brazil expressed their interests in participating in the transportation network of Africa.

In Latin America, some countries have experienced economic recession and change of traditional political system which has affected stability and continuity of their economies. There are still some negative factors in investment environments of certain countries that make it hard for foreign enterprises to adapt. These include too many categories of tax with the high tax rate, the high cost of production, inadequate traffic services, high charges, low working efficiency, numerous and complicated laws and regulations, frequent temporary restrictions, tough access to working visa for foreign employees, occasional labour dispute due to strict labour laws etc.

In Asia, different countries and regions have different levels of economic development and degrees of opening. According to World Bank's 'Doing Business Report', business environments in various Asian countries and regions have significant differences. In the report, Singapore, Hong Kong China, Malaysia, South Korea rank higher than Myanmar, Laos, Thailand. It is worth mentioning that Singapore has ranked first for many consecutive years. Development imbalances, endogenous contradictions, restrictions on foreign capital in some Asian countries and various disadvantages among different countries make it complicated for enterprises to invest.

Besides, information asymmetry brought by diverse political systems, economies, institutions, and cultures, vague nationalities of investors have led to disputes over ownership, investment agreement supervision etc. Therefore, prediction, evasion and management of investment risks are the primary tasks for enterprises when they directly invest in developing countries.

5.2 Future expectations for South-South FDI

South-South FDI has faced challenges in its development and compared with North-South FDI; it still has some weaknesses. However, because of slow economic growth in developed countries and robust economic growth in developing countries, South-South FDI will grow steadily.

5.2.1 Infrastructure Construction and Production Capacity Cooperation

China and relevant parties have worked hard together to promote joint development of developing countries by driving the development of South-South cooperation. With BRICS as the representative of the South, AIIB and BRICS Development Bank formed, advocating the initiative of "One Belt, One Road". In order to push forward the construction of interconnection, interworking, and capacity cooperation in the world, "One Belt, One Road" connects 43 Asian countries and other 19 countries in Middle and East Europe, having a great scale economic effect. Most of the countries, along with this route, are mainly developing ones in middle and West Asia, North Africa, central and east Europe, South and Southeast Asia as well as Oceania. It may pose transformational influence on countries with weak and inadequate infrastructures in South and Southeast Asia, and will stimulate the investment in these places and improve economic potential there.

China is an important participant of and a major contributor to South-South cooperation. According to data by UN, current trade volume within the framework of South-South cooperation is about 5 trillion USD, accounting for half of the total FDI in the world. In 2015, China's Outward Foreign Direct Investment along the route of "One Belt, One Road", reached 18.93 billion USD, with year-on-year growth of 38.6%. This was twice the growth rate of global investment and accounted for 13% of total flow volume of that year[1]. The Chinese government took facilitating measures to simplify administrative procedures to encourage enterprises to invest abroad. In 2014, new administrative regulations for investment abroad were issued. Before September 8, 2016, the Department of Commerce and local governments approved or registered 21175 foreign investment items, among which only 11 items(0.5% of total) were approved, and other 99.5% of the total were registered. For more than sixty years, China has worked hard to take part in South-South cooperation, providing 166 countries and international organizations with aid worth of 400 billion RMB and 600 thousand person-time assistant people to support developing countries. Therefore, China has become an example for South-South Cooperation in the whole world.

"One Belt, One Road" will promote foreign trade and foreign investment. China has been actively developing multilateral trade relations and by the end of 2015, China had already signed and put into effect 14 free trade agreements involving 22 countries and regions with partners from Asia, Latin America, Oceania and Europe. This initiative has received the positive response from most countries and regions along the route. China will accelerate the construction of "One Belt, One Road" to maximize the synergy between the initiative and development strategies of countries. The "One Belt, One Road" initiative not only satisfy the development interests demands of countries along the route but also will bring historical opportunities to Chinese enterprises to invest and cooperate abroad.

5.2.2 Economic, Cultural and Geographical Background Advantages

Compared with multinational corporations of developed countries, corporations in developing countries can understand, contact and adapt to the investment environment of developing countries. They can resist political and economic risks in developing countries by providing products, labour service and technologies that are more suitable for the demand of the host countries. Moreover, multinational companies' international experience in South-South FDI shows that, while choosing investment destinations, corporations from developing countries prefer countries with closer

1 Top 10 Countries in FDI Volume in 2015: Singapore, Russia, Indonesia, Arab Emirates, India, Turkey, Vietnam, Laos, Malaysia, Cambodia.

geographic locations, similar economic and cultural backgrounds and historical connections. For example, Brazilian corporations prefer Latin America for investment, Indian corporations prefer Nepal, Russian corporations prefer members of former the Soviet Union, South African corporations prefer Ghana, Mozambique, Zimbabwe, Botswana, Namibia, Tanzania, Zambia, etc., and Chinese corporations prefer Hong Kong China, Indonesia, Mongolia, South Korea, Cambodia, Thailand and other similar countries and regions.

5.2.3 Reform of International Investment System

Investment policy framework of trade and development organizations and reform of international investment system affecting the investment process. At the first stage of the reform, all countries had reached consensus over the necessity of reform, determined reform fields and methods, examined respective policies and system of the international investment agreements, drawn up a new model for investment agreements, and started the negotiation on new international investment agreements. Nearly 100 countries have examined current international investment agreements based on the investment policy framework of UNCAD and roadmap on reform of international investment system, and 60 countries have designed specific items for relevant agreements.

Reform of international investment agreements led by UNCAD is coming to the second stage, at which all countries will sign new investment agreements of higher standards with improved methods of systemizing, revising and renegotiating. At the first stage in the past, efforts to reform were mainly reflected on the national level. At the second stage, parties put more emphasis on coordination and integration of relevant policies and rules and deal with the tendency of gradual fragmentation of current investment system. International investment rules of a new generation will be gradually formed in the future.

Investment facilitation is an important issue affecting the Development Agenda of 2030. Among national policies for attracting foreign funds, most deal with investment promotion, rather than facilitation. Similarly, in international investment agreements, specific measures for facilitation are very Action Guide for Global Investment Facilitation formulated by UNCAD contains specific action plans and policy choices in this regard and therefore important for the countries involved.

In conclusion, with robust economic growth in developing countries and continuously improving South-South trade, South-South FDI is promoting economic growth in developing countries. And it will gradually help developing countries get rid of their economic dependence on developed countries leading to the transformation of the international economic order.

Part Ⅲ

Chapter 8

Belt and Road Initiative and New Architecture of Development Cooperation*

China initiated the Silk Economic Belt and 21st Century Maritime Silk Road (B&R) in 2014 aiming at promoting economic development cooperation based on the win-win principle. B&R connects vast regions ranging from Asia, Africa and Europe and accommodates China's own economic development agendas to the development interests and demand of the participating parties.

B&R, which is an important attempt by China to explore new forms of international economic cooperation, provides an inclusive framework for all parties involved to design and invest together in developing the infrastructure network and industrial parks, as well as other projects. In order to overcome the financial bottle-net, China also initiated the Asia Infrastructure Investment Bank (AIIB), the New Development Bank (NDB) and set up its own Silk Road Fund (SRF).

B&R took off smoothly and had already achieved a series of important early harvests. While B&R gives special emphasis on the infrastructure network, it encourages the comprehensive development projects including industrial parks, capacity building and institutional arrangements (FTA, trade and investment facilitation etc.). To overcome risks and challenges, B&R, AIIB and

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NDB as well, will not only cooperate with the participating parties, but also with the existing international organizations like World Bank and Asia Development Bank etc. closely. As a new kind development cooperation, B&R will help to generate growth momentum and to reduce the economic development gaps.

1. Overview of B&R

1.1 Why China as an initiator

In a speech by Chinese President Xi Jinping on the "Silk Road Economic Belt" (the Belt) at Nazarbayev University (Kazakhstan) on September 7, 2013, he praised the role of the ancient Silk Road in building close economic, social and cultural links and peace between China and outside world and called on China and Kazakhstan to build a modern Belt together. The Belt is to build the transportation and economic corridors that connect China to Europe and all other major Eurasian sub-regions. Then speaking to the Indonesian parliament on October 3, 2013, Xi put forward the proposal of building the 21st-Century Maritime Silk Road (the Road), which intends to broaden trade and other economic connections between China and other maritime countries of Southeast Asia, South Asia, the Middle East, East Africa, and the Mediterranean. The two initiatives (B&R) are a package that covers vast regions of Asia, Europe and Africa linking both land and maritime regions with comprehensive agendas ranging from infrastructure, industrial parks, port networks to cultural exchanges.

In November 2013, the Third Plenary Session of the 18th Central Committee of the Communist Party of China called for accelerating infrastructure links among neighbouring countries and facilitating B&R. President Xi urged to make the planning of B&R and achieved visible results. On 28 March 2015, an official document "The Vision and Actions on jointly building Silk Road Economic Belt and Twenty-first Century Maritime Silk Road" (hereafter "B&R document") was jointly issued by the National Development and Reform Commission, Ministry of Foreign Affairs and the Ministry of Commerce with State Council authorization.[1]

B&R is considered as a grand strategy made by China for its long-term interests. From an economic perspective, after China adopted its reform and opening policy in 1978, China's Eastern coastal region has become the most dynamic area due to its geographical advantage. As a result,

1 Major points about the principles, objectives and key areas are from "Vision and proposed actions outlined on jointly building Silk Road Economic Belt and 21st-Century Maritime Silk Road" (B&R document), http://news.xinhuanet.com/english/china/2015-03/28/c_134105858_2.htm

the flows of resources and labours have moved more and more to the east coast areas. The domestic regional imbalance of China's development becomes a great risk to the sustainability of the economy and stability of the society. The Chinese government has made lots of efforts to reduce the gaps between its East and Western regions. For example, in 2000, the Chinese government announced the "grand western development strategy" (WDS) that covers its 12 provinces, regions and city with infrastructure (roads, highways railways, electricity and gas projects) as the priority. Although WDS achieved visible progress, the imbalance between the East and the Western regions in China has not reduced significantly as the competitive advantage of the Western region seems not well enhanced. Comparing to the inward nature of WDS, B&R emphasizes both inward and outward strategies for the Western region. According to the Document, B&R covers the continents of Asia, Europe and Africa, connecting the vibrant East Asia economic circle at one end and developed European economic circle at the other, and encompassing countries with huge potential for economic development. The Belt focuses on bringing together China, Central Asia, Russia and Europe (the Baltic), linking China with the Persian Gulf and the Mediterranean Sea through Central Asia and West Asia; and connecting China with Southeast Asia, South Asia and the Indian Ocean. The Road is designed to go from China's coast to Europe through the South China Sea and the Indian Ocean in one route, and from China's coast through the South China Sea to the South Pacific in the other.[1] By connecting China to B&R countries, it will help to develop a new economic space, which will open a new frontier not just to China's western region, but also to China as a whole. For China, this new frontier will surely attract investments and labours flowing from the East region to the Western region, and the Western region becomes the bridge between China and B&R covering areas.

The typical geographical location gives China the special need and advantage to promote B&R, while its eastward (the east and the southeast) is far reaching sea and ocean, the westward (the north west, west and south west) is vast the continent covering many countries from Asia to Europe. To develop the maritime routes, seem easy, but they need supporting facilities and integrated networks ranging from harbours, ports to logistic networks, as well as institutional arrangements among the relating countries on the official level and also in the business community on the private level. The land connection between China and the neighbouring countries needs the support of cross border infrastructure networks ranging from roads, railways and airways, all of which now have not well developed either in the hardware or the software. B&R aims at improving the connectivity by modernizing ports, building harbour zones, maritime logistic networks through the Road initiative and by developing infrastructure networks and economic zones through the Belt initiative. Thus, B&R will help to improve China's geographical environment and to open the new economic development space. B&R in nature is not a counter strategy to the American "pivot

1 See B&R **document,** http://news.xinhuanet.com/english/china/2015-03/28/c_134105858_2.htm

Asia", rather, it is based on China's own need.[1]

B&R will help to develop new market opportunities, which are of great significance for China's economic restructuring. After more than three decades high growth, Chinese economy turns to a "new normal" situation, i.e. from a high growth period to a moderate growth period. In order to create the new dynamic engine, it is important to build up the inter-demand led growth momentum, while at the same time to explore the external market opportunities. The new growth frontier of the global economy lies in the developing countries. However, the bottleneck of the developing economies is poor infrastructure and industrial supply chains. As most of China's neighbours are developing economies, it is beneficial to China if their economic environment could be improved through participating in B&R agendas. By financing the infrastructure and industrial zones, it is expected that B&R will create the new growth potentials for Euro-Asia-Africa areas. China can play a key role under B&R since it owns some special advantages in providing investment capital, equipment supply, technology and experience in developing infrastructure network and industrial zones, which will of course provide great opportunities to China's companies in their "going outside strategy".[2]

Unlike trade, direct investment will make Chinese economy more integrated to the other economies. China considers B&R as a new step to make its economy further integrated with the global market by investing abroad. As stated in the Document, "the initiative will enable China to expand further and deepen its opening-up and to strengthen its mutually beneficial cooperation with countries in Asia, Europe and Africa and the rest of the world". Actually, B&R is not a sudden idea hurriedly put forward by China since many proposals and actions were already made before, like China-Pakistan economic corridor, economic agendas under Shanghai Cooperation Organization (SCO), Bangladesh-China-India-Myanmar (BCIM) economic corridor, China-Mongolia-Russia economic corridor etc.

During the first three decades of economic reform, China achieved very rapid economic growth, benefiting from the dramatic expansion of exports and foreign direct investment (FDI) in the flow. However, China's economic growth appears to have reached a bottleneck. The challenge is how to push China's economy to a higher level and sustain a moderate growth rate level.[3]Chinese

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1 As observed by Lucio Blanco Pitlo III, the celebrated revival of the Silk Road would seem to herald the return of China's charm offensive, winning over neighbors and other countries in the region through increased trade incentives and transport connectivity. If developing a sound soft power strategy is the mark of a rising world power, does this mean China is on its way? Certainly… See China's 'One Belt, One Road' To Where? http://thediplomat.com/2015/02/chinas-one-belt-one-road-to-where

2 Song Yonghua, B&R leads China's companies to go abroad, http://world.people.com.cn/n/2014/1227/c1002-26285988.html

3 Summers, Tim: "China's 'New Silk Roads': sub-national regions and networks of global political economy", *Third World Quarterly*, 2016, 37(9), pp.1628-1643.

economy has slowed down since 2012 and is considered to enter into a 'new normal stage'.[1]In the past decades, China's high economic growth relied mainly on two engines, i.e. export and investment. The traditional Chinese export industries, which are mainly labour-intensive and low value-added, have high pressure to be restructured. Due to slow down of growth rate and also past fast expansion, the heavy industries and equipment industries are suffering from overcapacity. The implementation of the B&R initiative provides opportunities for China to reallocate its manufacturing capacities and upgrade its position and role in the global value chain. According to the study, China's global value chain upgrading will be well accommodated to the need of other countries, especially those developing countries in Asia and Africa in their economic development.[2]

As B&R is development cooperation oriented, it enables China to look for new economic opportunities by developing infrastructure network, building industrial zones and many other projects with the countries in the regions. While many of the labour-intensive manufacturing factories in China need to reallocate to low-cost places in order to maintain competitiveness, the developing countries in Asia and Africa have the great demand to develop their own manufacturing capacity by using their low labour cost advantages. Different from the past traditional model of moving out dirty industries out, China will build new industries together with the local countries as all the projects under B&R framework are to be designed and built jointly by China and the host countries. This new kind development cooperation differs from the traditional aid and market based reallocating of outdated production capacities.

Case 1: Industrial parks

The basic idea of the industrial park is to develop a sound industrial base, served by competitive infrastructure as a prerequisite for attracting investments either for export oriented or local market oriented manufacturing industries. Such industries can help to set up the local industrial capacity by starting from using local resources and participating the productive chains. The developing countries require new industries and technologies to modernize, diversify and to realize the goal of sustainable industrial development, while these economies face various market and institutional barriers preventing firms from easily accessing new technological knowledge and finance.

Weak institutions and a lack of experience can increase transaction costs and the risks of doing business. Then the construction of industrial parks will have many benefits. Industrial parks can be used to overcome these obstacles and accelerate economic development by attracting innovative businesses with supporting start-ups, new enterprise incubation, and the development

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1 This concept is used for a special meaning in China as it requires about 7% GDP growth rate annually.

2 Meng, Qi: "Global Value Chain of Manufacturing Industry Based on 'One Belt One Road' Strategy", *Finance & Economics* (财经科学), 2016, 2, pp.72-81.

of knowledge-based businesses. Industrial parks can be a valuable instrument to increase regional and national industrial competitiveness, as well as to reduce the costs through economies of scale in the provision of common services and facilities. Successful industrial parks can therefore become growth and innovation hubs, creating high growth regions and directing national economic development.

The industrial parks help Chinese companies to develop the production chains in their overseas investments and help reduce risks. The industrial parks offer a wide range of common facilities and support services, such as consulting, financial services, training, technical guidance, information services, joint research facilities and business support services to satisfy the corporate and technological needs of tenants. Chinese overseas industrial parks set up before 2005 were mainly individual efforts made by the companies themselves, which have attracted the government's attention and been integrated into foreign policy making and organized expansion began in 2006 after the Ministry of Commerce made the establishment of overseas economic cooperation zones a key approach.

Industrial parks are planned and developed according to a comprehensive plan with provision for roads, transport and public utilities for the use of enterprises (the physical infrastructure). The industrial parks in Thailand, Pakistan and Egypt demonstrate how Chinese companies have become more adaptive to local cultures and incorporated into local communities. In 2006, Haier's industrial park in Lahore has renamed the Haier-Ruba Economic Zone and expanded beyond home appliance manufacturers to include the auto, construction materials and textile sectors. Belarus and China announced an industrial park to be built in the eastern European country in 2011, the largest economic cooperation project between the two countries. President Xi Jinping marked it as a model for Belt and Road development between China and Europe.

The Haier-Ruba Economic Zone (HREZ)

Haier entered the Pakistan market in February 2001 by jointly establishing a facility with Pakistan-based Panapak Electronic Company to produce Haier air conditioners. Haier-Ruba group is a company that has shown an exponential growth rate since its inception in the country. The group deals in many businesses ranging from polyester yarn, electronic appliances, power generation, real estate and automobile business. Now in Pakistan, Haier has become the second most popular home appliance brand in the country. Haier Pakistan has maintained the highest market share for air-conditioners and washing machines for several years while Haier refrigerators currently enjoy the second highest market share. Haier Pakistan is currently producing refrigerators, deep freezers, washing machines, home air conditioners, commercial air conditioners, television sets, microwave ovens and other small appliances in the HREZ, which was set up in 2006 and locates near Lahore, the capital city of Punjab Province and the second largest city in Pakistan. Punjab province is Pakistan economic development centre and its average GDP growth rate reached more than

8% in recent years. Haier-Ruba group is planning to invest another $1.5 billion in the next five years for their future ventures. Haier-Ruba joint venture in Pakistan has announced plans to start manufacturing laptops and smart phones in Lahore in 2015. Recently, its primary achievement can be attributed to the successful development of the HREZ with the support of Chinese authorities. The HREZ is a part of the CPEC and will prove to be a gateway for other Chinese industrialists to venture into Pakistan.

Industrial cooperation was part of long term agenda of China-Pakistan Economic Corridor (CPEC). The key identified sector for manufacturing are included textile and apparel, household appliances, motor vehicles, auto components and other transport equipment and vehicles, electrical machinery, light engineering industries, fabricated metal products, leather products, construction material industry including marble granite cement and other minerals etc. It also included for agriculture, water resource management, coastal development including tourism, high and new technology including IT, Bio Tech, pharmaceutical, R&D, clinical research, etc. as well as other fields such as financial sector and services sector. The idea of developing industrial zones in Pakistan was incubated in 2013. The basic premise behind this idea was to attract Chinese companies to setup industries in Pakistan and to promote partnerships between Chinese and Pakistani companies. Beyond the initial phase, there are plans to establish special economic zones in the corridor where Chinese companies will locate more factories. China and Pakistan agreed to establish industrial parks/special economic zones in those areas where provisions of all necessities are available. Under the agreement signed by Chinese and Pakistani leaders at a Beijing summit, $15.5 billion worth of coal, wind, solar and hydro energy projects will come online by 2017 and add 10,400 megawatts of energy to the national grid. An additional 6,120 megawatts will be added to the national grid at a cost of $18.2 billion by 2021.[1]

China-Egypt Suez Economic & Trade Cooperation Zone (SETC-Zone)

The SETC-Zone was established in July 2008 by Tianjin TEDA Investment Holding Company and the China-Africa Development Fund under the initiative of the Chinese government. The SETC-Zone lies in the town of Ain Sokhna bordering the Gulf of Suez along Egypt's Red Sea Coast. It is 45km from the southern entrance of the Suez Canal that bypasses Suez city and 110km from Egypt's capital, Cairo. The SETC-Zone is a key cooperation program between China and Egypt which was worked out in April 1999 when Egyptian President Mubarak visited China. Tianjin Tianbao Industrial and Trade Co.(Group) and Sinai for Investment and Technological Development Co. undertake the project. The industrial park was occupying 1.05 million square meters of land. The starting phase for the SETC-Zone contains four industrial clusters. These are (1) textiles and

1 Backgrounder: China-Pakistan Economic Corridor, http://www.chinadaily.com.cn/world/2015xivisitpse/2015-04/22/content_20503693.htm

clothing; (2) petroleum equipment; (3) fiberglass, and (4) high-& low voltage electrical equipment industries.

China has also agreed to Egypt's proposal for New Suez Canal Economic Corridor strategy. Egypt's plans for economic development and China's B&R initiative for economic restructuring are creating opportunities for both the countries. Several companies from different sectors such as petroleum products, non-woven textiles, silos, equipment and complementary segments are functioning in the industrial zone. According to Daily News Egypt in 2016 reports that 68 companies from Egypt, Japan, Korea, France and China have already made $1 billion investments in the region. 33 of these companies have established their base in the industrial zone and started operations as well. The industrial zone is supporting the growth of industrialization and modernization in Egypt. The expansion works on the Sino-Egyptian industrial zone is in progress. An estimated investment of $230 million is being earmarked for the expansion project of China-Egypt SETC-Zone, which is scheduled to be completed in 10 years from now and will include six square kilometres of area. After the expansion project, The Egyptian-Chinese industrial zone will have modern warehouses and logistics infrastructure in addition to export-oriented manufacturing facilities.

The benefits for Egypt have been advertised as the input of world-leading technology that can contribute to the country's industrialization. The industrial clusters pursued within the SETC-Zone does fit within the existing industry structures in the Suez wider area. The aim of the SETC-Zone is to assist Chinese businesses to develop abroad at the lowest cost and with the greatest efficiency. Following the large enterprises, the Small Medium Enterprises (SMEs), which is in the incubation stage and foreseen for expansion, employ local labour, although in low-skilled jobs. These activities fit within those existing industries surrounding Suez City, and can meet the consumer needs of Egypt's domestic market. In addition to the preferential policies, this zone provides Chinese companies with access to the world's principal maritime routes, leading towards consumer markets for their merchandise, most notably the Mediterranean and transatlantic trade areas. China has a chance to make the best use of Egypt's geographical advantage at the centre of many important markets. The advantage for Chinese companies of producing goods here is that the route towards these consumer markets is shortened significantly. Using the TEDA economic zone, Egypt could be an ideal manufacturing region for goods destined for Europe and other areas.

As a big emerging power of developing economy in nature, China has shown willingness in taking greater and new responsibilities in generating new growth momentum and in building up new global economic governance. Currently, the world economy is facing many new challenges: slow recovery after 2008 crisis, great imbalance of the development between rich and poor countries and between different regions, as well as the weak role of international institutions in supporting the recovery and in redressing the imbalance. B&R will help to build up new growth engine and a new model for inclusive and balanced development by learning experiences from each other, pooling resources and sharing benefits together.[1] B&R and other initiatives, like AIIB, NDB, are not intended to replace the roles of existing international institutions, like World Bank (WB), Asia Development Bank (ADB), rather, they will be complimentary by working together. For example, AIIB started its financing business on infrastructure projects together with ADB and WB. [2] As the existing international economic system is no longer compatible with the new reality of a world economy, the new ideas and new initiatives are highly required, and China's B&R initiative aims at providing a new idea and a new framework for boosting global economic growth and improving the global economic governance. Some worries that China may intend to build up a different system against the existing international system by initiating B&R. Actually, China has no intention and also no ability to create a different international economic system to replace the existing one since China is an important member of existing international system and benefits from it greatly.[3]

1.2 The principles and objectives

The purpose of B&R is to promote regional economic development through a win-win cooperation approach. As stated in the B&R document: (1) B&R is with the purposes and principles of the UN Charter and upholds the Five Principles of Peaceful Coexistence. (2) It is open for cooperation with all countries, and international and regional organizations for engagement. (3) It is harmonious and inclusive by advocating tolerance among civilizations and respecting the paths and modes of development chosen by different countries so that all countries can coexist in peace for common prosperity. (4) It follows market operation and will abide by market rules and international norms, give play to the decisive role of the market in resource allocation and the primary role of enterprises while letting the governments perform their due functions.(5) It seeks mutual benefit

1 As Xi Jinping pointed out in his speech on B20 in Hangzhou, China's development has benefited from the international community, and we are ready to provide more public goods to the international community. I have proposed the initiative of building the Silk Road Economic Belt and the 21st Century Maritime Silk Road to share China's development opportunities with countries along the Belt and Road and achieve common prosperity. http://www.china.org.cn/chinese/2016-09/05/content_39233599.htm

2 See news "AIIB and ADB provide loan together on the project", http://bank.jrj.com.cn/2016/03/22102320721783.shtml

3 As Xi Jinping pointed out during his speech at B20 in Hangzhou, "the new mechanisms and initiatives launched by China are not intended to reinvent the wheels or target any other country. Rather, they aim to complement and improve the current international mechanisms to achieve win-win cooperation and common development. China's opening drive is not a one-man show. Rather, it is an invitation open to all. It is a pursuit not to establish China's own sphere of influence, but to support common development of all countries. It is meant to build not China's own backyard garden, but a garden shared by all countries", Xi Jinping: A New Starting Point for China's Development- A New Blueprint for Global Growth, Hangzhou, 3 September 2016http://www.china.org.cn/chinese/2016-09/05/content_39233599.htm

by accommodating the interests and concerns of all parties involved.[1] It is clear that although B&R is an initiative made by the Chinese government, it does not mean a monodrama played by China alone or Chinese government itself. B&R will follow the principle of wide consultation, joint contribution and shared benefits. The partnership and market-based rule mean that China together with all parties involved design and build jointly, and the business community will be the major player in the implementation of the plans. While the government plays a leading role in initiating and promoting B&R, enterprises will play the major role in building B&R, and the public and private partnership (PPP) needs to be established.[2] B&R aims to boost not only China's development but also that of other countries. The program will be a real chorus comprising all countries along the routes, not a solo for China itself.[3]

B&R is aimed at promoting orderly and free flow of economic factors, highly efficient allocation of resources and deep integration of markets, encouraging the countries along B&R regions to achieve economic policy coordination and carry out broader and more in-depth regional cooperation of higher standards, and jointly creating an open, inclusive and balanced regional economic cooperation architecture that benefits all. It is designed in the spirit of open regional cooperation and characterized by equality and mutual benefit on the basis of consultation, cooperation and sharing, seeks mutual benefit and will be "open to all countries and international and regional organizations for engagement.[4]

Geographically, the Belt focuses on bringing together China, Central Asia, Russia and Europe (the Baltic); linking China with the Persian Gulf and the Mediterranean Sea through Central Asia and West Asia, and connecting China with Southeast Asia, South Asia and the Indian Ocean. Its objective is seemingly clear-cut and mission-oriented. It will focus on jointly building a new Eurasian land bridge by developing China-Mongolia-Russia, China-Central Asia-West Asia and China-Indochina Peninsula economic corridors. It will take advantage of international transport routes, rely on core cities along B&R area and use key economic industrial parks as cooperation platforms. The Belt consists of three general routes. The first one is from China through Central Asia and Russia to Europe (Baltic Sea). The second one is from China through Central Asia and West Asia to the Persian Gulf and the Mediterranean. And the third one is from China through Southeast Asia and South Asia to the Indian Ocean.

The Road, which will focus on jointly building smooth, secure and efficient transport routes connecting major sea ports, is designed to go from China's coast to Europe through the South

1 See B&R document, http://news.xinhuanet.com/english/china/2015-03/28/c_134105858_2.htm

2 "Xi Jinping: Learning from the historical experience, innovating the cooperation concept and making B&R helpful to the development of all relating countries http://news.xinhuanet.com/mrdx/2016-05/01/c_135326297.htm

3 "President Xi vows mutual 'Belt and Road' benefit", People's daily, 2016-05-01, http://en.people.cn/n3/2016/0501/c90000-9051862.html.

4 Vision document, http://english.mofcom.gov.cn/article/zt_beltandroad/

China Sea and the Indian Ocean in one route, and from China's coast through the South China Sea to the South Pacific in the other. The China-Pakistan and Bangladesh-China-India-Myanmar economic corridors (BCIM) will also be closely coordinated with B&R economies. (see figure 1)

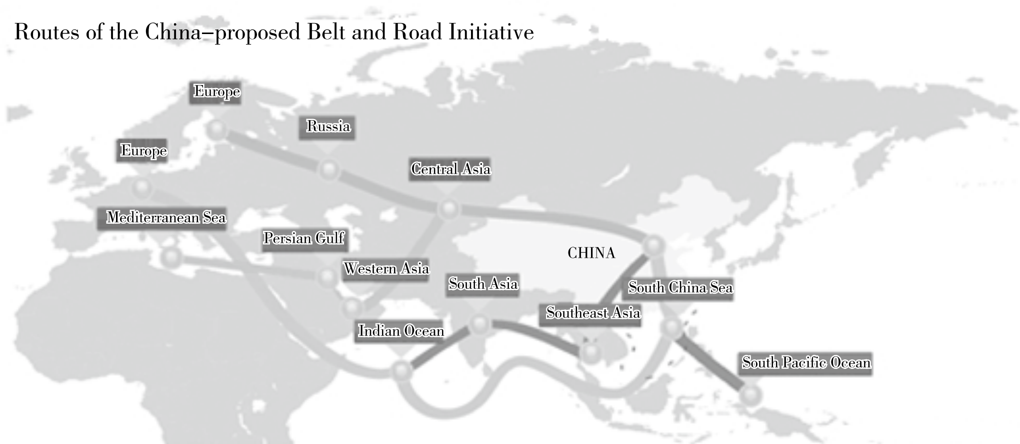

Figure 8.1 The Atlas of B&R

Source: Belt and Road takes new route, http://europe.chinadaily.com.cn/business/2015-04/15/content_20435638.htm, CHINA DAILY.

Case 2: Economic corridors

Economic corridors are integrated networks of infrastructure within a geographical area designed to stimulate economic development. Corridors may be created to link manufacturing hubs, areas with high supply and demand, and manufacturers of value-added goods. An economic corridor covers smaller and defined geographic space, which straddles a central transport artery, and stresses physical planning of the corridor and its surrounding area for focused infrastructure development that will yield maximum benefits. These corridors should provide good opportunities for synergies that promote development, such as production networks that link small and medium enterprises to global value chains. Economic corridors refer to transport networks that support and facilitate not only the movement of goods and services but also of people as well as the exchange of information since Economic corridors are not limited to hard infrastructures such as highway systems, rail lines or ports but also include soft infrastructures such as trade facilitation and trade capacity-building. Thus, economic corridors provide an efficient transport system that cuts down physical and non-physical cross-border barriers, which include poor quality roads and railways and inefficient permit systems.

The B&R will take advantage of international transport routes as well as core cities and key ports to further strengthen collaboration and build six international economic co-operation corridors, which have been identified as the China-Mongolia-Russia Economic Corridor (CMREC); New Eurasian Land Bridge (NELB); China-Central and West Asia Economic Corridor (CCWAEC); China-Indo-China Peninsula Economic Corridor (CICPEC); China-Pakistan Economic Corridor (CPEC); and Bangladesh-China-India-Myanmar Economic Corridor (BCIMEC).

China–Pakistan Economic Corridor (CPEC)

The concept of CPEC was first raised by Premier Li Keqiang during his visit to Pakistan in May 2013. The CPEC intends to rapidly expand and upgrade Pakistani infrastructure as well as deepen and broaden economic links between the two countries. Infrastructure projects under CPEC will span the length and breadth of Pakistan, and will eventually link the city of Gwadar in southwestern Pakistan to China's north-western autonomous region of Xinjiang via a vast network of highways and railways, oil and natural gas pipelines and optic fibre networks

According to a joint declaration issued by China and Pakistan in Islamabad in April 2015, China and Pakistan will proactively advance key co-operation projects, including Phase II of the upgrade and renovation of the Karakoram Highway (the Thakot-Havelian section), an expressway at the east bay of Gwadar Port, a new international airport, an expressway from Karachi to Lahore (the Multan-Sukkur section), the Lahore rail transport orange line, the Haier-Ruba economic zone, and the China-Pakistan cross-national optic fibre network. Pakistani officials predict that the project will result in the creation of upwards of 700,000 direct jobs from 2015 to 2030, and add 2 to 2.5 percentage points to the country's annual economic growth. Were all the planned projects to be implemented, the value of those projects would be equal to all foreign direct investment in Pakistan since 1970, and would be equivalent to 17% of Pakistan's 2015 gross domestic product.[1]

BCIM Economic Corridor

During Premier Li Keqiang's visit to India in May 2013, China and India jointly proposed the building of the Bangladesh-China-India-Myanmar Economic Corridor (BCIM). In December 2013, the BCIM Economic Corridor Joint Working Group convened its first meeting in Kunming. Official representatives from the four countries conducted in-depth discussions with regard to the development prospects, priority areas of cooperation and cooperation mechanisms for the economic corridor. These advantages are envisaged to accrue from greater market access for goods, services and energy, elimination of non-tariff barriers, better trade facilitation, investment

1 Backgrounder: China-Pakistan Economic Corridor, http://www.chinadaily.com.cn/world/2015xivisitpse/2015-04/22/content_20503693.htm

in infrastructure development, joint exploration and development of mineral, water, and other natural resources, development of value and supply chains based on comparative advantages, by translating comparative advantages into competitive advantages. The BCIM is an initiative conceptualized for significant gains through sub-regional economic cooperation. The four parties are conducting the joint study. The interconnectedness would facilitate the cross-border flow of people and goods, minimize overland trade obstacles, ensure greater market access and increase multilateral trade.

China-Indochina Peninsula Economic Corridor

During the Fifth Leaders Meeting on Greater Mekong Sub-Regional Economic Co-operation, held in Bangkok in December 2014, Chinese Premier Li Keqiang put forward three suggestions with regard to deepening the relations between China and the five countries in the Indochina Peninsula. The suggestions included: (1) to jointly planning and building an extensive transportation network, as well as a number of industrial co-operation projects; (2) creating a new model of cooperation for fundraising; and (3) promoting sustainable and coordinated socio-economic development. Soon after the 12th edition of the China-ASEAN Business and Investment Summit, delegates from China and ASEAN arrived at the "Nanning Consensus" to build the Nanning-Singapore Economic Corridor, more formally dubbed as the China-Indo-China Peninsula International Corridor. The corridor will promote the "co-construction of the China-ASEAN Free Trade Area and the Maritime Silk Road" and be conducive to regional prosperity and beneficial to people along the route.

The plan for the corridor starts from the south China cities of Nanning and Kunming, running through the Indo-China Peninsula and linking countries including China, Vietnam, Laos, Cambodia, Thailand, Malaysia and Singapore with highways and railroads. The Economic Corridor would connect eight major cities: Singapore, Kuala Lumpur, Bangkok, Phnom Penh, Ho Chi Minh City, Vientiane, Hanoi and Nanning. From Nanning, further connectivity nodes would be extended to coastal Guangzhou and Hong Kong, thus forming a pattern of "one corridor connecting 10 cities". The corridor will cover two related trajectories, while one line will head towards Vietnam, the other would be extended to the less developed Laos, Cambodia and Myanmar.

The New Eurasia Land Bridge Economic Corridor

The New Eurasia Land Bridge, also known as the Second Eurasia Land Bridge, is an international railway line running from Lianyungang in China's Jiangsu province through Alashankou in Xinjiang to Rotterdam in Holland. The China section of the line comprises the Lanzhou-Lianyungang Railway and the Lanzhou-Xinjiang Railway and stretches through eastern, central and western China. After exiting Chinese territory, the new land bridge passes through Kazakhstan, Russia, Belarus and Poland, reaching some coastal ports in Europe.

The China-Mongolia-Russia Economic Corridor

Linked by land, China, Mongolia and Russia have long established various economic ties and co-operation by way of frontier trade and cross-border cooperation. In September 2014, when the three country's heads of state met for the first time at the Shanghai Cooperation Organization (SCO) Dushanbe Summit, the agreement was reached on forging tripartite cooperation on the basis of China-Russia, China-Mongolia and Russia-Mongolia bilateral ties. At the same meeting, the principles, directions and key areas of trilateral cooperation were defined. The three leaders of state also agreed to bring together the building of China's Silk Road Economic Belt, the renovation of Russia's Eurasia Land Bridge and the proposed development of Mongolia's Steppe Road. This commitment will strengthen rail and highway connectivity and construction, advance customs clearance and transport facilitation, promote cross-national cooperation in transportation, and help establish the China-Russia-Mongolia Economic Corridor. In July 2015, the three leaders held a second meeting, which saw the official adoption of the Mid-term Roadmap for Development of Trilateral Cooperation between China, Russia and Mongolia.

On 13 September 2016, the Chinese National Development & Reform Commission unveiled the Guidelines on the Construction of the China-Mongolia-Russia Economic Corridor, which will accelerate the integration of development strategies of China, Mongolia and Russia and boost economic and trade cooperation among the three neighbours. The construction of the China-Mongolia-Russia Economic Corridor has arisen from the practical needs of the three countries. For China, the development of the economic corridor is aimed at fostering closer ties with countries in the North; Mongolia is striving to develop an export-oriented economy, but it lacks East and West channels, and Russia wishes to benefit from Eurasian economic growth through the Initiative. Therefore, the China-Mongolia-Russia Economic Corridor will benefit all.[1]

China-Central Asia-West Asia Economic Corridor

At the third China-Central Asia Cooperation Forum, held in Shandong in June 2015, a commitment to "jointly building the Silk Road Economic Belt" was incorporated into a joint declaration signed by China and the five Central Asian countries. Prior to that, China had signed bilateral agreements on the building of the Silk Road Economic Belt with Tajikistan, Kazakhstan and Kyrgyzstan. China had also concluded a cooperation document with Uzbekistan on the building of the Silk Road Economic Belt. This was aimed at further deepening and expanding mutually beneficial cooperation in such areas as trade, investment, finance, transport and communication.

The China-Central Asia-West Asia Economic Corridor runs from Xinjiang in China and exits the country via Alashankou to join the railway networks of Central Asia and West Asia before reaching

1 New details of China-Mongolia-Russia economic corridor, http://www.ecns.cn/business/2016/09-14/226432.shtml

the Mediterranean coast and the Arabian Peninsula. The corridor mainly covers five countries in Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan and Turkmenistan) as well as Iran and Turkey in West Asia. The national development strategies of the five Central Asian countries, including Kazakhstan's "Road to Brightness", Tajikistan's "Energy, Transport and Food" (a three-pronged strategy aimed at revitalizing the country), and Turkmenistan's "Strong and Happy Era", all share common ground with the establishment of the Silk Road Economic Belt.

Economic corridors connect economic agents along a defined geography. They provide important connections between economic nodes or hubs that are usually centred in urban landscapes, in which a large amount of economic resources and actors are concentrated. They do not stand alone, as their role in regional economic development can be comprehended only in terms of the network effects that they induce. However, the six economic corridors show that there is no standard picture of what economic corridor development is and what it can achieve. What economic corridors can achieve for regional economic integration depends on the specific existing economic networks in which the economic corridors are embedded. It needs a new approach make effective use of economic geography toward the confluence of regional economic integration and inclusive growth. Economic corridors are not mere transport connections along which people and goods move since they are integral to the economic fabric and the economic actors surrounding it. Economic corridors are not generating significant economic benefits in isolation, but rather they have to be treated as part of integrated economic networks, such as global and regional value chains and production networks.

Developing the Economic Corridor projects, China should not only take into account its short-term economic benefits, but more significantly, care about the long-term strategic need of the counterpart's economic development. China should encourage the Economic Corridor project by the assistance of its "hard power" in energy and transport infrastructure in addition to the "soft power" of the think tanks and government officials, media, and educational exchanges and cooperation, gradually gain experience, and make arrangements for the overall implementation of the B&R initiative.

As B&R is open and inclusive, not just countries along the routes, but also all other countries in the world are welcomed to join the building process. Like the case of AIIB, the members are open to all countries that have a real interest to join the team and make a contribution. [1] Connectivity is not only limited to these routes, and it should be read as encompassing diverse connectivity across the Eurasian continent.[2]. As a matter of fact, the geographical coverage of B&R is flexible, encompassing a wide range of the development of infrastructure and socioeconomic connectivity between China and those countries that are willing to participate.

1 AIIB was established on December 25 with 57 initial members, 37 from Asia and 20 from other regions.

2 Summers, Tim: "China's 'New Silk Roads': sub-national regions and networks of global political economy", *Third World Quarterly*, 2016, 37(9), pp.1628-1643.

The priorities of B&R initiative will be focused on: (1) Policy coordination through coordinating the economic development strategies and policies, working out plans and measures and providing policy support for the implementation among partners. (2) Connectivity through building infrastructure networks by also integrating construction plans and technical standard systems. (3) Promotion of trade and investment through improving investment and trade facilitation, and removing investment and trade barriers for the creation of a sound business environment. (4) Financial cooperation through building the currency stability system, investment and financing system and credit information system, the currency swap and settlement, developing the bond market, establishing the new financial institutions, such as Asian Infrastructure Investment Bank (AIIB) and BRICS New Development Bank (NDB), as well as Shanghai Cooperation Organization (SCO) financing institution and the SRF. (5) People exchanges by promoting cultural and academic exchanges, personnel exchanges and cooperation, media cooperation, youth and women exchanges and volunteer services, so as winning the public support. China, as a big developing country, can play a special role in making the above priorities into practice, either as an initiator, or as a major player to provide the key inputs ranging from capital to technology.[1]

Connectivity is a priority area for implementing B&R initiative. The connectivity agenda intends to consolidate the infrastructure construction plans and technical standard systems, and to build an infrastructure network connecting all sub-regions in Asia, and between Asia, Europe and Africa step by step. With regard to transport infrastructure construction, the priority is to improve road network connectivity and to build the international transport highway and railway logistic system, and others including energy infrastructure, cross-border optical cables and other communications trunk line networks etc.

Investment and trade cooperation is a key area for B&R Initiative, which intends to promote investment and trade facilitation, elimination of trade and investment barriers, free trade zones (FTA) among countries in the regions. The cooperation will help to expand trade and investment, to improve trade and investment structure, and to create new development area by improving infrastructure, establishing industrial zones, port networks, developing financing facilities, as well as capacity building etc.

Financial cooperation is an important underpinning for implementing B&R Initiative. Financial cooperation will work on a wide range of cross-border financial agendas, which include currency stability, project financing, bilateral currency swap and settlement, bond market, cross border issuance of RMB-denominated bonds etc. AIIB, NDB, SRF, as well as and China-ASEAN Interbank Association and SCO Interbank Association etc. will all play their roles in B&R. It is important to strengthen financial regulation cooperation, establish an efficient regulation coordination mechanism in the region, improve the system of risk response and crisis management, build a regional financial risk early-

1 The B&R document, http://english.mofcom.gov.cn/article/zt_beltandroad/

warning system, and create an exchange and cooperation mechanism of addressing cross-border risks and crisis. Through these collaborative efforts, it will be helpful to promote stability of the currencies and enhance the capacity of the credit system and encourage commercial equity investment funds and private funds to participate in the construction of key projects.

People-to-people bond provides the public support for implementing the B&R Initiative. B&R does not just promote the economic agenda, but also those of cultural, academic and talent exchanges, training, media cooperation, and youth and women's dialogues, so as to "win public support for deepening bilateral and multilateral cooperation". It also encourages personnel exchange, tourism, sports exchanges, epidemic information sharing, the exchange of prevention and treatment technologies and the training of medical professionals, increase cooperation in science and technology, as well as practical cooperation on youth employment, entrepreneurship training, vocational skill development, social security management and exchanges and cooperation among cities and cooperation between non-governmental organizations.

B&R connects Asia, Europe and Africa, renewing the spirit of the ancient Silk Road in the new era. As the public good China provides for the region and the world, B&R accommodates China's domestic agenda of comprehensively deepening reform and all-facet opening up to the interests of participating parties. [1]In Chinese saying, if you want to be rich, the road must be ready first. Poor infrastructure is the bottleneck for the economic development of the developing countries inside the state, but also cross countries. So that, B&R makes the connectivity as the priority which includes road network, trade promotion, capital flow, policy coordination and people to people exchanges. As a study shows that the improvement of connectivity will lead the development of the industrial chains, the development of the cities and city clusters and the extensive interconnections cross the vast regions.[2]

Considering the economic diversity in the region, B&R seeks to realize a win-win model by closely connecting the initiated projects to the host country's development planning and boosting efficient allocation of resources both from China and other sides. All partners will benefit from participating in the projects for building the maritime and land-based Europe-Asia-Africa economic corridors and new growth areas.[3]As a matter of fact, the economic development of most developing countries in the regions has been hindered by inadequate infrastructure. B&R initiative comes as an important opportunity to break the bottleneck by designing and financing both in country and cross country highway and railway lines and networks. Given its own experience in the economic development, China will likely play a key role in helping the developing countries to improve their

1 Su Ge: "The Belt and Road Initiative in Global Perspective", *International Studies* (国际问题研究), 2016, 2, pp.1-13.

2 Sun, Jiu-wen and Meng-chen Gu: "Investigation on Key Directions in "One Belt And One Road" International Regional Cooperation", *Journal of South China Normal University(Social Science Edition)* (华南师范大学学报 (社会科学版)), 2015, 5, pp.85-92.

3 Wang, Yong: "Offensive for defensive: the belt and road initiative and China's new grand strategy", *The Pacific Review*, 2016, 29(3), pp.455-463.

infrastructure. A large number of projects are already being considered to connect various sub-regions, including high-speed railways, oil and gas pipelines and telecom and electricity links. Aside from the direct financing from SRF, AIIB, the other financial institutions will also actively involve since B&R sets up an inclusive framework open to all that have interest to participate. More importantly, it is business community that is the major player, thus, both Chinese companies and all other companies will be welcome to invest based on open and fare competition.

For example, one of the most serious challenges for ASEAN as a Community is poor infrastructure. The progress of the connectivity master plan has been very slow due to constraints of the investment for infrastructure. ASEAN has the best location for participating B&R since it covers both the land silk road economic belt and the silk maritime road.[1]. The Belt connects Asia and Europe through constructing intercontinental infrastructure, as well as forging close economic cooperation by developing new industrial zones, financial centres, free trade and investment zones and other comprehensive joint projects like oil and gas pipelines, power grids, internet networks, transmission lines and communication networks, which would give rise to a huge Eurasian market in the long run. [2] The vision of an intercontinental open and dynamic economic area will certainly have enormous consequences for the global economic landscape, forming the foundation for a new political and economic order.[3]

1.3 The grand significance

B&R has received complex reflections from the international community. While most countries welcome the initiative, some regard it as evidence of the Chinese ambition to eventually a new system for replacing the existing international economic system. Although, the economic restructuring and slowdown stimulated China's desire to seek additional foreign markets, but as the second largest world economy, China is capable to invest more overseas and to build its supply chains globally, rather than simply dumping its products abroad. It is clear that B&R initiative has a stronger link with China's economic rise than with the more recent slowdown in its economic growth.[4]

The difference in economic scale between China and its neighbours means that deepening economic interdependence gives China more bilateral leverage. An important feature of B&R is to encourage Chinese companies going abroad and contribute to the local economic development.

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1 Wang Haiqing: "Commentary: 'Belt and Road' initiatives to benefit Asia, beyond", Xinhua, 2015-03-31, http://news.xinhuanet.com/english/2015-03/31/c_134113505.htm.

2 Summers, Tim: "China's 'New Silk Roads': sub-national regions and networks of global political economy", *Third World Quarterly*, 2016, 37(9), pp.1628-1643.

3 Fasslabend, Werner: "The Silk Road: a political marketing concept for world dominance", *European View*, 2015, (14), pp.293-302.

4 Gan, Junxian and Yan Mao: "China's New Silk Road: Where Does It Lead?", *Asian Perspective*, 2016(40), pp.105-130.

As expected, the capital flows will release China development dividend to the world under the conditions of the new economic normal. [1]

Connectivity and the development of infrastructure under B&R initiative will have long-term significance. Seeing from the history, the land connection used to be the major route for people to people and state to state to develop their cultural and business activities. The Silk Road was the main link between China and other parts of Asia and Europe. With the great discovery since 16th Century, the sea has gradually become the major route for modern commercial activities and other exchanges as the sea route show more advantages than the land route. As a result, the land connectivity cross countries and the continents have become backward, and the inland countries become less developed, and many countries even locating along the sea are also less developed due to the colonial system dominated by the maritime powers. The B&R initiative intends to rebuild the land connectivity and new maritime relations. As pointed out by the B&R document, the B&R runs through the continents of Asia, Europe and Africa, connecting the vibrant East Asia economic circle at one end and developed European economic circle at the other, and encompassing countries with huge potential for economic development. For the Belt initiative, by investing in infrastructure and other economic activities, it intends to build a close linked economic region covering Asia, Europe and Africa. For the Road initiative, by building maritime linkage through investing in infrastructure, port networks, harbour business zones and other economic projects, it intends to generate new areas of growth potential and a new order with the focus on cooperation. [2]The immediate challenges for the Road initiative are political stability, threat from the extremist forces and security of investment, and for the Belt, the challenge is how to manage the disputes with some ASEAN members on the South China Sea related issues and strategic distrust with India as the maritime route through the South China Sea and the Indian Ocean is the gateway. Besides, the strategic suspicions of the United States and Japan are also very strong. In nature, the Road intends to initiate a new maritime order based on the principles of free and safe maritime navigation, maritime supply chains and logistic networks, as well as maritime resource development based on the spirit of cooperation. China has no intention to seek the maritime competition and domination through 21st Century Maritime Silk Road (MSR).[3]

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1 Summers, Tim: "China's 'New Silk Roads': sub-national regions and networks of global political economy", *Third World Quarterly*, 2016, 37(9), pp.1628-1643.

2 See the Vision document, http://news.xinhuanet.com/english/china/2015-03/28/c_134105858_2.htm

3 As Sara Hsu argued, this type of far-reaching foreign policy focuses on soft power rather than military might or economic coercion, and is arguably a part of a more diverse Globalization 3.0……. Globalization 3.0 looks more international, more cooperative and less one-sided. It is hoped to be a more peaceful and inclusive globalization. These changes the power balance between the global North and the global South. If there was any question that the face of globalization is changing, China's dramatic One Belt One Road program reinforces the fact that Globalization 3.0 is here to stay. See Sara Hsu, China's one belt and one road-globalization 3.0 http://triplecrisis.com/chinas-one-belt-one-road-globalization-3-0/

Case 3: ASEAN's connectivity boost economic integration with China

Transport and logistics will one of the key enabler for the growth and facilitate the efficient working of an integrated ASEAN Single Market and Production Base, given the expected rise in business flow via trades and investments. Below are insights on logistical key installations throughout the region.

Table 8.1 Logistics Infrastructure of Countries in ASEAN

	Port	Airport	Railway	Road
Cambodia	Poor	Fair	Poor	Poor
Indonesia	Poor	Fair	Good	Fair
Laos	Not applicable	Poor	Not applicable	Fair
Malaysia	Good	Good	Good	Good
Philippines	Fair	Fair	Poor	Fair
Singapore	Good	Good	Good	Good
Thailand	Good	Good	Good	Good
Vietnam	Fair	Fair	Fair	Fair
Burma	Poor	Poor	Poor	Fair

Source: Comparison of Logistics Infrastructure of Countries in ASEAN, http://www.business-in-asia.com/infrastructure_asean.html.

The Asian Development Bank (ADB) estimates the region's infrastructure needs to be US$8 trillion in this decade alone, but the ADB and the World Bank have a hard time finding economically viable projects. For instance, Malaysia has continued to develop its infrastructure like roads, highways, airports, however, a notable area of bottlenecks in the country's infrastructure is railways, which has been a somewhat under-invested infrastructure until recently. However, with the country's level of economic development currently, it no longer qualifies for, or can have access to, infrastructure project financing and soft loan programs from the major developed economies and international organizations like the World Bank like in the past. The ADB estimates that over $1 trillion must be spent on infrastructure to maintain ASEAN's current economic growth trajectory.

Located along the planned path of the China-Indochina Peninsula Economic Corridor, ASEAN countries are set to play a crucial role in the B&R Initiative, which is expected to facilitate further regional integration. Land and sea connections are important for trade and security. It is important in improving and expanding the connectivity between China and ASEAN, specifically involving Singapore, Malaysia, Thailand, Myanmar, Vietnam, Cambodia and Laos. The long list of intra-ASEAN and ASEAN-China discussions, agreements, and undertakings related to connectivity demonstrate its importance. In mainland Southeast Asia, there was a proposal to link ASEAN

Figure 8.2 ESIMATE FOR INFRASTRUCTURE INVESTMENT NEEDS 2010-2020

with China through a series of highways and railways. China and the ASEAN signed a guideline on infrastructure construction in 2011 and China is willing to enhance planning and unify technological systems to speed up the construction of major projects, especially backbone highways that is well-linked to the roads, highways, ports and airports across ASEAN. For instance, Singapore-Kunming rail line is part of the program to create a "Nanning-Singapore Economic Corridor". The North-South Economic Corridor has been taking shape with the opening of the whole Kunming-Bangkok Highway in 2013, while China has also completed construction of an expressway in Guangxi leading to the Friendship Gate and Dongxing Port at the China-Vietnam border. The highway from Kunming to its borders with Myanmar and Vietnam has also been upgraded.

Chinese Vice Premier Zhang Gaoli addressed the opening ceremony of the 12th China-ASEAN Expo and the China-ASEAN Business and Investment Summit, in Nanning, at September 2015, and proposed a faster construction of major infrastructure in the ASEAN. With China championing regional connectivity and Southeast Asia supporting the same, MSR can anchor on numerous prior bilateral and regional deliberations, proposals and agreements on connectivity and economic linkages. From this vantage point, MSR taps into regional connectivity aspirations. [1]

ASEAN countries have long been the key trading partners of China. Since the launch of the China-ASEAN Free Trade Area (CAFTA) in 2010, improved institutional coordination and increasingly sophisticated intra-regional supply chains have driven China-ASEAN bilateral trade to

1 Vice Premier Zhang Gaoli's speech at China-ASEAN Expo, http://europe.chinadaily.com.cn/china/2014-09/17/content_18614066.htm

new heights. Burgeoning ASEAN-China trade is projected to increase from $366.5 billion in 2014 to a target of $1 trillion in 2020, and connectivity will be critical in facilitating this. New roads and railways are being constructed as China increasingly becomes the centre of a regional network of production, receiving parts, raw materials and capital goods from a number of countries. Two-way investment, big-ticket infrastructure projects, the development of e-commerce and cross-border RMB transactions will play a bigger role in China-ASEAN economic ties. The geographic development cooperation highlight the salience of connectivity for both sides in order to promote two-way trade, commerce, tourism, people-to-people exchanges and to cooperatively address issues of mutual concern.

Aside from infrastructure upgrade, ASEAN countries are keen to enhance regional connectivity through introducing one-stop customs and harmonized administrative measures across their borders. China is also willing to work with the ASEAN to build the China-ASEAN Information Harbour to improve information infrastructure and boost sub-regional sustainable development. Thailand, for example, has introduced e-logistics at its borders with other ASEAN countries and a One Stop Export Service Centre to improve logistics efficiency. Laos and Vietnam have recently launched single-window inspection at their border checkpoints, while China and Thailand are also working to streamline their respective import regulations.

Until now, there are more than 60 countries have expressed their interest in participating in B&R. China and Russia signed the agreement in May 9, 2015 on developing B&R between the two countries, as well as the Euro-Asia Economic Union. There are 57 countries that signed an agreement for establishing AIIB on June 29, and BRICS New Development Bank jointly built by China, Brazil, India, South Africa and Russia formally announced its establishment on July 15, 2015. China itself set up the Silk Road Fund at the end of 2014. These all have shown that B&R turns from an initiative to the actions.

China wishes to build up its image as a new and responsible power and to raise its profile by providing better connectivity and more economic benefits for B&R countries. Through the B&R implementation, China could contribute to the international economic architecture by incorporating some of its own experiences. For example, the emphasis on infrastructure for economic development should be valuable for developing countries to speed up their modernization and strengthen their own capacity in establishing an inclusively economic system, and new financial institutions, like AIIB, SRF, NDB, will be helpful to establish a further international financial system compatible to the new situation of the global governance.

B&R contains two parts, while the major part is the domestic economic projects of the relating countries, and another part is the cross-border infrastructure networks, i.e. highways, railways, airways and maritime lines that connect Asia-Europe-Africa regions. However, connectivity does not just mean “hardware infrastructure”, i.e. roads, railways, ports, airports etc. construction, but also means “software infrastructure” development, ranging from policy support to institutional building like joint operational arrangements, FTAs etc.

Many worries about the risk of investments in B&R projects as most of the relating countries are developing economies with poor financial facilities and capacity. The safety and efficiency of the financing arraignments for B&R projects are indeed crucial. B&R projects follow the PPP approach (public-private partnership) for which private investments play the main role while governments provide basic support. While government agreements provide legal and policy support, new institutions, like AIIB, will layout safety principles for investments. Of course, there are challenges between the safety and efficiency of the investments and long term projects of infrastructure.

B&R has achieved visible progress. China has signed the agreement with more than 20 countries for cooperation. B&R initiative has the potential of turning the economically underdeveloped and politically unstable "Belt and Road" regions into the new vibrant pillar for the world economy. This would not only significantly increase the living standard for the people residing in this region but also become a new segment of the global supply chain, contributing to world economic growth.

2. New Idea of Development Cooperation

2.1 Evolution of Development Cooperation

In the past, development cooperation mainly means providing the official development assistance (ODA) from the developed countries to the less developed countries. There was a well-defined aid architecture regulated and structured the practices of donors and recipients. Actually, this architecture is in the process of being changed by a more complex and diverse landscape of development cooperation approaches, which are broader than aid characterized by new actors and new approaches.[1] Development cooperation is part of dynamically changing system of international cooperation, which is fragmented and poorly coordinated at the national, regional and global level, while there is a strong proliferation of actors and cooperation approaches.[2]

The fundamental aim of development cooperation is to improve living conditions in poorer countries but, in fact, the aid allocation by donors has always been driven by a mix of motivations, which include recipient needs and altruistic motives of donors[3] and the self-interest of donors,[4]

1 Gore, Charles: "Introduction: The New Development Cooperation Landscape: Actors, Approaches, Architecture", *Journal of International Development*, 2013(25), pp.769-786.

2 Acharya, A., Fuzzo de Lima AT, Moore M.:"Proliferation and fragmentation: transactions costs and the value of aid", *The Journal of Development Studies*, 2006, 42(1), pp.11-21.

3 Headey, D.: "Geopolitics and the effect of foreign aid on economic growth: 1970-2001", *Journal of International Development*, 2008, 20(2), pp.161-180.

4 Berthélemy, J-C.: "Aid Allocation: Comparing Donors' Behaviors", *Swedish Economic Policy Review*, 2006(13), pp.75-109.

while beyond aid is another way of the prevailing logic of development cooperation. The potential of new beyond-aid forms of development cooperation have flourished over the last decade though the conceptual debate regarding beyond aid is still in its infancy. Beyond aid, which serves as an umbrella term highlighting different perspectives on the transformation of development cooperation, has been pushed to the fore partly by the vibrant expansion of South-South development cooperation and the increasing role of non-state actors, such as non-governmental organizations (NGOs) and private philanthropic foundations.

The most traditional activity of development cooperation is to facilitate developing countries' economic convergence with developed countries and to enable them to achieve economic growth and structural transformation. The redesign of the broader international development architecture, including the international trade regime and the international financial architecture, as well as the climate change mitigation, promotes the pursuit of policy coherence for development so that all policies at the national level which affect developing countries take account of development cooperation objectives, which involves more diversity in the actors engaged and more complexity in coordinating actions to achieve effective development outcomes. The proliferation of actors and diversity of approaches in the new development cooperation landscape has led to increasing concerns that the old aid architecture governing development cooperation is no longer fit for purpose.

With the structural shifts of the rapid growth of foreign direct investment, the increasing importance of remittances and the globalization of financial flows, the important feature of the new development cooperation is that the relative importance of ODA as a major source of external finance for developing countries has diminished significantly. There has been an increasing concern to move beyond aid and to reconfigure its role within a wider development cooperation addressed to the current global and national development challenges.[1]

Different approaches to development cooperation are also rooted in different models of how development cooperation works. There is a strong tendency towards a bifurcation in the development cooperation. The South-South development cooperation is directed to promote economic convergence through building up national productive capacities to ensure that economic convergence is also sustainable and inclusive. South-South cooperation is characterized by diversity and founded on shared principles, which is explicitly rooted in equality, mutual respect, mutual interest as well as respect for national sovereignty in the context of shared responsibility and shared experiences. [2]

The donors increasingly seek to work in partnership with recipients, align and harmonize their financial and technical aid to local good governance including political reform and perfect market

1 Janus, Heiner, Stephan Klingebiel and Sebastian Paulo: "Beyond Aid: A Conceptual Perspective on the Transformation of Development Cooperation", *Journal of International Development*, 2015, 27, pp.155-169.

2 Gore, Charles: "Introduction: The New Development Cooperation Landscape: Actors, Approaches, Architecture", *Journal of International Development*, 2013(25), pp.769-786.

system. There was increasing evidence that this did not work well. While aid funds from the developed countries seem more and more link to their political goals, the role of aid in supporting the development agendas seems weakened. While it has been recognized that aid on its own is not enough to promote development, developing countries are becoming less dependent on aid, and the ability of donors to shape policy through aid is decreasing. Although based on results from an OECD-commissioned survey of 40 developing country governments, demand for development cooperation will remain strong given the economic and environmental challenges, they expect the donors to provide vital finance in support of government-led sector programs, to deliver more and better technical and policy support and leverage more private finance.[1]

There are urgent needs of efforts to increase dialogue among the providers of development cooperation and even to bring them together within some kind of all-embracing global partnership which acts with a common purpose and in a more coordinated way. However, Southern providers of development cooperation do not see their financial contributions as ODA, and they explore a paradigm based on equity, trust, mutual benefit and long-term relations as an alternative way to do development cooperation.

2.2 The new kind of development cooperation

Compared with the traditional vertical North and South economic relations, B&R Initiative intends to adopt a different approach-pooling resources and sharing benefits together based on equal partnership. B&R avoids any hard or soft political conditionality linking to the investment, knowledge sharing, training and technology transfer. As the equal partners, the local governments in those countries should be able to assume greater responsibility for meeting the basic requirements of the projects and adopting a more complete front-line service delivery role. As B&R is just an initiative made by China, it is the partner countries that are responsible for planning, designing and operating those projects, thus, China and the participating countries of B&R are partners, and Chinese investors have to compete with others on the open and fare conditions. B&R initiative provides ideas and strategies for promoting new kind of development assistance and cooperation and also innovates ways for raising capital fund and transferring the know-how to the developing countries that well fit their national priorities.

Case 4: Chinese developing investment in Africa

Africa lags behind other developing regions on most standard indicators of infrastructure

1 Davies, Robin and Jonathan Pickering: "Making Development Co-operation Fit for the Future: A Survey of Partner Countries", 2015, *OECD Development Co-operation Working Papers*, No. 20,OECD Publishing.

development. The result of poor infrastructure is that many business services are much costlier than those available in other regions. For example, road freight costs in Africa are two to four times as high per kilometre as those in the United States, and travel times along key export corridors are two to three times as high as those in Asia. Western donors have by and large gotten out of hard infrastructure sectors. They channel their assistance overwhelmingly to social sectors or to some limited infrastructure sectors such as water supply and sanitation that have direct effects on household health. One reason Western donors got out of hard infrastructure is that they thought the private sectors could fill this void. Private investment has in fact met much of the demand in telecom, a sector that is very amenable to private delivery. However, in power, expressways, and rail, it has proved harder to attract private finance. The returns are very long term, and political and economic uncertainties in poor countries mean that private investors demand a very high return to compensate risks. The result is the current infrastructure deficit in Africa.

China is emerging as a major player in infrastructure projects in Africa, which is a very welcome development. China has a long history of aid to Africa. China's Information Office of the State Council issued the first White Paper on China's foreign aid in 2011. According to the 2011 white paper, China's total foreign aid provided from the 1950s to the end of 2009 amounted to 256.29 billion yuan, 45.7% of which went to African countries. On 10 July 2014, a second White Paper on China's foreign aid was released. According to the reported statistics, foreign aid offered by China totalled 89.34 billion yuan, 51.8% of which went to African countries.[1]

As a development partner, China finances Africa countries with the emphasis on infrastructure development to facilitate economic growth. China offers credit financing that makes it easier for Africa countries to access concessional loans to support its infrastructure projects and build new highway corridors, hydro-electrical plants, hospitals and modern airports. Much of the financing is on concessional terms that would meet the Western definition of official development assistance. At the same time, China attaches great importance to fundamentally enhancing development capacities of recipient countries when providing aid for them. China not only gives them the fish, but most importantly, teaches them how to fish so as to help those countries blaze a path of self-dependent development.

China expects to deepen relations with recipient countries and win the hearts and minds of the people of those countries. By providing foreign aid, China demonstrates its willingness to shoulder more and more increasing responsibilities. The programs focus on breaking the three development bottlenecks of underdeveloped infrastructure, talent shortage and inadequate funds, while accelerating industrialization and agricultural modernization to realize independent

1 See White Paper of China's Foreign Aid, 2011, 2014, http://www.humanrights.cn/cn/rqlt/rqwj/rqbps/t20140710_1187667.htm http://www.scio.gov.cn/zfbps/ndhf/2014/document/1375013/1375013_3.htm

and sustainable development. China provides foreign aid mainly in the form of undertaking projects instead of delivering money directly to the recipient countries. China is in charge of the allocation and expenditure of money and the projects are undertaken, constructed and managed by Chinese enterprises, to make sure that the money is made good use of and spent as it should, to enhance the efficiency of the aid projects and to ensure that the money will not be embezzled or pocketed by some greedy and corrupt officials in recipient countries. As a developing country, China never considers foreign aid simply as a donation, but an important form of South-South cooperation to advance the mutual benefit, win-win and common development of China and other developing countries, by helping recipient countries build some economic development-related projects.

China's foreign aid has been increasing tremendously ever since 2000. At the December 2015 China Africa Summit in Johannesburg, Xi Jinping made an announcement in Johannesburg that China government is to double its aid to Africa, to US$60 billion over the next three years, from 2016 to 2018, which includes US$5 billion package that African countries will access in the form of grants and free interest loans, US$35 billion in form of concessional loans and export credit lines as well as another US$5 billion to boost the China-Africa Development Fund (CADF) and support for SMEs. The CADF was established in June 2007 with US$1 billion of initial funding by the China Development Bank and is envisioned to grow to US$5 billion in the future. The fund's primary purpose is foster Sino-African investment through bridging finance, financial advice, Africa specific managerial advice, and identification of potential investment opportunities as well as connecting African projects to Chinese investors. The equity fund has been instrumental in supporting the trade and cooperation that has brought a clear developmental path for Africa. In fact, Chinese investment in Africa started picking up after the fund was established.[1]

State-owned enterprises once led the wave of Chinese money flowing abroad, but now nearly half of China's total outbound foreign direct investment (FDI) into Africa is from smaller private sector players. Meanwhile, Chinese individuals are pursuing their own enterprises in wholesale and retail trade, restaurants and manufacturing. The CADF has charted a new path in the cooperation between China and Africa in which the private sector actively participates in the investments by playing a major role in the market and bearing its own risks. What is important about this fund is that it focuses on areas that are crucial to the development of Africa and ensures that Chinese firms participate through partnerships that investment risks can easily be shared among the participating entities. This promotes the concept of a "win-win" strategy in which both the African and Chinese firms benefit from the investment. This has led African firms and governments to strive to come up with viable projects that have the ability to make profits, while at the same time benefiting the

1 President Xi Jinping Delivers Speech at FOCAC Summit, http://english.cri.cn/12394/2015/12/05/4083s906994.htm

people. The CADF does responsible investment which conforms to the social and environment standards, focuses on job creation, human well-being and local standards and requirements. The projects that the CADF has funded have the potential to bring more revenue in exports and taxes for African countries.

Chinese financing commitments in Africa infrastructure also increased in recent years. According to Xinhua Net[1], for instance, in 2015, two big construction orders in Africa totalling nearly 5.5 billion U.S. dollars have been signed by China' largest railway constructor, China Railway Construction Corp. (CRCC), including a 3.506-billion-dollar contract for an inter-city railway project in Nigeria and a 1.93-billion-dollar residential construction project in Zimbabwe. However, China's investment in Africa is no longer limited to natural resource exploration and infrastructure construction. More and more firms will be looking to diversify into new markets such as Africa. These engineering firms, machinery exporters, and other Chinese firms that have built up scale and competitive advantages will need to find new opportunities and job creation. Africa offers vast opportunities and is thirsty for investment is not enough for the fund to operate effectively. The China-Africa industrial capacity cooperation fund, jointly backed by China's foreign exchange reserves and the Export-Import Bank of China with an initial capital of 10 billion U.S. dollars, will mainly invest in sectors like manufacturing, hi-tech, agriculture, energy, infrastructure construction and finance in African countries.

More labour-intensive manufacturing enterprises are looking to the vast continent, which is good for job opportunities. Africa has a vast number of youth populations, with over 200 million young people between the ages of 15 and 24 residing on the continent. However, about 60 percent of Africa's unemployed are young people. China will shift more labour-intensive manufacturing industries to Africa to accelerate industrialization. Investment should cater to different African countries' development priorities and focus more on technology transfer, local added-value and job creation.

Geographically, B&R covers vast areas with more than 60 countries. It needs active participation and close cooperation of all relating partners. The development of B&R follows the principle of "jointly built through consultation to meet the interests of all, and efforts should be made to integrate the development strategies of the countries" as stated by the document.[2] Most of the countries in those areas are developing economies and the levels of their GDP per capita are still very low, less than half of the world average. It is not possible for any individual country alone to build a well-connected infrastructure network. B&R, as a set of collective agendas, can help to mobilize and pull resources through cooperation, either among the partners or through newly

1 China inks 5.5 bl. USD infrastructure construction contracts in Africa, 2015-04-27, http://news.xinhuanet.com/english/2015-04/27/c_134189494.htm.

2 See the **Vision document,** http://news.xinhuanet.com/english/china/2015-03/28/c_134105858_2.htm

built institutions.[1] Actually, to meet the new demands, the new institutions are highly expected. For example, as the infrastructure development requires long term investments, it is important to be supported by the public fund and the cooperative financial institution. AIIB is a new kind of cooperative financing on infrastructure development to overcome the bottleneck of the long-term investment. Its operation will strictly follow the principles made jointly by its equal member that are internationally accepted. In fact, to meet the new demand and also new challenges, both the reform of existing international institutions and the establishment of new international institutions are unavoidable. The international community welcomes the new initiatives and actions aiming at generating new momentum of the international economy as so many countries from Asia, Africa and Europe actively joined as the founding member though the United States and Japan refused to participate in it. As an emerging new power, China takes the responsibility to make the new initiatives that gives opportunities to play a larger role on the one hand and make more contributions at the same time.[2]The important role that the AIIB plays in providing investment capital and technical assistance for the projects in a responsive and timely manner that entirely meet partner countries' needs in terms of volume, expertise and flexibility. Those countries that apply for the assistance from AIIB must assure their assorted funding and capability, either with assistance or its own preparation.

In fact, all developing countries are facing great difficulties in meeting their infrastructure needs as investment requirements are high and expected to increase further in the years ahead. UNCTAD has estimated that achieving the sustainable development goals (SDGs) by 2030 in developing countries alone will require investment in the range of \$3.3-\$4.5 trillion annually (or about \$2.5 trillion over and above the amount currently being invested), mainly in basic infrastructure (power, telecommunications, transport, and water and sanitation) and infrastructure related to specific goals (e.g. food security, climate change mitigation and adaptation, health and education). Countries adopted the 2030 Agenda for Sustainable Development together with the set of SDGs carry significant implications for resources worldwide, including for public and private investment in infrastructure.[3]

Regarding sources of finance, development cooperation has traditionally been financed through

1 As rightly observed, countries in need of financing to establish new ports or related transport infrastructure or to upgrade existing facilities would welcome news of a willing new sponsor or financier, and increased regional connectivity would boost trade and commerce, allowing participating countries greater access to the huge China market, while attracting much-needed investments. See Lucio Blanco Pitlo III, China's 'One Belt, One Road' To Where? http://thediplomat.com/2015/02/chinas-one-belt-one-road-to-where

2 Muhammad Azizul Haque argued that China's bid to assume global responsibility is amply clear from its endeavours to ensure peace, stability and development of China and the rest of the world. This is evident in China's efforts and roles in the proposed establishment of Asian Infrastructure Investment Bank, BRICS Bank, SCO, Conference on Interaction and Confidence Building Measures in Asia (CICA), etc. See Muhammad Azizul Haque' One Belt, One Road initiative of China, http://www.chinadaily.com.cn/m/gansu/2014-09/04/content_18545901.htm

3 UNCTAD: "*World Investment Report*", 2016, United Nations Publications.

aid from bilateral and multilateral donors. But as the study shows, in total, more than half of infrastructure finance is paid by developing country governments themselves. About a third of financing also comes from the private sector, both domestic and international. The share of development partners collectively is actually much lower at around 6-7% of the total.[1] This shows that a new approach for development assistance and cooperation is highly needed. The private and public partnership (PPP) under B&R provides a new framework for development cooperation, which makes the private financing more confident and secured. The experience shows that in areas such as power, telecommunications, transport and water, FDI in developing countries remains consistently small. The existing investment still accounts for only a small fraction of the resources needed to meet the SDGs.

As for the infrastructure, approximately a third of the expenditures are for transport and energy, respectively, with the remaining third more or less equally split between water and sanitation and communications. Figure 2 presents the current level of annual financing and the projected investment gaps according to each infrastructure sector. It shows that investment would need to increase particularly in energy. In specific sectors, the outside financing is generally around 6-7% for water and sanitation, energy, and transport, but only 1% for communications, presumably due to weaker links to poverty reduction and higher share of private sector financing. To meet the upcoming SDGs, two to three times these amounts will be required annually up to 2030. [2] AIIB is construed as a natural inter-national extension of the infrastructure-driven economic development framework that long-term economic growth can be achieved through massive, systematic, and

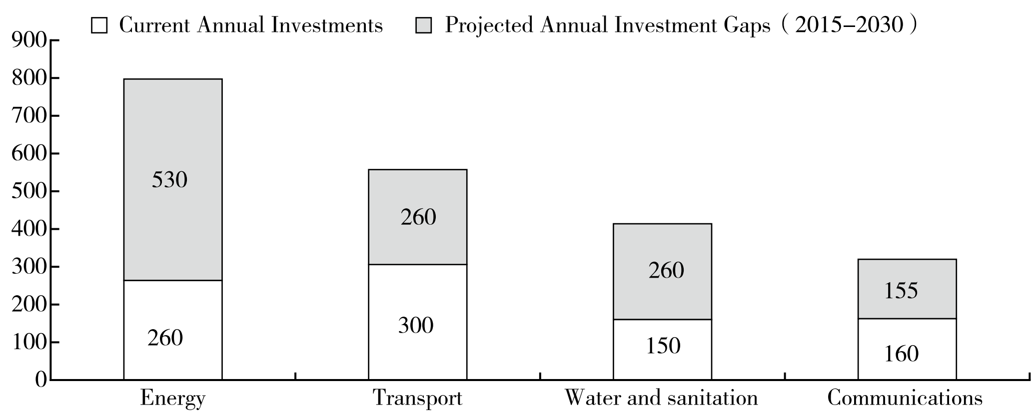

Figure 8.3　Current Investments and Projected Gaps in Infrastructure
Source: Miyamoto and Chiofalo (2015).

1　Miyamoto, Kaori and Emilio Chiofalo, "Official Development Finance for Infrastructure: Support by Multilateral and Bilateral Development Partners", 2015, *OECD Development Cooperation Working Papers*, No. 25, OECD Publishing.

2　Miyamoto, Kaori and Emilio Chiofalo, "Official Development Finance for Infrastructure: Support by Multilateral and Bilateral Development Partners", 2015, *OECD Development Cooperation Working Papers*, No. 25, OECD Publishing.

broad-based investments in infrastructure. NDB, a multilateral development bank established by the BRICS states (Brazil, Russia, India, China and South Africa), supports the public or private projects through loans, guarantees, equity participation and other financial instruments. It aims to contribute to development plans established nationally through projects that are social, environmentally and economically sustainable, promote infrastructure and sustainable development projects with a significant development impact in member countries. For the future perspective, more new kinds of development oriented institutions are needed and encouraged to play a role in generating new dynamism for inclusive development.

B&R initiative is timely. Currently, the world economy is in a very difficult situation due to the structural changes. The anti-globalization movement is on rising due to the domestic and cross-country gaps in income distribution, development levels, as well as the imbalance of trade and investment etc. B&R based win-win strategy, and sharing approach will help to improve the development environment of the developing countries that can make them more attractive to both public and private investments, generate intra and external trade and boost growth potential. Importantly, B&R is for cooperation, not for strategic competition, which should be an opportunity to nurture the spirit of cooperation and create shared interests.

3. The Challenges ahead

3.1 Consensus building crucial

Consensus building on jointly developing B&R is crucial. Although B&R is a China's initiative benefitting all partners, many, including politicians and media society, are still taking it as a China's project for China's interest only. Suspicions on China's intention behind are still evident since China is a rising big power. [1]Thus, more consultations are highly needed. As B&R covers both bilateral and regional agendas, the consultations are necessary on different levels. One of the key efforts on building trust and getting full support from the partners is to integrate the B&R projects with their national initiatives and development plans. At the same time, it is also very important that the new institutions closely cooperate with the existing international institutions, like World Bank, IMF, ADB and other development banks. While B&R is a development focus,

1 As Lucio Blanco Pitlo III pointed out, there is the fear about the possible dual-use nature of MSR ports and facilities. For example, the recent visit of a Chinese submarine in Colombo, the rumoured establishment of a Chinese naval base in Marao Atoll, Maldives, and Pakistan's invitation for China to set up a naval base in Gwadar all raise fears that China's presence in the IOR is not confined to just building and operating commercial seaports. If regional rivals see MSR as a strategy that would eventually lead to basing rights or easy access for PLA-N, they may take steps to discourage countries from participating in it, if not directly acting against it. See Lucio Blanco Pitlo III, China's 'One Belt, One Road' To Where? http://thediplomat.com/2015/02/chinas-one-belt-one-road-to-where

it also has significant effects on the political relations, regional security as well as social and cultural relations. It is essential to enhance the cooperation in those areas in the process of B&R development.

For China, the well domestic understanding and consistent momentum for support on B&R implementation is also important. Although current Chinese leaders, especially President Xi Jinping have given great emphasis on promoting B&R, the strong consensus of local government officials and business community on working for a new kind development cooperation still needs to be enhanced. For many of them, they take B&R more as an outward strategy to boost trade and investment or moving out outdated industries. Some of them may take it as a government led strategy to support Chinese companies going out and get project contracts.[1]

For the partners, due to the different and complex domestic political and social situations, as well as problems of governance and resource constraints, B&R building may become politicized or be terminated on the way. For some countries, the extremist and terrorist threats may be also negative factors to the confidence of the potential investors. The challenges that are related to the coordination and sharing of interests between different domestic organizations involved sometimes may delay or stop the projects.[2]The warning comes from both experts and business community for risk of the large projects inside the countries or cross countries. For example, the goal of building a vast corridor of economic regions that link north-western China with Europe seems affected by many factors, which include the distances involved, geographic features, costs, security, the time needed for construction, and the number and highly diverse nature of the partners needed.

It is essential that China, as an initiator, needs to coordinate its domestic interests, evaluate the risks of different commercial projects, strengthen bilateral economic and trade agreements and rules, promote and replicate successful cooperative models, construct key pioneering projects, find meeting points with the development of countries with regards to cooperation on economic, political, security domains and people-to-people engagement. B&R especially emphasize to make China's intention and interests smoothly dock with the local development plan and priority interest.

China has signed agreements with many countries for jointly building B&R, including Russia, Mongolia, countries from Central Asia, Central and Eastern Europe, Africa, South Asia, as well as ASEAN. Some major projects, like the network linking the Russian-Eurasian Economic Union and Eurasian Railway, Mongolian Grassland Road, and the high-speed train connecting China and some ASEAN's members. China also announced that a cross African infrastructure network

1 Scott Kennedy, David A. Parter, Building China's One Belt, One Road, https://www.csis.org/analysis/building-china's-"one-belt-one-road"

2 Sheng Bin and FengLi: "An International Political and Economic Analysis of 'One Belt and One Road' Initiative", *Nankai Journal(Philosophy, Literature and Social Science Edition* (南开学报 (哲学社会科学版)), 2016, 1, pp.52-64.

will be constructed by cooperating with African countries under B&R initiative. [1]The connecting infrastructure is being constructed as the basis for the development of strong economic ties and better political cooperation.[2]

China-Pakistan Economic Corridor (referred as CPEC) is a good example of the importance of consensus. As China and Pakistan trust each other, they are easy to reach an agreement. While CPEC helps China to secure the supply of energy, it helps Pakistan to attract massive investments and transform Pakistan into a regional economic hub. Another case is China-Mongolia-Russia economic corridor. For a long time in the past, Mongolia adopted a "third party diplomacy" aiming at balancing the China and Russia and blocking direct link going through its land due to the security and strategic concern. B&R initiative helps to eliminate the distrust, and three countries agreed to cooperate closely. The document issued by China National Development Committee indicated that the development of the corridor will focus on trade and investment promotion, cross-border economic cooperation zones, cross-border transportation lines etc. [3]

However, the development of B&R is a long process, rather than a short project. The consensus building lies in the whole process, and the key is to keep the momentum and sustainability.

3.2 Financing Resource

According to a study report done by ADB, for infrastructure investment in Asian developing economies, there is a huge demand, as 8.28 trillion US dollars by 2020. Proposed infrastructure projects under the aegis of CPEC, for example, are worth approximately \$40 billion.[4]How to finance such huge capital demand is crucial. In general, there are four ways to finance them: (1) Initial capital from the host countries, for almost all developing countries, they have limited ability; (2) Foreign investors, but they are usually very cautious due to the long-term profit return and unpredictable risk; (3) Loans provided by the international financial institutions, like WB, ADB etc. usually only limited fund;(4) ODA from developed countries, increasingly with strict conditionality. The challenge is each side has the limited potential for financing the infrastructure.

B&R intends to establish a broad and inclusive framework and a reliable environment to bring all resources together, and at the same time to establish new financial institutions with the special function on financing the infrastructure and the related areas. For example, the establishment

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1 Wang, Yong: "Offensive for defensive: the belt and road initiative and China's new grand strategy", *The Pacific Review*, 2016, 29(3), pp.455-463.

2 Fasslabend, Werner: "The Silk Road: a political marketing concept for world dominance", *European View*, 2015, (14), pp.293-302.

3 See new details of China-Mongolia-Russia economic corridor, http://english.sina.com/buz/f/2016-09-14/detail-ifxvukhx5095819.shtml

4 See news report Asia needs \$ 8.28 trillion in next 10years, http://finance.china.com.cn/roll/20150203/2942741.shtml; See also Explaining China-Pakistan economic corridor, http://money.163.com/15/0422/01/ANP6CG7300253B0H.html

of AIIB and its role of financial support will facilitate the infrastructure connection in relevant countries.[1]However, either AIIB, SRF, or NDB are small in size. It is important to cooperate closely with different financial institutions and companies, and in some cases, especially for large or cross country project, the syndicate loans are desirable. The financial sustainability of cross-country projects is usually difficult to manage. It is difficult to run a project in a foreign country, given different cultures, legal systems and other institutions and policies, let alone managing cross-border projects running through so many countries with different political systems and social briefs.[2]Thus, it is necessary to establish the coordination and cooperation facilities either with the individual partner or among the relating countries.

In the past, for loans and other investment capital, US dollar used to be the major currency. As capital demand is huge, a multiple currency swap needs to be developed, including the swap arrangements on bilateral and multilateral bases. The role of Chinese currency RMB should be enhanced. China has signed RMB swap agreements with many countries, which helps RMB to be used more in financing the infrastructure. Based on the agreement or guarantee from China, RMB bonds can be issued for the project financing. It is expected RMB to be a major currency for countries and regions along the Belt and Road routes while cross-border trade settlement in RMB is likely to continue to grow between China and belt and road countries, and these countries may use RMB in their central bank reserves. Actually, RMB settlement has a huge development potential in commodities, infrastructure financing and e-commerce, suggesting that the improvement of RMB financing channels which include syndicated loans and bonds, and enhance offshore RMB risk hedging functions that can not only benefit financial and business sectors, but also promote the development of offshore RMB market.[3]

3.3 The Risk Analysis

Though the B&R initiative does provide important opportunities, both in terms of possibly creating a new economic pillar and contributing new policy thinking for economic development, it also contains significant uncertainties and risks, such as management of geopolitical risks, international policy coordination and financial sustainability of cross-country projects.[4]As a new regional economic cooperation model, B&R will help to push forward the deep integration of

1 Liu, Guo-bin: "On AIIB's Role of Financial Support in the Belt and Road Initiative", *Northeast Asia Forum* (东北亚论坛), 2016, 2, pp.58-66.

2 Huang, Yiping: "Understanding China's Belt & Road Initiative: Motivation, framework and assessment", *China Economic Review*, 2016, doi:10.1016/j.chieco.2016.07.007.

3 "Leaders of multinational companies seek further cooperation through Belt and Road Initiative", Xinhua, 2016-05-18, http://news.xinhuanet.com/english/2016-05/18/c_135369616.htm.

4 Summers, Tim: "China's 'New Silk Roads': sub-national regions and networks of global political economy", *Third World Quarterly*, 2016, 37(9), pp.1628-1643.

countries and solves the natural obstacles affecting the economic development under the condition of low institutionalization in cooperation mechanism, low standardization in economic rules and soft constraints in obeying rules. B&R faces with very complicated rule-risks and permeate three aspects of international system, multinational system, and enterprise management that need to work along both of developing rules space and institutional discourse in global, regional and bilateral aspects.[1]

The building of the Belt and Road is a systematic and complex long-term project, which has yet to overcome multiple risks and challenges. The countries in B&R regions have a very rich mix of political regimes and economic systems, including socialism, capitalism and others. Throughout the lines crossing different regions, it is the often case that the relations of neighbourly countries are complicated and bitter because of the factors of history, religion, border delineation and natural resources. It needs a lot of diplomatic resources to invest to put them together to cooperate, which is sometimes worsened by the social and cultural differences. Some countries' nationalists have opposed the large-scale development projects, fearing that such developments would eventually result in local residents "losing control" over their natural resources. Some local leaders and residents have also expressed concern and doubt they will see any of the benefits promised by the project.

As B&R covers vast and different regions, it needs explicit coordination mechanism. Although some existing organizations and arrangements, such as the Shanghai Cooperation Organization (SCO), may serve the purpose of dialogue and exchange, heavy reliance on bilateral coordination generates flexibility but sacrifices consistency. B&R contains five priority areas for cooperation, but most of the priorities have the difficulty to enforce if without an effective coordination mechanism. Many countries involved are least developing countries with poor links, low-grade and poor road condition and different railway technical standards and low efficiency in multi-link transport turnover. It might be difficult to ensure same standards of procedure, efficiency and safety across all countries along the cross-border high-speed railroads. In some countries, maritime safety incidents take place frequently and maritime transport information sharing is limited. To improve this situation, it needs huge amount of investment, and inevitably it will take a long term to realize the profit for the investment.

The strategic competition between China and the US as well as Japan create a complex environment for B&R development. The US and Japan expressed their great concern on China's strategic intention on B&R initiative, and thus, they either manage to draw their allies or friends on their side by not joining, or exert them to compete and set up their own different agendas. For example, Japan refused to join AIIB and set up its own fund for its own priority projects. The fierce

1 Ma, Xue-Li: "The Research on the Rule-Risks of 'the Belt and Road' Initiative", *Asia-Pacific Economic Review* (亚太经济), 2015, 6, pp.3-8.

competition on fast speed train projects and some other projects has negative effects obviously. The US endeavours to do its own "silk road diplomacy" and promote the Indo-Pacific strategy. Actually, B&R is open to all countries that are interested to join. Emerging South China Sea dispute surely brings the negative effects to the Road initiative development. [1]

4. Conclusion

The features have emerged from the B&R initiative that China takes initiative for the planning of the cooperation where connectivity is a focus and cooperation on international order is a multispeed, multi-dimension and open-ended process. Under the background of the profound changes of global economic geography, it can be viewed as a space planning with transnational elements, a global economic stimulus project through infrastructure investment, and a trial for new approach of international cooperation and international order.[2]While B&R has a visible strategy for China to expand the market opportunity that helps to create a new frontier for its economic restructuring and transformation, it intends to develop a new kind of development cooperation based on a new idea and approach. B&R promotes development partnership with equal participation and common interest as well as sharing benefits, and also it nurtures the spirit of PPP with institutional building along the process.[3]

While China plays a leading role in B&R development, it has no intention to dominate the process and to obtain the hegemony, instead, it wants to build a new order based on equal, open and fair principles, which is vital for the regional and global peace, cooperation and development.[4]Though there is clearly no one Chinese model, there are diverse experiments, and many development efforts are adapting through experimentation and adaptive learning; often through major challenge and difficulty and sometimes failure. As a learning process, the transformation of development cooperation can create links and synergies between China and countries in the B&R regions. B&R goes beyond traditional rich-poor aid approach, which makes a broad framework open to actors of developed and developing countries, as well as regional and international institutions combining all kinds of resources including traditional aid and new innovative instruments.

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1 Huang, Fengzhi and Rui Liu: "The Japanese Perception of 'the Belt and Road Initiative' and China's Response", *Contemporary International Relations* (现代国际关系), 2015, 11, pp.37-43.

2 Feng, Zhongping and Jing Huang: "Sino-European Cooperation on the Belt and Road Initiative: Drive, Dynamics, and Prospect", *Contemporary International Relations* (现代国际关系), 2016, 2, pp.9-15.

3 Bai, Yunzhen: "The belt and Road Initiative and the Transformation of Chinese Foreign Aid", *World Economics and Politics* (世界经济与政治), 2015, 11, pp.53-71.

4 Zhang, Yunling: "Recurrence of China's Regional Conception and New Regional Order", *World Economics and Politics* (世界经济与政治), 2015, 1, pp.5-25.

B&R initiative expands the array of expertise and sources and opens up new opportunities for exchange and learning from particular historical experiences of cooperation development, where all partners are having to seek new, perhaps more equal accommodations and allowing development to engage with the new geopolitics and new logics for development cooperation emerging to go beyond the neoliberal frame, where states are not supposed to engage markets rules.

Backed by the economic corridors, Euro-Asia transportation network and maritime pivots, B&R has achieved some early harvest. However, many challenges are facing. Concerning the financial risk, the concessional financing on the large projects provided by the Chinese government may bring political risks rooted in geopolitics contend.[1]

To make progress in development cooperation requires a new idea and system. This does not mean to eliminate the existing ones, but to build up new partnership framework through reforming the existing aid and financing facilities and integrating existing and new initiative, like B&R together.[2]

1 Yu, Ying: "The Mode of Chinese External Foreign Infrastructure Investment and Regulation on Political Risks: From the Perspective of One Belt and One Road Geopolitics", *On Economic Problems* (经济问题), 2015, 2, pp.8-14.

2 China signed a memorandum with UNDP on September 19, 2016 on B&R for jointly promoting B&R development, a new page for B&R extending to the UN organization. http://finance.china.com.cn/news/20160920/3911240.shtml

Chapter 9

China Africa South-South Cooperation*

1. Introduction

In the past two decades, China has faced a major learning curve in terms of its engagement with Africa. Amidst western-led criticisms of neo-colonialism on the African continent, Chinese actors have paid increasing attention toward issues such as employment of local African workers, encouraging greater beneficiation on the African side and paying greater attention to environmental aspects of the relationship. Furthermore, the balance of trade between the two partners, in which Africa exports primarily resources to China (as is the case with the United States [US] and the European Union [EU]), while Africa mainly imports manufactured goods, is a challenge which China is currently tackling through a tentative African industrialization programme. Addressing such issues is crucial if China wishes to keep to the spirit of south-south cooperation as a cooperative, mutually beneficial engagement, as opposed to a lob-sided mercantilism.

The basis of South-South relations between China and Africa has increased significantly within recent decades. Over the past 15 years, economic growth in Sub-Saharan Africa (SSA) has been observed to be faster than growth within the last 40 years. Since the year 2000, six of the ten

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world's fastest growing economies were in SSA countries and Standard Chartered projected that over the next five years, the average growth rates of SSA economies will outpace their Asian counterparts. While Sino-African trade in the 1980s stood at US$ 1 billion, by 2012 trade surpassed US$ 220 billion (Grimm, 2015; Cissé, 2012). Investments have also risen, growing at an annual rate of 114 per cent (Wang and Elliot, 2015; Moyo, 2012). In 2011, Sudan, Zimbabwe, Mauritius, Zambia and Nigeria accounted for 70 per cent of China's outward foreign direct investment (OFDI) on the continent (Wang and Elliot, 2015; Moyo, 2012; Cissé, 2012). In trade terms, China has been, since 2013, Africa's largest trade partner, exporting its manufactured goods to virtually all 54 African states. China's foreign direct investment (FDI) stock in Africa has reached US$ 26 billion at the end of 2013 (Chen, Dollar, and Tang, 2015). Currently, 2,000 enterprises are operating in the African continent (Pigato, 2015). China's current and potential ability as an investment partner with African states is thus substantial.

This chapter discusses some of the political, economic and civil society perspectives in terms of south-south cooperation in the China-Africa relationship. The work offers overviews of China's infrastructure engagement, telecommunication and trade engagements. The work has a specific focus on FDI and manufacturing, as these engagements are crucial to developing sustainable African economies insofar as they signal a shift away from resource dependency, which has little effect on 'bottom up' economic development. Finally, the work takes a look at some of the challenges facing the Chinese engagement, including labour and environmental issues, and examines the ways in which China is rising to these challenges.

2. South-South cooperation

Over the past half century, China's relationship with the African continent has shifted from one based primarily on political partnerships to one based on market interaction. In the 1950s and 60s, China's historical interests in Africa were predominantly established during the Cold War era, in which various countries of the socialist world forged alliances. During the Maoist period, Beijing sought support from African countries in areas such as attaining United Nations (UN) membership and politically isolating isolate Taiwan (Yun, 2014). Socialist orientated African governments, such as Zimbabwe, Ethiopia and Zambia, received varying forms of development assistance from China. As the Cold War came to a close, and China's political aims were largely reached, former support in Africa began to accumulate unsustainable financial costs (Yun, 2014). In the 1990s, China-Africa relations began to deepen again. In order to keep up with its growing manufacturing sector (a development sparked by economic restructuring from a command to a market oriented economy), Beijing once again turned to Africa to supply raw materials needed for its growing manufacturing sector (Cissé, 2013; Moyo, 2012).

China's relations with the African continent in the previous two decades has been guided predominantly by several economic factors, including the need for resources to fuel domestic growth, international competitiveness through market access and technology and knowledge transfer (Cisse 2013; Alden and Davies 2006). This marked a new era in China-Africa relations, one that was based primarily on economic, rather than political motivations. China's South-South engagement with African countries is largely a combination of these two elements–a shared sense of destiny in terms of developing countries and their struggles while also drawing on contemporary market forces to achieve this vision.

The earlier, socialist era assistance has served as a powerful impetus for the current context of South-South Co-operation (SSC). SSC is not a new concept, existing since the early 1950s, and adopted as an official term in 1978 by the UN General Assembly. While definitions have somewhat changed over time, the UN Conference on Trade and Development defined SSC in 2010 as: "the process, institutions and arrangements designed to promote political, economic and technical co-operation among developing countries in pursuit of common development goals" (UNCTAD, 2010). SSC is often compared to North-South Cooperation (NSC) in its characteristics, methods of approach, and ultimate aims. In short, NSC is broadly described as developmental aid, procured by the countries of the Global South from countries of the Global North. The division also centres around notions of economic development, calculated by levels of gross domestic product (GDP), ranking on the Human Development Index (HDI) and income categories as defined by the World Bank (WB) and the International Monetary Fund (IMF) (Thearien, 1999; Mimiko, 2012). Furthermore, development aid as provided from the Global North (also called Development Assistance Committee [DAC] donors) to the South is defined by either bilateral (from government to government) or multilateral traits (from government to international institution/organization), and involves the provision of money for technical assistance, poverty alleviation, and the like. SSC on the other hand, differs from Western notions of aid insofar as it claims to be more inclusive fusing investments, trade, development assistance and technology transfer (Brautigam, 2009; Grimm, 2015).

Applying the above-mentioned categorising criteria to China, entails that China is a SSC rather than a DAC donor. According to the 2014 HDI, China ranks as a highly-developed country; however, it has a GDP per capita that is below the average, and is not ranked as an advanced and high-income economy by the WB and IMF. Nevertheless, China has, since 2013, been on the list of newly industrialized countries (NIC), together with its BRICS partners an association of five major emerging economies–Brazil, Russia, India, China, and South Africa (with the exception of Russia). The fact that China is categorized as NIC and has other characteristics common to those of other developing countries of the Global South, to which it continuously claims allegiance to, highlights the importance of analysing SSC efforts done by the Chinese state, as well as corporations in their relations to development cooperation partner countries from the Global South.

China often uses its status as 'developing country', similar to those of African countries, as a leverage in terms of its assistance of African countries in the realm of SSC. Although asymmetry remains in the economic content between China and African partners, aspects of mutual benefit and respect and equality function as central pillars for the maintenance of the relationship. The principles of mutual benefit and equality guide China's foreign policy still today and are the foundation upon which China's eight standards for development cooperation are built. The 'Eight Principles for China's Aid to Third World Countries' also called the 'Eight Principles of Foreign Economic and Technical Assistance' (Yun, 2014) include:

a) Emphasize equality and mutual benefit
b) Respect sovereignty and never attach conditions
c) Provide interest-free or low-interest loans
d) Help recipient countries develop independence and self-reliance
e) Build projects that require little investment and can be accomplished quickly
f) Provide quality equipment and material at market prices
g) Ensure effective technical assistance
h) Pay experts according to local standards (Chin, 2012).

Grimm (2015) states that agreements on Chinese co-operation are often made in government-to-government negotiations (in the same way that NSC bilateral aid is provided), with the end result being package deals that include aid measures, commercial loans and some support for strategic investments by key Chinese companies. In this context, the concept of SSC covers a large number of domains including state actors, the business community (both state and privately owned) and civil society groups.

3. Political drivers

South-South cooperation has been facilitated politically through China's soft power initiatives–the most powerful of which has been the expansion of Chinese enterprises abroad. The unprecedented support from the Chinese government, mainly through financial backing (such as low-interest loans), catapulted a number of Chinese enterprises into the global orbit and led to the acceleration of the internationalization of Chinese companies. Within this context, Africa has become an increasingly attractive destination, particularly with regards to China's quest for energy security (Taylor, 2006). Since the early 2000s, soft power has been accentuated by Chinese leaders and has become part of official Chinese discourse.

Already during the second half of Hu Jintao's leadership the idea of having soft power had begun to take root and spread. Hu Jintao highlighted that China's international status and influence should be spread through both hard and soft forms of power. This assertiveness was also adopted by his successor, Xi Jinping and was enshrined as the 'Chinese Dream', 'dreaming about a better world in which China will have recovered its rightful place' (Ferdinand, 2016). China even extended this scope to include an 'African Dream' in 2013. Scholars such as Zhao (2012, 2015), Sautman and Hairong (2007), Breslin (2011) and Zhu (2013) have labelled this as the 'Chinese Model of Development' or alternatively, according to Ramo the 'Beijing Consensus', which is presented as an alternative to the 'Washington Consensus' (2004).

While there exists no shared definition, the concept of soft power has gained widespread acceptance and application in the promotion of 'a preferred (positive) understanding of China's interests and identities overseas' (Breslin, 2011:2). Regarding China's soft power and its rise, Joseph Nye noted that though the extent of China's hard and soft powers has not yet matched those of the US, they were fast gaining ground (Nye, 2005). Joshua Kurlantzick noted in 2007 that China's soft power strategy in Africa is done through 'economic and diplomatic levers like aid and investment and participation in multilateral organisations' (2007:6). Representing its ongoing ambitions to rectify the imbalance within the international system, the Global South has increasingly resorted to utilising multilateral institutions as an outlet for its dissatisfaction with marginalization. A prominent engagement within this new context is the China-Africa relationship which, in recent years, has been strengthened through both bi-lateral exchanges as well as various multi-lateral frameworks. In the African continent, Chinese-led multilateral mechanisms have become useful in spreading the success story of China's economic growth and its efforts to share knowledge gained through its own development process. Two major partnerships include BRICS; and FOCAC, the Forum on China–Africa Cooperation–a triennial ministerial meeting the aim of which is to enhance cooperation between China and African states at multiple levels.

By the end of the 1990s, several strategy meetings had been held by China's main policy-making arms to discuss its African policy. Both Chinese and African sides realized the need to strengthen consultation and cooperation in the new situation. Established in October 2000, FOCAC has taken centre stage in symbolising the new political engagement that China has forged with Africa. The main objectives of FOCAC are to promote consultation, enhance understanding, expand consensus and strengthen friendship in order to promote economic co-operation and trade. At the same time, SSC linkages have been highlighted at FOCAC meetings. Support for Africa in global forums such as the UN, World Trade Organisation (WTO), IMF and WB have become another significant issue. Under the banner of FOCAC, the Chinese government has also sought to engage with African multilateral fora such as the African Union (AU) and the New Partnership for Africa's Development (NEPAD). The AU Commission was admitted into FOCAC in October 2011 as a full member and no longer as an Observer, attending the FOCAC V meeting in 2012 in that capacity. Furthermore, in May 2015, China officially opened a permanent mission to the AU. After FOCAC VI, Beijing hosted a follow-up meeting. China and 53 representatives from African countries discussed the implementation of follow-up actions of the FOCAC summit held last year. Both sides reiterated their commitments to working closely together in the future.

Another significant international grouping which forwards SSC is the BRICS forum. The BRICS member countries' activities present an alternative to the development cooperation model offered by traditional Western donors. Although there are great disparities between BRICS member countries with regard to geographic locations, history, culture and socio-economic conditions, BRICS has exerted itself to form a collective identity in order to tackle various challenges at the global level. Common interests shared among member states include the promotion of investment and trade, technological transfer, and finance infrastructure. South Africa's accession makes the grouping more representative of the new economic and political powers. Its geographically strategic location as an economic gateway and a regional business hub with trade links to the continent is viewed by other members as one of South Africa's most important characteristics. The BRIC nations needed a partner in Africa with trade links, a good financial infrastructure and access to political players. South Africa is already the voice of the continent at various regional forums including the AU. It shares the concerns of other African countries such as economic inequality, poverty and unemployment. South Africa's inclusion in the BRICS grouping bestows on it a prestigious position on the continent as well as in the global arena. South Africa's economic engagement with the BRICS member countries is expected to provide an opportunity to achieve inclusive growth which will bring about social opportunities such as employment, one of the cornerstones of South Africa's domestic policy.

In order to push forward common development, BRICS countries have launched a US$ 100 billion New Development Bank (BRICS Bank). The Bank is an institution developing the co-operation among BRICS countries, and complementing existing efforts by other development partners and International Financial Institutions (IFIs) for global growth and development. Globally, there is a significant infrastructure requirement that is total US$ 5.7 trillion (Maasdorp, 18 September 2015). Raising such finance will be easier now that the Bank exists and this will also be mutually beneficial to all the members of BRICS and other developing nations. The establishment of BRICS presents a number of opportunities. For instance, South Africa can attract increased FDI from BRICS members. Also, with the abundant mineral wealth in South Africa, opportunities are created for trade with BRICS countries which have a large appetite for resources. Such interaction plans to stimulate economic growth, enabling the country to address its high unemployment, 26.6 per cent in the June quarter of 2016 (Stats SA, 2016) and poverty (South Africa's Gini coefficient reached 63.4 in 2016) (Bertelsmann Stiftung, 2016). South Africa will primarily engage with the New Development Bank as a shareholder, but also as a borrower. As a borrower, South Africa will use the Bank as an alternative source of financing for its infrastructure building programme/infrastructure development plans, as well as for regional integration initiatives.

Politically, China has become able to co-ordinate responses and maximize its global leverage through multilateral organisations. These platforms can provide the opportunity to share ideas and experiences. South Africa's involvement in these multilateral mechanisms has brought with it increased opportunities for sustainable development. However, South Africa should urgently determine how to benefit from this relationship. There should be guidelines and swift implementation in order to maximize the benefits. South Africa's own interest is also bound up with bi-lateral and multi-lateral mechanisms pursuing common development and prosperity. The most pressing question is the sustainability of the relationship. BRICS member states are located in different stages of development. China and India for example will not be developing countries in the future.

4. Modes of engagement

Infrastructure

The most prominent effect which China has had in terms of African development has been in the realm of infrastructure. China's ability to construct projects at competitive prices and at relative speed, has led to an unprecedented presence. While Chinese engagement comprises a host of different companies, state-owned (both nationally and provincially) as well as a host of private actors, a few large state-owned enterprises (SOEs) dominate, such as China Communication Construction Company (CCCC) and China Road and Bridge Corporation (CRBC). The infrastructure engagement exemplifies the 'win-win' slogan often attached to China-Africa relations: on the one hand, China's growing surplus capacity in its domestic infrastructure sector is provided new business abroad while on the other, African states receive much-needed infrastructure which will promote interconnectivity and grow economies.

Mega projects by Chinese companies increased by 46.2 per cent between 2013 and 2014 (Deloitte, 2015). In 2005, China Railway Construction Corporation (CRCC) invested US$ 1.83 billion into the repair of the war-damaged Angola Benguela railway (completed in 2014). In 2012 China Communications Construction Company Ltd. (CCCC) completed an extension of Mauritania's Nouakchott port, also known as Port of Friendship (PANPA), by 900m. Other significant ports include China Merchant Holdings International's (CMHI) current investment of US$ 1.7 billion into Tanzania's port of Bagamoyo (including the development of a satellite city) and US$ 460 million seaports with 20 million TEUs (twenty-foot equivalent unit/a standard size container) capacity. In Togo, in 2012 CMHI bought 50 per cent stake in Lome Container Terminal (LCT), expanding it to four berths with capacity of 2.2 million TEUs. In aviation, China is also a significant actor. Kenneth Kaunda International Airport in Zambia has seen expansion by China Jiangxi Corporation Zambia Limited and Nairobi International Airport is being re-developed by Anhui Construction and China National Aero-Technology International Engineering Corporation (Catic), with the first phase anticipated to be finished in 2016

These examples of individual projects are, on both the Chinese and Africa sides, increasingly being integrated into broader trans-continental projects. In January 2015, the AU and China signed an ambitious Memorandum of Understanding (MoU) which seeks to connect the continent by rail, road, air and industrialization (with committees set up for each sector). Although no time frame and price tag have been ascribed, the agreement will encompass already existing projects including the Lamu Port (Kenya) and South Sudan-Ethiopia Transport (LAPSSET) Project-linking Kenya, Ethiopia, Uganda, Rwanda, Tanzania and South Sudan (rail, road and port); and a railway linking Bamako (Mali's landlocked capital) with Senegal's Dakar port and Gambia's Bamako-Conakry (Gambia), valued at US$ 11 billion. The LAPSSET project aims to connect major East African centres (Kenya, South Sudan and Ethiopia) to remote sub-regions as well as other neighbouring countries (Uganda, Burundi, Rwanda and the Democratic Republic of Congo [DRC]). The project includes a port at Manda Bay, Lamu; a Standard Guage Rail line to Juba (South Sudan) and Addis Ababa (Ethiopia); road networks; oil pipelines (Southern Sudan and Ethiopia); an oil refinery at Bargoni (Kenya); three airports-Lokichogio Airport, located in Turkana County in north western Kenya, bordering South Sudan and Uganda; Isiolo Airport in central Kenya, and Manda Lamu Airport in the port city of Lamu. The project also includes the construction of three resort cities (Lamu, Isiolo and Lake Turkana).

The plan to increase connectivity for both people and goods, promote development in Africa, highlighted in the 2012 Beijing FOCAC Action plan, will entail the challenge of coordination of a multitude of sub-regional organizations including the Economic Community or Western African States (ECOWAS), SADC, Economic Community of Central African States (ECCAS), East African Community (EAC), Common Market for East and Southern Africa (COMESA), Central African Economic and Monetary Community (CEMAC), Arab Maghreb Union (AMU) and the African Economic Community (AEC).

China's infrastructure development looks set to continue in Africa, with recent announcements such as the Silk Road Economic Belt and the 21st-century Maritime Silk Road ('One Belt One Road or OBOR') initiatives–massive infrastructure and industrialization projects to stretch across Central Asia, the Pacific and Indian Ocean regions (including East Africa). These ventures may include investments from other donors. For instance, the founding of the Chinese-led Asian Infrastructure Investment Bank (AIIB), which will assist in OBOR projects, include most of the world's major countries (excluding Japan and the US). In March 2015, the PRC announced a similar programme for Africa: the 'Three Networks and Industrialisation' programme, which, in addition to further transport development, also includes assistance in African industrialization.

Telecoms

Chinese companies have also aggressively expanded in developing markets by exporting networking products, establishing joint ventures and investing in local communication operations. Huawei and ZTE, as equipment suppliers, accounted for more than 50 per cent of the South African telecoms market in 2013, overtaking European and American enterprises in Africa. Huawei and ZTE also contribute to the development of infrastructure. In South Africa, for example, Huawei aims to help the South African government achieve 100 per cent broadband penetration (at only 26 per cent in 2013) by the year 2020. ZTE's US$ 378 million investment in Cell C (2010) and Huawei's US$ 211 million investment in Telkom SA (2008). Huawei, ZTE and other Chinese companies have amplified market competition in the telecoms industry in Africa, consequently benefiting customers by reducing prices and increasing choices. These include Ghana (ZTE: Transmission network, 2006); Algeria (Huawei: Submarine cable, 2010); Libya (ZTE: 3G network, 2005); Nigeria (Huawei: NGN Mobile softswitch 2010); Angola (ZTE: Optic fibre backbone, 2008) and Ethiopia (ZTE: Fibre optic Transmission/ GSM/network expansion, 2006) (Cisse 2012). Huawei has established six training centres across Africa (Nigeria, Angola, Kenya, South Africa, Egypt and Tunisia) and ZTE has set up four (Egypt, Ethiopia, Algeria and Ghana). In collaboration with governments and telecoms operators, these centres also focus on technology promotion, professional consultation and academic research.

Manufacturing

Against this background, one of the prominent trends characterising the recent strengthening of the Sino-African economic relationship is the increasing Chinese investment in the African manufacturing sector. The Chinese government encourages enterprises to engage in the manufacturing sector on the continent, highlighting its efforts to share its own experience of economic development based on industrialisation (as well as assisting China's aspiration to expand its soft power in the continent). One expression of this has been the setting up of Special Economic Zones (SEZs) export processing zones (EPZs), economic processing zones (EPZs), free zones, foreign trade zones, and industrial parks. SEZs have been established in Zambia, Ethiopia, Nigeria, Egypt and Mauritius. The Chinese government/African host governments lend support, with tax incentives and loans, hoping to lure private Chinese companies who face increased labour costs and competition among companies domestically. Huajian Shoe Company, set up in

Bishofu, near Addis Ababa, Ethiopia, is considered a success story: the company hires an estimated 1,000 local workers, organized into several teams, each consisting a Chinese supervisor. Local leather is processed into shoes which are sold on the international market, with the company in the process of expanding its operations. However, Huajian's success is somewhat of an anomaly against the broader context of SEZs. Chinese constructed SEZs in Africa, which have been plagued by stifling bureaucracy, poor communication, poor local infrastructure, inadequate market linkages and a lack of commitment on the part of host governments, while some were poorly located.

Relocating the Chinese manufacturing sector is also compatible with China's own economic structural transformation. Many have pointed out that China has reached Lewis's turning point. In the process of development, China has also moved from the 'labour-surplus' model towards the 'labour-scarce' model (Friedman and Kuruvilla, 2015). Its consequent shortage of labour has resulted in a rise in labour costs, causing Chinese investors to relocate their production units and thus leading to the internationalization of Chinese enterprises. Africa's cheap and abundant labour was also a factor that attracted these 'flying geese' Chinese enterprises. Furthermore, African countries have various preferential trade agreements with the US and the EU. This access to preferential markets like the EU and the US has also affected the decisions of investors from China in major ways. For example, the African Growth and Opportunity Act (AGOA) can provide firms with duty- and quota-free access to the American market. Since the US has strict regulations against the import of great volumes of Chinese products, Africa can act as their halfway station to further destinations. Chinese investment in the manufacturing sector in Africa is expected to contribute to export-led economic growth, technology transfer and job creation, among other development-related benefits. It will also provide an opportunity for African economies to be more closely integrated into the global economy, which, in turn, will expand Chinese soft power on the continent.

5. FDI and its impact on sustainable development

With an increase in the share of emerging economies in international trade and investment, academic and policy interest in South- South integration has been revived, inspiring a debate over growth implications for the less developed countries. While Chinese FDI is assumed to contribute toward light industry in developing countries through productivity spillover and capital stock injection, (Lin and Wang 2014: 12), fears abound about the risk of deepening the 'resource curse[1]'

1 A paradoxical situation, in which countries, with an abundance of non-renewable resources, experience stagnant growth or even economic contraction.

in the primary sector, (Carmighani and Chowdhury, 2012: 479-498) as well as Chinese Multi-national enterprise (MNE) displacement of their African competitors in areas where homogeneous goods are produced (Morrissey 2012: 26-31).

Chinese FDI inflows into SSA have grown remarkably since 1996, buoyed as a result of the Chinese government's 'going out' policy. Despite its remarkable growth over the last two decades however, aggregate volume remains reasonably low in relation to total African GDP and total FDI inflows into Africa. Nevertheless, average Chinese FDI inflow accounts for as much as 10 per cent of total inward FDI to most countries and as much as 52 per cent in Zimbabwe and 26 per cent in Mauritius (Weisbrod and Whalley, 2011: 3; UNCTAD, 2012). A distinct characteristic of Chinese FDI is its concentration in the extractive sector, but in recent years, increasing diversification has seen undertakings into agriculture, finance, light manufacturing, telecommunication and the construction sector, with the largest number of projects concentrated in the manufacturing and infrastructural sector (UNCTAD, 2011). This is due to Chinese SOE's targeting extractive and infrastructural sectors, while privately owned SME's focus more on light industries, manufacturing and service sectors.

Additionally, Chinese multi-national corporations (MNCs) have assisted in the formation of an upstream-downstream integrated industry chain in many SSA countries, thereby transforming resource advantages into economic growth opportunities, as in Zambia, where roads, hospitals and other economic infrastructures have been built while mining copper.

With SSA experiencing an improved growth period concurrently within the period of increased Sino-Africa economic relations, what is the structural impact of Chinese FDI on SSA economic growth? While FDI's effect on economic growth is assumed to be theoretically positive (with studies focused on productivity improvement effects), it is productive to also focus on the impact on export diversification and export upgrading of host countries. Host country firms are expected to be more efficient and improve their export variety and unit value through productivity spillovers as well through the acquisition and accumulation effort of foreign firms. Over the years, different indicators have been developed in different literature to explore the determinant and impact of export diversification and upgrading (Amighini and Sanfillipo, 2014: 6-7; Hausmann et al., 2007: 1-25).

While SSA economies have been noted to be largely driven by export-led growth, recent studies have altered the focus of the discussion away from what is exported to the question of how valuable is the export composition to economic growth. Hausmann et al (2007: 18-24) has noted that economies with higher export unit value and export variety experience faster growth than economies with fewer export variety and low export unit value. Structural transformation is defined as the reallocation of economic activity across three broad sectors (agriculture, manufacturing and services) that accompany the process of modern sustainable economic growth (Kuznets, 1966: 306; Lin, 2012: 2-18). Indeed, increased export without structural transformation of export products can be inimical to sustainable growth especially if exports are composed of primary products or low value goods (Hwang and Rodrik, 2007: 1-25). Thus, countries with higher export unit value or a collection of high quality goods are observed to experience better growth performance.

In attempting to answer through what channels South-South FDI impacts on the structural transformation of SSA, a case study is presented of China's role in SSA clothing and textile sector, in order to determine if Chinese FDI impacts on the export diversification and upgrading of the SSA export basket. The clothing and textile sector is always assumed to be the catalyst of industrial revolution and growth. The sector pioneered the structural transformation in Europe (the industrial revolution), America and Asia, China inclusive, and is always considered the driver of sustainable economic growth. This is because it easily attracts outward direct investment, it is labour intensive, thus creating new employment opportunities, and it also has strong linkages (vertical and horizontal) to other sectors, such as the agriculture and manufacturing, thus helping to strengthen the manufacturing base of the economy. To analyse the structural impact of Chinese FDI on SSA export upgrading, a sector specific panel data for 16 SSA countries, between 1996 -2013 is constructed and analysed.

The gains of globalization have been noticeably visible within the last few decades as increased mobility of people, goods and services as well as capital stock between countries has enabled developing countries to attain faster and more sustainable economic growth. FDI has been noted to be a key factor in the globalization process by enabling productivity enhancing transfer from developed countries to less developed countries (Moran, 2010). While FDI's impact in terms of employment creation and technological transfer has been well reported, little evidence exists of FDI's impact on export upgrading of the host country. The justification of FDI's impact on export upgrading, hinges on the fact that MNCs, by virtue of their superior skill and technical know-how, engage in productive activities which are generally considered to be of higher unit value.

Additionally, domestic firms in the same sector can grasp, by observation, the production and marketing techniques of foreign firms, subsequently leading to upgrades in the export quality of their products. Supplying firms which benefit from MNC productivity spillover enable suppliers to export higher value products. Furthermore, higher quality input availability derived from MNC spillover that are accumulated by the supplying firm can be beneficial to domestic producers of final goods and enable them engage in export upgrading. Recently, a new strand of research has highlighted the positive impact of FDI on export upgrading. Based on a firm level analysis of FDI from the US and Japan on India (Banga, 2006: 558-568), strong evidence has been observed regarding the positive impact of FDI on the capacity of the host country to horizontally diversify its exports. This mostly occurs in non-traditional sectors, such as education, healthcare and fast food with results based on the fact that foreign firms in such sectors are more export oriented than domestic ones. Iwamoto and Nabeshima (2012) and Tadesse and Shkralla (2013: 141-159) observed similar results based on different samples of countries.

Finally, Harding and Javorcik (2012: 964-980) explored whether attracting FDI offers potentials for raising export quality in 105 countries over the period 1984-2000, by comparing export unit values in targeted sectors to unit values in non-targeted sectors before and after targeting. Their results suggest that FDI inflows offer potential for raising the quality of exports in developing countries. In hindsight, knowledge spillover arising from external flows are a major channel in promoting structural transformation of local economies as they not only contribute towards increased productivity in existing industries, but more importantly, they bring new ideas and best practices that spur the exploration of new production activities that foster the process of diversification and upgrading of the host economies, Moran (2010). This occurs by increasing export volume (intensive margin effect), the number of exported products (extensive margin) and the quality of exported products, (Crespo and Fontoura, 2007: 410-425; Harding and Javorcik, 2012: 964-980).

The effective occurrence of such spillover is nevertheless affected by the nature of the investment, depending on a range of factors such as the motivations or mode of entry (Crespo and Fontoura, 2007: 410-425; Narula and Driffield, 2010: 1-7). Even in areas of most favourable conditions, the literature has repeatedly stressed the fact that spillover require recipient countries to be endowed with a certain level of absorptive capacity, for instance, the capacity to internalize external knowledge flows (Crespo and Fontoura, 2007:410-425). In the case of Africa, Morrisey (2012: 26-31) has recently pointed out that the sectoral distribution of FDI, mostly concentrated in primary industries, and the low levels of absorptive capacities at both firm and country level often translates into fewer benefits rather than truly positive spillover effects as intended by the extant literature. Whether the investment originates from a developed or another developing country also matters in terms of the potential impact on exports and growth. Despite the prevalence of FDI from traditional sources, the emergence of a new wave of investors from the South has increased the relative size of South-South flows, especially at the intra-regional level, UNCTAD (2006). Compared to North-South FDI, South-South FDI potentially brings more positive effects to the host economies, given that developing country firms are likely to provide goods and services that are more accessible to other developing countries, Lipsey and Sjoholm (2011: 11-31). FDI from other developing countries can also compensate for low domestic savings and contribute to capital accumulation in low income countries, especially those considered institutionally weaker, where traditional investors are sometimes more reluctant to invest, Dixit (2012). This is particularly important if FDI is accompanied by improvements in infrastructure, as is often the case of FDI from other Southern countries, especially from BRICS countries (Mlachila and Takebe, 2011); UNCTAD, 2012). South-South FDI in Africa, especially in the light manufacturing sector, could also take advantage from the relocation of production activities in the continent, often motivated by the need to set up export platforms to third markets (such as cases of Chinese FDI in textile, Kaplinski and Morris (2009: 551-569) or the beneficiation of natural resources to be re-exported (such as cases of investment in agriculture (UNIDO, 2011).

From the above literature, we can deduce that South-South flows tend to be more beneficial than North-South flows to developing countries (Amsden, 1986: 249-274; Greenaway and Milner, 1990: 47-68; Klinger, 2009). Studies have consistently suggested that the composition of partner countries matters as regards the ability to benefit from the knowledge spillover arising from the use of imported goods (Mlachila and Takebe, 2011). Southern countries' imports and inward direct investments from the North and the South differ as regards the technological distance from domestic products and capital investments. Such a technological gap affects the capacity of recipient countries to internalize external knowledge flows (Gelb, 2005). Munemo (2013: 303-329) finds robust evidence in support of the hypothesis that capital good from China are an important channel for technology transfer that enhances economic growth in Africa. On the other hand, recent research shows that importing southern goods that are closer technologically to domestic production, compared to northern products, has a limited impact on improving export quality but can enhance export variety for low tech African manufacturing sectors (Aykut and Goldstein, 2007). Also, hosting southern (compared to northern) FDI improves the ability to raise manufacturing export quality and to introduce new product varieties in low-tech sectors (especially agro-industries, textile and apparel), with a stronger effect in less diversified countries (Amighini and Sanfilippo, 2014: 1-17). Moreover, the new structural economics (NSE) approach has emphasized that FDI is likely to be a more favourable source of foreign capital for developing countries than other capital flows because it is usually targeted towards industries consistent with a country's comparative advantage, and thus should exert a positive effect on that country's net trade position (Lin, 2012).

Literature by historically prominent economists such as Adam Smith and David Ricardo stress the importance of specialization rather than diversification as the vehicle for economic growth. Their argument is based on the notion that a country should maximize its productive potentials by concentrating on production of economic products for which it enjoys comparative advantage. Recent literature, however, stresses export diversification as an accelerator of economic growth. Channels through which export diversification foster growth includes: improving terms of trade by increasing the total number of exported products (Amighini and Sanfilippo, 2014: 1-17), reducing export instability and subsequently foreign exchange instability, thus stabilizing export earnings, as well as enabling knowledge spillover effects through improved production techniques (Lin, 2012).

Studies by Hausmann et al. (2007: 1-25), argue that sophistication and not specialization alone of exported goods matters for economic growth. They state that the quality level of a country's export has far reaching impact on its growth and thus, countries with higher unit value (sophistication levels) of their export basket achieve faster growth. Their argument is based on the premise that there exists an elastic demand for goods associated with higher productivity levels in the global market, therefore a country can engage in mass exportation of goods without experiencing adverse terms of trade effects, and thus generate higher volume of foreign exchange earnings. The phrase

'A country is what it exports' is used to describe the relationship between growth and export unit value. Later studies by Wang and Wei (2008) observed that physical and human capital accumulations as well as government policies determine the unit value of a country's export basket.

The tables below address whether the increasing economic integration between China and SSA economies over the last two decades through trade and investments has had an impact on the export diversification and upgrading of SSA exports-considered as a proxy for structural transformation in the clothing and textile sector by using trade data. Bringing together different strands of empirical literature, structural transformation is measured through a number of indicators that reflect diverse dimensions along which a country can upgrade and diversify its export baskets, namely higher export variety, higher export quality, functional upgrading of exported products and more sophisticated export markets. The higher the values of the impact indicators, the higher the impact of Chinese investment in the sector. These indicators aim to measure structural changes in the clothing and textile sector of SSA countries, beyond the more traditional measure of net trade position and contribution to the trade balance. These indicators tend to capture the different dimensions of structural transformation.

To evaluate the structural impact of Chinese FDI on SSA economic growth, SITC harmonized system (HS) classification cross-country export data from 1996-2013 along with sector specific variables from UNIDO are analysed using descriptive statistics. Each indicator is evaluated from Chinese FDI over two time periods (1996-2002 and 2003-2013) on export data of clothing and textile sector in selected African countries with developed clothing and textile industry. The results show the marginal impact of Chinese outward flows on the export upgrading and diversification of Africa's textile exports, a proxy for structural transformation.[1]

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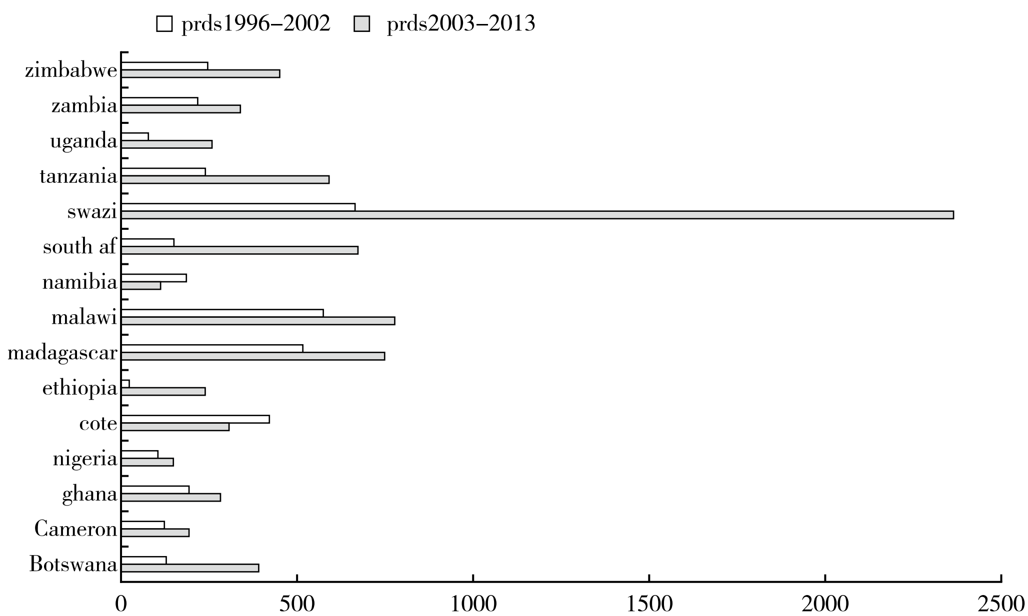
1 Export Variety (EV) is proxied as the number of exported products. This indicator measures the degree of export diversification within the sector. An increase in export variety implies expanded export capacity on a wider range of products and is a traditional measure of export upgrading. Although it is more frequently computed on all exported products with the aim of measuring export diversification across sectors, it is acknowledged in the literature that a higher number of exported varieties within a given sector imply enlarged production capabilities and a higher number of entries into foreign markets, which are both a signal for improved export performance.

Export Unit Value (EUV) is proxied as the average value of exported products. This measures the average quality level of exported products. This is computed as the ratio between the value and the quantity exported, assumed as a commonly adopted measure of export quality upgrading, Baldwin and Harrigan (2011), Harding and Javorcik (2012). An increase in the average quality of exported products can be considered as a proxy for improved capabilities of exporting countries to enter markets with higher quality goods.

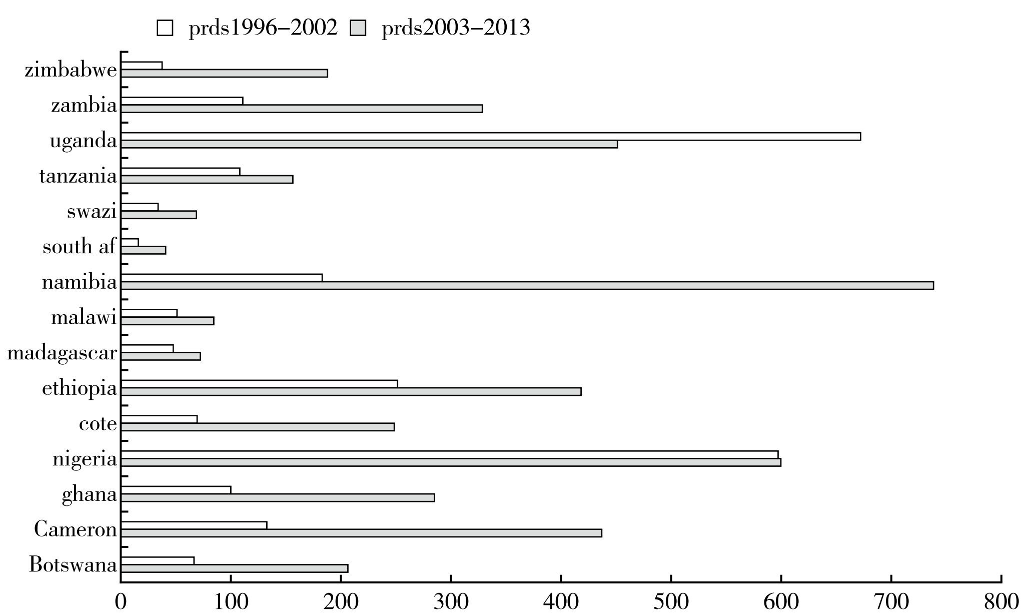
Size of export markets is proxied as the average GDP of export markets. This measures the extent to which exported products can reach large markets. Large economies are likely to host more (at least horizontally) differentiated demand, therefore one can expect that the higher the GDP of export markets, the higher the potential for exporting countries to expand the variety of products exported on those markets.

Average income of export markets is proxied as the average per capita GDP of export markets. This measures the extent to which exported products can reach affluent markets. As market affluence implies more (horizontally and vertically) differentiated and more sophisticated demand, exporting to such markets is more rewarding and profitable especially for low income exporting countries.

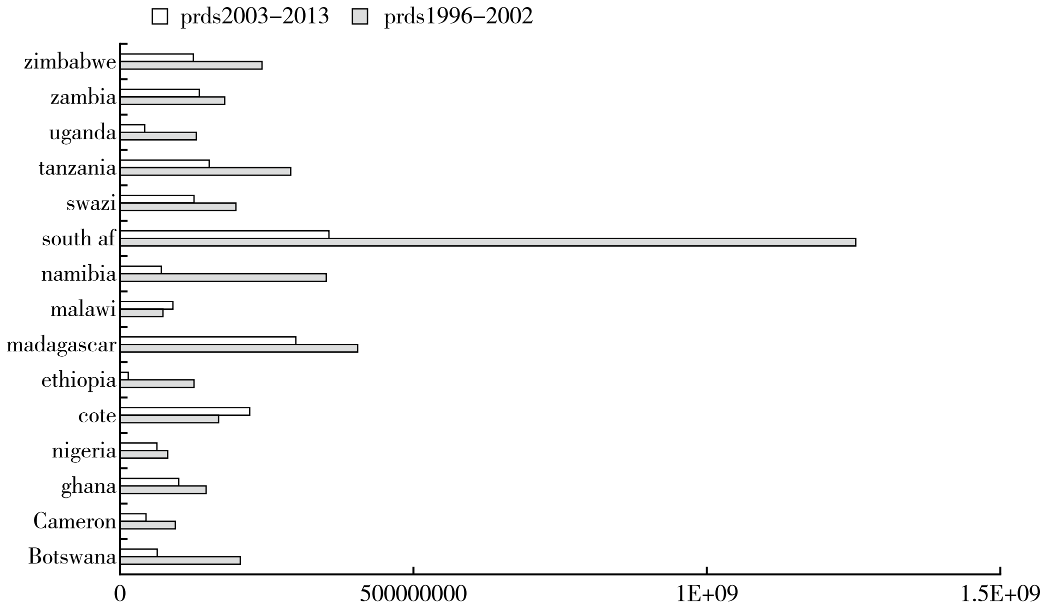
Though individual indicators are proxies for structural transformation, they tend to describe different dimensions of a country's improvement in export performance, which are worth investigating. Also, these different aspects of the indicators are not necessarily correlated with each other, thus they cannot be considered as alternatives, but rather as complementary measures of



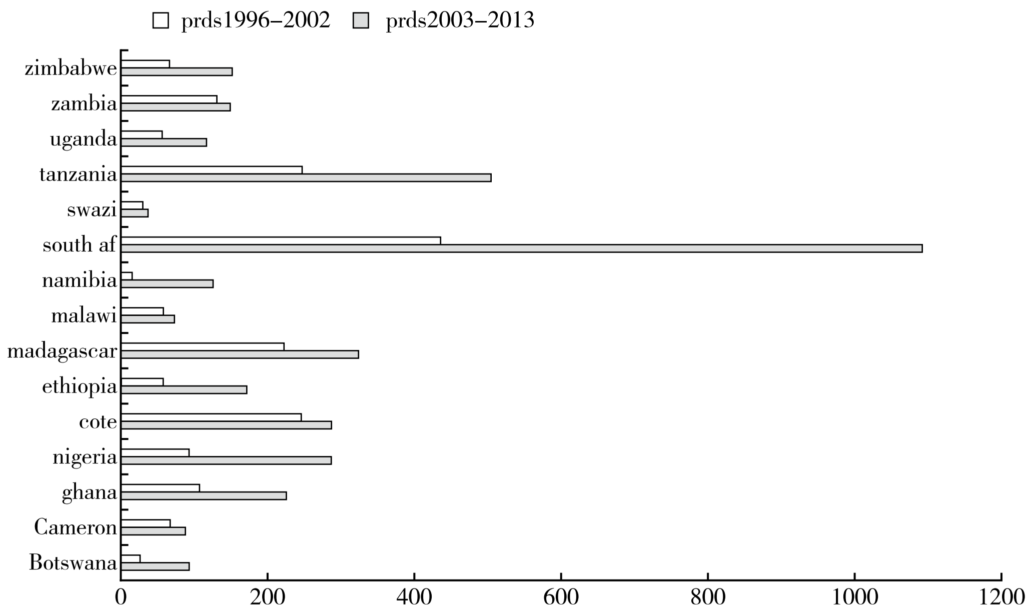
Export Variety



Export Unit Value



Size of export market



Average per capita GDP of export market

structural transformation in the clothing and textile sector. As a matter of fact, countries can show diverging trends across different dimensions of upgrading. Finally, these different dimensions do not necessarily and similarly react to different home and host country characteristics.

It can be observed that Chinese FDI on exports from the clothing and textile sector show trends among the countries. The results are in line with previous studies by Harding and Javorcik (2012) which observed a positive impact of export upgrading and diversification on African exports.

The analysis shows that Chinese FDI in the sector has been able to contribute to the export upgrading, diversification, improvement in the export market size and average income of Sub-Saharan export markets in the clothing and textile sector. It is also observed that Chinese clothing and textile FDI structural transformation is not evenly distributed among Sub-Saharan African economies with countries in Southern African region generally performing better, relative to other regions. A reason for this might be ascribed to improved technological level, better economic and social infrastructure, favourable economic policies and strong institution in the region. Based on the results, Chinese FDI flows are important for the structural transformation of Sub-Saharan economies due to the absorptive capacity and lower technological differences relative to North-South FDI which can be easily absorbed by African economies. African policymakers should enact enabling policies to increase FDI inflows between developing economies.

Manufacturing Case Study: Hisense, South Africa

Hisense is a pertinent example of a viable medium through which to enhance both the benefits of SSC, as well as promote Chinese soft power abroad. Hisense, a home appliance and electronics manufacturer, entered the South African market in 1996 and was originally based in Midrand, Johannesburg. In the late 1990s, the local South African television manufacturing and production industry could not meet the growing demand; the country relied heavily on imports and was the second-largest importer of televisions among countries not affiliated to the Organisation for Economic Co-operation and Development (OECD). At the time, there was a growing market among the urban black lower-income segment for low-end products. Thus, Hisense intended to focus on the low-end market in Africa.

In 2012, Hisense announced expansion of operations into the Western Cape Province. The development of Hisense has been accelerated with the involvement of China-Africa Development Fund (CADFund), an equity fund located within the China Development Bank that was established to facilitate Chinese investment in African countries. After the fifth FOCAC in 2012, Hisense and CADFund jointly invested in an industrial facility located in Atlantis Industrial Park outside Cape Town. CADFund invested US$ 45 million in the building of the Hisense facility in Atlantis and holds 45 per cent of the equity. The Chinese government has been deeply involved in building out the company in the hope that it will expand China's soft power. An official at the Chinese Consulate in Cape Town confirmed the role of the company in this regard and mentioned that other aspects such as the frequent exchange of high-level visits by officials have been conducive to the speed of the company's growth. Hisense experienced remarkable growth in South Africa's electronic goods market and further expanded its operations in 2013. The Deputy General Manager of Hisense highlighted the company's move towards the high-end market to produce premium-range products that can compete with other global brands in the South African market.

Domestic support from China has been coupled with close political ties between the South

African and Chinese governments. The Sino-South African relationship has improved remarkably since 1998, when the two parties established diplomatic relations. In the following years, a number of protocols were initiated. In 2000, Chinese President Jiang Zemin and South African President Thabo Mbeki signed the Pretoria Declaration. This was followed by the South Africa-China Bi-National Commission (BNC), which was established in 2002 and has become the key vehicle for facilitating co-operation between the two countries. This bilateral relationship has advanced from a partnership to a strategic partnership and then to a comprehensive strategic partnership. Under this close bilateral relationship, the Chinese Embassy and the Consulate in South Africa have played significant roles in promoting Hisense's operations. From the South African side, it became apparent from a series of interviews with stakeholders that the following parties were involved in the company's expansion: The Department of Trade and Investment (the dti); the City of Cape Town; and Wesgro, the official Destination Marketing, Investment and Trade Promotion Agency for the Western Cape. The dti provides Hisense with a reimbursable cash grant under a manufacturing investment programme (MIP) for local and foreign-owned manufacturers who wish to establish new production facilities; in the case of Hisense, this totalled R26,8 million. There is no doubt that the unprecedented backing from both home and host governments is one of the main reasons why Hisense has become a successful player in the South African economy.

As Hisense has become increasingly successful in the South African market, several elements can be singled out. Hisense's increase in production reflects the expansion of South Africa's export markets. The company distributes products through all major retail stores in South Africa's high-end home appliance channel as well as through other outlets which attract middle-class customers. These retail companies have local distribution channels as well as international ones covering the southern African region and West African countries such as Nigeria and Ghana. The company's success and expanded production have contributed to rectifying the trade imbalance between South Africa and China and to expanding South Africa's export market. This was highlighted by the South African Minister of Economic Development, Ebrahim Patel:

> Our imports of TVs from all countries (including China) dropped in 2012. They were 34 per cent lower than in 2008 and 29 per cent lower than in 2011. At the same time, we have managed to increase our exports of televisions to all countries by 77 per cent from 2011 to 2012, resulting in our exporting US$ 94 million or R770 million worth of televisions in 2012. This decrease in imports and increase in exports has resulted in a drastic improvement in our trade deficit in television sets from US$ 334 million in 2008 to US$ 172 million in 2012. South Africa has at the same time increased its exports of television sets to the rest of Africa, with nine of our top ten destinations being African countries and almost 90 per cent of our exports going to other African countries.

The Deputy General Manager of Hisense disclosed how technology transfer was occurring in that the company had moved from assembling parts imported from China to producing the whole product in South Africa, from scratch.[1] This demonstrates the Chinese government's commitment to technology transfer, with China playing the role of benevolent partner. The South African government has endeavoured to promote local industrialization by charging high tariffs on imported finished products, and this has become one of the strategies used to entice foreign investors into relocating their manufacturing facilities to the country. Since import tariffs on TVs as finished products are high in South Africa, Hisense initially imported the components, a duty-free transaction, and then had them assembled by South Africans. Gradually, though, the company moved towards producing the television sets from start to finish in South Africa.

Along with the company's expansion, Hisense has received a great deal of attention in terms its contribution to job creation. Unemployment is one of South Africa's most pressing socio-economic problems, and the Western Cape is no exception. Since the announcement of Hisense's expansion, there have been high expectations that this firm will reignite the local economy in disadvantaged areas in the Western Cape. Atlantis has long been a poverty-stricken area with high unemployment and various social problems such as a prevalence of illegal drugs and alcohol abuse. Under the circumstances, providing employment opportunities can be seen as a way to revive the town. According to a National Union of Mine Workers (NUMSA) official in Atlantis, '…in 2014 already four to five companies have closed in Atlantis. Under the circumstances, the expansion of Hisense and the number of jobs that the company will create is seen as positive'. Hisense had directly generated 300 jobs by 2012, with a further ripple effect taking the form of indirect job creation through local logistics firms, advertising agencies, customs clearance, distributors and after-sales service firms.

Hisense has successfully penetrated the South African market, gradually positioning itself at the high end of electronic producers. At the same time, it has contributed to South Africa's economy through technology transfer and job creation. This has gone a long way towards enhancing China's image as a sincere developmental partner in the country. There is no doubt that the success of the company has had a positive impact on South Africa's local economy. However, to more accurately observe soft power one must look at people-people relationships. In other words, a multitude of actors and interactions are involved in the process of expanding soft power, and the relationships at play are vital to this process. There is often a perception that only governmental actors are associated with soft power, but as the next section will show, the daily lives of workers and their perceptions of Chinese investment (i.e. labour relations) are equally important.

Chinese actors' overall compliance with labour standards in Africa is a key challenge. In

1 Khan, E., 2013. Personal Interview with the Deputy General Manager of Hisense South Africa. 7 November 2013. Atlantis, Cape Town.

this context, it seems that host countries' governance or policies may be good on paper, but are executed poorly. Robust systems for effective monitoring and enforcement are required. However, in most cases, investment decisions are likely to be made at national level only and the perspectives of local government and other societal actors, like labour are not included. The increasing activities in terms of industrialisation will give the Chinese government a great opportunity to show that a Chinese enterprise operating in Africa can display good business practice and contribute to Africa's development, which will help mitigate the negative image of Chinese investment. However, the Chinese government's involvement in Africa's industrialisation process will require greater commitment from the various agents involved in implementing China's soft power.

6. Sustainability: labour and environment

The increased economic and political engagement between China and Africa over the past decade or so has courted controversy, particularly within the Western world. Chinese opinion makers often feel dismayed at this criticism, particularly when considering that it was Europe who initially engaged in colonial activities in Africa. Nevertheless, it cannot be denied that China's entry into Africa, like any other large investor, has come with costs. Companies have become fierce players on the global stage, both private and state-owned, but in China's case it is the state-owned MNCs operating in the extractive industry sectors in Africa that attract the most attention. MNCs originating from countries of the Global South (China, Brazil, India, South Africa and the like) often claim that they are guided by the broader concept of SSC in their investment activities for 'pragmatic economic, solidaristic and humanitarian reasons' (Carmody, 2011: 108). Thus, principles of mutual benefit for the companies as well as the communities in which they operate are used as the main narrative behind their engagement in extractive industries in African states. Whether the companies' engagement on the ground in fact plays out in a mutually beneficial way for all parties involved, is another question.

In fields such as labour, transparency, security and environmental issues, China has come a long way; its exposure to African countries, with its numerous NGOs and civil society movements, have obliged China to introduce a number of changes regarding Corporate Social Responsibility (CSR). In many regards, it was not so much the case that Chinese companies were unscrupulously exploiting African actors, but rather that Chinese domestic labour practices-transplanted overseas-increasingly came under international scrutiny. Thus, the shifts within Chinese attitudes toward CSR in Africa are also a broader reflection of China's currently shifting institutional culture in terms of CSR amongst Chinese companies and the state more broadly. Two aspects which have been subject to criticism are Chinese attitudes toward issues of labour and the environment. With regards to the latter, accusations have been levelled at Chinese companies in terms low safety standards, long working hours, low pay and so forth. While in terms of the environment, Chinese actors have been accused of illegal wildlife smuggling, paying little attention to environmental impacts of their enterprises and conducting infrastructure projects in environmentally sensitive regions. The Chinese government has taken these allegations seriously and has developed policy for companies investing abroad. Although implementation and monitoring is difficult as there are a host of different entities, both state and private, engaging in a myriad of different business environments.

CSR

Chinese companies, as mentioned previously have become noticeable players in Africa's capital intensive mining and infrastructure sectors. The companies that are mostly noticeable in these fields are SOEs that receive support from the government in Beijing, which allegedly uses them in order to expand its influence as a competition with the West and to secure supplies of natural resources (Brooks and Shin, 2006; Campbell, 2008). One aspect that needs to be kept in mind is the importance of specific sectors of investment for China's national interests, based on which the importance of SOEs and private enterprises may differ. For instance, with regard to Africa, Xu (2015) claims that by 2011, 36 per cent of private Chinese projects were in the manufacturing and 22 per cent in the service sector, compared to SOEs holding 35 per cent in construction and 25 per cent in mining. Making it obvious how little SOEs engage in manufacturing (only 6 per cent) and how small the private sectors' involvement is in the construction sector (only 5 per cent). However, what stands out is the increase of private firms investing in mining activities and catching up with their SOE peers, reaching a total of 16 per cent of the total investments by end of 2011 (Xu, 2015). The increase in competition, not only from western companies but also private Chinese firms, Chinese SOEs have had to adjust their operations in Africa, including the improvement of working conditions and respect for environmental standards of the countries in which they operate.

Furthermore, current literature does not provide a valuable insight into the operations of private Chinese firms and whether they operate under the banner of SSC principles; however, media scrutiny that has been directed at Chinese SOEs (mining SOEs in particular) over the last decade has put significant pressure on the companies to adjust their CSR practices, which are often blurred with SSC principles. The culmination of bashing of 'the Chinese' happened in 2011 when Human Rights Watch published a report about labour abuses and environmental degradation caused by Chinese SOEs operating in the Zambian Copperbelt, which was in stark contrast to the SSC principles that they often claim in order to enter a new market. The report states that in April 2005, 46 Zambian workers were killed in an explosion at a China Non-Ferrous Metal and Mining Corporation (CNMC) owned factory that manufactures mining explosives, rendering it one of the deadliest events in Zambia's copper mining history (HRW, 2011).

In a similar event in 2006, following workers protests against low wages (wages were below the Zambian minimum wage of 268,000 Kwacha (US$56)) and poor working conditions (safety equipment which was not up to standard, lack of protective helmets and gloves, and the like), and a subsequent attack at a Chinese manager; the riots moved to the Chinese managers headquarters where five workers were reportedly wounded by gun shots fired at them by a Chinese manager (HRW, 2011). These incidents combined with numerous other instances of labour abuse and environmental degradation (Gabon–Belinga Iron ore; Zambia–Chambishi Copper Smelter) have caused Chinese mining companies to increasingly implement better CSR practices. In addition, according to a study conducted with 58 representatives from Chinese SOEs and private businesses in Kenya, Mozambique and Uganda, some of the companies responded that they have worked to improve community relations and skill transfer in their own ways (Weng, 2016). While these improvements in CSR practices are increasingly more visible, aspects of SSC need further improvement. SSC initiatives have mostly been ad-hoc in their nature, warranting further improvement in skills and technology transfer as the core principles of SSC. Furthermore, it is in the companies' interest as well to develop skills for local people in the areas in which they operate, because skills and technology transfer means higher competitiveness, as well as a good image that may assist in securing new projects. Through the construction of towns, schools, health clinics and assisting women in entrepreneurship activities the companies perform corporate social responsibility, but through the training of staff and through the provision of funding for African students to go to China and learn new skills, the skill and technology transfer is increasing, and with that China's image as a reliable SSC partner.

The Hisense case above, despite its successes, further encapsulates some good examples of the kinds of labour disputes which arise. Hisense Workers claimed, for example, that the company has lent unduly on the incentives offered by the South African learnership programme. The programme aims to provide free training and better job opportunities for unemployed South African youth, while at the same time employers can look forward to having skilled, experienced workers in their employ who will need less supervision. This programme was expected to improve access to employment opportunities. The workers at Hisense argued that the company misuses the programme, though, alleging that learners do not get proper training for skills development since what they do is the same as what other workers do in the production line. The workers claimed that the company has no need to hire new workers because it uses learners and therefore pay less than the national minimum wage. At this point, it is also worth noting that under this scheme, learners are paid R1 500 per month by the South African government and R500 by the company. The major source of funding for this programme is therefore payroll tax. Another problem raised by the workers concerned the workload. Some workers complained that as the company's production increased, so did each worker's workload.

The workers also expressed discontent about performance pressure, saying that 'the company only cares about quantity, not quality'. Another complaint aired by several workers related to working conditions. Many of them pointed out that the company does not provide workers with safety equipment such as goggles; there were no proper facilities for lunchtimes; and they were expected to work under unsanitary conditions. Local workers' relationship with Chinese workers, mainly engineers, was also problematic, apparently mostly due to the language barrier, since most Chinese engineers cannot speak English. The lack of communication between the Chinese engineers and local workers negatively affects the locals' perception of their Chinese co-workers, who are described as 'arrogant'. The grievances expressed during the interviews were similar to those expressed in various reports on Chinese businesses in other African countries. The company is profitable because it pays low wages, uses subsidised learners instead of hiring new employees, and increases the volume of production without proper compensation. Persistent issues are those of working conditions, workload and compensation. This throws into question whether Chinese companies such as Hisense can create worthwhile jobs in host countries when they enter the African market.

For the Chinese government 'how to ensure best practices overseas' has become a pressing issue. It is difficult for the Chinese government to construct a desirable image of China due to the myriad of private investors-small scale private Chinese firms-who are involved in the process of industrialisation in Africa. For instance, Exim Bank's Code of Conduct requires investors to comply with local law enforcement. As a result, banks adopt performance standards, e.g. the Environmental Report on Chinese Banks. Despite these efforts, it is relatively easy to impose those regulations on SOEs, it is questionable whether they can be imposed on private actors which have rapidly grown in the continent. In Africa, more and more Chinese investors tend to focus on establishing operations in the textile or light machinery sectors, which are labour-intensive. While they create jobs, these are in the low-pay segments; consequently, labour-related issues will remain a problem. The sustainability of investments is a key factor to consider if the Chinese government wishes to expand its soft power on the continent. In this regard, it should be noted that African host countries should play an active role in inducing Chinese actors to meet these countries' needs. In the case of Hisense, the company entered the South African market nearly two decades ago, but it has still not complied with local regulations. The South African government actively attracts foreign investors with the potential to contribute to the economy and therefore should play an equally active role in enforcing accountability for such investments and providing oversight thereof. Local government as well as the voices of the local communities should be included in the process.

While there are speculations and criticism directed at China for applying this type of co-operation model to its relations with Africa, bundling aid, trade and investments, critics often forget the technology transfer that accompanies these investments. Lack of technology transfer is an aspect that Chinese companies have been much criticised for; however, this is in the process of transition. Rising labour costs domestically and a higher valued currency in China, are now beginning to oblige the country to outsource much of its lower-end production to abroad, of which Africa is a signalled destination. According to Friedman (2009) this pattern which could extend Asian dynamism to Africa, would see African countries move up a value-added ladder, which implies that disadvantaged Africans would be lifted out of poverty through Chinese investments. If this happens, according to Friedman (2009), China would become a catalyst for African development.

Thus, Chinese companies have a certain level of influence in the way Africa's development progresses. Furthermore, when speaking of Chinese companies one often puts an equation sign between them and the Chinese state, as the majority of the companies that one sees on ground in Africa are SOEs. Due to this, critics of the China-Africa relationship often assume that Chinese companies are obligated to follow the official policy line that the state prescribes, which would include strict adherence to China's foreign policy and the principles therein (SSC principles).

Environment

Another field in which China's presence has had an effect is in the environment. In areas which are environmentally sensitive (such as oil and gas, mining, hydropower, and timber) and in infrastructure projects, this has been a particular issue. Another high-profile, image jeopardizing element has been the increase in the poaching of mega fauna such as Rhino and Elephants, which is mainly for the East Asian market (while China receives the lion's share of the blame, other countries, such as Vietnam and Thailand, are also implicated). These concerns have been taken seriously by the Chinese government, with both these issues on the agenda of the Johannesburg Action Plan of the 2015 FOCAC meeting. However, the real challenge lies with enforcement of these pledges, willingness and co-operation with local governments and NGOs, and the implication of environmental education with China itself.

The environmental impacts of Chinese engagement in Africa have been frequently (and often negatively) reported in the media and by scholars. For instance, in Zambia, 2013, Africa's largest copper producer banned a Chinese mining company from running a million dollar project because it allegedly failed to comply with certain environmental conditions. According to the Zambia Environmental Management Agency, the Chinese company failed to take a complete inventory of households, fields, land and structures that would be affected by the projects, as well as a 'conflict resolution system' for people being displaced. In 2007, a Gabonese NGO reported that Kongou Falls, a 56m, 3.2 km cataract on the Ivindo River in the Congo rainforest, would be flooded by the Chinese-built Kongou Dam, proposed to power the Belinga iron ore project in Gabon (Stella, 2007). Environmental groups called for the contract between China Machinery Engineering Corporation (CMEC) and the government be made accessible for public input, and that the government provide adequate accountability over issues related to transparency, anti-corruption, and environmental social protections. After negotiations and environmental impact assessments

(EIAs) had been done in 2011, the project was put on hold and CMEC eventually lost rights to the project (International Rivers, n.d.: 1; Hance, 2009). In 2014, oil production was stopped by the Chad government as environmental standards were not being adhered to by China National Petroleum Corporation (CNPC). The government suspended all of CNPC's activities in the country for violating environmental standards while drilling for oil in the south, and ordered an audit of all crude oil explorations in the country. Chad has fined the local unit of CNPC US$ 1.2 billion for environmental violations. It allowed CNPC to resume operations in October after the company improved its environmental practices. The government urged the company then to strictly respect environmental rules, in particular those concerning the management of waste.

An area of concern for some African counties has been the illegal timber trade. In 1998, a logging ban was imposed by the Chinese government due to the huge growth in the timber sector and its severe harm to the environment. China is currently the biggest importer, consumer and exporter of timber and wood products in the world. Rapid economic growth, a booming middle class and urbanisation in the last three decades has led to the huge growth in the Chinese timber industry. Large scale logging activity has led to the degradation of forests and biodiversity, and contributed to erosion and landslides. The ban, enacted to grow and protect China's own forests, led to Chinese enterprises looking elsewhere for wood products. Central African countries such as Gabon and Cameroon, as well as Mozambique, have become major African exporters of wood products to China. In recent years, however, there have been a number of reports of illegal logging activities involving Chinese enterprises as well as local government officials.

The timber industry represents a major portion of the economies of the Congo Basin, especially those of Gabon and Cameroon. In Gabon, timber and wood industries are the second-largest source of export earnings after petroleum. Consequently, African forests are necessary for aspects such as poverty alleviation, employment and livelihood. Given the importance of forests, it is not surprising that most African countries have environmental and economic regulation for their forests. Implementation, however, is a weak point. Mozambique has a log export ban in place for most of the commercial timbers to promote the development of domestic wood processing. However, weak government structures and capacity lead to a lack of law enforcement and implementation of policy. Also, Chinese companies have been involved in illegal timber trade through the 'simple licenses' process and partnerships created with local communities. Infringements are not one-sided however: the illegal trade includes Mozambican officials. Since 2007, there have been numerous reports of illegal timber being apprehended and officials involved in the illegal trade have been removed.

Africa's trade with China is almost exclusively in logs. In 2010, the Government of Gabon issued a ban on unprocessed timber exports to encourage local value-adding. Inconsistencies between legislation and customary practices, however, have led to obstacles in implementation. High government officials have been beneficiaries of concession allocations without paying due taxes and subcontracting concessions (reserved to Gabonese nationals) to foreigners, including Chinese, has been another controversial issue (CIFOR, 2011). The timber trade and forest management has thus become a topic in the relationship with China, including in the framework of FOCAC.

Worldwide, illegally harvested rosewood from West Africa is highly sought after for its pink or red-coloured wood, and therefore commands extremely high prices on the international market. According to a 2016 report on environmental crimes by the United Nations Environment Programme (UNEP) and INTERPOL, Asia represents the main destination for illegally harvested rosewood driven by the high demand for rosewood furniture (known in China as the "Hongmu" industry), as well as for flooring and ornaments. 'There are currently estimated to be 3,000 Hongmu factories across 25 areas in China. For example, in just one town, Pingxiang, there are 2000 Hongmu businesses alone' (UNEP-INTERPOL, 2016: 55). As a result, the extremely high levels of demand for this timber species have led to the unsustainable depletion of rosewood trees, and a thriving illicit market for the trade of their timber.

An operation to address the illicit trade of timber and forest products sourced in West Africa, called Operation Log, was coordinated by INTERPOL. This operation included the West African Rosewood. Nine countries participated in this operation; Benin, Burkina Faso, Cote d'Ivoire, Gambia, Ghana, Mali, Mauritania, Senegal and Togo-between July and September 2015 (INTERPOL, 2015). Preliminary results from the operation saw the seizure of illegally harvested rosewood, with a value of US$ 216 million and the arrest of 44 individuals (INTERPOL, 2015). According to INTERPOL, investigations are ongoing in the countries and information is being exchanged to dismantle the criminal networks involved in this trade. The results of the operation raised political awareness about the quantity of illegal trade of rosewood sourced from the region, resulting in Senegal requesting the inclusion of rosewood in the Convention on International Trade in Endangered Species (CITES) Appendix II. This proposal has been co-sponsored by seven countries namely Benin, Burkina Faso, Guinea, Guinea Bissau, Mali, Nigeria, Togo and Chad (UNEP-INTERPOL, 2016).

Import regulations for timber into China, however, do not consider export bans by other countries. China has implemented a free import tariff policy for certain products traded with Africa, including timber. The Chinese government's policy of no tax on imported raw logs promotes the import of raw materials rather than finished wood products. This secures China's logging industry, yet diminishes Africa's potential for value-added exports. There are major imbalances between China and a number of African countries regarding timber trade. In addition, there are implementation challenges for the timber regime between China and Africa, mainly stemming from corruption and weak governance in African states, i.e. from a lack of capacity to enforce legislation. Close co-operation should be sought with customs officials to ensure enforcement of existing regulations, that timber exports to China are legal and timber is harvested sustainably.

For both Chinese and African authorities, regulation on timber imports in China should be clearly observed and understood.

China is one of the top consumers of rhino horn, among countries like Thailand and Vietnam; while also being one of the top consumers of ivory products among countries like Thailand and Malaysia. Rhino horns can fetch up to US$ 100,000 per kilogram. The horns are prized as a status symbol in Asia, where they are falsely believed to cure cancers and hangovers, even though they are composed of the same material as fingernails. China is considered the biggest ivory market globally, fuelled by a huge demand for carvings and other items made from ivory that most Chinese people have for long believed gives them a status symbol or protective charm

The illegal wildlife trade of rhino horn has increased dramatically over the last few years, with record numbers of rhinos poached, bringing some rhino species towards the verge of extinction in some African and Asian regions. There are currently five species of rhino in the world: two African species (black and white rhino); and three Asian species (greater one-horned, Javan, and Sumatran rhino) found in South and Southeast Asia. There are over 3000 greater one-horned rhinos left in in the Terai Arc Landscape of India and Nepal, and the grasslands of Assam and north Bengal in northeast India (WWF, 2016a). The Javan rhino species are the most threatened, with only 60 surviving in Ujung Kulon National Park in Java, Indonesia (WWF, 2016b). The last Vietnamese Javan was poached in 2010. The Sumatran rhino is competing with the Javan as most threatened rhino species as the last count was between 200-275 rhino left in Borneo (WWF, 2016c). Historically, an estimated 65, 000 black rhinos were to be found across Africa in the 1960s but poaching wiped out nearly the entire population. At the lowest point in the early 1990s there were just over 2,000 black rhinos left; while the white rhino was near extinction a century ago. Currently, there are approximately 4, 800 black rhinos and 20, 000 white rhinos surviving (WWF South Africa, n.d.). As the majority of the world's black and white rhino species are found in South Africa, the country has been a key target for rhino poachers. South Africa, which is home to around 80 per cent of the world's last remaining rhinos, and countries like Zimbabwe and Kenya, have borne the brunt of the killing. The Department of Environmental Affairs (DEA, 2016) reported a record number of 1215 rhinos poached in 2014 and 1175 in 2015, 40 fewer than in 2014. As of 08 May 2016, 363 rhinos had been killed in South Africa, which if the rate continues out 2016 will lead to 1037 rhinos killed (UNEP-INTERPOL, 2016).

China is also considered one of the top consumers of ivory products. Reports claim that Africa's elephants have reached a tipping point where more elephants are being killed each year than are being born. TRAFFIC, an international wildlife trade monitoring network, reported that at least 20,000 African elephants were killed in 2013, averaging over 50 elephant deaths every single day, a historical record (in Burgess, 204). According to C4ADS (an international organisation reporting on global conflict and security issues), Tanzania is the epicentre of the current poaching crisis, with almost 25,000 elephants or nearly 66 per cent of the country's Selous park's population lost between 2009-2013 (in Burgess, 2014). While Kenya's largest port, Mombasa, is the continent's single most active ivory trafficking hub, servicing much of Central and East African poaching, Tanzania's ports do not lag far behind as large-scale ivory seizures in Asia have frequently traced back to Tanzania. Here, one of the driving forces for the increase in this trade has been corruption. In both Tanzania and Kenya, government officials, operators of legal hunting concessions as well as security officials have been implicated in the trade. Much of the demand for ivory has been driven by a rapidly growing market in Asia. These goods are seen a status symbols due to their scarcity.

China has had a similar experience with the need to protect endangered wildlife in the past. A well-known native mammal, the Panda, was threatened by development and encroachment on their natural habitats. This led to significant strategies and action by the Chinese government in order to save the panda. The Chinese government's experience and the South African government's willingness have become conducive to putting these issues on the agenda.

Chinese responses

In 2015 China enacted a one year ban on the trading ivory. There is or was a legal system for ivory trading in China, where businesses would have to have a permit to sell or buy ivory. There was supposed to be a limit or expiration on these permits for the amount of ivory to be traded, however, this system was faulty as people would just change the dates on the permit, thus it not being expired. The Chinese government has signed onto many international agreements and conventions including the CITES convention that bans the trading of illegal wildlife. China has further increased its law enforcement–working together with organisations such as Worldwide Fund for Nature (WWF), TRAFFIC, the wildlife trade monitoring network, and countries such as South Africa, by signing an MoU on endangered species and wildlife trade; additionally, Kenya has been involved in a number of operations to combat smuggling and illegal wildlife trade.

South Africa and China signed the Memorandum of Understanding (MoU) on Co-operation in the field of Environmental Management in 2010, with the main objective of promoting co-operative efforts of environmental protection between the two countries (Department of Environmental Affairs, 2010 in Esterhuyse and Burgess, 2015). Further meetings took place between the environmental ministers of both countries in 2011 regarding the implementation of the MoU. This MoU, however, was not enough to curb the growing poaching crisis for rhino horn as the numbers of rhino continued to be poached at record levels. Consequently, in 2013, South Africa's Minister Edna Molewa and China's Minister of Environmental Affairs, Wang Yi, signed another MoU, aimed at curbing the scourge of rhino poaching through co-operation in law enforcement, compliance with international conventions and other relevant legislation (Esterhuyse and Burgess, 2015).

In 2014, it was reported that tons of illegal wildlife products were confiscated and more than

400 suspects were arrested in an operation against international wildlife crime. In the same year, a Chinese suspected ivory smuggler was arrested in Kenya and extradited–it was the first-time China helped arrest a wildlife crime suspect overseas. Chinese premier Li Keqiang visited Kenya and highlighted the ivory issue, showing it was on the radar of China's most paramount leaders. Chinese celebrities have worked on campaigns on the illegal wildlife trade, trying to create awareness and educated the Chinese public on the use of rhino horn or ivory products. Often many people from the Asian consumer countries do not know where these products come from so celebrities try to show the damage being done to African wildlife.

Within the FOCAC context, over the years, FOCAC action plans have increasingly enhanced its environmental protection plans. In the past, FOCAC action plans regarding biodiversity have included: the maintenance of biodiversity; the development of environmental protection industry and the commitment of China helping African countries to better protect ecosystems and biodiversity. Specific actions have been limited, though. More specific issues have increasingly been raised during FOCAC such as energy and natural resources, the ocean economy, environmental protection and tackling climate change. The 2015 FOCAC meeting held in Johannesburg was the first-time trade in wildlife was been dealt with specifically. In previous engagements, environmental concerns were not integrated into the mainstream of China's political and economic relations with Africa, and were treated as peripheral issues within FOCAC. The Beijing Action Plan (2007-2009), which was launched at the FOCAC III summit, committed to the following:

(1) The African side expressed appreciation of the fund provided by the Chinese Government for the establishment of the UNEP China Africa Environment Centre.
(2) The two sides resolved to promote dialogue and exchanges in environmental protection and cooperation in human resources development. In the next three years, China will increase year after year the number of environmental protection administrators and experts from Africa to receive training in China. The two sides will work with the UNEP for multilateral cooperation in environmental protection.
(3) The two sides agreed to step up cooperation in capacity building, prevention and control of water pollution and desertification, maintenance of biodiversity and the development of environmental protection industry and demonstration projects.

The FOCAC Johannesburg Action Plan (2016-2018) for environmental protection was much more elaborate, with ten points under the section "Environmental Protection and Tackling Climate Change" including:

(1) The two sides will work together to promote the development of the "China-Africa Joint

Research Centre" project and cooperate in biodiversity protection, prevention and treatment of desertification, sustainable forest management and modern agriculture demonstration

(2) The two sides will strengthen cooperation in the area of wildlife protection, help African countries to improve the protection capabilities, build the capacity of environmental rangers, provide African countries with training opportunities on environmental and ecological conservation, explore the possibility of cooperating on wildlife protection demonstration projects and jointly fight against the illegal trade of fauna and flora products, especially addressing endangered species poaching on the African continent, in particular elephants and rhinos.

(3) The African side welcomes the announcement by the Chinese side that it will make available 20 billion Yuan for setting up the China South-South Cooperation Fund to support other developing countries to combat climate change, to enhance their capacity to access Green Climate Fund funds.

(4) The two sides agree to work together to improve management of water resources, and rehabilitate disused mines

This illustrates that environmental relations within the China-Africa framework are increasing as topic of importance for the relevant government officials. China and African leaders can no longer not consider the importance of sustainable development and environmental protection whilst working towards greater economic and political cooperation and development.

7. CONCLUSION

China's engagements in Africa are substantial with a number of large-scale schemes, which suggest sustained future engagement. In the above, we can see that China's engagement has been successful in many regards, such as offering various forms of development assistance, not least of which is the improvement of infrastructure. Crucially, for the future, it remains to be seen to what degree China can alter the industrialization landscape of Africa, as therein lies the key to greater African economic prosperity. From the perspective of SSC, increased technology transfers and capacity building can play a role in this. At the 2015 FOCAC event, the Chinese government pledged a US$ 10 billion 'China-Africa Production Capacity Cooperation Fund' to support industry partnering, including manufacturing, hi-tech industries, agriculture, energy, infrastructure and finance, and the development of industrial parks. It will also support the 'education' of 200,000 African specialists through setting up professional schools in Africa and training 40,000 Africans in China. Certainly, in terms of striving toward SSC, China's record in this regard is impressive and has much potential for future development.

At the same time, it is inevitable that development assistance on such a scale was also to bring a certain level of negative consequences. An exclusive blame on Chinese actors in this regard is unfair; western corporate actors today grapple with a host of similar issues, including environmental degradation, CSR, beneficiation and so forth. Furthermore, western actors have a heavy reliance on raw materials in their economic engagements with Africa–a case which has frequently been attributed as if it were solely China's burden. Because both China and Africa are in, technically speaking, developing world countries, there is still a large scope for improvement. At the level of policy, reflected in the FOCAC outcomes, it is evident that China is increasingly prioritizing issues such as environmental sustainability and CSR; these are challenges which China faces both domestically and abroad. In many respects, enforcement of issues is up to African governments, rather than the Chinese state, to enforce. In this regard, the terrain is very different, with some countries exercising relatively stringent conditions (such as Rwanda and Botswana) with others less so (such as the DRC and Mozambique). This is one aspect of the China-Africa relationship which is less understood is the issue of African state agency, which is very much under-represented in discussions on the engagement. In this sense, African states need to not only partner with China but also contribute toward channelling its development potential into sustainable enterprises. Weak state capacity in certain African states plays a role in hindering this outcome.

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Chapter 10

Brazil's Development Cooperation: Actors, Interests and Future Challenges*

1. Introduction

Studies on North-South and South-South development cooperation have demonstrated that there are distinct types of historical experiences, with multiple domestic actors being involved and thematic agendas being reinforced, based on different motivations. Moreover, there were various institutional designs conceived by governments in order to implement their strategies (BRAUTIGAM, 2011; CHATUVERDI et al. 2012; CHISHOLM et al., 2009; COMELIAU, 1991; DEGNBOL-M. & ENGBERG-P., 2003; LANCASTER, 2007; LIMA, MILANI & ECHART, 2016; PETITEVILLE, 2001; VEEN, 2011). Even within OECD countries, where institutionalization has gone further in terms of the definition of common criteria and peer-review monitoring, there are a variety of governmental practices amongst DAC member-states. This diversity of national trajectories as well as the lack of an institutionalized international development cooperation regime present obstacles, but also create opportunities in terms of political creativity and flexible management procedures for SSC. In the absence of a proper regime, countries can innovate in the

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field of rules, procedures, and practices; nevertheless, the lack of consensus or a lowest common denominator may render statistical comparisons and collective building of norms very difficult in the international realm. This is the reality of North-South aid and South-South cooperation nowadays, as the impasse around the Paris-Accra-Buzan process has so far demonstrated. In the case of Brazil, engagement in international development cooperation (IDC) as a donor is not new; its first experiences dates back to the 1970's. However, Brazil's government funding and interest in IDC has grown since the 1988 Constitution. Particularly since 2003, there has been a stronger political emphasis on South-South cooperation, from both government and civil society organisations. What is the current state of affairs as far as Brazil's IDC is concerned? Who are the agencies involved in providing education development cooperation (IDC/ED)? Through which channels is IDC delivered, bilateral or multilateral? What are the norms and criteria driving Brazil's decisions on IDC/ED? These are some of the issues that we tackle in this paper, with a particular focus on Brazil's actions in the five Portuguese-Speaking African countries (PALOP's).

2. Overview of Brazilian International Development Cooperation

According to the official data published by IPEA & ABC (2010, 2013), Brazil's IDC increased from 158 million USD in 2005 to approximately 923 million USD in 2010. In this same span of time, technical cooperation expenditure was multiplied by five times: from 11.4 million USD in 2005 to 57.7 million USD. Humanitarian cooperation has also gained ground: from 488 thousand USD in 2005 to 161 million USD in 2010[1]. Table 10.1 compares official public expenditures with Brazilian IDC according to modalities for both 2009 and 2010. In 2010, 68.1% of all Brazilian IDC went to Latin America, 22.6% to Africa, 4.4% to Asia and the Middle East, 4% to Europe and 1.1% to North America. In the case of Latin America, the top-five partner countries constitute 80.4% of all Brazilian IDC to the region, which includes Haiti (47.4%), Chile (16.3%), Argentina (8.6%), Peru (4.5%) and Paraguay (3.6%). In the case of Africa, PALOP countries account for 76.5% of all Brazilian IDC to the region: Cape Verde is number one with 24.4%, followed by Guinea Bissau with 21.2%, Mozambique with 13.3%, Sao Tome and Principe with 10.4% and Angola with 7.2% (IPEA & ABC, 2013, p. 19-24).

1 All amounts in this report are expressed in US dollars (current value).

Table 10.1 Brazilian IDC in 2009 and 2010

IDC Modalities	2009		2010		Variation between 2009 and 2010 (%)
	Total USD	% of total	Total USD	% of total	
Technical cooperation	55,536,795	11.5	57,770,554	6.3	4
Educational cooperation	25,269,265	5.2	35,544,099	3.8	40.7
Scientific and technological cooperation	N. A.	N. A.	24,099,084	2.6	N. A.
Humanitarian cooperation	49,455,870	10.2	162,060,218	17.6	227.7
Peacekeeping operations	71,255,114	14.8	332,422,426	36	366.5
Contributions to international organisations	281,340,414	58.3	311,569,290	33.7	10.7
Grand total	482,857,458	100	923,375,671	100	91.2

Source: IPEA & ABC (2013, p. 18)

Another source for understanding the growing interest of Brazil in IDC, is the data published by the Brazilian Cooperation Agency (ABC). ABC's online database[1] reveals that amongst 1,464 concluded projects between 1999 and 2012 in other developing countries, 577 projects had been developed in South America, 552 projects were in Africa, 164 in the Caribbean, 90 in Central America, 65 in Asia, 15 in North America (Mexico) and 1 in Oceania (Papua New Guinea). Amongst these 1,464 concluded projects, 573 were in social policies (health, culture, sports, social development, environment, education), and 539 in governance (public management and planning, urban development, justice, legislative capacity-building, defence and security).

In the most recent report covering data between 2011 and 2013 by IPEA & ABC (2016), the Brazilian government states that during these years its IDC had been present in 159 countries, with a total expenditure of almost US $ 1.5 billion, 56% of which involved international organizations. Official data shows that in nine years, between 2005 and 2013, Brazil's federal government spent approximately US $ 4.1 billion (Table 10.2). In 2011, 2012 and 2013, Brazil's technical cooperation was mainly focused on African (46.4% of all expenditures in technical cooperation) and Latin American countries (45.5%). In Africa and other regions, during this period, Brazil cooperated more frequently with Mozambique, Sao Tome and Principe, East Timor, Guinea Bissau, El Salvador and Peru. Between 2011 and 2013 figures have dramatically increased for

1 Available at << http://www.abc.gov.br/projetos/pesquisa >>. According to PUENTE (2010), the percentage of ABC's budget within MRE, increased from 0.05% (2001), 0.48% (2002), 0.43% (2003), 0.62% (2004) to 2.4% (2005). One must remember that ABC is responsible for around one-fifth of technical cooperation implemented under Brazil's IDC, according to the data published by IPEA's COBRADI research programme. ABC's quantitative data only refers to technical cooperation under its own coordination.

countries such as Benin, Burkina Faso, Chad and Mali, within the framework of a large capacity-building programme, in the field of cotton and agriculture development. In this same period ABC (Brazilian Cooperation Agency) was the main national executing agency of technical cooperation projects (71.6% of the total budget), followed by the Brazilian Agricultural Research Corporation-EMBRAPA (5.5%), and the Ministry of Health's international cooperation branch (4.5%) (IPEA & ABC 2016, p. 26).

Table 10.2 Brazilian IDC in 2011, 2012 and 2013

IDC Modalities	2011	2012	2013	2011-2012-2013	
	Total US$	Total US$	Total US$	Total US$	%
Technical cooperation	45,617,071	33,970,749	31,846,055	111,433,875	7
Educational cooperation	20,689,408	22,251,006	23,809,864	66,750,278	5
Scientific and technological cooperation	73,106,869	72,085,370	53,174,326	198,366,565	13
Humanitarian cooperation	72,418,476	109,828,325	21,667,913	203,914,714	13
Refugee protection and support	4,710,229	4,122,857	1,819,718	10,652,804	1
Peacekeeping operations	40,167,190	20,654,923	10,330,872	71,152,985	5
Contributions to international organisations	331,642,424	250,857,370	254,157,155	836,656,949	56
Grand total	588,351,667	513,770,600	396,805,904	1,498,928,179	100

Source: IPEA & ABC (2016, p. 15-16)

These figures show that Brazil has accelerated its engagement in South-South cooperation activities, even if the size and scale of Brazilian IDC is not large by OECD's Development Assistance Committee standards. As IPEA & ABC (2016) reaffirms, Brazilian government does not consider itself a "rising donor". Its IDC strategies give priority to the exchange of experiences (policy practices), and emphasise the use of government officials, civil servants and public institutions as the primary instrument for the country's contribution to international development. Brazilian IDC activities do not involve a direct financial transfer to partner countries. It is important to recall that Brazilian IDC is statistically conceived as public expenditure, under the Annual Budget Law's current spending[1]. Therefore, it does not include either subsidised investment loans or external debt write-offs. Grants are only exceptionally taken into consideration. There are two main types of public expenditures made by federal administration in international development cooperation: (1) payment to civil servants and eventual collaborators of the

1 Brazilian IDC is known as COBRADI and its main source of data is IPEA, an important governmental think tank under the Secretariat of Strategic Affairs.

federal public administration (airline tickets, *per diem*, salaries; technical working hours, scholarships, grants); (2) financial commitments with multilateral organizations (IPEA & ABC, 2013, p. 14). Figures presented in Tables 1 and 2 reflect IPEA's effort to quantify all these expenses in terms of international development cooperation; however, all this effort also means that Brazil has definitely entered the world of IDC but in its own distinct way, and with its own twist.

The Brazilian IDC's accounting system, COBRADI, reveals a series of pros and cons. On the one hand, it is statistically defined as funds that are 100% concessional. This can be interpreted as the Brazilian government demonstrating a political will to go further beyond the OECD Development Assistance Committee's (DAC) own definition of ODA, which requires a minimum of 25% of concessional funds. One could also see through this statistical definition, a political effort to revise a symbolic and conceptual dimension of what has been set up by DAC. Just like in global governance debates, where the Brazilian government has defended a thorough institutional reform of political and economic organisations such as the International Monetary Fund or the UN Security Council, Brazilian diplomacy could also be playing the revisionist role in aid/cooperation norms and institutions. Indeed, as we will discuss later in this report, Brazil has joined India, South Africa and China in challenging OECD's institutional role in the aid system (MAWDSLEY, 2012). Together these countries, despite their diversity, lay stress on the need for building another political sense of international development cooperation. For instance, they have proposed a different view on "aid effectiveness" declarations or the post-2015 development agenda. Based on critical reviews on international cooperation (EASTERLEY & PFUTZE, 2008; ESCOBAR, 1995; HAYTER, 1971; NAYLOR, 2011; PANKAJ, 2005; RIST, 1996), we value this emerging trend as extremely positive, since it tends to break a political and cultural monopoly produced within a selected club of countries which pretends to be universal, but lacks legitimacy and full participation of developing nations.

On the other hand, IPEA's statistics on COBRADI do not take into account public funds that are not 100% concessional in nature. Loans given by the Brazilian National Development Bank (BNDES), foreign debt write-offs, or activities implemented by sub-national entities within the Brazilian federation, are not taken into consideration. As a result, the figures might underestimate the real Brazilian contribution in the field of IDC. However, we still fall short of empirical data and more in-depth analysis to assess such discrepancies. One must acknowledge that the effort made so far by the Brazilian government in order to promote transparency is an important step. Nonetheless, IPEA & ABC reports need to be published more timely (the last report refers to 2010 data), and the quality of statistical databases must improve to increase accountability of this policy within the Brazilian society.

Table 10.3 International Cooperation in PALOPs (USD million, current prices, base year 2010)

Selected countries	All sectors / to all developing countries	All sectors / ODA to Angola	All sectors / ODA to Cape Verde	All sectors / ODA to Guinea-Bissau	All sectors / ODA to Mozambique	All sectors / ODA to Sao Tome P.
France	9,148,323,588	6,233,268	4,057,970	1,837,232	20,757,697	2,379,727
Portugal	431,828,020	15,112,615	146,560,618	15,716,624	116,002,957	25,719,823
South Korea	900,610,000	18,830,000	—	12,000	95,000	—
Spain	4.389,805,311	13,378,128	21,234,126	8,290,563	60,926,999	1,273,429
United Kingdom	8,016,800,000	16,680,000	900,000	70,000	104,420,00	—
USA	26,586,410,00	54,820,000	37,120,000	6,520,000	277,910,000	20,000
Brazil*	597,010,617	2,643,276	8,953,437	7,804,779	4,901,040	3,812,296

* Brazil: the total figure for Brazil's IDC in 2010 is USD 923,375,671, which includes bilateral and multilateral funds. We have withdrawn amounts spent with developed countries, and contributions to multilateral organisations. We only included data for 2010, since this is the last year of available data in Brazil. Sources: OECD/DAC online database on ODA statistics (www.oecd.org/dac); IPEA & ABC (2013, p. 18-24).

As a result, comparisons between what the Brazilian government has been doing and what OECD's DAC donors have done tend to be very difficult, since the basic statistical definitions are not the same. In spite of this, and taking into account all the statistical singularities of Brazil's IDC system, Table 10.3 is an attempt to contrast selected donors with Brazil in terms of 2010 IDC expenditure in developing countries in general, and in PALOP countries in particular[1]. What does Table 3 reveal? In general, it is striking to note that in 2010, Brazil spent more than France in three of the five PALOP countries (Cape Verde, Guinea-Bissau and Sao Tome and Principe); Brazil's total IDC contribution is somewhere between Portugal and South Korea-still extremely low when compared to countries with similar GDPs such as France or the United Kingdom; in Angola and Mozambique the financial impact of Brazilian IDC is very limited when compared to almost all selected countries. It is interesting to note that it is in Angola and Mozambique where Brazilian corporate investment (Vale do Rio Doce, Norberto Oderbrecht, and other engineering companies) is significant, with the support of the Brazilian National Development Bank. Also, Brazil is part of a triangular cooperation scheme (Japan-Brazil-Mozambique) for development of agriculture in the Mozambican savannah, whose socioeconomic and environmental impact should not be neglected (FUNADA, 2013; GARCIA, KATO & FONTES, 2013).

1 Countries have been chosen based on the following criteria: (i) France and the United Kingdom have been chosen because their GDP levels is close to Brazil's; (ii) for historical reasons Portugal is obviously a key country in all PALOP countries; (iii) the US is a major international donor, with decentralised USAID offices all over Africa, including Luanda and Maputo; (iv) Spain and South Korea have similar GDPs, and both have been very active in recent OECD's aid effectiveness debates; (v) South Korea is an emerging donor (like Brazil), and also a newcomer to DAC membership.

3. Policy sectors and priority regions

Technical cooperation accounted for 6.3% of total IDC budget in 2010, i.e. 57,770,554 million USD (IPEA & ABC, 2013, p. 18), whereas humanitarian assistance accounted for 17.5%, educational cooperation 3,8%, scientific and technological cooperation 2.6%, peace-keeping operations 36%, and contributions to multilateral organizations 33.7% of the total budget (Table 10.1). Concerning 2011-12-13, on average technical cooperation accounted for 7%, thus not changing much in comparison with 2010; educational cooperation increased to 5% of the total budget of the three-year period; humanitarian cooperation and peace-keeping operation decreased respectively to 13% and 55%, whereas scientific cooperation and contributions to international organisations expanded by 13% and 56% respectively (IPEA & ABC, 2016, p. 15-16).

The Brazilian Cooperation Agency (ABC) is the main executing agency of technical cooperation. Nonetheless, technical cooperation is not a priority in terms of public expenditure. It may be celebrated worldwide, thanks to its adaptability to local contexts in other developing countries, and also to the fact that it mobilises public policy expertise that is valued as international good practices. Agriculture, health, and education were the three main sectors of Brazil's IDC. According to IPEA & ABC (2010, 2013), African, Latin American and Caribbean countries are main receivers of disbursements in the field of technical cooperation, and this confirms the historical trends since 1995 (PUENTE, 2010). Ambassador Fernando Abreu, Director of ABC, presented a three-year budget framework for ABC in 2013, announcing *inter alia* 40 million USD for Latin America and the Caribbean, and 36 million USD for Africa, with a focus on PALOP countries (ABREU, 2013). This may be explained, on one side, by the fact that Latin American countries tend to have political institutions with greater capacities to implement technical cooperation projects; on the other side, Portuguese-speaking countries are a priority for Brazilian foreign policy (since the launching of the CPLP in 1996), and have been the main partner-countries of Brazilian technical cooperation (CABRAL; WEINSTOCK, 2010; PUENTE, 2010).

That is why geographically speaking, Brazilian technical cooperation is concentrated in two main regions: Latin America and Africa (Figure 10.1). ABC database informs us that between 1999 and 2012, there were 84 developing countries with which ABC had cooperated: 40 of them were African countries, 13 were from the Caribbean, 11 from South America, another 11 from Asia, 7 from Central America, 1 from North America (Mexico), and 1 from Oceania (Papua New Guinea). Between 2005 and 2010, Latin America was the region that received the largest number of ABC's technical cooperation projects, whereas Africa had the largest share of the agency's budget. This concentration in Latin America and Africa stems from the historical formation of Brazil's own

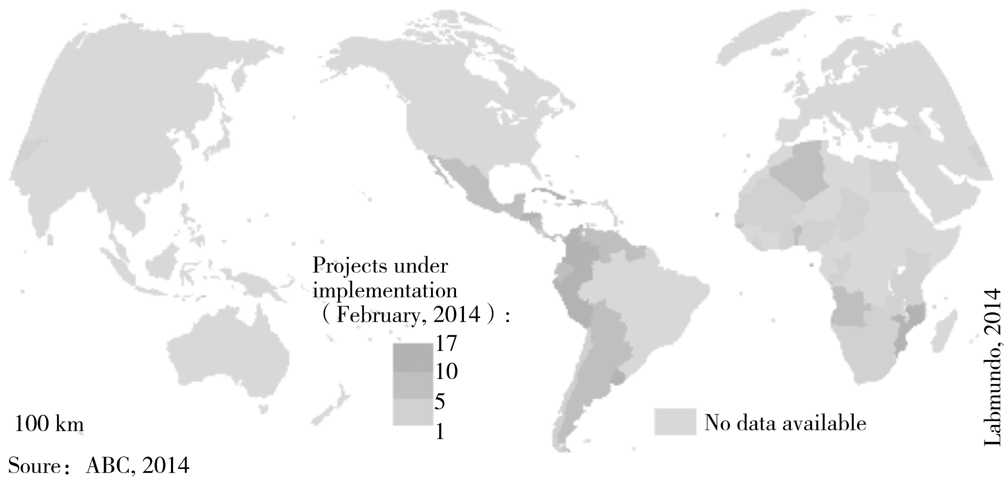

Figure 10.1 Brazilian Technical Cooperation

society, its culture, and more recently some identity changes in foreign policy. In the aftermath of re-democratisation, and particularly since 2003, the focus on South-South relations has gained ground in Brazilian foreign policy agendas.

This possibility of developing IDC projects with Latin American and African countries also results from an impressive distribution of Brazilian diplomatic representations worldwide, which guarantees direct bilateral dialogs with many developing countries in the field (Figure 10.2). Within the African continent, Brazil has 38 embassies, whereas France has 50 embassies, the USA has 55, Mexico has 8, Turkey has 35, China 41, and India 29, according to data available on the websites of their respective Ministries of Foreign Affairs.

Paradoxically, Brazilian IDC may also reveal public-private tensions, since countries where technical cooperation projects are more numerous may also be those where Brazilian transnational companies and business are present (Figure 10.3). Brazilian foreign direct investment in mining (Vale), infrastructure and civil engineering projects such as roads, airports, harbours, metros, energy powers, etc. (Oderbrecht, Andrade Gutierrez, Camargo Correa, among others), oil prospection (Petrobras), and agribusiness, among other economic sectors, have been key historical development actors in African and Latin American countries. New sectors like biofuels (ethanol and biodiesel) have emerged in more recent years, increasing these tensions and creating some contradictions for Brazil's SSC discourse and practice (ALBUQUERQUE, 2014). FDI is of course different from IDC, but *sur le terrain* existing borders between practices and agents involved by one and another are often blurred, just like in NSC practices. The strategies of Brazilian businesses in Africa and Latin America may raise political and ethical questions about how different Brazil's pro-corporate economic growth is, from other economic models promoted by Western

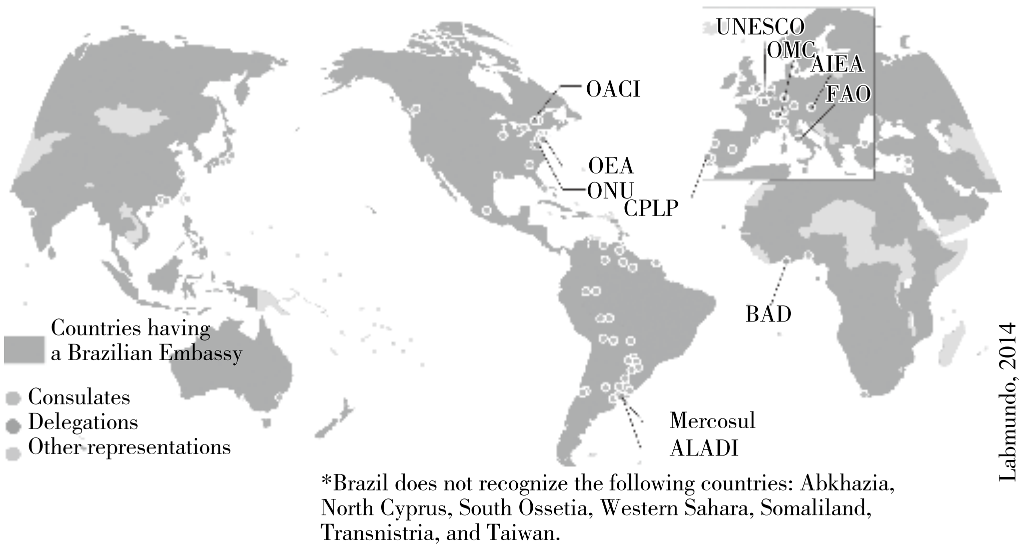

Figure 10.2 Diplomatic Representations

Fontes: Itamaraty, 2014.

countries and rising powers. If Brazilian SSC strategies are to be a development alternative, empirical research needs to reveal how distinctive they really are, from traditional economic practices.

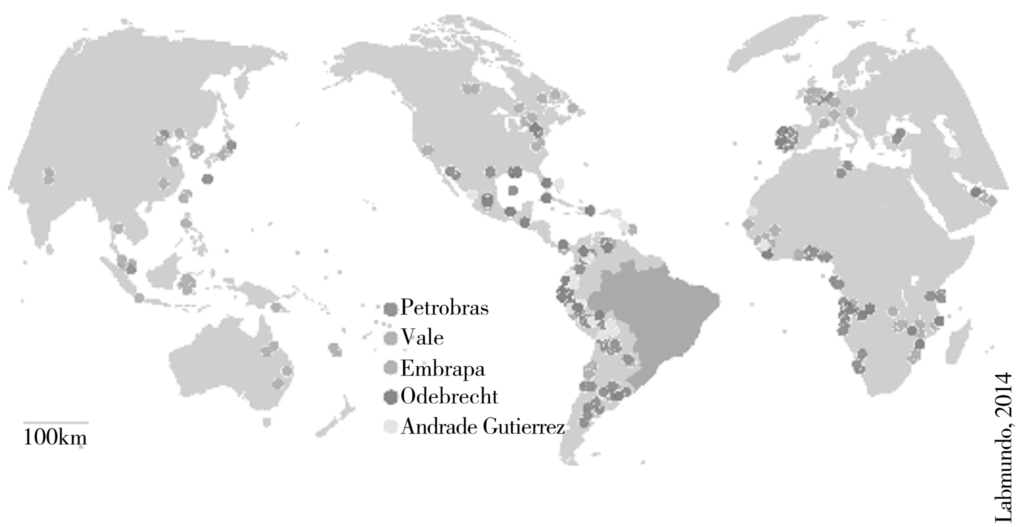

Figure 10.3 Global Presence of Brazilian Business

Source: Websites of companies, 2013.

4. Brazil's main development cooperation actors: the role of ABC

At the national level, the Brazilian Cooperation Agency (ABC) has the main responsibility for IDC coordination, but there are also special international cooperation units within "domestic" ministries (health, education, culture, rural development, among others); even within the Ministry of Foreign Relations, where ABC is located, there is a special unit dealing with food security cooperation programmes (CGFome)[1]. One could also recall IDC initiatives coming from the General Secretariat of the Presidency of the Republic, participatory national councils (for instance, the very active Council on Food Security, CONSEA, as well as the Permanent Committee for International Affairs, CPAI, linked to the National Council of Rural Sustainable Development, CONDRAF), federate-states, and municipalities (MILANI; RIBEIRO, 2011). Brazil's IDC also follows the country's foreign policy focus in South-South groupings and summit diplomacy, such as Portuguese-speaking countries (CPLP), IBSA (India, Brazil and South Africa)[2], BRICS (Brazil, Russia, India, China and South Africa), Arab-South American countries, and African-South American dialogues. In the absence of a coordinated effort for reporting and policy-making, we believe that the current institutional setting as well as spreading the political agenda too thin, may result in Brazil's IDC fragmentation, and also yield much less coherence amidst different national and sub-national IDC strategies. These issues may be the concrete shortcomings in the way of building a solid IDC public policy in Brazil.

Delivering technical cooperation, through civil servants from ministries and public agencies, is one of Brazil's IDC main characteristics. Indeed, particularly since the 1988 Constitution and through the re-democratization years, civil servants and technical consultants have developed expertise in education, health, agriculture, culture, and public management, and have also gained suitable knowledge and first-hand experience on the actual functioning of domestic politics and the

1 Between 2006 and 2016 CGFome dealt with humanitarian assistance, food security, rural development and small-scale family agriculture. In September 2016, Itamaraty decided to put an end to this coordination, the main activities of which were transferred to ABC.

2 The IBSA Facility for Poverty and Hunger Alleviation (IBSA Fund) was institutionalized in March 2004, and is managed by the South-South Cooperation unit under the UNDP. Each country contributed USD 1 million annually to the fund, which seeks to support projects that are based on the national capabilities available in the three countries that make up the Forum. The criteria used to evaluate proposals submitted to the Fund are (i) potential for reducing hunger and poverty; (ii) alignment with the priorities of the recipient country; (iii) use of available capacities in the IBSA countries and their successful experiences; (iv) sustainability and identifiable impact; (v) innovation and possibility that the initiative can be replicated; (vi) achievement in 12-14 months. Among others, the following countries have benefited from the IBSA Fund: Guinea-Bissau, Haiti, Cape Verde, Cambodia, Laos, and Burundi. Funded projects have so far tended to be focused on agriculture and food security. More information is available at http://www.ibsa-trilateral.org/about-ibsa/ibsa-fund.

complex interplay among interest groups. Civil servants are the main agents of implementation of Brazilian IDC; they tend to be less expensive than national and international market professionals, and come from several institutions, ministries, and public agencies such as FIOCRUZ (public health) or EMBRAPA (agriculture). Their participation in Brazilian IDC has so far contributed to hindering the increase of an "aid industry" in Brazil. As a result, many civil society organizations have ended up being excluded from IDC projects and programmes. There are exceptions such as Viva Rio, *Associação Alfabetização Solidária* (ALFASOL), *Missão Criança*, which are examples of NGOs currently being involved in ABC's educational and humanitarian cooperation projects. Several Brazilian NGOs dealing with issues of rights (human rights, women's rights, right to development, right to a safe environment, etc.), criticize the Brazilian government for what they label as a "participation deficit", a subject that still needs more attention from academic social science research and advocacy policy networks (LEITE, 2013; MENDONÇA et al. 2013; SANTOS, 2014).

It is important to highlight that the Brazilian government avoids terminology, criteria and norms related to OECD's DAC and North-South Cooperation. Words such as aid, political conditionality (human rights, democracy, etc.), donor/recipient relationship, among others, are absent from the official diplomatic discourse and the Brazilian IDC narratives. A critical approach toward traditional aid, as well as the country's own capacities to promote its development without much dependency on North-South cooperation, have fostered the emergence of Brazil's IDC based on horizontality, non-conditionality and demand-driven principle. In official documents produced by ABC and IPEA, for instance, horizontality implies a lack of hierarchical relationships between Brazil and its partner country, in terms of decision-making and project implementation; non-conditionality means that the Brazilian government respects other sovereign developing nations, and does not impose any political conditionality related to democracy or human rights attached to its IDC programmes; the demand-driven approach is rooted in the idea that developing countries are the ones who should formulate and organize their demands in view of cooperating with Brazil, without any interference coming from Brasilia. Of course, Brazil's foreign policy and cooperation principles are rooted in official narratives (Figure 10.4) that must be challenged by analytical work of independent researchers.

Moreover, particularly since 2003, Brazil's foreign policy has been investing in the construction of a symbolic regime that is also strongly rooted in South-South solidarity (MAWDSLEY, 2012a; MILANI & CARVALHO, 2013). Brazil is not a member of OECD, and favours debates and proposals on IDC under the umbrella of United Nations ECOSOC's Development Cooperation Forum, which is acknowledged by Brazilian foreign policy as a legitimate and universal multilateral institution for exchange and negotiation (BURGES, 2014). Economic crisis in 2014-15 and political changes in 2016 may have an effect on this agenda, and this trend should be monitored in the coming months.

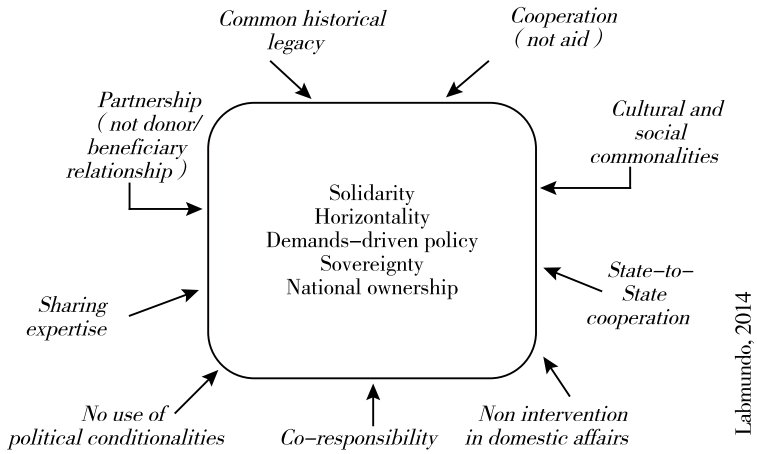

Figure 10.4 Brazilian official guiding principles and narratives
Source: MILANI (2013), IPEA & ABC (2010, 2013).

5. A focus on Brazilian educational cooperation

According to ABC's online database, education is among the three most relevant sectors within Brazil's technical cooperation programmes, together with health and agriculture. Most of the technical cooperation activities developed in the sector of education (TC/ED) are related to training, capacity building, public management and technology transfer in the following fields: vocational education, adult and youth literacy projects, non-formal education and special-needs education. When considering the completed and on-going activities reported by ABC between 2005 and 2013, education is ranked third amongst all activities: agriculture (19.26%), health (15.4%), education (10.93%), defence and military cooperation (9,14%), environment (6.01%), social development (4.47%), and energy (4.02%). Geographically, ABC's TC/ED is also focused on Latin American, Caribbean, and developing nations in Africa, as well as East Timor.

Apart from data on technical cooperation published by ABC, the first IPEA/ABC report on Brazil's IDC (known as COBRADI) published in 2010 had presented education cooperation under the rubric "Scholarships for foreigners", whereas the second official report (covering data from 2010, and published in 2013) has established a separate and specific chapter on "Educational cooperation". This chapter included scholarships for foreigners and international exchange programmes within Brazil's IDC/ED. In the 2016 report (covering data between 2011 and 2013), Brazil's federal government spent R$ 130 million, approximately US$ 55 million on educational cooperation projects (IPEA & ABC, 2016, p. 67).

The concession of scholarships for foreign students to come to study in Brazil is a historical policy practice, which had been launched in 1950. According to the Division of Educational Themes (Ministry of External Relations), the main objectives of the Brazilian educational cooperation are: (i) to promote higher education standards of citizens coming from other developing regions; (ii) to foster dialogues in the field of education between Brazilian and foreign youth; and (iii) to disseminate Brazilian culture and language[1]. Indeed, culture and education are both considered important sources of Brazil's soft power in the international realm. They may also contribute to strengthening political and economic ties between Brazil and its partner countries (PINHEIRO & BESHARA, 2012). Figure 10.5 shows the county of origin of those students who come to study in Brazil, and also countries where Brazilian citizens go when they decide to study abroad. Other rising powers, such as China, India, Mexico and South Africa, also implement programmes of this sort (MILANI et al., 2016; WOODS, 2008; ZIMMERMANN & SMITH, 2011).

According to the two COBRADI reports (IPEA & ABC, 2010 and 2013), during the period 2005-2010, disbursements of higher education scholarships totalled the approximate amount of 174 million USD. On average, between 2005 and 2010 around 7.4% of all IDC went to education cooperation. Between 2009 and 2010, public expenditure in IDC/ED increased 40.7% (IPEA & ABC, 2013, p. 18). In 2010, funding scholarships increased, and has reached 34 million USD. This corresponds to more than 97% of total expenses in 2010 within Brazil's IDC/ED, according to IPEA & ABC (2013). Between 2011 and 2013, educational cooperation accounted for 5% of the total budget (IPEA & ABC, 2016).

In 2010, the geographical distribution of scholarships reflected similar foreign policy priorities. Around 73% of undergraduate scholarships went to PALOP students, whereas 70% of graduate scholarships went to South American students. Brazil's Ministry of Education tends to give priority to exchange programmes with countries portraying deficiencies in their higher education systems, and also to countries considered as key development partners within Brazilian foreign policy agendas. Since 2004, international educational cooperation strategies have emphasized Latin America and Africa, particularly PALOP countries. The PEC-G programme offers scholarships to foreign undergraduate students who are selected in their own countries, according to procedures

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1 Responsible for issues related to Education in the Brazilian Ministry of Foreign Affairs, the Division of Educational Themes (DCE) has the following main responsibilities: (i) deal with issues related to educational cooperation offered by Brazil; (ii) coordinate, together with the Ministry of Education, the operation of the Program of graduate Students (PEC-G) and, together with the MEC and the Ministry of Science and Technology, the Postgraduate Student Program (PEC-PG); (iii) deal with issues related to educational cooperation received by Brazil from other countries, international organizations and foreign agencies; (iv) participate in the negotiation of agreements, executive programs and other international acts related to educational cooperation at international level, as well as monitor their implementation; (v) disseminate employment and scholarships opportunities offered to Brazilian citizens.

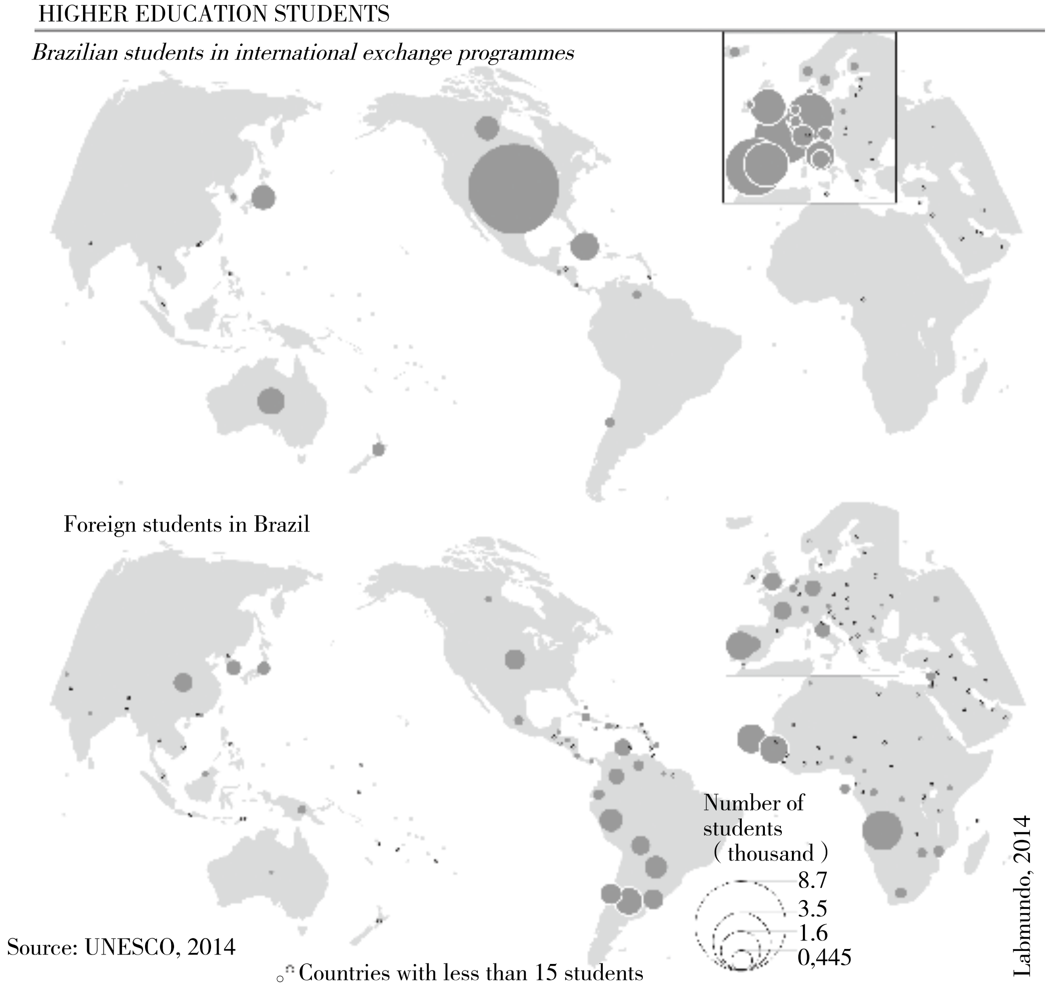

Figure 10.5 Brazil's soft power in the field of higher education exchange programmes

designed by the respective national ministry of education and the local Brazilian embassy. The PEC-PG programme offers scholarships to graduate foreign students willing to take their master and/or PhD courses in Brazil. In the 2011-2013 period, graduate scholars (PEC-G) mainly came from: Guinea-Bissau (173 students), Cape Verde (169), Angola (158), Paraguay (63), Congo (61), Benin (51), Congo DRC (40), Ecuador (31), Mozambique (23), East-Timor 923), Sao Tome and Principe (19), Jamaica (19), Haiti (16), achieving a total amount of 992 students (IPEA && ABC, 2016, p. 77). In the same period, postgraduate scholars (PEC-PG) mainly came from: Colombia (352), Peru (154), Mozambique (140), Cape Verde (45), Argentina (45), Cuba (36), Ecuador (35), Bolivia (34), Chile (25), Angola (24), Paraguay (24), Uruguay (23), Mexico (22), and East-Timor (18), achieving a total amount of 1094 students (IPEA & ABC, 2016, p. 81).

Historically, the Ministry of Education, the Ministry of Science and Technology and the Ministry of External Relations have been the main conceivers and executors of exchange and scholarship programmes. Brazilian federal agencies also promote IDC/ED in the field of vocational and professional training, addressed to foreign professional staff and civil servants, as we will discuss later in this report. However, in 2010 this kind of professional training only reached the very small amount of 1 million USD (IPEA & ABC, 2013, p. 42). Disaggregated data are not available for previous years. Academic graduate and undergraduate scholarship programmes are the main thrust of Brazil's IDC/ED. Selection procedures for scholarships are different for graduate and postgraduate studies (master and PhD courses). In the case of graduate courses, selection in general lasts around 9 months, involving Brazilian universities (which have to communicate their vacancies to the MEC), Brazilian embassies (which receive preliminary enrolments from citizens in developing countries), a commission of experts (responsible for evaluating the applications), and finally two ministries (education and external relations). Foreign students do not pay any fee under this programme. For the year 2016, this process started in February, and is expected to end in November[1].

In the case of graduate courses, two main agencies are responsible for evaluating applications: CAPES (in general for the PhD programmes) and CNPq (Master's programmes). The selection procedure is much faster, starting in general in October and closing at the end of January, since students are supposed to begin their coursework in March. Master and PhD students generally have access to financial support (approximately 600 USD for Master students, and 1,100 USD for PhD students), apart from the fact that they do not pay any fees. Brazilian embassies disseminate the call for applications and manage the process at the local level, while Itamaraty in Brasilia pays the return ticket of selected candidates to their home country. It is important to remember that once they finish their programme each selected candidate should return to his/her country.

There is a trend for the PEC-G programme to recruit graduate students mostly from PALOP countries, while around 70% of PEC-PG applicants come from South America. This is due to better institutional development in the field of higher education in South American countries, and to the improved quality of higher education programmes in the region. One should recall that Spanish-speaking Latin American countries also have the oldest universities in the Americas, such as Santo Domingo (founded in 1538), Lima (1551), Córdoba (1613), and La Habana (1721). That is why their main focus tends to be research and PhD programmes.

1 Apart from official documents to prove their citizenship and their level of studies, applicants are also obliged to go through the CELPE-BRAS (exam of proficiency in Portuguese). Candidates must be above 18 years old, and preferably less than 23; s/he must hand in a declaration of financial self-sufficiency in order to live in Brazil (USD 400.00 per month), since the undergraduate studies exchange programme includes only the right to have access to a vacancy at a higher education institution (public or private). Financial support exists for a limited number of students.

In the case of PEC-G students, the Milton Santos Project for Access to Higher Education (known as PROMISAES), since 2003, has provided 300 USD per month (an amount that corresponds to the standard minimum salary in Brazil) to support monthly maintenance of some African students in Brazil. Nonetheless, not all students have access to this financial support.

Apart from scholarship programmes, the Brazilian government funds other IDC/ED academic activities: in 2010, Ministry of Education's CAPES funded educational bilateral programmes reached 5.3 million USD. They covered countries such as East Timor, Cuba, Argentina, Mozambique, Cape Verde and Guinea Bissau, and included, *inter alia*, the Programme for Teacher Training and Portuguese Teaching in East Timor (1,457,911 USD), the CAPES/Cuban Ministry of Higher Education Programme (1,169,293 USD), the CNPq/Mozambican Ministry of Science and Technology Programme (941,277 USD), the two Language of Letters and Numbers programmes in Cape Verde (885,340 USD), and the Teachers Training Programme in Guinea-Bissau (192,045 USD) (IPEA & ABC, 2013). In June 2013, the Brazilian Ministry of Education announced a 3 million USD funding package for the development of 45 partnerships between Brazilian (mainly the Federal University of Minas Gerais, University of S. Paulo, Federal University of Rio Grande do Sul, Federal University of Sergipe, and Federal University of Goais) and African universities (mainly PALOP countries).

Multilaterally and within MERCOSUR, the Regional Academic Mobility Programme, which has been in place since 2006, aims to strengthen educational cooperation within member-states. The programme includes graduate courses in Argentina, Bolivia, Brazil, Chile, Paraguay and Uruguay. Students belonging to courses and institutions having received credentials from this programme can apply for a student foreign exchange. In Brazil, the Secretariat of Higher Education (SESU) and CAPES, both departments under the Ministry of Education, have been responsible for managing these programmes since 2008. In 2010, they contributed a total of 1 million USD, and around 75% of these resources were allocated to students from Argentina (IPEA & ABC, 2013).

According to IPEA & ABC (2013), several other ministries also offer professional training and technical cooperation programmes. As we mentioned earlier in this section, they are not very relevant from a financial viewpoint, but they do reveal Brazil's foreign policy priorities, such as: (i) professional training courses for military officers from Guinea-Bissau, Mozambique, Paraguay, offered by the Ministry of Defence, with total expenditure of 447 thousand USD; (ii) scholarships provided by IPEA to researchers from several countries, including Angola, Argentina, Burundi, Colombia, Cuba, Mexico, Paraguay, Peru, East Timor and Venezuela (total of 233 thousand USD); (iii) scholarships and airfares provided by the Brazilian Diplomatic Academy (known as Rio Branco Institute) for training courses addressed to nationals coming from Angola, Argentina, Cape Verde, Guinea-Bissau, Equatorial Guinea, Mozambique, Sao Tome and Principe, East Timor and the Palestinian Territory (301 thousand USD); (iv) distance education courses on drugs prevention, promoted by the National Secretariat for Policies on Drugs (SENAD), in partnership with the University of São Paulo (USP) for citizens from Angola, Argentina, Colombia, Costa Rica, Ecuador, Guatemala, Mexico, Nicaragua and Venezuela (147 thousand USD).

Moreover, the Brazilian government also engages in triangular cooperation with international organisations and NGOs. For example, the "Youth Leaders for the Multiplication of Good Socio-Educational Practices" in Guinea-Bissau, in cooperation with UNESCO, is fully funded by the Brazilian Cooperation Agency. In the area of youth and adult education, the Brazilian Ministry of Education is working with the NGO *Associação Alfabetização Solidária* (ALFASOL) in Mozambique, Cape Verde, and Sao Tome and Principe in order to develop informal literacy programmes. Created in 1996, as part of a national strategy to fight against illiteracy, ALFASOL started its international activities in 2000. Its history is very connected with the government programme of Solidarity Community implemented by Ruth Cardoso during Fernando Henrique Cardoso's presidential mandates; however, ALFASOL has since its inception been a non-government organisation. When the Solidarity Community programme was closed in 2003, ALFASOL kept on developing projects in partnership with the private sector, international agencies (such as UNESCO and Organisation of American States), and ABC. Its youth and adult educational modules were then adapted to PALOP countries and also applied in East Timor and Guatemala. However, generally speaking, Brazilian NGOs still have a very low profile in IDC/ED activities implemented and funded by the Brazilian government (GONÇALVES, 2011). International NGOs and local associations from partner developing countries do not participate in Brazil's IDC/ED, which have so far been conceived quite bilateral in nature.

In sum, Brazil's IDC/ED is very diversified in terms of implementation agencies. It involves agents such as the Brazilian Cooperation Agency (technical cooperation), the Ministry of Education (scholarship programme, international exchange programmes, and technical cooperation), but also SENAI (vocational education) and, to a much lesser extent, some selected NGOs (non-formal education). It counts mainly on public funds and partnerships with private companies and industries (as in the case of SENAI). However, Brazil's IDC/ED is particularly concentrated in higher education. The two consolidated reports on Brazil's IDC/ED published by IPEA & ABC (2010, 2013) focus on public expenditure, and represent together the approximate amount of 174 million USD for the period between 2005 and 2010. As IPEA & ABC (2013, p. 42) acknowledges, since in 2010 academic cooperation took 97% of all official expenditure with IDC/ED (equivalent to around 35 million USD) and technical cooperation amounted to 3% (1 million USD), it is "a priority for the Brazilian government to grant resources for additional academic training (undergraduate and graduate) of foreigners in

Brazil". We could also formulate the hypothesis that if Brazil really intends to play a major role in the field of IDC/ED, the government should not only involve more NGOs in the process of project conception and formulation, but also increase its funding in non-academic education programmes.

6. Brazil's educational cooperation with PALOP countries: a focus on the case of Mozambique

As Tables 10.4 and 10.5 indicate hereafter, African countries are key cooperation partners for the Brazilian Cooperation Agency and the Ministry of Education. The five PALOP countries and East Timor are ABC's six main partners in the field of education. There are diverse modalities of educational cooperation. Distance and vocational education appears as the main activity in ABC's databases. As we will see later in this section, the number of activities reported by ABC must be contrasted with actual expenditures under IPEA & ABC's reports (2010, 2013, 2016), where higher education appears the top priority of all educational cooperation developed by the Brazilian government in 2010.[1]

As mentioned in the previous section, Brazil's IDC in the education sector is not limited to ABC's activities. Other governmental and some non-governmental actors take part in this process: the Brazilian Ministry of Education (scholarship and exchange programmes) is a key player in this endeavour. MRE's Rio Branco Institute (as the Brazilian diplomatic academy is known) also receives young diplomats from the five PALOPS for professional training. Civil society organisations are less numerous, and may include AAPAS, ALFASOL, *Missão Criança*, and the Elos Institute. It is true however that they tend to be concentrated in youth and adult education programmes, as well as non-formal education activities. Since 2003 *Ação Educativa*, a Brazilian NGO based in São Paulo, has also been involved in youth and adult education in CPLP countries, through the organisation of seminars and the creation of a Reference Centre on Youth and Adult Education and South-South Cooperation. This project, entitled ECOSS, is actually part of UNESCO's Education for All programme, and is currently implemented in partnership with UNILAB and the Brazilian Ministry of Education.

1 Many of ABC's activities may have low financial implications, since they may mobilise public civil servants, SENAI, other public agencies, and some civil society organisations. This does not mean that they are not policy-relevant. Getting into the detail of these activities is a challenge for future research. It would imply qualitative research, case studies and field trips in order to assess actual results and policy impact. This cannot be seen through the statistics currently made available by ABC.

Table 10.4 Number of PALOP students under PEC-G between 2000 and 2015

Countries	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Total
Angola	3	21	29	23	31	11	31	28	91	68	48	83	61	53	59	77	719
Cape Verde	117	65	227	263	192	230	314	265	381	206	133	76	150	88	104	119	2,880
G. Bissau*	36	88	111	97	58	186	159	19	133	181	95	55	118	—	—	-	1,336
Mozambique	12	13	27	21	26	27	13	9	4	4	9	7	6	13	13	9	213
S.T. Principe	—	—	24	—	47	147	35	13	12	4	6	19	5	3	19	17	358
5 PALOP	168	187	418	404	356	601	552	335	621	463	291	240	295	157	195	222	5500
All Africa	187	214	451	442	395	650	589	378	784	517	383	378	378	255	339	357	6,697
LAC	135	172	140	82	52	130	127	125	118	125	115	84	99	132	147	162	1,945
Asia*	—	—	—	—	—	—	1	—	—	—	—	1	—	37	4	4	47
All countries	322	386	591	524	447	780	717	503	902	642	498	463	477	427	880	967	9,523

* Because of a *coup d'état*, Guinea Bissau was suspended from the programme in 2013. Asian countries (East Timor, Pakistan and Thailand) started sending students in 2006. All countries = All Africa + LAC + Asia.

Source: MEC (http://www.dce.mre.gov.br/PEC/G/historico.html).

Table 10.5 Number of PALOP students under PEC-PG between 2000 and 2014

Countries	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Angola	1	1	6	3	1	2	3	7	5	2	8	10	8	2	8	67
Cape Verde	4	4	5	5	6	12	22	6	8	7	15	4	14	13	7	132
G. Bissau	1	1	3	1	1	6	5	2	3	2	6	2	5	—	—	38
Mozambique	5	5	9	5	8	12	16	12	9	3	8	21	24	52	51	240
S.T. Principe	—	1	—	—	—	4	—	—	—	1	1	1	2	2	—	12
5 PALOP	11	12	23	14	16	36	46	27	25	15	38	38	53	69	66	489
All Africa	14	15	25	17	17	40	48	32	28	16	39	39	59	72	77	538
LAC	61	60	74	39	52	73	122	127	141	196	143	168	161	208	124	1,749
Asia*	1	1	—	—	1	7	1	11	14	18	6	8	6	2	5	81
All countries	76	76	99	56	70	120	171	170	183	230	188	215	226	420	338	2,638

* East Timor, China and India are the three main Asian countries. All countries = All Africa + LAC + Asia.

Source: MEC (http://www.dce.mre.gov.br/PEC/PG/historico.html).

In May 2013, the Brazilian government hosted a high-level meeting on "Education as a Strategic Bridge Brazil-Africa" in Bahia. All Ministers of Education and Higher Education of the four PALOPs (except Guinea-Bissau) and Brazil participated, along with representatives from UNESCO, CPLP, the World Food Programme, and the Organization of Ibero-American States (MEC, 2013). This initiative has shown that, in the field of higher education, most exchange and cooperation programmes are conceived and implemented by MEC (both CAPES and SESU) and the CNPQ, with the support of the Itamaraty, and always in association with federal, state and some private universities. According to official data presented in Tables 7 and 8, between 2000 and 2013 there were 5,083 undergraduate students (PEC-G) coming from PALOP countries, representing 66.2% of a total number of 7,676 foreign students, whereas between 2000 and 2012 there were 354 graduate students (PEC-PG) of a total number of 1,880 (18.8% of total number of graduate students). This confirms that students from PALOP countries are in the majority under PEC-G scholarship programmes, and represent the third major group (after Latin America and all African countries put together) under the PEC-PG.

Moreover, still under the rubric of higher education, two new federal universities were recently established in order to promote cooperation with Latin America and PALOP countries: UNILA (Federal University for the Latin American Integration) in 2008, and UNILAB (Federal University for the International Integration of the Afro-Brazilian Lusophony) in 2010. Among other traditional academic activities, these two universities also bear the responsibility for receiving students coming from Latin America and PALOP countries. This governmental decision reaffirms the fact that there is a remarkable decentralization of activities and initiatives: Itamaraty and its ABC have no monopoly over joint education initiatives and projects (ULLRICH & CARRION, 2013). Indeed, since 2010, UNILAB has been a key university to welcome students from the five PALOP countries. In November 2013, UNILAB's President, Dr. Nilma Lino Gomes, inaugurated an office of the RIPES network in Lisbon, under the auspices of CPLP[1]. Designed by UNILAB and supported by CPLP Secretariat and ABC, the RIPES network had been presented and approved at the 25th CPLP Annual Meeting of Focal Points for Cooperation, held on 13th and 14th July 2012 in Maputo. RIPES aims to strengthen universities in Portuguese-Speaking countries through human resources mobility and joint research-teaching endeavours. One of its first projects was launched in 2013: this project aims to analyse the current situation in the field of higher education in CPLP countries. In December 2013, UNILAB strengthened its relationships with Cape Verde, and its President went on a mission to Praia and signed exchange agreements that should better facilitate sharing of experiences among students and professors. Today UNILAB has 2,698 students: 1,171 from Brazil, 32 from Angola, 50 from Cape Verde, 181 from Guinea-Bissau, 12 from Mozambique, 29 from Sao Tome e Principe, 72 from East Timor, as well as another 1,058 distance education students from various countries[2].

In global terms, when one compares the amounts of Brazil's IDC/ED with selected DAC donors' AOD in the field of higher education, it may open new avenues for the analysis of Brazil's potential

1 Information on RIPES available at http://www.cplp.org/Files/Billeder/cplp/Gestor-RIPES-Lisboa.pdf

2 UNILAB's website (www.unilab.edu.br) presents many cooperation missions and visits involving the eight CPLP countries.

impact in the PALOP countries. Table 10.6 presents disaggregated data for official development assistance in the field of education (ODA-ED) and Brazil's IDC/ED to developing countries in general and PALOP countries in particular. Firstly, the degree of concentration in higher education programmes is enormous in the case of Brazil: higher education represents more than 99% of its IDC/ED with developing countries, whereas Portugal has 60%, South Korea around 27%, the USA 19.5%, the UK 10.7%, Spain 10.2% and France 6%. Secondly, as far as only PALOP countries are concerned, it is impressive to observe the near total absence of the USA and the UK (which grants meaningful funding for Mozambican education, but not higher education). Thirdly, the competition that numbers may reveal between Portugal and Brazil is also relevant: Portuguese AOD-ED is higher than Brazil's IDC/ED in all PALOP countries, apart from Guinea Bissau. However, this statistical analysis should be expanded in order to confirm the hypothesis about a soft power rivalry between a former metropolis and a rising state in their respective relationships with the five African countries.[1]

Table 10.6 Educational cooperation to PALOP countries

	All developing countries		Angola		Cape Verde	
	Education*	**HE****	**Education**	**HE**	**Education**	**HE**
France	1,784,330,537	107,487,154	3,569,402	1,556,034	872,603	813,735
Portugal	72,780,487	43,694,871	5,444,387	2,041,913	19,148,970	19,006,649
South Korea	150,122,040	40,499,979	1,392,366	71,309	1,438	—
Spain	363,788,964	37,232,677	933,877	19,754	1,771,943	7,192
United Kingdom	751,119,399	80,808,790	—	—	—	—
USA	889,120,487	173,390,935	—	—	—	—
Brazil	35,382,438	35,229,966	1,923,960	1,866,241	6,869,344	6,663,263
	Guinea-Bissau		**Mozambique**		**Sao Tome and Principe**	
	Education	**HE**	**Education**	**HE**	**Education**	**HE**
France	375,372	343,381	962,689	796,282	564,311	564,311
Portugal	4,844,373	1,859,202	10,358,125	2,501,224	6,035,132	3,763,127
South Korea	43,084	43,084	60,585	—	—	—
Spain	1,361,739	3,974	7,532,291	22,562	—	—
United Kingdom	—	—	7,074,447	—	—	—
USA	—	—	—	—	—	—
Brazil	5,570,248	5,403,140	1,904,622	1,847,483	821,909	797,252

* Education = all education sectors. ** HE: only higher education. Figures in USD million, current prices, 2010.
Sources: OECD/DAC online database on ODA statistics (www.oecd.org/dac). Brazilian data on IDC/ED was accessible through IPEA's COBRADI project, directed by Dr. Joao Brigido.

1 This would be an interesting argument to develop, but again it would require more in-depth qualitative analysis and field research.

In the area of vocational education, Brazil deploys other important cooperation agents and practices. The National Service for Industrial Training and Education (SENAI), and to a lesser extent the Brazilian Service for the Support of Micro and Small Enterprises (SEBRAE) are the main players in vocational education. ABC plays the role of a clearing-house, coordinating demands coming from PALOP countries and facilitating the dialogue between them and SENAI. In 2013, SENAI was engaged in 15 international training centres, 4 of which had already been completed. Professional training centres have been built in Angola (Cazenga, inaugurated in 1999), Cape Verde (Praia in 2008), East Timor (Becora in 2000), Paraguay (Hernanda Rias in 2002), Guinea-Bissau (2009), and Guatemala (2012), while others are currently being implemented in Mozambique, Haiti, and Sao Tome and Principe (LEITE, 2013). Box 10.1 summarises some basic information on one of these centres: the Cazenga Professional Training Centre in Angola. These centres offer courses in motor mechanics, civil construction, electricity, textile and fashion, as well as computer science. Besides these initiatives, ABC/MRE and SENAI are negotiating the creation of two centres to train people with disabilities in the civil construction industry in Morocco; another one in the textile sector in Mali, and one more in the area of furniture manufacturing in Cameroon. In South Africa, the first structural project of ABC/MRE involves the establishment of the Centre for Professional Training and Entrepreneurship, which is in the final stages of negotiation.

Box 10.1 Brief history of the Cazenga Professional Training Centre in Angola

The Brazil-Angola Vocational Training Centre ushered in a new stage of SENAI's action in international technical cooperation and its relationship with the Brazilian government. Through this project, SENAI expanded its participation in official Brazilian technical cooperation, and started numerous activities at the invitation of ABC. The project involved the design of an entire system of vocational training, including management methodologies, training of trainers and equipment of training centres according to local needs and realities. This training centre in Angola was the first installed by SENAI abroad. The project had been designed during the Angolan civil war, and was signed in 1996 between the governments of Brazil and Angola. On the Angolan side, the Ministry of Public Administration, Employment and Social Security of Angola (MAPESS) and the National Institute of Employment and Vocational Training (INEFOP) were responsible for the implementation of agreed activities. From SENAI, the regional unit responsible for executing the project was SENAI-São Paulo (within the Federation of Industries of the State of Sao Paulo, FIESP), one of the most experienced in the area of professional training in Brazil. The project was funded by the governments of Brazil and Angola, and amounted to approximately 2.14 million USD. The courses began in 2000, and the first class graduated 144 trained professionals. According to data from SENAI, more than 4,100 students have so far completed several courses in this training centre, which now has the capacity to offer up to 1,500 training modules per year. In terms of impact, the project became a reference within the Angolan system of vocational training, triggering an intense effort on the African continent for technical cooperation with the Brazilian Government and SENAI.

Source: Summed up and adapted from GONÇALVES (2011).

Having made this general and brief presentation on Brazil's IDC/ED with PALOP countries, we shall now analyse some activities in each of the five countries in more detail. **Cape Verde** is number one in the list of top-ten countries that are cooperating with Brazil though ABC, followed by Sao Tome and Principe, and Mozambique. The Brazilian cooperation scheme with Cape Verde involves three sorts of modalities. The first one is in the field of higher education exchange programmes, through PEC-G and PEC-PG. Cape Verde is the first country in the list of foreign students from all countries having received a scholarship to take undergraduate courses in Brazil, and the second among the PALOP countries as far as graduate scholarship programmes are concerned: there were 2,657 undergraduate students of a total number of 7,676 foreign students (34.6%), and 112 graduate students (5.9% of total) from Cape Verde, as Tables 10.4 and 10.5 show[1].

Technical cooperation is a second relevant cooperative partnership between Brazil and PALOP countries, including Cape Verde. Figure 10.5 shows the number of concluded and on-going activities developed within ABC between 2000 and 2014, with an amazing increase in the years 2008, 2009 and 2010 under Lula's government. In the case of Cape Verde, we can recall the technical cooperation programme for the development of a master's degree in Management at the Cape Verde University (UNI-CV). This programme began in 2004 and involved the Federal

1 It is very difficult to precisely estimate in USD, what all these scholarships actually represent in terms of official expenditure. IPEA & ABC (2010, 2013) calculated all scholarships for foreigners (which includes but goes beyond PEC-G and PEC-PG) to have represented approximately USD 134 million for the period 2005-2009, and USD 33 million in 2010. Calculating the average value of investment that each scholarship for a foreign citizen represents, also depends on the course he/she is actually studying. For instance, in 2004, the cost of a Bachelor's degree in Mathematics was estimated around USD 1,500 per year, whereas in Agriculture Engineering it was USD 8,000 per year, indicating? a very general average of B.A. courses in Brazil of approximately USD 4,200 per year. In general expenditures on post-graduate courses (Master and PhD) are double the cost of graduate studies (MAGALHAES et al., 2009; DO AMARAL, 2003).

University of Rio Grande do Sul (UFRGS), and universities from Ceara and Brasilia, all with the financial support of the Ministry of Education. Between 2007 and 2009, through another bilateral cooperation, Brazilian and Cape Verdean experts together trained professional agents and trainers in tourism and hospitality; this partnership of 794,000 USD included ABC, the Federal Office of Vocational Education and Technology and the Federal Institute of Goias. In the 2013 high-level meeting of ministers of education in Bahia, the representative of Cape Verde, Ms. Fernanda Maria Marques, highlighted the relevance of the following programmes: higher and basic education assessment (with MEC), school management (particularly the Monitoring, Execution and Control Integrated System, known as SIMEC, developed by MEC), and inclusive education, through teacher's e-training and adaptation of pedagogical tools (MEC, 2013, p. 9).

A third type of cooperation partnership between Brazil, Cape Verde and international organisations must be acknowledged. In the context of triangular cooperation in the specific area of literacy and education of youth and adults, the project entitled "Cooperation in international networks and innovative partnerships on education and adult learning", from 2006 to 2011, involved Brazil, Cape Verde and UNESCO. The first workshops of the network, in 2006 and 2008, were organized under auspices of the Brazilian government. Another example is the project in the field of vocational training: in September 2013, the vocational training centre was inaugurated in the city of Praia, resulting from a triangular cooperation between Cape Verde, Brazil and UNDP. On the Brazilian side, SENAI was responsible for running the project titled "Strengthening and Capacity Building of Human Resources for the System of Professional Training in Cape Verde". The Brazilian government (ABC, MEC) and SENAI contributed the total amount of 1,331,000 USD, whereas the government of Cape Verde invested another amount of 222,000 USD.

In the case of **Angola**, PEC-G, PEC-PG and UNILAB are also important pillars of cooperation in the field of education. In addition, the Brazilian Ministry of Environment started in 2007 a cooperation program on environmental education, with a view to train Angolan technicians and to support the Angolan Ministry of Urbanism and Environment in the construction of the national program of environmental education. In 2011, Angola and the Government of the federate-state of Bahia signed a cooperation agreement in the field of education management: there are currently 150 consultants and Brazilian teachers offering consulting services and teaching classes in Angolan technical schools. Since 2009, Brazil and Angola are also cooperating in the area of rural vocational training: this program, which is conducted by SENAR and ABC (Brazil) and the Agrarian Development Institute (IDA, in Angola), transfers methodology to Angolan technicians, and organises study tours and missions in farms located in the federate-state of Parana.

In the 2013, high-level meeting of ministers of education in Bahia, there were two Angolan representatives: The Minister of Education (Mr. Pinda Simao) and the Minister of Higher Education (Mr. Adao do Nascimento). They emphasised their interest in using the Brazilian experience in e-learning (Open University Brazil), in the expansion of the quantity of teachers being trained within the Letters and Numbers Programme (developed by CAPES), and the transfer of methodologies for the assessment of basic and higher education, as well as curriculum development (MEC, 2013, p. 8).

In the case of **Sao Tome and Principe**, apart from PEC-G, PEC-PG and UNILAB cooperation programmes, mentioned above, in 2007 the two governments signed an agreement to develop a school food programme, inspired by the Brazilian good practice of the National School Feeding Programme (PNAE). This programme transfers a successful public policy from Brazil to Sao Tome, and provides advice in the areas of school nutrition, public policy management and social control. It is understood that the school community (teachers, managers, students, families) should be part and parcel of the local governance structures. The agreement was not exclusively limited to the provision of technical advisory services and training for school canteens, but the Brazilian government also decided to provide food to thousands of elementary school students in Sao Tome and Principe. Over 42,000 children attending primary school currently benefit from better diet within this programme.

Another initiative in Sao Tome and Principe is the Literacy Partnership Programme. The Brazilian federal government has set up a partnership with ALFASOL, which is responsible for its implementation, and also counts upon the participation of Brazilian federal universities. Until 2012, at least 18,491 young people and adults from Sao Tome and Principe had attended literacy courses, and another 2,529 had participated in post-literacy courses. In addition, 110 teachers were trained from 2001 to 2012. Sao Tome and Principe was not the first PALOP country to benefit from this cooperation programme, since it has also operated in Mozambique since 2001 and in Cape Verde since 2002. With regard to vocational education, SENAI is responsible for building a training centre in Sao Tome, guaranteeing teacher training and the donation of educational materials. Within this same context, a group of seven teachers and three public managers from Sao Tome went in 2014 to Pernambuco in order to attend training courses.

In the 2013, high-level meeting of ministers of education in Bahia, the Sao Tomean Minister of Education, culture and training (Mr. Jorge Lopes Bom Jesus) welcomed Brazil's cooperation in the development of the Public University of STP, in partnership with MEC, the Federal University of Minas Gerais, and UNILAB; he also announced that the Sao Tomean counterpart, the Higher Polytechnic Institute, is the focal point for this initiative. At the same occasion, the government of STP expressed interest in Brazil's cooperation in the fields of teachers' training, school transportation system, conception and publication of pedagogical tools, as well as in the strengthening of the School Meal Programme (MEC, 2013, p. 11).

Guinea-Bissau also benefits from PEC-G, PEC-PG and UNILAB exchange programmes. Brazil has also built a SENAI centre for vocational education in the capital city of Bissau, where since 2009, twelve hundred people were trained. Another training centre was developed to promote training of security personnel, under the auspices of the UNODC (United Nations Office on Drugs and Crime), which was responsible for technical advice and monitoring. It is the first centre of its kind outside Brazil, and this triangular cooperation initiative has received 3 million USD from the Brazilian government between 2010 and 2013.

Brazil and **Mozambique** have had diplomatic relations since November 1975, the year of the Mozambican independence. The Brazilian embassy was opened in Maputo on March 1st 1976, but it was only in January 1998 that Mozambique opened its embassy in Brasilia, after long years of civil war. Between 1961 and 1964 Brazilian foreign policy had already highlighted the importance of Brazil-Africa relationships, but it was still overshadowed by the broader framework of friendship between Brazil and Portugal. This was very problematic in view of the political movements for autonomy and independence against the Portuguese regime. It was only in the seventies that the Brazilian diplomacy started changing its profile vis-à-vis PALOP countries. With the end of Brazil's military dictatorship in the eighties, the democratic regime was able to further develop its bilateral diplomacy with PALOP countries. This progressive *rapprochement* between PALOP countries and Brazil covers a wide range of programmes, and this focus on Mozambique tries to map it out in the particular field of educational cooperation.

There are three major phases in the evolution of contemporary IDC between the two states: (a) from Mozambique's independence to the 1992 peace agreements; (b) the nineties, which correspond both to the Brazilian re-democratisation process and the building of the Mozambican institutional capacities; (c) the twenty-first century, particularly since 2003[1]. The first phase is characterised by the establishment of diplomatic relations, and the signing of the main cooperation agreement in September 1981, ratified by both countries in June 1984 and since then *en vigueur*. In June 1989 they celebrated the Scientific, Technical and Technological Cooperation Agreement, under which articles I, V, VI and XIII explicitly mentioned educational cooperation, higher education and universities, exchange programmes and scholarships. During this first phase, as Ana Cambaza cites, the main cooperation activities concerned radio literacy and education. Mozambican civil servants were trained and visited several poorer states of Brazil in order to know how community radios worked and developed their programmes in rural communities[2]. Frank Antonio confirms the relevance of such radio community programmes that were present in several provinces, and asserts that between 1981 and 1984 the then Mozambican National Institute for Educational Development worked in partnership with Bahia's Institute of Educational Broadcasting (known as IRDEB).

1 The definition of such phases is ours, but it is based on our analysis of the history of bilateral relations, interviews conducted in Maputo, and official documents that we consulted (such as agreements, adjustments, mission reports, project documents, assessment reports) for the purpose of this paper. Interviewees are mentioned only in case they have explicitly agreed to. A complete list of interviews can be found at the end of this paper.

2 It is interesting to note that today Mozambique has a program called Alfa-Radio, but with support of the Cuban government.

In November 1989, the Brazil-Mozambique Cultural Centre (then Centre for Brazilian Studies) was inaugurated, bringing about a concrete dimension to African-Brazilian intercultural integration, and a cultural space for disseminating and promoting cultural events related to Brazil, Mozambique, and other African countries. José Aparecido de Oliveira, then Brazilian Minister of Culture, was a key actor in this process; however, in spite of all of Aparecido's endeavour to promote the idea of Portuguese as a common cultural heritage, Mozambique was struggling with civil war, whereas Brazil was going through major economic reforms and facing the domestic challenges of its re-democratisation process.

In the second phase, Mozambique had signed its peace agreements, and Brazil had advanced in its economic and political reforms. The CPLP was established in 1996[1]. In 2000, President Fernando Henrique Cardoso made an official visit to Maputo, where he also attended the Third CPLP Summit. In 2001, President Joaquim Chissano paid an official visit to Brazil, and both presidents signed six instruments of cooperation in the areas of health, education, social policy and public security. In the particular field of educational cooperation, these instruments covered literacy, youth and adult education (in partnership with ALFASOL), the transfer of the *bolsa-escola* policy (in partnership with the Brazilian NGO *Missão Criança*), and technical cooperation. In August of the following year, the Mozambican President attended the IV CPLP Summit in Brasilia.

Although Cardoso's foreign policy did not give emphatic relevance to Africa and PALOP countries, in his two mandates, Cardoso increased the Brazilian presence in CPLP countries, even though the legacy of Brazil's independent foreign policy from the sixties and the responsible pragmatism of the seventies remained at the backstage (VIGEVANI *et alii*, 2003). During Cardoso's era, educational cooperation was one of the main entry doors for Brazil in Mozambique. Frank Antonio affirms that between 1995 and 1996, Mozambique developed its first training courses for teachers in partnership with Brazil: citizens having at least seven years of formal schooling were offered a training course to become public teachers. This programme was closed in 2013. In the field of higher education, between 1993 and 1999, there were 156 Mozambican citizens who benefited from PEC-G. As Tables 6 and 7 indicate, there were 52 PEC-G students, and other 19 PEC-PG students between 2000 and 2002.

Ana Cambaza affirms that between 2001 and 2004, literacy programmes were an important thrust of the Brazil-Mozambique cooperation. With the support of Brazilian universities and the general coordination of ABC, ALFASOL (and its operational branch AAPAS) brought literacy

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1 The first step in the creation of the CPLP was taken in Sao Luis (Maranhao, Brazil) in November 1989, on the occasion of the first meeting of the Heads of State and Government of the Portuguese-speaking countries, at the invitation of Brazilian President José Sarney. At that meeting, state representatives decided to create the International Portuguese Language Institute (IILP). The idea of a community gathering the Portuguese-speaking countries (twinned with a historical heritage, by common language and a shared vision of development and democratic nations) was already on the agenda. However, it was only implemented in 1996. Among other personalities, credit goes to the then Brazilian Ambassador in Lisbon, José Aparecido de Oliveira.

methodologies and pedagogical tools, criteria for the selection of trainers that were based on gender and participation, and also gave support to the development of Mozambique's National Literacy Pilot Project. According to an evaluation conducted in 2003, two of the five objectives of the ALFASOL programme (capacity-building of managers from the department of literacy of the Ministry of Education; 25% of execution of the pilot project) had not been achieved. The major execution problems referred to the necessary adaptation of pedagogical material to the local reality, the need to find a local editor, and the lack of payment of literacy trainers. Three objectives had been reached: (i) development of 240 literacy groups in five provinces (Cabo Delgado, Gaza, Manica, Maputo, and Sofala) involving 1547 students (first phase) and 6160 students (second phase); (ii) capacity-building of 250 trainers; (iii) and transfer of evaluation methods for literacy programmes. In the first phase, 80.6% of the students were women; in the second phase the proportion was 73.8%[1]. However, the ALFASOL programme faced more shortcomings when the Mozambican government decided to develop a new literacy curriculum: in view of this, the pedagogical materials produced in Brazil were considered not to measure up to the new curriculum needs[2]. Since it took the Mozambican government several years to conclude this revision, the ALFASOL programme was discontinued[3]. In spite of all this, Ana Cambaza heavily emphasized during the interview that the learning process with Brazilian colleagues was of great relevance.

The third phase in Brazil-Mozambique's brief history of cooperation began in 2003, when Brazilian foreign policy focused more explicitly on South-South relations (VIGEVANI & CEPALUNI, 2007; MILANI, 2013). In November 2003, during the visit of President Luiz Inacio Lula da Silva to Mozambique, eleven instruments of technical cooperation were signed. President Joaquim Chissano responded with an official visit to Brazil in August 2004, when they both signed an agreement for 95% of Mozambique's public debt write off, an amount of approximately 315 million USD that was converted to commercial credits granted under Brazil's export incentive programme. In September 2007, President Armando Guebuza paid an official visit to Brazil as guest of honour at the parade on the Brazilian national day. In the field of education policy, Brazil continued the *school-grants* programme (known in Mozambique as the "Future of Children"), and increased the number of grants to 400 (100 in 2005, 150 in 2006, and 150 in 2007).

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1 This evaluation report was kindly made available by Ana Cambaza.

2 It is not clear where this need for a new literacy curriculum came from; whether it had been identified as a genuine local need, or as a conditionality stemming from the structural adjustment programme that Mozambique was going through.

3 The ALFASOL and AAPAS are both non-governmental organisations created by the Solidarity Community, a political programme that functioned directly under the Presidency of the Republic and that was coordinated by the then First Lady Ruth Cardoso. The work of both NGOs was implemented with the support of the Brazilian Ministry of Education, but was also rooted in public-private partnerships (PERONI, 2006). In 2003, Lula's government brought about a change in the way these non-governmental structures relate to public funding, although ALFASOL is still an implementation partner for national and international projects developed by the Brazilian government.

With the support of MEC and ABC, AAPAS continued to participate in the design of Mozambique's national literacy programme, mainly through technical cooperation and capacity building. PEC-G and PEC-PG programmes followed suit, and higher education cooperation represented approximately 1.85 million USD in 2010 (as Table 8 shows). However, in this third phase, and particularly under Dilma Rousseff's government, educational cooperation started to focus more on distance education, technical education applied to agriculture, as well as school-food and nutrition quality (with the support of the MEC's FNDE). This change in the cooperation agenda has obviously reflected a policy shift in Brazil's domestic arena. An example of vocational training project currently under implementation is the "Cotton Course-Training and Technology Transfer, conducted by the Federal University of Lavras in partnership with the Itamaraty and the Brazilian Cotton Institute[1]. In March 2014, this new course was opened to thirty PALOP professionals with under-graduate studies in the field of Agricultural Sciences. Each selected student received a monthly scholarship of around 1,000 USD. Brazilian partners pay all expenses, including round trip airline tickets, life and health insurance, lodging and meals. This edition of the course is foreseen to last four months.

The Open University project is Brazil's current main distance education initiative in Mozambique. It offers undergraduate degrees to 690 Mozambican citizens. In 2013 UNILAB integrated the project's steering committee, and there are four other federal universities involved in it: the Federal University of Juiz de Fora, the Federal University of Goias, the Federal University of the State of Rio de Janeiro and Federal Fluminense University. Brazil's Open University plays the coordinating role. In Mozambique, the two main partners are Eduardo Mondlane University and the Pedagogical Institute. Brazilian and Mozambican teachers jointly prepare the pedagogical tools, correct the tests, follow the students through moodle, etc.

In the already mentioned 2013 high-level meeting in Bahia, the Mozambican Minister of Education (Mr. Augusto Luis) expressed interest to further develop cooperation projects in the fields of digital education and pedagogical use of information technology, particularly within the expansion of the Brazil Open University in Mozambique. Currently, programmes under the Open University build capacities in mathematics (Brazil's Fluminense Federal University and Mozambique's Pedagogical University), public management (Federal University of Juiz de Fora and Eduardo Mondlane University), childhood education (Federal University of Rio de Janeiro and Pedagogical University), and biology (Federal University of Goias and Pedagogical University).

1 In 2010, the governments of Brazil and the United States of America agreed to set up a fund using resources from the Commodity Credit Corporation, a body within the American government, as a partial solution to the cotton dispute within the World Trade Organization between the two governments, on subsidies granted by the American government to its cotton growers. This led to the setting-up of the Brazilian Cotton Institute, a not-for-profit civil association created in June 2010 to manage these funds, with a view to develop and strengthen Brazil's cotton industry nationally and through international cooperation.

In Mozambique, there are approximately 60,000 primary teachers and 8,000 secondary teachers; around 31% of them do not hold a university degree. These programmes aim to train 4,940 teachers and 1,350 managers from governmental agencies between 2012 and 2015. Brazil supports Mozambique with distance education infrastructure, pays scholarships to teachers and monitors and transfers all the technology freely (MEC, 2013).

In total, Mozambique cooperates with many bilateral and multilateral agencies. During the nineties it received approximately 700 million USD of official development assistance per year, and in the twenty-first century this average increased to reach 941 million USD in 2006, 1.71 billion USD in 2011, and 1.48 billion USD in 2012, according to OECD statistics. In financial terms Brazilian cooperation with Mozambique is almost irrelevant, but its thematic focus on technical cooperation, higher education, and distance education may produce a positive impact in the long run under some conditions which are discussed below.

In the case of distance education, there are two clear conditions that came up during the interviews. First, Mozambicans are used to dealing with NSC agencies, and increasingly seek to control the decision-making process and the definition of priorities. Frank Antonio recalls that in earlier times Brazil has tried to impose its own distance education model, but Mozambicans demanded new courses and context-oriented content. This means that, irrespective of the good intentions that Brazil's diplomacy of solidarity may deploy and the similarities between the two developing countries, there is a need for Brazil to professionalise its IDC/ED policy, and to internalise the need of adjusting policies to the local reality. Second, Frank Antonio says that there are many actors within Brazil's Open University programme; each of the five federal universities has a stake. This often fragments decision-making processes, and may hinder coordination. That is why since 2012, two coordinating committees were set up in each of the two countries, which allowed each side to speak as a single voice. This coordination effort is vital because the distance education agreement is foreseen to last until 2019.

7. Concluding remarks

The influence of emerging countries such as the BRICS countries (Brazil, Russia, India, China and South Africa) is rapidly increasing, including their role as providers of official and non-official South-South Development Cooperation (SSDC). Brazil's role in development cooperation is marked by a wide recognition of its development experiences as potentially useful for other governments in developing countries, as well as for international organizations and other actors engaged in the development agenda. As we could see in this chapter, Brazil's profile as a cooperation provider is a result of the interplay between numerous ideas, institutions and interests. ABC, currently part of the Ministry of Foreign Affairs (MRE), is just one among a myriad of institutions making decisions and implementing cooperation initiatives. Currently, there are proposals to reform this system and strengthen ABC by boosting its human and financial resources.

It is interesting to remember that in the above-mentioned 2013 high-level meeting in Bahia, the Brazilian government asserted that training Brazilian primary school teachers on African History and Culture is of great political relevance. Ten years after Law 10639 was sanctioned, Brazil's MEC presented a proposal to CPLP in order to send Brazilian teachers for short-term internship in the PALOP countries. These internships would allow them to benefit from an educational immersion in African culture, society and history (MEC, 2013). Such an example shows that Brazil offers, but also demands cooperation from the PALOP countries. This practice is important for a cooperative relationship between Brazil and African nations that socially and culturally tries to reframe the political mind-set and the symbolic regime of aid. Under DAC's framework, there is traditionally one who only offers and another who always benefits from what is offered (MAWDSLEY, 2012a). Through a demand for cultural and historical training for Brazilian teachers, Brasilia also states that it expects reciprocity in cooperation, and that the one who offers may also receive something in return: partnership, sharing of expertise, co-responsibility, no use of political conditionality, cultural and social commonalities are all features that characterise Brazil's official guiding principles in development cooperation.

However, Brazilian development cooperation also shows important shortcomings. Data published by IPEA and ABC does not include economic and financial cooperation, generally under the responsibility of the Ministry of Finance and the National Development Bank (known as BNDES). In the case of Mozambique, Brazil emphasises horizontal cooperation and inter-state cooperation; but differently from traditional donors, it only exceptionally channels its cooperation through civil society organisations. Difficulties may also arise out of excessive bureaucracy and inefficient implementation. The cooperation agenda for a new Brazil now as a provider requires a professional bureaucracy. Improvising is a risk. That implies that the Brazilian government must confront issues related to the lack of capacities, absence of a proper regulatory framework, insufficient funding, little evaluation of the results, constant budget cuts, and operational procedures. For future cooperation programmes, particularly in the field of distance education, Frank Antonio from Mozambique suggests improving the diagnosis stage (Brazil and Mozambique working out together), monitoring and evaluation criteria.

This chapter does not aim to propose a new model for the consolidation and institutionalization of Brazilian IDC/ED. In the current political environment in which ABC's reconfiguration is weighted by the Brazilian government, there are questions that we consider of paramount relevance for the future construction of a Brazilian IDC public policy, and for the consolidation of Brazil's profile as a cooperation provider in the field of education. Informality and institutional dispersion are the main features of the Brazilian institutional framework for cooperation. ABC does not have the means (human resources, budget, regulatory framework, political power) for coordinating and evaluating all the activities under implementation. The Brazilian government needs to refine its understanding of cooperation and therefore its precise statistical definition, one of the *sine qua non* conditions for increased transparency, accountability, and social participation. These are only some of the issues that the Brazilian government needs to address in order to consolidate its trajectory in the field of IDC in general and educational cooperation in particular.

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Chapter 11

Framework for South-South Cooperation and Emerging Contours of India's Development Partnership*

1. Genesis and Evolution

India's policy on development cooperation and partnership has been part of India's approach on its external linkages. This inclination was always there, whenever India could exercise an independent policy. Whether it was emperor Ashoka (268 to 232 BCE) or emperor Raja Raja Chola (between 985 and 1014 CE), the idea of sharing knowledge, know-how and cultural and spiritual strength was always the central element of their policy and approach. After Mughal and British intrusions, this policy space for India disappeared over the years. However, even during the freedom struggle the Indian National Congress committed itself for supporting struggle of other fellow developing countries in Africa and other parts of the world. Even before India became independent and had an interim government in 1946, Prime Minister Nehru suggested a training programme for agricultural scientists from China and Indonesia. This programme was taken forward by his Education Minister Mr. Shafaat Ahmed Khan to whom Nehru wrote as follows[1].

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1 He was Education Minister in Nehru's Interim Government, which came into existence on August 24, 1946 and Gopal (1984), page 531.

> 'We have been exchanging students from China. This was a very good step to promote closer relations with China. I suggest that we might do the same thing with Indonesia; or perhaps it would not be quite correct to say the same thing as probably there are no facilities for the education of Indian students in Indonesia at present. To begin with, therefore all we can do is to offer scholarships to some Indonesian students to study in Indian universities. I would strongly urge upon you to take some steps in this direction and to announce that a number of Indonesian students would be given such scholarships. Later on when some facilities are available in Java some of our students should go there.'

Immediately after independence in 1947, India launched a far more ambitious scholarship programme in 1948 with 75 scholarships. Later on, this programme emerged as a key initiative and was named as the Indian Technical and Cooperation Training Programme (ITEC) in 1964. The initial commitment of cooperation and broad political connect with the philosophy of partnership eventually moulded out the contours of South-South Cooperation, when Non-Aligned Movement (NAM), and before that Commonwealth's Colombo Programme, were launched.[1]

India's development philosophy was very much part of the shared idea of 'one world' and partnership for overall development. The theoretical framework comes in from the concept of development compact. The modern concept of a development compact provides for development assistance that works at five different levels: trade and investment, technology, skills upgrade, LoCs, and finally, grants. LoCs and grants may be pooled under an overall financing mechanism. The engagement of emerging economies with other Southern countries has provided a major pull factor for wider engagement across these five elements, which emphasises the comprehensive support for economic development. Some of these factors are discussed below, to provide an analytical taxonomy with some illustrative evidence from Indian experience.

What started with training and capacity building soon evolved into a much richer programme with far greater resource intensity? Receiving specific request from partner countries like Nepal and Ethiopia, India added new modalities particularly in form of projects. The number of projects in countries like Nepal multiplied so much that by 1952 India launched what was called as India Aid Mission (IAM) at the Indian Embassy in Kathmandu. The responsibility of the IAM was to keep a consolidated picture of all the projects and coordinate among the implementing agencies.

During the visit of the India Prime Minister Smt. Indira Gandhi to Kathmandu in 1966 the name of the IAM was changed to Indian Cooperation Mission (ICM).[2] In her speech Mrs. Gandhi explained the idea of drawing a distinction between aid and cooperation. This is evident from the following excerpts from a lecture by Indira Gandhi at Kathmandu in October 1966.

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1 MEA (1965), page 84.

2 MEA (1966-67).

> "We are greatly privileged to have been able to assist your plans of development in the same spirit of international economic cooperation in which we ourselves have received assistance from others. Economic and cultural cooperation between Nepal and India constitutes yet another symbol of friendship based on the principles of equality and mutual benefit. These principles of peaceful co-existence are universal principles.[1]
>
> We are glad to be able to assist Nepal in some measure in the execution of its development plans. India is also a recipient of foreign assistance, which we regard as a necessary and useful form of international economic cooperation. We finance the major part of our development programmes from out of our own resources-by the sweat and toil, the saving and investment of our people. During the past decade, the very process of development has served to widen the pool of resources and open up new possibilities for advance. This is the law of growth. I know this is equally true of Nepal. The building of the Tribhuvan Rajpath, the Sonauli-Pokhare road and the yet more ambitious East-West Highway–in all of which India is proud to be associated–provides a network of communications which will hasten the tempo of progress and development. We shall also be assisting you suitably in the realisation of your next Five Year Plan.
>
> The doors of our universities and technical institutes have long been open to students from Nepal. Many of our universities are indeed proud to claim distinguished Nepalese citizens as students. I hope this flow of scholars and intellectuals and other human and cultural contact will increase.[2]

The additional responsibility of ICM, was to ensure quality of projects. As ICM became more active it involved many experts from Nepal itself to review the quality and implementation of Indian projects. The reviews were brought out in form of reports and were taken up for discussions. However, very soon, India switched over to programme based assistance for both Nepal and Bhutan. Nepal was brought back to project based assistance while Bhutan still gets development partnership under programme based framework. This was also the period when India explored the strength of triangular development cooperation. In partnership with the United States, India launched radio and road network across Nepal.[3] With Canada, food supplies were ensured for Bangladesh, which at that point was Eastern Pakistan. Even now India partners with the United States to train police personnel in Afghanistan. In the partnership, India hosts the training and the US supports the travel expenses.

In fact, India was exploring the possibilities of triangular development cooperation (TDC)

1 From Speech at banquet given by King Mahendra of Nepal, Kathmandu, October 4, 1966. MEA (1971).

2 From Speech at civic reception, Kathmandu, October 1966. Gandhi (1973).

3 Chaturvedi (2016).

when few countries were using this instrument. An early example of its involvement was in the late 1950s when India and the US together worked to establish a radio network across Nepal and Afghanistan and also to build a main road in Kathmandu. India also built Tribhuvan Rajpath, a 130km mountainous highway through Nepal costing more than INR 30 million, handed over in 1957. At much the same time India entered into a tripartite agreement with the government of Nepal and the US for the construction of a 1500km road network, India's contribution in the first instance being INR 83.3 million drawn from the Ten Crore Aid Programme to Nepal.[1] In June 1958, a tripartite telecommunications agreement between the governments of Nepal, the US and India was signed at Kathmandu to improve telecommunications between Kathmandu and New Delhi and Calcutta, and to provide Nepal with an efficient internal telecommunications system. In another example of TDC India provided support towards freight costs on a shipment of 1000 tonnes of wheat donated to Nepal by Canada under the Colombo Plan.[2]

In this period, India also introduced a new programme of providing concessional loans which eventually emerged as a major programme of extending lines of credit. In the first phase of the Lines of Credit (LoC) programme (1966-2003), the GoI signed credit agreements with the borrowing country; the relevant LoCs were directly charged to the budget and disbursed through the State Bank of India. During this period, the GoI extended 83 government-to-government LoCs to 23 countries, totalling LoCs USD 1,816.82 million in purchasing power parity (PPP)[3] (for 31 LoCs in USD) and INR 5,862.1 million[4] (for 52 LoCs in Indian rupees).[5] At the time of independence of Bangladesh, India extended full support to finance trade not only related to India but even other requirements of Bangladesh. India entered into trade financing to Bangladesh from 1975 to 1979. Apart from these grants, LoCs and capacity building programmes, India also provided duty free quota free access to Indian markets for all the LDCs since 2008, as per the Hong Kong WTO Ministerial in 2005. China also announced similar access afterwards.

In several related programmes, India also got into technology partnership with various countries. India was instrumental in initiating in 1981 the Caracas Programme of Action, adopted by the Group of 77, which exclusively recognised the importance of S&T in South-South Cooperation. This led to launch of Technical Cooperation among Developing Countries (TCDC) and through bi-lateral cooperation resulted in transfer of technology in many instances. These were mostly simple technologies with greater relevance for immediate requirements at the initial stages of economic

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1 MEA (1957-58).

2 MEA (1958-59).

3 India's PPP conversion factor of 0.03 is based on the 2011 World Bank International Comparison Program (World Bank 2015).

4 Approximately USD 350.60 million PPP.

5 As of 31 March 2014, there are 21 outstanding LoCs covering eight countries, for a total of about USD 366.6 million PPP (11 LoCs in US dollars) and about INR 32.17 million (10 LoCs denominated in Indian Rupees) (Exim Bank 2014).

development. TCDC/Economic Cooperation among Developing Countries (ECDC) initiatives had their own limitations but the lessons from these are relevant even today.[1]

This paper is structured in such a way that we cover all different dimensions of Indian policy on South-South Cooperation and India's development cooperation. Next section covers the framework of South-South Cooperation followed by section on Institutional Architecture and the one on Modalities and Partnership. The last section comments on emerging challenges and way forward.

2. Framework of South-South Cooperation

South-South Cooperation is not at the cost of exclusion from the North. It covers the larger idea of 'One World and Global Citizenship.' This is a concept which has evolved over the years in terms of identifying broad development approaches with greater commitment for inclusion. This approach very much reflects the broad dimensions of development cooperation and those principles that we come across in SSC. Thus, one finds that sovereignty, equality and a belief in friendly relations with countries are the key principles in terms of commitment to the promotion of human freedom, opposition to the tendencies that come up in earlier part of the last century, viz. colonialism and creation of unequal conditions for peaceful and harmonious socio-economic development. These very broad principles which are guiding the narrative on SSC, have been part of the several Southern led groupings, like the Non-Aligned Movement, G-77, G-15, etc. These principles were largely the guiding force in terms of engaging with different global contexts and countries. India also absorbed them in its foreign policy framework. What Gandhi once said and I quote him here, which is important for us to understand the later developments across Indian foreign policy:

> "juxtaposition of peace and prosperity is not a mere contrivance for advocating moral precepts: rather, the two are indissolubly linked".[2]

There one finds a sort of emphasis in terms of how idealism and pragmatism may be linked with each other and how that enables identification of priorities in the formulation of foreign policy. This idea one finds running across the spirit of national development and also in terms of determining the broad parameters which are going to govern how we engage with global community. One example that may be relevant here is of Colombo Plan, a programme where countries like Canada, Australia, India and several other Commonwealth countries came together to support capacity building. A number of countries are members of this programme. In the United States a programme

1 Chaturvedi (2017).

2 Gandhi (1968).

like this is called as Third Country Programme under which support is extended to developing countries. As part of the Commonwealth Colombo Plan, the member countries brought in technical assistance and capacity building opportunities. Thus, there were real global efforts in 1950s to get everyone together on the same page and we need to see and analyse how polarization happened, points of departure emerged, countries went into different groupings and we went in the direction of North-South. Here it is important to see what Nehru, the first Prime Minister of India, said on the day of independence. In the paragraph quoted below he talked about dreams and the efforts to address poverty and ignorance. He said that those dreams are not alone but they are also for the world as a whole. Therefore, he said, we need to work with fellow developing countries and our neighbours. The idea of global challenge was very much part of broad genesis and philosophy that he pursued and was carried forward for identifying principles of global fairness in terms of key dimensions.

> 'The service of India means the service of the millions who suffer. It means the ending of poverty and ignorance and diseases and inequality of opportunity … And so we have to labour and to work, and work hard, to give reality to our dreams. Those dreams are for India, but they are also for the world, for, all nations and peoples are too closely knit together today, for any one of them to imagine that it can live apart. Peace has been said to be indivisible, so is prosperity now, and so is disaster in this One World that can no longer be split into isolated fragments.'

Similar ideas come from global philosophers Peter Singer and Thomas Pogge and both have worked extensively in terms of evolving the modern concept of global order and there you see the role of not only citizenry but also of government in terms of global challenges. These are climate change, health sector, and many other challenges where we require broad philosophy to be pursued in terms of nationalism and 'One World'. When we say 'One World', what are the ways we can really look at it and what are the ways we can identify key parameters associated with the idea of 'One World'.

There is little doubt that the share of emerging economies in global development cooperation is expanding at a higher pace than the quantum from the North-South ODA flows. In this context, the question is whether the two forces can really supplement each other and bring in some broad synergies. This possibility is certainly of great hope and has potential for meeting the resource gap several countries are facing.

In the contemporary context, it is also important for North and South to go back to what happened in Busan in 2011 when we talked about global challenges and working together which was part of the Fourth High Level Forum (HLF) where we thought of pulling our resources together, North and South working together to address some of the challenges. But unfortunately, it did not happen. North created Global Partnership for Effective Development Cooperation (GPEDC) in 2011, where not all countries are represented. The idea of one world is part of a wider objective because resources are limited, climate change is a reality and global challenges are multiplying.

How do we collectively address that? Some commercial and economic interests prevail and prevail so much that they change the contours of our respective foreign policies and exert pressure on negotiators and foreclose the options of this idea.

Prime Minister Narendra Modi has emphasized[1]:

> 'The principles of equity and common but differentiated responsibilities must remain the bedrock of our collective enterprise across all areas–mitigation, adaptation and means for implementation. Anything else would be morally wrong; and disparities'.

South should very much like to place on table the idea and philosophy with which it started this journey. The global community and all others may also consider to raise these issues in some form for bringing in a wider awareness about the idea of one world as mentioned earlier; the South-South Cooperation articulates this position.

It is pertinent to reiterate what the Indian foreign Minister Smt. Sushma Swaraj has mentioned[2]:

> 'India's multifaceted and substantial cooperation with the developing countries affirms its continued and unqualified commitment to strengthen the ethos of a world in which everyone works together for sharing of resources for peaceful co-existence. The recent adoption of Sustainable Development Goals by UN echoes India's cherished eternal values: "May all be happy. May all be free from disease. May all realize what is good. May none be subject to misery."'.

3. Institutional Architecture in India

India evolved institutional architecture for South-South Cooperation (SSC) much before the British left India. What started with political solidarity with fellow colonies soon gave way for specialised training programmes. In 1946, agriculture scientists from China and Indonesia were invited for a three-month training programme. After Independence in 1947, the capacity building programme

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1 Speech delivered by PM Narendra Modi at the Plenary Session at COP 21 Summit in Paris on 1 December 2015.

2 RIS (2016). South-South Cooperation 2016: Conference Proceedings. RIS: New Delhi. pp. iv.

under Ministry of External Affairs (MEA) was launched. Soon, the Economic Affairs Division (EAD) in MEA was also established to achieve close relationship between economic development and foreign policy. However, this was soon wound up due to resource constraints. As discussed earlier, due to special place of Nepal in Indian SSC, several projects and programmes launched were consolidated through, Indian Aid Mission (IAM) which was renamed as Indian Cooperation Mission (ICM) in order to reflect India's deeper commitment for SSC and to make a point that India does not give aid but extends cooperation. India distinguished between 'aid' and 'development cooperation.'

After the closure of EAD another effort was made in 1961 when the Economic and Coordination Division (ECD) was established. This was an improved version of EAD. The ECD was renamed as Economic Division in 1964. These changes in nomenclature and functions were taking place to further improve institutional architecture as a result of learning through experiences. In 1964, Indian Technical and Economic Cooperation (ITEC) Division was established to launch India's flagship ITEC programmes. With its success, the programme has evolved quite well. Meanwhile, several other efforts at institutional level were being made to streamline Indian institutional architecture in order to achieve better coordination and efficiency of different territorial divisions under MEA. This resulted in the establishment of Economic Coordination Unit in 1990. However, the high watermark in Indian institutional architecture appeared in 2003 budget speech by Finance Minister Jaswant Singh. It marked a great milestone to reconfigure Indian SSC efforts as well as provided a more focused and determined strategic direction in this context.

Mr Jaswant Singh launched four major policy changes with his budget speech. The first was an 'India Development Initiative' (IDI) located in the Ministry of Finance (MoF), designed to promote India as 'both a production centre and an investment destination' and also intended to leverage India's strategic economic interests abroad. Secondly, India turned away all donors providing less than USD 25 million, suggesting they direct their assistance to those countries which might need them more, or to NGOs in India–but not to the government. Thirdly, a major debt relief package for Highly Indebted Poor Countries (HIPCs) was also announced. Fourth, the delivery mechanism for Line of Credits (LoCs) was taken from the MoF and put under the programme called IDEAS with the Export and Import Bank of India.

In 2005, a development partnership division (DPD) was established in the MEA for implementing development cooperation projects. At the same time, responsibility for LoCs at the MoF was given to the Exim Bank under the Indian Development and Economic Assistance Scheme (IDEAS). The intention behind this was to achieve significant enhancement in delivery of projects to developing countries and to develop in-house expertise in project delivery and related assistance work so as to gradually evolve a nodal agency in the MEA for all project-related cooperation tasks, subsuming all similar projects being handled by territorial divisions. Such evolutionary trajectory of institutional architecture also led to the proposal of India International

Development Cooperation Agency (IIDCA) in the budget speech of 2007-08 by the Finance Minister P. Chidambaram. However, such proposed agency never came into existence.

Finally, the Development Partnership Administration (DPA) came up in January 2012 in order to effectively manage Indian contribution towards SSC through the stages of concept, launch, execution and completion. The DPA has three Divisions–DPA I, DPA II and DPA III. DPA I is responsible for all LoCs, grant projects in the East, South and West African regions, grant assistance projects in Bangladesh and the Sri Lanka Housing project. DPA II accounts for ITEC, Special Commonwealth Assistance for Africa Programme (SCAAP), humanitarian and disaster relief as well as grant assistance projects in Southeast Asia, Central Asia, West Asia and in Latin American countries. DPA III deals with the implementation of grant assistance projects in Afghanistan, Maldives, Myanmar, Nepal and Sri Lanka.

Though all these programmes and institutional initiatives have been evolved under the MEA, it would be conceptually wrong to assume that only the MEA initiates and manages development cooperation-related programmes. At present, the Indian institutional architecture engages several Line Ministries–particularly those of Agriculture, Science and Technology, Health and Family Welfare, Environment and Forest, Human Resource Development–and associated agencies in order to deliver towards diverse and effective SSC. The engagement of line ministries also depends on the nature of any international links they may have. In this context, the policies of international institutions have important implications for the nature of the programmes line ministries develop. For instance, the World Health Organization (WHO) might facilitate programmes from the Ministry of Health (MoH) to other developing countries.

DPA, thus, is not an agency to make policy decisions. It is primarily meant to enhance the efficiency and management of Indian development cooperation efforts through better and effective coordination of initiatives. Moreover, various territorial divisions in the MEA still have significant voice regarding the development cooperation projects. These territorial divisions take into account demands of the Southern partner countries. This demand-driven approach is one of the guiding principles of Indian institutional architecture. In this context, it seems appropriate to mention that India is instrumental in creating institutions in many countries, especially those from African continent. For instance, India assisted Mauritius in establishing its IPR cell in 2005, having earlier supported the Mauritius Radio Telescope Facility. Another example is that India is establishing a demonstration centre for small and micro-machinery in Ivory Coast, as part of which agro-based machinery would be exhibited and production encouraged with the help of National Research Development Corporation of India (NRDC). The creation of such agencies is again based on demand-driven approach in order to strengthen the capacity of the southern partner countries.

Thus, Indian institutional architecture is evolving gradually in the direction of knowledge and experience sharing, through replication of best practices. The creation of institutions in African countries is a significant step in this direction.

According to Dr. S. Jaishankar, Foreign Secretary, Ministry of External Affairs: 'Over the years we have extended our development partnership in our neighbourhood to Africa, Central Asia, Southeast Asia and Latin America. We have been building capacity, developing human resources and strengthening connectivity, executing mutually beneficial projects in sectors including infrastructure, energy, power transmission, as identified and prioritised by the host governments for their development.

The Indian Technical and Economic Assistance Programme (ITEC), which was launched in 1964, over the last half a century has contributed substantially to capacity building in many parts of the world. Thousands of foreign professionals from over a hundred and sixty countries are getting trained in diverse disciplines in reputed institutions in India. In all these strands of development assistance our underlying philosophy underpins the spirit of South-South Cooperation. Ours is a demand-driven solidarity based approach and we do not attach any conditionality and we are always respectful of the sovereignty of our partner countries'.[1]

4. Modalities and Partnerships

> "[W]hen Northern economies were booming, the south could reap some advantages in linking with Northern markets. If the North is now entering a period of structural readjustment to much lower levels of growth, the developing countries must increasingly look to themselves and to each other to sustain their momentum of development."
>
> Arthur Lewis (1979)

As Arthur Lewis put it, there is a paradigm shift in the developmental requirements of the developing countries and a shift in the owners of capacities to deliver them. Thus, the idea of solidarity is central to the concept of South-South cooperation. The Southern countries have been there for each other in a united manner ever since we can imagine. However, over the years the modalities for development cooperation have evolved around five different levels under the framework what is called as 'development compact', consisting of skills upgrade, trade and investment, technology, LoCs, and grants. 'Development compact' represents greater coherence that SSC brings on table–a commitment for mutual development of the partner countries.[2] It is not for one way gain; in any case, not for exploitation in any way. It is for mutual and equalitarian gain from such engagements.

1 RIS (2016). South-South Cooperation 2016: Conference Proceedings. RIS: New Delhi. pp. v.

2 For details please see Chaturvedi (2016) and Mohanty (2016).

The Development Compact and Modalities

Capacity building

As discussed earlier, capacity building has emerged as a main area of cooperation in the SSC framework. Every country has participated in this modality as per its capability. It primarily focuses on training individuals in partner countries or developing training programmes in partner countries. It is designed to either meet specific project demands or eliminate deficiency of skilled personnel in the country. This modality is applied to skill-intensive areas especially when technical assistance is required in installing a plant or machinery. This also takes into purview the requirements of educational institutions and delivers partially or completely self-financed programmes under its mandate.

India has promoted capacity building through scholarships in Africa and its neighbouring countries in Asia, fostering cultural and educational relations. Three main components are emphasised, providing training in India, sending teams of experts to partner countries, and providing equipment for project sites. Based on India's experience it was realised that building a sound base of trained manpower across all the developing countries and therefore training programmes for students of China and Indonesia in 1946 itself. This legacy was taken forward by subsequently increasing the number of scholarships, reaching nearly 340 between 1949 and 1954. This initiative took its most fruitful shape in the form of ITEC and SCAAP civilian training programmes to offer help to developing countries in Asia, Africa, Latin America, Eastern Europe, Central Asia, the Gulf and small islands in the Pacific and Caribbean.

Other instances of cooperation have been India's joining hands in the Commonwealth-initiated Colombo Plan aimed at boosting development in member countries of the Asia-Pacific region, and country-specific initiatives across partner countries like human resources training programme in Djibouti, Laos and Mozambique; training support for Afghan citizens in public administration, communication and meteorological facilities; setting up of residential royal Technical College in Nairobi, Kenya, and many more. In Africa, Sudan has been an important partner. In 1954, India provided training for judicial and other officials and also advised the Sudanese administration on a compensation scheme for expatriate officials. India donated INR 1.5 million to set up the residential Royal Technical College in Nairobi, Kenya, which was opened in 1956 to provide higher technical, commercial and arts education. The idea was to promote access to education for Kenyans irrespective of race, to foster the evolution of a multiracial and integrated society. In July 1956, Vice President, Dr. S. Radhakrishnan visited Kenya to perform the opening ceremony for the Gandhi Memorial Academy, which was incorporated in the College. Three years later India set up scholarships for West Asian and North African students and extended facilities to private students to study in India or undertake tours to agricultural and scientific centres.

Table 11.1 India's Development Cooperation: Capacity Building (ITEC/SCAAP)

Year	ITEC/SCAAP (Slots)	ITEC Budget US$ million
2000-01	2144	9.46
2005-06	3555	11.11
2010-11	5404	25.34
2013-14	8280	25.01
2014-15	10000	32.98
2015-16	10000	32.57
2016-17	12000	48.45

Source: RIS database on India's development cooperation.

As is clear from Table 11.1, the flagship programme for capacity building, viz. ITEC has substantially expanded in the last decade. With the budgetary allocation of US $ 9.46 million and total slots for trainees at 2144 in 2000-01, the number of slots reached at 12000 in 2016-17 with allocation of almost US $ 15 million. There are more than 300 short-term, medium-term and long-term courses during the year. This is not the only training programme that the Government of India had started several other programmes sponsored by the Ministry of External Affairs and the line ministries.

Under ITEC and its sister programme SCAAP, 161 countries in Asia, Africa, East Europe, Latin America, the Caribbean as well as Pacific and Small Island countries are invited to share the Indian developmental experience. The programme shares Indian technical know-how and expertise and provides training opportunities, consultancy services and feasibility studies.

Another cooperation programme of India, the Technical Cooperation Scheme of Colombo Plan, was started in 1950 with a view to providing technical assistance to neighbouring Colombo Plan countries. Through this India has been providing comprehensive and integrated training to participants from Asian member countries of Colombo Plan with the purpose of assisting them to enhance their administrative and technical capabilities through human resource development. The Ministry of External Affairs has been entrusted with the administration of the TCS of Colombo Plan since April 2010. Under this Scheme, India offers 500 slots for training in India at 26 centres of learning covering diverse disciplines keeping in mind the needs of our Colombo Plan countries.[1]

Trade and Investment

There are numerous advantages of taking up the South-South centric trade regime forward. To list a few, it permits Southern countries to exploit inter- and intra-industry economies of scale while providing their industries with a degree of protection against the Northern competition; allows them to tap the advantage of similarity in their demand patterns and construct avenues for technological change suited to their requirements; etc.

1 https://www.itecgoi.in/about.php. Last accessed on 13 December 2016.

India signed a protocol with Bangladesh in December 1974 which allowed them to trade in freely convertible currencies from January 1975. Similarly, in 1978, separate treatise for transit and trade were concluded with Nepal to bring under control the misuse of trade links, and to put Indo-Nepalese economic relations on a firm and stable footing.

India has been showing a promising growth in trade with the South which can be gauged from the following tables 11.2 and 11.3. With greater efforts for connect with global economies India expanded its trade with several partner countries. The trade share expanded in a major way with the rest of the South. In 1995, the developing countries had a share of 38 per cent in India's overall export basket and it expanded to 60 per cent in 2015. The major increase is in the Asian region where the share expanded from 32 per cent to 46 per cent in the same period. The rise in the African region has also been interesting as it expanded from 5 per cent to almost 10 per cent in the same period.

Table 11.2 India's Merchandise Exports to the South, 1995-2015

(% share of total exports)

	1995	2000	2005	2010	2015
Developing economies	38.32	38.93	53.33	62.45	60.24
Developing economies: Asia	31.95	31.59	43.76	50.08	46.31
Developing economies: Africa	5.23	5.17	6.70	8.12	9.70
Developing economies: America	1.14	2.12	2.82	4.23	4.15

Source: RIS database

The story in imports is also not very different. The share of imports from the South in the period 1995 to 2015 increased from 39 per cent to 68 per cent. While for the Asian region, the imports expanded from 32 per cent to 54 per cent and in Africa, it expanded 6 per cent to almost 9 per cent in the same period. The share of rise in trade with the Latin American region has also been extremely impressive. The sharp rise in both exports and imports with the South is mainly because of bouncy in the economies of the South as developed markets went through a major recession. The Southern economies with their growing external orientation leveraged the new opportunities and linked their production patterns with the demand impetus.

Table 11.3 India's Merchandise Imports from the South, 1995-2015

(% share of total imports)

	1995	2000	2005	2010	2015
Developing economies	39.41	47.26	49.72	67.13	68.20
Developing economies: Asia	32.06	34.47	42.84	55.10	54.25
Developing economies: Africa	5.56	10.54	4.00	8.31	8.40
Developing economies: America	1.75	2.18	2.77	3.66	5.46

Source: RIS database

Technology and knowledge base

The importance of this modality need not be over emphasised. No doubt, Southern Countries have engaged in these exchanges for several years, largely as means of achieving self-reliance. Modalities can consist of training, technology transfer, cooperation for joint R&D, and most prevalently capacity building in key areas of S&T.

Though in caching-up the technology race South has been struggling against a narrowly defined intellectual property regime, Southern partnerships have evolved across sectors to absorb at least the implications of technological change, if not to explore the ways of accessing it. The repulsion from the South for the WTO trade-related intellectual property rights (TRIPS) agreement came on the issue of access to medicines and led to the adoption of the WTO Doha Development Agenda in 2001. New avenues for growth of South-South technological cooperation are also being opened, given the rate of expansion in project-based investments, loans and trade.

Development Finance

This instrument has shown its presence since the late 1940s and has found general acceptance in the South. EXIM Banks of respective countries support export-import of goods, services (including consultancy services), and machinery and equipment. Interest rates on advances offered under such arrangements differ, depending upon the quantum and nature of the project concerned, and the time over which advances are approved in different countries.

India's EXIM Bank extends LoCs to foreign financial institutions, regional development banks, sovereign governments and other entities overseas, to enable buyers in those countries to import goods and services from India on deferred credit terms. The criteria include creditworthiness of the partner country; whether or not it can repay in hard currency; and the likelihood that the project concerned will generate sufficient resources for repayment. A major change in the LoC programme was introduced with the IDEAS scheme launched fiscal 2004 which authorised EXIM bank to operate IDEAS on behalf of the government in cognizance of larger volumes of assistance.

Grants

'Grants' are a conventional practice at both bilateral and multilateral levels, their amounts have multiplied several times. Grants have evolved from being completely in kind to increasingly involving cash. There are instances of LoCs being turned into grants, a process under which minimal cost is borne by the partner country.

5. Case Studies on Nepal and India-Africa

In light of the theoretical framework discussed above and the associated modalities we herewith discuss two interesting and relevant case studies on Nepal and Africa. In case of Nepal, relationship has evolved more or less at the bilateral level while in case of Africa the partnership is at three different levels; one at the continental level where African Union partnered with for several initiatives, second at the sub-regional level, where specific groupings have partnered with India, and the third is at the bilateral level where historical connection have played an important role. In this section, we take a combined and comprehensive overview of several of these linkages, particularly in the context of Ethiopia and Mozambique.

Case Study of India-Nepal Partnership

As discussed earlier, India's development cooperation policy and its institutional evolution is quite evident in Nepal. Several new policies and mechanisms in Indian development cooperation that evolved in Nepal were a direct outcome of changing local priorities, development parameters and prevailing perceptions on development gaps. India's development policy opted for its modalities which could maximize social gains within the limited budgetary constraints. During the difficult economic phases that Nepal went through in the beginning of this century, India launched what was called as Small Development Projects (SDPs). In fact, adoption of small projects (SPs) has gone through two different phases. The first one was in 1955 during the second five-year plan of Nepal and included SPs like Kathmandu Water Supply (NRs. 7.9 million), Minor Irrigation and Water Supply (NRs. 5 million), Maternity and Child Welfare Centre (NRs. 2 million), Dakshin Kali Road (NRs. 1 million), the construction of a new Post Office Building (NRs. 6 million). This was the phase when IAM was in operation and several projects were completed before their scheduled date of closing. These included Devighat Hydro Electric Project and a co-axial cable link between Birganj in Nepal and Raxaul in India. However, with culmination of IAM and ICM and establishment of Economic Division at the Embassy, the first phase for SPs was over.

The second phase was with SDPs, which began in 2003, when set of two MoU were signed between the Ministry of Finance of Government of Nepal and the Indian Embassy and another MoU was signed between the Embassy and the beneficiary organizations and the District Development Committee or the implementing agency at the local level. In this way, India made an effort to open up the SDPs to local organizations, communities and Nepal without diluting the rule of local authorities and the national government of Nepal. This was a marked departure from India's own experience from OECD countries which very often funded civil society organizations in India without consulting Indian government and at times against the wishes of the ruling administration. In fact, in 2012, the then Prime Minister Dr. Manmohan Singh in a public meeting had blamed the US backed NGOs for blocking the development work in India. He had said, "There are NGOs, often funded from the United States and the Scandinavian countries, which are not fully appreciative of the development challenges that our country faces". This statement of the Prime Minister Manmohan Singh was in the context of a stiff opposition by NGOs for genetically modified groups in India and civil nuclear plant at Koodankulam.[1] The current government led by Prime Minister Modi further amended the Foreign Contribution Regulation Act (FCRA) to streamline funding of civil society organization.

The initial MoU for SDPs was signed for the period 2003 to 2006 and 2008 to 2011 which was extended to 2014 and now has been re-extended up to 2017. Nepal has also taken measures to support such arrangements. The Public Procurement Act 2063 of 2007 is one such instrument that has provided legal provisions to make procedures, processes and decisions related to public procurement much more open, transparent, objective, reliable and compatible to e-bidding. The other is the Financial Regulation Act of 2002 that helped in streamlining the financial workings of the local agencies.

In Nepal, District Development Committees provide the key forum for Municipalities and Village Development Committees, apart from civil society organizations and local agencies like District Urban Development and Building Corporation (DUDBC). In the SDP programme, DDC give a direct request to the Indian embassy for visiting sites and scrutiny of the proposals. The development connects and related issues are examined at the DDC. Once satisfied with the projects' viability, the Indian Embassy signs tripartite MoUs between the DDC, the beneficiary organizations and the Embassy itself. Copies of MoUs are placed with the Ministry of Local Government and the Ministry of Finance. In the process as it emerges, the DDC remains the central pillar in all the transactions. With the evolution of the SDPs, the other agencies along with the DDC that also play an important role, are DUDBC, local Municipality, Department of Roads, and Nepal Electricity Authority.

The beauty of SDPs lies in their short gestation period. Such projects require low investment. In 2003, they were capped to Nepalese rupee (NRs) 30 million and in 2006 this was raised to 50 million. Thus, a partnership of communities and variety of stakeholders: all of them getting linked with the collective development efforts. The cost of impact assessment which is another distinction between the projects from the North and the South, is also very low as communities themselves take all the responsibility. The project fund approved by the techno-economic assessment is linked with progress in the project schedule. It also envisages constituting a committee of the Chair of the Project Management Committee, Engineer of the District Technical Office and a District

1 *The Pioneer*, 2014. "Govt. Bans Direct Foreign Funding of NGOs". January 20.

Officer with an interest in the project; for instance, District Education Officer, in the case of school projects. The fund is released in four equal instalments, all linked to the project schedule. Accordingly, the first instalment is released just before launching of the project, while the second instalment is released on the basis of site inspection by the Committee, and the third instalment is released when the 50 per cent of the work is over. Once the photographs and reports are received the fourth instalment is released with the completion of the project.

Under the SDP programme, education received highest priority (Table 11.4). The total numbers of educational school projects executed in almost all districts were around 273, at a cost of INR 336 crore. In the health district infrastructure of 25 hospitals was supported in 18 districts with the budgetary support of INR 38 crore. Under the SDP programme 462 ambulances and 90 school buses have been provided. The overall number of development projects in 2015 was 474, while in 2014 it was 466. In 2004, it started with 16 projects and by 2014 it was raised to 314 projects.

While doing a detailed review of the SDPs (Chaturvedi, *et al.* 2013) it was suggested that greater policy cohesion across SDPS may enhance effectiveness, as it would expand possible gains. For example, instead of donating ambulances through a separate donation programme, they should be linked to SDPs in the health sector through which primary health centres are being supported. Such a process would help in expanding gains and at the same time would bring in greater cohesion. Similarly, constructing a school and constructing the connecting roads to the school are together more advantageous than constructing either of them separately. Therefore, exploring linkages among SDP projects is extremely important for future direction and greater relevance of the programme.

These changes would be relevant in the new areas where India has already introduced this flagship programme. At present, it is being implemented in Sri Lanka, Bhutan, Afghanistan, Myanmar and several of the African countries.

Table 11.4   Executing agencies and scope of projects

Executing agency	Type of Projects
District Development Committee (DDC) Ministry of Local Development	School, roads, health, flood mitigation, Renovation of historic places
DUDBC	Schools
Municipality	Roads, cold storage, drainage
The User Committee is the implementing agency (but proposals of less than INR 6 million value must be routed through above agencies)	Single floor school building, renovation of historic places (very small projects)
Department of Roads	Roads
Nepal Electricity Authority	Electrification Projects

Source: Author's compilation.

India Africa Forum Summit

The historical linkages and partnership between Africa and India have always motivated governments of both the sides for deepening the civilizational connect. The natural partnership was very much evident in their collective fight against colonialism and later in catching up with the development process. With immense complementarities, Africa and India have worked together for independence, equality, human rights, freedom and democracy. Over the years, partnership for development projects has deepened the collective commitment leading to launching of India-Africa Forum Summit (IAFS). Three such summits have been organised so far: first in New Delhi in 2008, second in Addis Ababa in 2011 and the third summit in New Delhi in 2015. At the New Delhi summit, it has been decided to host the IAF summit at the gap of five years. Hence the next summit would take place in 2020.

With the IAFS, India has tried to consolidate and widened the cooperation with the African partners in select economic areas, where support for Programme for Infrastructure Development in Africa (PIDC) is the top most priority along with reducing the debt burden for Heavily Indebted Poor Countries (HIPCs). In the area of trade and industry, full implementation of Duty Free Trade Preference scheme from India and strengthening of the framework of Tripartite Free Trade Agreement (TFTA) are the priorities along with the implementation of WTO Bali Trade Facilitation Agreements. India is also committed for partnering with Africa through the Comprehensive Africa Agricultural Development Programme (CAADP) for increasing agricultural productivity, conserving land and environment and for ensuring food and nutritional security. The idea of Blue Economy for collective ocean governance and skill development are also on the priority list. India has established a monitoring mechanism for all the agreed projects and has closely followed the time lines and collective commitments.

At the IAFS III India announced an additional US$ 10 billion line of credit and grant assistance of US$ 600 million to Africa for several development projects for next five years. The grant includes India-Africa Development Fund of US$ 100 million and India-Africa Health Fund of US$ 10 million. It was also announced that the number of scholarships in India would be enhanced from currently 10,000 to 50,000 over the next five years. India also announced expansion of the Pan Africa E-Network, an institution for skilling, training and learning, established with the Indian support. The partnership would give top priority to Africa Vision 2063, while short listing the projects to be financed in future. Given India's priority at the Paris climate agenda conference, Prime Minister invited African countries to join the "Alliance of Solar Panel Countries". The idea is to make solar energy an integral part of the development strategy of the partner countries from Africa. India also proposed to provide training to the African Peace Keepers and encourage them to be part of the UN Peace Keeping Mission, where India's contribution is very well recognized.

India has already been providing training to African Standby Force (AFS) in this context. India also sent a contingent of 250 Indian of female policy force to Liberia.

Case studies of Ethiopia and Mozambique

Since 1950s India's cooperation between India and Ethiopia has multiplied several times. It was in 1952 that India built a maternity hospital along for local community to mark the 60^{th} birthday of Emperor of Ethiopia. India also worked closely with Ethiopia for its accession to WTO and partnered in strengthening the Ethiopia Revenue and Customs Authority (ERCA). The Centre for Development of Advanced Computing of India worked together with ERCA for developing a comprehensive framework. India has closely aligned with the domestic growth priorities of Ethiopia. In the Growth and Transformation Plan (GTP) of Ethiopia, sugarcane is mentioned as a high value crop and India was identified as a partner country for pushing in intensified commercialization.

As part of its obligation India decided to extend several lines of credit and partnered for revitalization of the sugar units. The major LoC of US$ 640 million over the period 2007-2012 was extended to revitalize sugar units, which were initially established by Dutch assistance.

The initial target was an annual production of sugar and ethanol respectively of 2.25 million tonnes and 304,000 m and in addition, to generate 607 MWe of electric power by the end of the plan period. This was to be achieved by bringing an additional 200 000ha under sugar-cane plantation with productivity of 155 t/ha. The GTP expects to earn US$661 million from sugar exports and create 200000 new jobs. The project is also aimed at reducing growing import dependence, as domestic demand for sugar has multiplied considerably in the past few years. Ethiopia plans to build seven sugar factories within the next five years (see Table 11.5).

Table 11.5 Planned sugar development projects

Project	Region	Completion capacity			Electricity generation (MW)	Land for cultivation (ha)
		Crushing capacity (tonnes per day)	Sugar production (tonnes)	Ethanol (m^3)		
Kessem Sugar Development Project	Afar	6000	153000	125000	26	20000
Tendaho Sugar Development Project	Afar	13000 (first phase) 13000 (second phase)	619000	55000	120	50000
Kuraz sugar Development Project (two Sugar factories)	Southern Nations Nationalities and Peoples	24000 (each)	556000	52324	415	175000
Kuraz Sugar Development Project (three factories)	Southern Nations Nationalities and Peoples	12000 (each)	278000	26162		

Continued

Project	Region	Completion capacity			Electricity generation (MW)	Land for cultivation (ha)
		Crushing capacity (tonnes per day)	Sugar production (tonnes)	Ethanol (m^3)		
Wolkaiyt Sugar Development Project	Tigrary	24000	484000	41654		5000
Arjodidiessa Sugar Development Project	Oromiya	12000				
Belles Sugar Development Project	Amahary		242000	20827		75000
Total		152000	2332000	320967	561	325000

Source: RIS dataset based on reports from Sugar Development Corporation of Ethiopia.

This LoC was provided through disbursements over five years in phases of US$122 million (2007), US$166.23 million (2009), US$213.31 million (2010), US$91 million (2011) and US$47 million (2012). The project covered three sugar mills, respectively Wonji/Shoa, Finchaa and Tendaho, all of them falling under the US$640 million LoC (Table 11.6).

These three units went through limited expansion from their establishment in 1954 till 1962 because no further investment was made for enhancing productivity. The oldest among these factories is the Wonji sugar factory. Modernization of this factory was awarded to a firm based in Uttar Pradesh called Uttam Sucrotech International Limited and has recently been operationalised. The Finchaa sugar factory, which is close to the Finchaa river, is spread across a huge land area of 21,000 hectares and US$ 250 million will be invested to meet the production target of 270000 tonnes. The third factory Tendaho sugar factory in Afar state in north-eastern Ethiopia represents an ambitious initiative and occupies around 50000 hectares of area. With these three factories getting modernized GTP's overall targets of sugar production would be met.

Table 11.6 Support for development of Ethiopian sugar industry

	Wonji-Shoa	Finchaa	Tendaho
Capacity	6250 tons TCD	12000 TCD	Two phases each of 13000 TCD
EPC contractor	Uttam Sucrotech	Overseas Infrastructure Alliance (OIA)	Overseas Infrastructure Alliance (OIA)
Date of commencement	February 2010	April 2009	July 2009 (Phase One)
Scheduled completion date	June 2012	October 2011	August 2011
Actual completion date	October 2013	October 2013	October 2013 (Phase One)
Amount (total US$640 million.)	US$141 million	US$132 million	US$367 million

Source: Author.

As is clear from Table 2, the three units would be contributing a major share in revitalization of the sugar production in Ethiopia. The major challenge would be to connect these units with the nearest Djibouti port for exports. Along with sugar it is also expected that the unit would contribute ethanol worth of US$ 977 million and create jobs for 81,000 people. According to the Sugar Corporation of Ethiopia (ESC), if the Tendaho factory reaches its production capacity, it would be creating nearly 50000 jobs in Ethiopia.[1]

Challenges

This project is extremely significant as it captures the full landscape of value chain, which is extremely beneficial for the domestic priority of Ethiopia. Streamlining of selection of right agencies is extremely important. The EXIM Bank of India and ESC would have to work in close cooperation for checking delays and cost overruns, as projects do not get adequate monitoring and punishment for delays. Given the economic importance for Ethiopia, the projects should have modified swiftly on the time lines identified and fixed for implementation.

Mozambique

Like Ethiopia, India's relationship with Mozambique also evolved in last 50 years or so. There are variety of programmes India has implemented under various initiatives. However, in this write up, we would focus exclusively on the silver lining of all these projects that is the photovoltaic for producing solar panels. The annual incidence of solar reduction is evenly distributed across the country which is about 1.49 million GWh, which is six times more than the current country energy demand.

The solar panel factory supported by India is exceptional in the sense that it was implemented much before its deadline of October 2013. The factory is located in Beluluane Industrial Park and was inaugurated by the Mozambique President Armando Guebuza. The solar panel which would be produced from this unit would illuminate 207 villages, 344 schools and 403 health units. The project is implemented by the Electronics Corporation of India Ltd. under a line of credit of US$ 13 million in partnership with Mozambican Government National Energy Fund (Funae). The construction of this factory created jobs for 780 people. At this point Mozambique is importing solar panel at a cost of US$ 5 to 6 million annually. The whole of the solar energy project is likely to generate a capacity of 5MWe. The Central Electronics Limited (CEL) partnered with Funae implementing similar projects in Syria and Sudan. In this case CEL not only provided production technology, but also trained 17 Mozambican scientists nominated by Funae to run the plant, which is a long term technical-economic gain for Mozambican economy.

Recognising the key achievements at Beluluane solar panel plant the government of

1 Chaturvedi, 2016. 'The Logic of Sharing – Indian Approach to South-South Cooperation'. Oxford University Press.

Mozambique honoured the CEO of Funae by the Seal Made in Mozambique for achieving targets of production of solar panel on the national territory intended for electrification in rural areas. The certification of the Solar Panel Plant is part of the governments' efforts to recognize national good and services, so that they could be become be utilized at the country level and beyond.

India's cooperation with Mozambique continues to be a priority area, as Prime Minister Modi visited Maputo in July 2016, where he announced supporting new technologies for local seed production in order to ensure greater agricultural output. Since 66% Mozambican population is below 34 years of age, India extended sharing of experience in developing job oriented programmes for youth development also for encouraging to participate in sports.

6. Emerging Challenges and Way Forward

India's development partnership policy has evolved with greater commitment for collective global development, as enshrined in the Indian philosophy of 'one world'. The focus of this philosophy guided the initial policy framework. All the key policy thrusts that we now hear from OECD-DAC were already part of India's development cooperation framework in the 1950s and 1960s. As is clear from previous discussion, these included transparency, impact assessment and triangular development partnership. However, over the years the gulf between the developed and developing countries expanded and growth opportunities shrinked leading to huge contraction not only in the growth prospects but also diminishing of development finance flows. Parallel were the trends in the G-77/NAM and other Southern fora, where reactions to Northern conditionalities multiplied. As a result, real politik prevailed and different framework for SSC emerged. India's development cooperation policy and its evolution very much reflect the dynamics of SSC framework.

Since 2003, India's development cooperation has gone through a major change. The inflows were restricted and ideas for an institutionalised effort for development cooperation multiplied. The new scheme for lines of credit under the name of IDEAS came up in 2005 and finally DPA emerged in 2012. There are some new trends which are extremely interesting and may have long term impact. India explored the strength of civil society in its development journey right from the freedom struggle itself. Through the small development projects (SDPs) the same was explored across partner countries. India introduced an interesting programme in Nepal called as Small Development Projects (SDPs) and in Vietnam called as Quick Implementation Projects (QIPs). Out of this, SDPs became extremely popular and successful. India is now implementing SDPs in Sri Lanka, Afghanistan, Bhutan, and across a couple of African countries. The short duration projects involve civil society organizations, local communities, basically supplementing the efforts of local administration. In this process, India's development cooperation has increasingly leveraged the strengthening of civil society organizations. In fact, the DPA has also partnered with academia and civil society to put forth what is called has Forum for Indian Development Cooperation (FIDC). At the Third India-Africa Forum Summit held in New Delhi in 2015, FIDC was identified as an important connects on development cooperation related initiatives. Indian civil society has also played an important role in India's current economic evolution and this has given scope for greater experience and additional resources in carrying forward a corrective vision for economic development.

The new challenges that India faces at this point are multi-dimensional in nature and require a robust response for an effective outcome. Given the growing resource demand for various development cooperation led programme, India would have to explore new modalities for taking them forward. One way could be to revive triangular partnership, wherein Indian expertise may match resources from other countries and benefit the partner countries. India may also consider reviving the programme that was launched in 1994, viz. Special Volunteers Programmes (SVPs), which somehow could not go far enough. There is also growing need to bring in professional impact assessment and evaluation for projects India is entering into with the creation of DPA. The deck is already set for greater role for such instruments. In this context, partnership with China, Brazil and South Africa may also be extremely useful. The Network of Southern Think Tanks (NeST) precisely tries to identify Southern methodologies for impact assessment for Southern financed projects. The process may require creation of evaluation framework and context specific evaluation methodologies.

The other challenge could be to bring in predictability in the quantum, which is available to the Ministry of External Affairs. Greater insulation of this budget from other volatility is important for the partner countries to sustain their activities.

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Chapter 12

South Africa's Development Cooperation: Trends, Prospects and Challenges*

1. Introduction

Multilateral, trilateral, regional and bilateral development cooperation can play an important role for sustainable and inclusive development of participating countries, particularly in (i) enhancing economic well-being of citizens; (ii) connecting and integrating countries to regional economies and the world economy; (iii) enhancing inclusive social development (iv) capacity building (vi) transfer of knowledge, knowhow and best practices and (iv) arresting environmental degradation and climate change.

International cooperation in Africa, including South Africa has its roots in colonial history. The bilateral international cooperation agencies of advanced economies usually are undertaking development initiatives and programs in their former colonies. This kind of cooperation may have promoted further division in Africa, namely: the so-called "Anglophones," "Francophones," and "Luzophones" ((Boon, 2009).

Multilateral international cooperation involving international development organizations such as United Nations (UN), World Bank (WB), International Monetary Fund (IMF), African Development Bank (AfDB), Asian Development Bank, Inter-American Development Bank (IADB), Organization of Economic Cooperation in Developed Countries (OECD) among others,

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has promoted peace and development in the world, particularly in the developing and transition economies. The overarching goals of most international development cooperation agencies have been poverty reduction and economic well-being. In addition, they have promoted sustainable and inclusive development which includes promoting peace, sustainable livelihoods, social and economic equity, gender development, human rights, democracy, and good governance among others.

One of the major challenges of international development cooperation is the integration of developing economies; particularly those of Africa into the world economy. African developing countries have been facing significant challenges in selling their products and services in the international markets. These economies face marginalization and their difficulties are not often considered during policy decision-making at international organizations and forums. For example, the World Trade Organization (WTO) had tried to impose an unacceptable trade regime during the Seattle and Bangkok summits in February and March, 2000. In addition, the conclusions of the Africa Development Forum at New York in March 2000, and problems with the attitude and conditional ties of the IMF and the WB with respect to the developing countries, particularly Africa, demonstrates the inefficacy of international cooperation to promote sustainable development of the developing world, and Africa in particular (Boon, 2009)

Traditionally, the world development cooperation was led by the North-South Cooperation (NSC) and Triangular Development Cooperation (TDC), which provided the major portion of Official Development Assistance (ODA) to developing countries for development purposes. In recent years, the re-emergence of the Global South, home of 75% of world population, as a world economic power—significant shift of power from north to south, has facilitated a reconfiguration of global development architecture resulting in increased south- south development cooperation (SSDC). The SSDC involves cooperation in the areas of financing and partnership, peace and security, environment, infrastructure and connectivity, people-centreed development, and science, technology and innovation[1] .

South Africa economy is the most advanced economy in the African continent. It has an advanced and sophisticated financial sector with one of the top 10 stock exchanges in the world. The country is well connected with transport, telecommunications, and energy infrastructures. South Africa is one of the major emerging countries in the world and a member of BRICS grouping (Brazil, Russia, India, China and South Africa). It is playing an important role in enhancing SSDC and promoting development cooperation initiatives in the African continent. South Africa needs to further promote SSDC by building a shared vision and strong collabouration and partnership among participating countries, particularly in Africa.

This chapter focuses on the history, successes, lessons learned, challenges, and future prospects of South Africa's Development Cooperation, particularly in SSDC. The section 2 provides economic characteristics of South Africa as well as the objectives of its development cooperation

1 Source: (http://ris.org.in/pdf/SSC-12%20Page%20Brochure.pdf)

agenda prior and after the democracy. The structure and characteristics of South Africa's development cooperation is presented in the next section. The section 4 presents objectives and budget of various international development cooperation programs of South Africa's during 2012-2019. The section 5 presents trends, patterns and structure of South Africa's foreign assistance programs. The concluding section future prospects of South Africa's development cooperation and recommendations for enhancing its development cooperation initiatives.

2. Economic Characteristics of South Africa and Objectives of Its Development Cooperation Agenda

This section discusses economic characteristics of South Africa as well as the objectives of its development cooperation agenda prior and after the democracy.

2.1 Economic Characteristics of South Africa

South Africa is an upper middle income country and the largest and most advanced economy of Africa. In May 2009, the economy witnessed a recession resulting in a sharp slowdown in the mining and manufacturing sectors. However, the large investment for the 2010 World Cup has revived its construction industry. However, the economy continues to face several challenges including high unemployment, low FDI flow; and high budget and trade deficits. The real GDP growth decreased from 1.5% in 2014 to 1.3% with 4.6% inflation in 2015. The growth is projected to slow down further in 2016 to 0.1% with a higher inflation of 6.4 % according to IMF. The major obstacles for economic growth include electricity shortages, low commodity prices; strikes in construction and manufacturing industries; and low consumer and business confidence. The recent slow growth of South African economy may have an impact on South Africa's capacity to provide adequate official foreign aid or assistance in future.

Table 12.1 presents economic characteristics of South Africa as of 2015.

Table 12.1 Economic Characteristics of South Africa: 2015

	2015	**2016 (estimated by IMF)**
Country size	1 219 090 km	1 219 090 km
GDP at current prices	Rand 3991 billion (US $ 314.6 billion)	
Population	54956900	
GDP per capita:	Rand 72620	
Real economic growth rate:	1.3%	0.1%
Annual inflation rate:	4.6%	6.4%
Merchandise imports:	Rand 1 088 billion	
Merchandise exports:	Rand 1 036 billion	

Source: SACU Website, http://www.sacu.int/show.php?id=546

South Africa was under an apartheid regime from 1946 to 1994. Even though South Africa was one of the 51 founding member of the United Nations (UN) in 1945, UN General Assembly on 12 November 1974 suspended South Africa as a result of international objection to its policy of apartheid. UN re-admitted South Africa in 1994 after its transition into a democracy. Since 1994 the democratically elected government of South Africa undertook a foreign policy based on the centrality of the UN in the multilateral system. In 2006, the African Union (AU) endorsed South Africa which served the UN Security Council as a non-permanent member during the period 2007-2008 as well as during 2011-2012. As a non-permanent member of the UN Security Council (UNSC), South Africa advanced the African Agenda namely peace, security and development.[1].

2.2 Development Assistance Prior to the Democracy[2]

Prior to the transition to the democracy in 1994, the apartheid regime of South Africa provided development assistance to support five African countries—Lesotho, Gabon, Cote d'Ivoire, Equatorial Guinea, and Comoros as well as Paraguay which had strong economic and cultural links with South Africa.

The major objective of South Africa's apartheid-era development assistance program was to win a measure of respect for the country, and to get support (votes in UN) from friendly countries. The main instrument of the development assistance was the Economic Cooperation Promotion Loan Fund Act, 1968 which was later amended by the Economic Cooperation Promotion Loan Fund Amendment Act, 1986.

The Chief Directorate in the Department of Foreign Affairs managed the Development Assistance program institutionally. The program included direct project-related development assistance. However, there was little research for formulating the development program. The program was based on direct requests for assistance from the recipient countries.

2.3 Development Assistance after the Democracy

After the democratic rule in 1994, South Africa's country's relations with other countries in Africa witnessed a transformation—one of primary importance. The development assistance program formulated an instrument to advance the so-called African Renaissance. South Africa attempted to avoid following the traditional North-South donor hierarchies by promoting a cooperative engagement with its African partners. South Africa aims to play a major role as a driver of

1 Offical website of permanent mission of South Africa to the UN, http://www.southafrica-newyork.net/pmun/ Aceesed on 11 Dec 2016

2 Based on Braude et. al. (2008)

economic growth and development, human capacity building, and political freedom of the African continent. South Africa can utilize its long experiences, economic power, and strong institutional and skills base to promote the development. South Africa's development cooperation with the African continent involves three pillars:

(i) Strengthening Africa's institutions, regionally and continentally;
(ii) Promoting implementation of Africa's socioeconomic development program, the New Partnership for Africa's Development (NEPAD); and
(iii) Enhancing bilateral political and socioeconomic relations through dialogue and cooperation (Braude et. al, 2008).

South Africa's development assistance program embedded within the broad framework of the New Partnership for Africa's Development (NEPAD) and the vision of an African Renaissance. The main focus of its development assistance program is Africa and therefore, the development assistance is mostly directed toward less developed African countries. Around 70% of development assistance is directed to South African Development Community member states. The main objectives of the program include: (i) general improvements in governance, (ii) conflict prevention, resolution, and remediation; and (iii) security concerns and peacekeeping (Braude et. al, 2008).

3. The structure and Characteristics of South Africa's Development Cooperation

3.1 Characteristics of South Africa's Development Cooperation

As South Africa emerged out of its apartheid regime in 1994, it developed strategic ties worldwide to strengthen its leadership role on the continent, through multilateral arrangements such as the Group of 77 (G77); Group of 20 (G20); Brazil, Russia, India, China and South Africa (BRICS); and the India, Brazil and South Africa (IBSA) groupings. However, most South Africa's active development cooperation, and its intended future engagements, involves bilateral and trilateral cooperation to strengthen African development. The scope and activities of South Africa's multilateral engagements are rather limited compared to bilateral cooperation. For example, South Africa, India and Brazil have contributed $1 million each to the IBSA Poverty Alleviation Fund. It is not expected that this contribution will be increased in future. Even though South African is a founding member of newly established BRICS New Development Bank, multilateral cooperation is not expected to become a priority for South African development cooperation (Lucey, 2015).

African continent has been the major priority of South Africa for its development cooperation.

Even though South Africa faces criticism that often it operates unilaterally in its cooperation activities, but it formulates most of its strategies and position from the regional initiatives, such as the African Union (AU) and, to some extent, from the Southern African Development Community (SADC). In this regard, South Africa has always stressed that an African framework should be used for strengthening peace and security in Africa. However, South Africa should try to fit its bilateral and trilateral activities into regional and/or global frameworks (Lucey, 2015).

Unlike other major merging economies, South Africa does not have any centralized agency to manage its development assistance programs. The foreign assistance is usually provided through:

"African Renaissance Fund (ARF) of the Department of Foreign Affairs;

- Various government departments, particularly Defence, Education, South African Police Services (under the Department of Safety and Security), Foreign Affairs, Minerals and Energy, and Trade and Industry; and
- Paarastatals, government agencies, and other statutory bodies" (Braude, 2008).

However, since 2007 South Africa has initiated a process to create a centralized agency, namely the South African Development Partnership Agency (SADPA) for coordinating and integrating its aid and development cooperation activities. But it is not yet established.

3.2 Overview of Various Development Cooperation Initiatives

The structure and characteristics of South Africa's development cooperation is discussed in this section. It also presents various development cooperation initiatives with South Africa as a member. South Africa development cooperation involves multilateral, regional, bilateral, and trilateral initiatives. South Africa participates in the following development cooperation initiatives:

a. The multilateral initiatives include:

- G20
- the G77
- African Development bank (AfDB)—South Africa is the third largest shareholder in the AfDB (after the USA and Japan), and the only African contributor to the African Development Fund
- World Bank

b. Regional initiatives for South-South Cooperation within Africa include:

- Southern African Development Community (SADC),
- African Union (AU),
- Southern African Customs Union (SACU),
- New Partnership for African Development (NEPAD), which in 2001 established a governance agenda for the continent,
- African Renaissance and International Cooperation Fund or The African Renaissance Fund (ARF)
- The C-10
- Development Bank of Southern Africa (DBSA), and
- Industrial Development Corporation (IDC).

c. Intra-Regional initiatives involving countries outside Africa include:

- BRICS grouping (Brazil, Russia, India, China and South Africa).
- Forum on China-Africa Cooperation,

d. Bilateral and Trilateral cooperation.

- The India, Brazil and South Africa (IBSA)
- Bilateral cooperation with African Countries.

3.3 G20 and South Africa

In response to the 1997 Asian financial crisis, G2O was established in 1999 with 19 member countries and the European Union—Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, South Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, United Kingdom and United States. At the initial stage, it was a forum of Finance Ministers and Central Bank Governors of the member countries. The group Under, the founding mandate the role of G-20 is to prevent another regional or global financial crisis through the involvement of systemically relevant advanced and emerging-market economies in discussions relating to the global economy and global economic governance. The major activities of group have focused on three major areas: (i) a. Policy coordination between members in an effort to achieve global economic stability and sustainable growth; (ii) Promoting global financial regulation to reduce risks and prevent future crises; and (iii) Reform of the international financial architecture/international monetary system. In addition, the group focused on development issues, commodities, and climate finance (Mminele, 2012). The inaugural summit of G 20 was held in 2008 to tackle then financial crisis resulting in global recession, particularly in North America and

Europe.

South Africa's participation in the development cooperation agenda of the G-20 provides significant opportunities as well as some challenges. Being a small and open economy, South Africa needs to better connect itself for increased trade with the world economy. The successful implementation of the G-20 agenda will increase South Africa's level of interconnectedness within the global economy. Being the only African country represented in the G-20, South Africa has the opportunity and responsibility to influence key international policies which could have positive impact on the region and the continent through raising regional and continental issues. In order to effectively represent the continent, the Group of Ten African Countries (the C10) was formed in 2009 for seeking views and opinions from countries on how their issues and concerns can be addressed by G-20. One of the major challenges is to make the consultation more effective with regional countries and domestic stakeholders such as NEPAD, civil society including NGOs, and the academia; and identify key priority areas where it could influence the G-20 policy and agenda for promoting Africa's development and growth priorities. The Department of International Relations and Cooperation (Dirco), the South African National Treasury, the South African Reserve Bank play a key role to ensure meaningful participation in deliberations at G-20 meetings with the view to influence outcomes in favour of the region (Mminele, 2012).

South Africa chaired the G-20 in 2007, and was successful in influencing the adoption of quota and voice reforms of the IMF. A major challenge for South Africa is to ensure that its support of the IMF's governance reform programmes benefits Africa. South Africa has been an active participant in promoting regulatory reform which is essential for stability to the global financial system, but at the same time, it creates the domestic challenges in African countries. In addition, at the G-20 forum, South Africa raised the issue on the cost of the new regulatory framework to less developed African countires and stressed that these countries need to be assisted in strengthening the financial systems (Mminele, 2012).

In coming years, South Africa can leverage its membership in BRICS and IBSA by proposing common major positions with other members of BRICS at the G-20 forum which could be important for south-south cooperation for the development of developing countries.

The following sections present the characteristics, structure and objectives of major initiatives where South Africa has been actively participating.

3.4 The G77[1]

South Africa has been actively participating in the Group of 77 (G-77) which was formed on

1 Based on http://www.g77.org/doc/.

15 June 1964 by seventy-seven developing countries signatories of the "Joint Declaration of the Seventy-Seven Developing Countries" issued at the United Nations Conference on Trade and Development (UNCTAD) in Geneva. In the first Ministerial Meeting in Algeria on 10–25 October 1967, the G77 established a charter with a permanent institutional structure. Overtime, the members of the G-77 increased to 134 countries. The major goal of G 77, the largest intergovernmental organization of developing countries in the United Nations, is to "provide a platform for the countries of the South to express and promote their collective economic interests and strengthen their joint negotiating capacity on all major international economic issues within the United Nations system, and promote South-South cooperation for development".

3.5 Southern African Development Community[1]

One of the major regional development cooperation where South Africa has been playing a major role is The Southern African Development Community (SADC).

South Africa joined the regional developed cooperation—SADC in 1992. SADC is a Regional Economic Community consisting of 15 southern African countries, namely

1. Angola,
2. Botswana,
3. Democratic Republic of Congo,
4. Lesotho,
5. Madagascar,
6. Malawi,
7. Mauritius,
8. Mozambique,
9. Namibia,
10. Seychelles,
11. South Africa,
12. Swaziland,
13. Tanzania,
14. Zambia and
15. Zimbabwe.

The areas of cooperation under SADC are very comprehensive and cover wide many sectors. These include:

1 This section is primarily based on the information provided at SADC website at http://www.sadc.int

(i) "Politics, defence and security;
(ii) Economic development;
(iii) Economic development;
(iv) Disaster risk management;
(v) Infrastructure;
(vi) Agricultural and food security;
(vii) Natural resources;
(viii) Meteorology and climate;
(ix) Health;
(x) Social and human development; and
(xi) Poverty eradication and policy dialogue" [1] .

The history of the formation of the Southern African Development Community (SADC) is presented in the Figure 1. The first development cooperation initiative in Southern Africa was the establishment of "the Frontline States" consisting of Angola, Botswana, Lesotho, Mozambique, Swaziland, Zambia and Zimbabwe.

The Southern African Development Coordinating Conference (SADCC) was officially formed on 1 April 1980 through the Lusaka declaration "Towards Economic Liberation. SADCC consisted of all the democratic states of Southern Arica, namely, Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Zambia, and Zimbabwe. The objective of SADCC was to advance "the cause of national political liberation in Southern Africa, and to reduce dependence particularly on the then apartheid era South Africa; through effective coordination of utilisation of the specific characteristics and strengths of each country and its resources".

On August 17 1992, SADCC was transformed into the Southern African Development Community (SADC). SADC was formed under Article 2 of the SADC Treaty to "advance economic integration of Southern Africa. The SADC Treaty was formulated, and adopted, expanding the basis of cooperation among Member States from a loose or informal association into a legally binding arrangement"[2]. The objectives of SADC include "economic integration following the independence of the rest of the Southern African countries". On 14 August 2001, the 1992 SADC Treaty was amended to establish the Regional Indicative Strategic Development Plan[3]. The following Figure 12.1 presents the location SADC member courtiers in Africa. It is to be noted that most of SADC are neighbouring countries of South Africa.

1 http://www.sadc.int/about-sadc/

2 http://www.sadc.int/about-sadc/overview/history-and-treaty/ accessed on 11 Dec. 2016

3 http://www.sadc.int/about-sadc/overview/history-and-treaty/

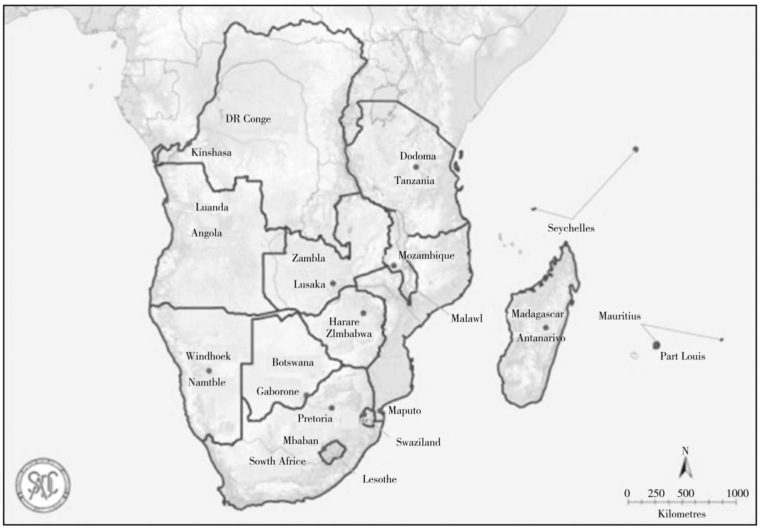

Figure 12.1 The Location of SADC countries in Africa

Figure 12.2 exhibits the history of the formation and activities of the formation of SADC since its inception in 1975 until 2015.

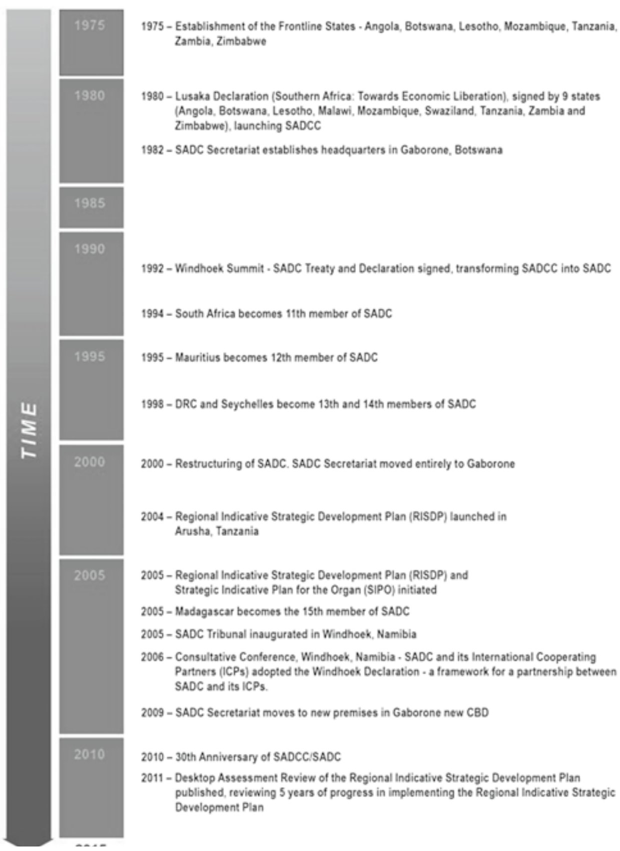

Figure 12.2 History of the Formation and Activities of the Southern African Development Community: 1975-2015

Source: http://www.sadc.int/about-sadc/overview/history-and-treaty/

The following Box 12.1 presents an overview of SADC.

Box 12.1 Overview of the Southern African Development Community (SADC)

SADC was established in 1992. The main goal of SADC is Regional integration and poverty eradication within Southern Africa through economic development and ensuring peace and security.

The Vision of SADC is to "(i) develop a region with strong harmonisation (ii) rationalisation, and (ii) facilitate the pooling of resources to achieve collective self-reliance for enhancing the living standards of the people of the region". Heads of State or Government of Southern African States adopted the Declaration "Towards the Southern African Development Community", in Windhoek, Namibia, on 17 August 1992. This called upon "all countries and people of Southern Africa to adopt a vision of a shared or common future within a regional community". This vision of future includes:" strengthening economic well-being, the standards of living and quality of life, freedom and social justice and peace and security for the people of Southern Africa" (http://www.sadc.int/about-sadc/overview/sadc-vision/).

The Mission of SADC is to "facilitate sustainable and equitable economic growth and socio-economic development through efficient, productive systems, deeper co-operation and integration, good governance, and durable peace and security". This will make the region a competitive and effective player in international relations and the world economy(http://www.sadc.int/about-sadc/overview/sadc-mission/).

The main pillars of SADC are to "achieve economic development, peace and security, and growth, alleviate poverty, enhance the standard and quality of life of the peoples of Southern Africa, and support the socially disadvantaged through Regional Integration". These objectives are to be achieved through "increased Regional Integration, built on democratic principles, and equitable and sustainable development".

The objectives of SADC, as stated in Article 5 of the SADC Treaty (1992) are to:

- "Achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the people of Southern Africa and support the socially disadvantaged through Regional Integration;
- Evolve common political values, systems and institutions;
- Promote and defend peace and security;
- Promote self-sustaining development on the basis of collective self-reliance, and the inter-dependence of Member States;

- Achieve complementarity between national and regional strategies and programmes;
- Promote and maximise productive employment and utilisation of resources of the region;
- Achieve sustainable utilisation of natural resources and effective protection of the environment;
- Strengthen and consolidate the long-standing historical, social and cultural affinities and links among the people of the Region".

Source: Website of The Southern African Development Community at http://www.sadc.int/about-sadc/ accessed on 9 Dec 2016

SADC Common Agenda

The SADC Common Agenda are:

- "Promotion of sustainable and equitable economic growth and socio-economic development that ensures poverty alleviation with the ultimate objective of its eradication;
- Promotion of common political values, systems, and other shared values, which are transmitted through institutions that are democratic, legitimate and effective; and
- Promotion, consolidation and maintenance of democracy, peace and security" [1].

SADC Policies are as follows:

1. "Promote sustainable and equitable economic growth and socio-economic development that will ensure poverty alleviation with the ultimate objective of its eradication, enhance the standard and quality of life of the people of Southern Africa and support the socially disadvantaged through regional integration;
2. Promote common political values, systems and other shared values which are transmitted through institutions that are democratic, legitimate, and effective;
3. Consolidate, defend and maintain democracy, peace, security and stability;
4. Promote self-sustaining development on the basis of collective self-reliance, and the interdependence of Member States;
5. Achieve complementarity between national and regional strategies and programmes;
6. Promote and maximise productive employment and utilisation of the resources of the Region;

1 http://www.sadc.int/about-sadc/overview/sadc-objectiv/

7. Achieve sustainable utilisation of natural resources and effective protection of the environment;
8. Strengthen and consolidate the long-standing historical, social and cultural affinities and links among the people of the Region;
9. Combat HIV and AIDS and other deadly or communicable diseases;
10. Ensure that poverty eradication is addressed in all SADC activities and programmes; and
11. Mainstream gender in the process of community building" http://www.sadc.int/about-sadc/.

SADC Strategies

Major strategies of SADC include:

1. "Harmonise political and socio-economic policies and plans of Member States;
2. Encourage the peoples of the Region and their institutions to take initiatives to develop economic, social and cultural ties across the region, and to participate fully in the implementation of the programmes and projects of SADC;
3. Create appropriate institutions and mechanisms for the mobilisation of requisite resources for the implementation of programmes and operations of SADC and its institutions;
4. Develop policies aimed at the progressive elimination of obstacles to the free movement of capital and labour, goods and services, and of the peoples of the region generally, among Member States;
5. Promote the development, transfer and mastery of technology;
6. Improve economic management and performance through regional cooperation;
7. Promote the coordination and harmonisation of the international relations of States; and
8. Secure international understanding, cooperation and support, and mobilise the inflow of public and private resources into the region"[1] .

The SADC Treaty

The SADC Treaty sets out the main objectives of SADC-to "achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the peoples of Southern Africa and support the socially disadvantaged through regional integration". These objectives are to be achieved through increased regional integration, built on democratic principles, and equitable and sustainable development.

Under the amended the SADC Treaty, the structure of the organization is as follows:

- "Summit of Heads of State or Government;
- Organ on Politics, Defence and Security Co-operation;

1 http://www.sadc.int/ about-sadc/overview/sadc-common-agenda/

- Council of Ministers;
- A Secretariat;
- A Tribunal;
- The Troika;
- Standing Committee of Officials; and
- SADC National Committees".

Later the Treaty was further amended and established an Agreement for the creation of the Regional Indicative Strategic Development Plan (RISDP). This plan will give the strategic direction for SADC projects, programmes and activities (http://www.sadc.int/about-sadc/).

3.6 African Union[1]

In 2002, African Union (AU) was created from the Organization of African Unity (OAU) which was established in 1963 with 32 members. AU has now 54 African countries as its members. The mail goal for the formation of AU was "to transform AOU to e new organization which could accelerate the process of integration in Africa, support the empowerment of African states in the global economy and address the multifaceted social, economic and political problems facing the continent".

The major objectives of OAU and AU include:

(i) "to promote the unity and solidarity of African states;
(ii) to coordinate and intensify their cooperation and efforts to achieve a better life for the peoples of Africa;
(iii) to safeguard the sovereignty and territorial integrity of Member States;
(iv) to rid the continent of colonisation and apartheid; promote international cooperation within the United Nations framework; and
(v) to harmonise members' political, diplomatic, economic, educational, cultural, health, welfare, scientific, technical and defence policies".

According to the 1991 treaty forming the African Economic Community (known as the Abuja Treaty), the structure of OAU include "(i) the Assembly of Heads of State and Government, (ii) Council of Ministers and the General Secretariat, (iii) the Mechanism for Conflict Prevention, Management and Resolution (iv) Economic and Social Commission; (v) Educational, Scientific, Cultural and Health Commission; and (vi) Defence Commission".

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1 AU Website, https://www.au.int/en/history/oau-and-au

3.7 The Southern African Customs Union[1]

In 1910, the Southern African Customs Union (SACU), the oldest custom union of the world, was created. The members of SACU are Botswana, Lesotho, Namibia, South Africa, and Swaziland with its secretariat in Windhoek, Namibia. South Africa was the administrator of SACU during 1910 and 1969. According to the new agreement of 2002, there are no customs duties among members and a common external single tariff for non-members. Under SACU, there are several independent institutions such as "a Council of Ministers, a Customs Union Commission, Technical Liaison Committees, and an ad hoc SACU Tribunal and a SACU Tariff Board". These organizations assist "in equal participation by member countries and in policy coordination in agriculture, industry, competition, and unfair trade practices, and protection of infant industries".

Under this union, customs, excise, and other trade-related duties are levied on goods and services originating from non-member countries and deposited to a common revenue pool. A portion of the funds available in this pool is credited to a development fund, and the remaining portion is distributed among member countries according to a revenue-sharing formula adopted under the 2002 SACU Agreement (US Library of Congress, 2015).

South Africa plays a major role in managing SACU. In 2009/10, it contributed US$3 billion (1% of its gross domestic product (GDP)—which constitutes 98 % of SACU's annual common revenue pool). The SACU provided financial assistance to less developed member countries. The SACU transfers constitute "between 50 per cent and 70 per cent of the budget revenue of countries like Swaziland and Lesotho, and between 15 and 30 per cent of revenues of Namibia and Botswana"[2].

3.8 African Renaissance and International Cooperation Fund or the African Renaissance Fund (ARF)[3]

The African Renaissance and International Cooperation Fund (ARF) has been the most visible foreign assistance program of South Africa. Under the African Renaissance and International Cooperation Fund Act, ARF was created in 2001 to replace a similar program which was established in 1968. In order to strenghen coordination of South Africa's development assistance programs, work is going on to create a new centralized agency, namely the South African Partnership Agency within which the ARF will be subsumed. The work is on progress and in

1 Based on SACU Website, http://www.sacu.int/show.php?id=394

2 https://opendocs.ids.ac.uk/opendocs/bitstream/handle/123456789/3880/PB64%20Understanding%20South%20Africa's%20Role%20in%20Achieving%20Regional%20and%20Global%20Development%20Progress.pdf?sequence=3

3 Based on and US Library of Congress, 2015) and ARF (2015)

advanced stage. However, ARF still remains in operation.

Prior to ARF, South African foreign assistance programs were conducted through the Economic Cooperation and Promotion Loan Fund. The law governing Economic Cooperation and Promotion Loan Fund did not clearly specify the nature framework of cooperation—bilateral or multilateral. However, according to legislative history, the implementation of programs under this fund was undertaken by providing foreign assistance on a bilateral basis. The major reason behind this approach was the then prevailing political situation of South Africa under the apartheid regime when it was not a member of most multilateral intergovernmental organizations though which a multilateral framework of foreign aid and development assistance could be adopted. On the other hand, ARF adopted a multilaterally oriented approach to foreign aid and development assistance.

The strategic objectives of Cooperation and Promotion Loan Fund were rather narrow— "promotion of economic cooperation between the Republic and other countries by granting loans and other financial assistance in respect of development projects in such countries". In contrast, the strategic objectives of ARF are better focused, targeted (both geographically and problems addressed), and well defined to facilitate effective disbursement of resources allocated for foreign assistance as well as to promote increased South African participation in problem solving.

Through ARF and other major foreign assistance program, South Africa has been playing an important role in promoting collective efforts to achieve Africa's shared vision to the realisation of a transformed continent which will be fully revived to determine and control its own destiny. In view of this, South Africa's foreign policy on focuses the ideals of Pan-Africanism—the present-day African vision and trajectory envisioned in the Agenda 2063, a new developmental path, consolidating past and present continental mechanisms. The vision of Agenda 2063 is a united continent whose current generation takes work toward making the African Renaissance a reality. South Africa's National Development Plan's vision and trajectory, therefore, is based on Agenda 2063 (ARF, 2015).

The Strategic outcome-oriented goal statement of ARF is "to contribute to an integrated, democratic peaceful and prosperous continent Contribute to continental development by means of developmental assistance in support of democracy and good governance; human resource development; social-economic development and integration; humanitarian assistance and disaster relief; and Post-Conflict Reconstruction and Development (PCRD)" (ARF, 2015).

3.8.1 Strategic Objectives, Statement, Baseline and Target of Plan of ARF

The six strategic objectives of ARF as follows:

(i) "To promote democracy and good governance;
(ii) To contribute to human resource development;
(iii) To provide humanitarian assistance and disaster relief;

(iv) To support socio-economic development and Integration;
(v) To support cooperation between South Africa and other countries, in particular African and
(vi) To contribute to Post Conflict Reconstruction Development (PCRD)" (ARF, 2015).

Table 12.2 presents the strategic objectives, objective statement, baseline and target of Plan of The African Renaissance and International Cooperation Fund (ARF): 2014-2015.

As per the objective (i)–to promote democracy and good governance, ARF achieved 100% of disbursement achieving the target during 2014-2015. ARF deployed South African election observers to the SADC Election Observer Mission (SEOM) to:

- Mozambique general elections costing Rand 830 673.06;
- Botswana general elections costing Rand 833 619.75;
- Namibia general elections costing Rand 967763.15;
- Zambia general elections costing Rand 379012.91; and
- Mauritius general elections costing Rand 429880.65.

As per the objective (ii)–to contribute to human resource development, ARF achieved 100% of disbursement achieving the target during 2014-2015. ARF disbursed Rand 7100000 to the Public Protector for the African Ombudsman Research Centre Project.

As per the objective (iii)—to support socio-economic development and Integration, ARF achieved 100% of disbursement achieving the target during 2014-2015. ARF disbursed:

- Rand 5369000 for the implementation of the Cuban Medical Aid Project in Sierra Leone;
- Rand 1049946 for salaries and allowances for project workers, homologues and Vietnamese experts; utilities; petrol and rental for the Rice and Vegetable Production Project in Guinea (Conakry);
- Rand 1199000 for salaries for project workers, homologues and Vietnamese experts; utilities; petrol and car servicing; office consumables and computers servicing; cellphones expenses; site visits and rental payment for the Rice and Vegetable Production Project in Guinea (Conakry)
- Rand 929981.46 for the Rice and Vegetable Production Project in Guinea (Conakry)

As per the objective (iv)—to provide humanitarian assistance and disaster relief, ARF achieved 100% of disbursement achieving the target during 2014-2015. ARF disbursed:

- Rand 141000 for oil, green muscle and cost of shipping to the service provider, Balmoral Norse, on 6 October 2014 for the humanitarian assistance to Niger.

As per the objective (vi)—to contribute to Post Conflict Reconstruction Development (PCRD), ARF achieved 100% of disbursement achieving the target during 2014-2015. ARF disbursed:

- Rand 18230000 as South Africa's contribution to the SADC Secretariat for the deployment of a SADC Organ Observation Mission in Lesotho.

In 2014-2015, the project which witnessed the highest contribution of ARF for a single project was the "Rice and Vegetable Production Project in Guinea" followed by the "deployment of a SADC Organ Observation Mission in Lesotho".

With the exception of the projects in Guinea, Niger and Sierra Leone, all the projects involved SADC countries. It clearly shows that South Africa's foreign assistance has been geared to SADC member countries, particularly neighbouring countries.

Table 12.2 Strategic Objectives, Statement, Baseline and Target of Plan of The African Renaissance and International Cooperation Fund (ARF): 2014-2015

Strategic Objective	Objective Statement	Baseline (2014–2015)	Target
(i) "To promote democracy and good governance	"Support the holding of democratic elections in identified countries on the continent	"1. 100% of approved disbursements distributed during this reporting period 2. Processed payments totalling Rand 830 673.06 with respect to South African deployment of election observers to the SADC Election Observer Mission (SEOM) to Mozambique. General elections held in Mozambique on 15 October 2014 3. Processed several payments totalling Rand 833 619.75 with respect to South African deployment of election observers to the SEOM to Botswana. General elections were held in Botswana on 24 October 2014 4. Processed several payments totalling Rand 967763.15 with respect to South African deployment of election observers to the SEOM to Namibia. General elections were held in Namibia on 28 November 2014 5. Processed several payments totalling Rand 379012.91 with respect to South African deployment of election observers to the SEOM to Zambia. Presidential elections were held in Zambia on 20 January 2015 6. Processed several payments totalling Rand 429880.65 with respect to South African deployment of election observers to the SEOM to Mauritius. General elections were held in Mauritius on 10 December 2014	"100% of approved disbursement to support democracy and good governance processed
(ii) To contribute to human resource development	Develop and provide identified training programmes	1. 100% of approved disbursements distributed during this reporting period 2. Processed payment of Rand 7100000 as a second tranche payment from the ARF to the Public Protector with respect to the African Ombudsman Research Centre Project on 27 January 2015	100% of approved disbursement to support human resource development processed

continued

Strategic Objective	Objective Statement	Baseline (2014–2015)	Target
(iii) To support socio-economic development and Integration”	Support the implementation of socio-economic development and integration projects”	1. 100% of approved disbursements distributed during this reporting period 2. Processed payment of Rand 5369000 on 8 May 2014 for the implementation of the Cuban Medical Aid Project in Sierra Leone for the third and fourth quarter of the 2013/14 financial year 3. Processed several payments of Rand 1049946 from 1 April to 30 June 2014 for salaries and allowances for project workers, homologues and Vietnamese experts; utilities; petrol and rental with respect to the Rice and Vegetable Production Project in Guinea (Conakry) 4. Processed several payments totalling Rand 1199000 from 1 July to 30 September 2014 for salaries for project workers, homologues and Vietnamese experts; utilities; petrol and car servicing; office consumables and computers servicing; cell phones expenses; site visits and rental payment with respect to the Rice and Vegetable Production Project in Guinea (Conakry) 5. Processed several payments totalling Rand 929981.46 from 1 October to 31 December 2014 with respect to the Rice and Vegetable Production Project in Guinea (Conakry) 6. Processed several payments totalling Rand 1072782.71 from 1 January to 31 March 2015 with respect to the Rice and Vegetable Production Project in Guinea (Conakry)”	100% of approved disbursement to support socio-economic development and integration processed”
(iv) To provide humanitarian assistance and disaster relief	Assist countries that are in need of humanitarian assistance and disaster relief	1. 100% of approved disbursements distributed during this reporting period 2. Processed payment of Rand 141000 for oil, green muscle and cost of shipping to the service provider, Balmoral Norse, on 6 October 2014 with respect to humanitarian assistance to Niger	100% of approved disbursement for humanitarian assistance processed
(v) To support cooperation between South Africa and other countries, in particular African countries	Implement bilateral and trilateral cooperation agreements	No disbursement processed	100% of approved disbursement for cooperation between South Africa and other countries, in particular African countries processed
(vi) To contribute to Post Conflict Reconstruction Development (PCRD)”	Support PCRD efforts on the continent	1. 100% of approved disbursements distributed during this reporting period 2. Processed payment of Rand 18230000 from the ARF as South Africa’s contribution to the SADC Secretariat for the deployment of a SADC Organ Observation Mission in Lesotho on 27 February 2015”	100% of approved disbursement for PCRD Processed”

Source: ARF (2015)

As per the above objectives, during 2009-2010 South Africa used ARF fund for a variety of programs in African economies such as participation in the 2010 general elections in Sudan, economic revitalization projects in Zimbabwe, implementation of a medical project in Sierra Leone and a museum project in Guinea (2009-2010 Annual report of ARF).

3.8.2 Trends and Patterns of Expenditure of African Renaissance and International Cooperation Fund (ARF): Past and Future

The table 12.3 presents trends and patterns of expenditure of African Renaissance and International Cooperation Fund (ARF) during 2012-2019.

In terms of transfers and subsidies, the ARF's expenditure declined significantly from the peak of 2012-2013 at Rand 1070.3 million to Rand 145.6 million in 2014-2015. The mid-term estimate shows that there will be no expenses for transfers and subsidies in 2016-2017. However, ARF's expenditure is expected to reach Rand 122.2 million in 2017-2018 and to increase to Rand 139.6 million in 2018-1019.

The Accumulated surplus of ARF exhibited a healthy increasing trend reaching Rand 1671 million in 2014-2015 from Rand 933 million in 2012-2013. However, 2015-2016 onward, The Accumulated surplus of ARF showed a declining trend reaching Rand 1152.4 million in 2017-2018. However, it is expected to increase moderately in 2018-2019 reaching Rand 1217.9 million.

On the other hand, total revenue of ARF exhibited a continuous declining trend from Rand 601.5 million in 2012-2013 to Rand 103.9 million in 2016-2017. However, it is expected to rise to Rand 220.9 million in and Rand 243.6 million in 2018-2019.

Table 12.3 Trends and Patterns of Expenditure of the African Renaissance and International Cooperation Fund (ARF): 2012-2019

Type of Expenditure	Audited Outcome			Revised Approved Budget Estimate	Medium-term Estimate		
Rand Million	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Entity revenue	83.5	93.6	112.5	103.2	103.9	98.7	104.0
Entity revenue other than sales	73.5	93.6	112.5	103.2	103.9	98.7	104.0
Interest earned–external investments	73 .5	93.6	112.5	103.2	103.9	98.7	104.0
Unclassified revenue	10.0						
Other income	10.0						
Transfers received	518.0	485.4	277.6	145.6	0	122.2	139.6
Other government units	518.0	485.4	277.6	145.6	0	122.2	139.6
National government	445.0	485.4	277.6	145.6	0	122.2	139.6

continued

Type of Expenditure	Audited Outcome			Revised Approved Budget Estimate	Medium-term Estimate		
Other government units	73.0						
Total revenue	601.5	579.0	390.1	248.8	103.9	220.9	243.6
Expenses Current payments Other							
Transfers and subsidies-Departmental agencies and accounts	1070.3	41.3	189.9	145.6	0	122.2	139.6
Total expenses	1070.3	41.3	189.9	145.6	0	122.2	139.6
Surplus	(468.8)	537.7	200.2	103.1	103.9	98.7	104.0
Statement of financial position							
Receivables and prepayments	125.4	203	205	74	77.9	81.7	85.8
Cash and cash equivalents	1515.0	1865	2205	2056	2070.8	1966.8	2073.0
Total assets	1640.4	2068	2410	2130 2	148.7	2048.5	2158.8
Accumulated surplus / (deficit)	933.0	1470.6	1671	1317	1295.2	1152.4	1217.9
Trade and other payables	707.4	597	739	813	853.4	896.1	940.9
Total equity and liabilities	1640.4	2068	2410	2130	2148.6	2 048.5	2158.8

Source: ARF (2016)

the Department of International Relations and Cooperation is implementing the ARF program under the direct control of the Director-General of the Department subject to the direction of the Minister under. Both the Department of International Relations and Cooperation and the Department of Finance manage the disbursement of money from the ARF. An Advisory Committee consisting members from both the Department of International Relations and Cooperation and the Department of Finance makes an important role in the process of the disbursement of foreign assistance. The Advisory Committee includes the Director-General or his/her representative and three additional representatives of the Department of International Relations and Cooperation as appointed by the Minister. In addition, two representatives of the Department of Finance are included in the committee. Advisory Committee recommends the disbursement of funds to the Minister who takes decision in consultation with the Minister of Finance and funds are transferred based on agreements between the fund and the relevant recipient party of the concerned African country.

Unlike the United States Agency for International Development or the French Development Agency, South Africa does not have a centralized implementation organization for managing the foreign assistance programs. As a result, the management and implementation of the aid programs is fragmented among many institutions. This is evident in recent projects that were funded through the ARF. For example, through the Public Administration, Leadership and Management Academy (PALAMA) had implemented the capacity-building training project in the Democratic Republic of the Congo (DRC) in 2008/09 whereas a project to upgrade a leadership school in Uganda was implemented through the South African Departments of Public Works, International Relations and Cooperation and Defence, and the Freedom Parks Trust participated. Furthermore, a government institution can play different roles in implementing various projects. For example, under ARF, the South African Police Services (SAPS) provided assistance to African countries and implemented the programs in different roles such as observers in Darfur and election monitoring in the Democratic Republic of the Congo.

In addition, international multinational organizations and institutions of the recipient African countries also manage some of foreign assistance programs of South Africa.

In terms of restrictions or conditionality, the African Renaissance and International Cooperation Fund Act does not stipulate any restrictions or conditionality for being eligible to receive foreign assistance from the ARF. The executive body, namely the Minister of International Relations and Cooperation has power to negotiate the terms of financial assistance agreements within the strategic objectives of the ARF ad impose any restriction or conditionality. In practice, however, South Africa usually does not include any restrictions on the funds under ARF.

For example, in August 2011, South Africa extended a conditional guarantee for loans to the Central Bank of Swaziland amounting to Rand 2.4 billion (US$350 million) from the South African Reserve Bank. In this financial assistance agreement, there was no restriction and conditionality. However, during the negotiation South Africa could persuade Swaziland to agree to implement some reform measures, such as:

- "confidence building measures to be undertaken by the Government of the Kingdom of Swaziland,
- fiscal and related technical reforms required by the IMF to be implemented by the Government of the Kingdom of Swaziland,
- capacity building support to be provided by South Africa, and
- cooperation in multilateral engagements".

But South Africa did not have any conditionality enforcement mechanisms to force Swaziland to implement the agreed terms and keep its promise to implement above reforms. South Africa did not monitor and asses the implementation of the agreed reforms. ARF released the loan amounts in three tranches, namely in August 2011, October 2011, and February 2012. This time frame was very short for introducing any strong reform. As a result, the rights groups in both Swaziland and South Africa insisted that that the loan should have conditionality on tangible political and economic reforms [1].

There is a need to strengthen the process of identifying and imposing and monitoring restrictions or conditionality attached to the foreign assistance projects that are essential to produce the desired outcome of the projects

South African foreign assistance is discretionary in nature. ARF fund can be allocated for any development related project as long as the project assistance matches with the broad strategic objectives of the ARF. ARF accounts for a small portion of total financial assistance. Other South African organizations accounting for the major portion of its total foreign assistance have more flexibility in identifying and funding projects compared to ARF.

Various oversight mechanisms have been introduced to ensure transparency and accountability of ARF under the African Renaissance and International Co-operation Fund. The transparency and accountability is monitored in the following three ways:

- The Director General of the Department of International Relations and Cooperation is Officer-in-Charge of ARF. He is also a member of the Advisory Committee that makes recommendations to the Minister of International Relations and Cooperation on fund disbursement for various projects. Being the accounting officer of the fund, the Director General maintains records of all ARF finances and prepare and publish annual reports;
- Under the Public Finance Management Act, ARF needs to adhere to accountability and transparency requirements established under the act; and
- The Auditor-General which is an independent constitutional body directly accountable to the National Assembly also audits ARF annually.

South Africa's policy considerations for the foreign assistance have gone through a transformation over the years. The main objective of the Economic Cooperation and Promotion Loan Fund, which was replaced by ARF in 2001, was to make allies and friends in the world when South Africa was witnessing strong isolation arising out of its apartheid policy. Furthermore, South Africa adopted a policy for not disbursing assistance through multilateral international organizations which did not allow its membership. After the transition of South Africa to a democratic country in the 1990s, it abandoned these policies.

In terms of policy considerations, the preamble to the African Renaissance and International Cooperation Fund Act shows policy considerations based on geography and issue. The Act gives high importance on:

1 Department of International Relations and Cooperation, Media Statement on an Agreement to Provide Financial Assistance to the Government of the Kingdom of Swaziland (Aug. 3, 2011), http://www.dfa.gov.za/ docs/2011/ swaz0803.html.

- Cooperation with African countries, particularly in the areas of democracy; and conflict resolution; and
- Economic development and integration.

An analysis of South Africa's foreign assistance disbursement patterns exhibits that the foreign aid policy focuses on:

- Neighbouring countries, especially member countries of the South African Development Community (SADC); and
- Education and peacekeeping assistance.

In order to strengthen the amount of fund available under ARF and to complement the government contribution in light of limited fiscal flexibility, South Africa's income tax law provides incentives to charitable donations to funds like ARF through allowing deductions in income tax. The income tax law stipulate that a person can get up to a 10% deduction from his/her taxable income by contributing a "bona fide" donation to any approved public benefit organization during the year of assessment.

There are multiple sources of funding ARF. The parliamentary appropriation is the major source of funding for ARF. For example, in 2009/10, the Parliament provided Rand 631.4 (about US$87.4 million) to ARF and the remaining fund of Rand 34 million (about US$4.7 million) were provided by other sources. Other sources of funding for the ARF include

- "money that was part of the Economic Cooperation and Promotion Loan Fund that had not been spent at the time the ARF was established in 2001;
- any amount received as payment for loans made from the ARF,
- interest on loans or investments made from the ARF, and
- any other source, mainly private donations (US Library of Congress, 2015).

3.9 New Partnership for Africa's Development (NEPAD)[1]

New Partnership for Africa's Development (NEPAD) is the technical body of the African Union (AU). Two African development cooperation initiatives—Millennium Africa Recovery Plan (MAP) and Omega Plan for Africa were merged to establish to a third initiative the New African Initiative (NAI) which subsequently transformed into the creation of NEPAD in 2001. NEPAD was founded by South Africa, Nigeria, Algeria, Egypt and Senegal.

1 NEPAD (2017)

In 2010, The NEPAD Planning and Coordinating Agency (NEPAD Agency) was created through the integration of NEPAD into AU structures and processes and it replaced the NEPAD Secretariat which had the role of coordinating and implementing of NEPAD programmes and projects since 2001.

As the implementing agency of the African Union, the functions or mandates of the NEPAD Agency include:

- "Facilitates and coordinates the development and the implementation of NEPAD continent-wide programmes and regional priority programmes and projects,
- Mobilises resources and partners in support of the implementation of Africa's priority programmes and projects and engages the global community, and regional economic communities and member states in the implementation of these programmes and projects
- Conducts and coordinates research and knowledge management,
- Monitors and evaluates the implementation of programmes, and
- Advocate on the AU and NEPAD vision, mission and core principle/ values" (http://www.nepad.org/content/about-nepad#aboutourwork).

"Under the mandate from African Union, NEPAD agency implements the following four investment programs that focus on the new and emerging trends of in Africa:

(i) Natural Resources Governance and Food Security;
(ii) Regional Integration, Infrastructure (Energy, Water, ICT, Transport) and Trade;
(iii) Human Capital Development (Skills, Youth, Employment and Women Empowerment); and
(iv) Industrialisation, Science, Technology and Innovation".

(i) Natural Resources Governance and Food Security

This program includes:

- Comprehensive Africa Agriculture Development Programme (CAADP)
  - CAADP Implementation Support
    - Agriculture and Food Insecurity Risk Management (AFIRM)
    - Fish Governance and Trade
    - Food and Nutrition Security
  - Climate Change
    - Climate Change Fund
    - Climate Smart Agriculture

- Gender Climate Change Agriculture Support
- TerrAfrica.

(ii) Regional Integration, Infrastructure (Energy, Water, ICT, Transport) and Trade

This program includes:
Africa Power Vision
Continental Business Network (CBN)
E-Africa Programme
Infrastructure Skills for Development (IS4D)
Presidential Infrastructure Champion Initiative (PICI)
Programme for Infrastructure Development in Africa (PIDA)
Sustainable Energy for All (SE4ALL)

(iii) Industrialisation, Science, Technology and Innovation

African Biosafety Network of Expertise (ABNE)
African Institute for Mathematical Science (AIMS)–Next Einstein Initiative
African Medicines Regulatory Harmonisation (AMRH)
African Science Technology and Innovation Indicators (ASTII)
Alliance for Accelerating Excellence in Science in Africa (AESA)
Bio-Innovate
Biosciences eastern and central Africa Network (BecANet)
NEPAD Water Centres of Excellence
Southern African Network for Biosciences (SANBio)

(iv) Human Capital Development (Skills, Youth, Employment and Women Empowerment)

This program includes:

- Agriculture Technical Vocational Education and Training (ATVET)
- Capacity Development
- Gender
- Nursing
- Rural Futures[1]

1 http://www.nepad.org/programmes

3.9 The C-10[1]

The Committee of Ten African Ministers of Finance and Central Bank Governors (The C-10) was established in November 2008. The members of the C-10 are the following countries and institutions: Algeria, Botswana, Cameroon, Egypt, Kenya, Nigeria, South Africa, Tanzania, the Central Bank of West African States (CBWAS), and the Central Bank of Central African States (CBCAS). The major objectives the C-10 are to:

(i) monitor the impact of the global financial and economic crisis on Africa and discuss options for policy responses;
(ii) advocate enhanced African participation in governance of international financial institutions (IFIs); and
(iii) identify strategic economic priorities for Africa and developing a clear strategy for Africa's engagement with the G-20.

3.10 BRICS[2]

3.10.1 BRICS Groupings

In April 2011, the BRICS grouping was formed and consisted of five large emerging economies, namely Brazil, Russia, India, China and South Africa belonging to four continents. BRICS comprises of 43% of the world population, 30% of the world GDP and 17% share in the world trade. Initially, a formal grouping BRIC was established during the first meeting of Foreign Ministers of Brazil, Russia, India and China on the margins of UNGA in New York in 2006. On 16 June 2009, the first BRIC Summit was held in Yekaterinburg, Russia. BRIC expanded to BRICS with the inclusion of South Africa on 14 April 2011. The main pillars of BRICS cooperation include:

- "Consultation on issues of mutual interest through meetings of Leaders as well as of Ministers of Finance, Trade, Health, S&T, Education, Agriculture, Communication, Labour, etc. and
- Practical cooperation in a number of areas through meetings of Working Groups/Senior Officials".

1 African Development Bank website, https://www.afdb.org/en/topics-and-sectors/topics/financial-crisis/committee-of-ten/

2 http://brics2016.gov.in/content/innerpage/about-usphp.php

3.10.2 The New Development Bank BRICS

In recent years, North America, Europe and Japan have adopted very accommodative monetary policies of near-zero interest rates and non-conventional monetary policy of "Quantitative Easing". In spite of these efforts, global economic growth remains very low and it is expected remain weak. In this situation, infrastructure investment in large national and regional/cross-border projects through multilateral development banks (MDBs), fiscal stimulus and private sector investment can enhance economic growth not only for advanced economies but also for developing economies. Increased regional integration in major continents through enhanced regional or cross-border infrastructure connectivity would facilitate developing economies to share scarce resources, such as energy and water, to meet these basic needs among energy and water surplus and deficit countries. Regional and International institutions that are financing infrastructure should provide concessional funding for development of basic utilities, such as water, electricity, and sanitation the construction of which do not provide adequate economic rate of return. As the projects related to the development of basic services are not bankable and commercially viable, the private sectors are not usually willing to participate in these projects. The regional and international infrastructure financing institutions can play an important role in promoting the participation of private sector in a PPP model through co-financing and providing guarantees against various risks that cannot be managed by the private sectors (Bhattacharyay, 2016).

The financing requirement in developing world, particularly for the South is very large and there are several risks associated with the implementation of large and long-term national and regional or cross-border infrastructure projects. At present, several multilateral financing institutions or development banks (MDBs) such as World Bank (WB), Asian Development Bank (ADB), Inter-American Development Bank (IADB), African Development Bank, AND International Financer Corporations (IFC) among others are financing many infrastructure projects. During last 10 years, the annual resource commitment from MDBs rose by more than 100% from USD 45 billion to over USD 100 billion, however, this resource is not adequate to address the large infrastructure financing of more than over USD 1 trillion a year. Asia needs during 2010–2020 a massive US $ 8.2 trillion (of which 68% for new capacity investment and 32% for maintenance) with an average of US$747.5 billion per year in national and regional infrastructure projects in energy, transport, telecommunications, and water and sanitation to meet current and future demand. The financing capacity of the above MDBs, therefore, is not adequate to address the huge infrastructure financing gap of Asia (Bhattacharyay, 2016 and NDB Website, 2017, http://ndb.int/about-us.php). Therefore, development cooperation in financing national and regional connecting infrastructure, such as transport, energy, telecommunications and water is crucial for much needed economic growth in developing countries.

In order to fill in the financing gap, the New Development Bank BRICS (NDB BRICS)—

formerly known as BRICS bank with an authorized capital of $100 billion was established by five founding countries namely Brazil, Russia, India, China & South Africa on July 7, 2015 with its head office in Shanghai. The capital of NDB is USD 100 billion. The initial subscribed capital of $50 billion was equally distributed among the five founding members awarding equal voting power to each member. South Africa, a founding member contributing $10.0 billion has equal voting power as other members. In view of this democratic decision making process, South Africa can play an important role in influencing lending activities and policies of NDB.

The vision of NDB is to facilitate, mobilize resources and promote infrastructure and sustainable development initiatives in BRICS and other emerging economies and developing countries. It is the first inter-regional development lending institutions to be set up at the initiative of the South. NDB will complement the existing activities of multilateral and regional financial institutions for enhancing global growth and development. The goal of NDB is to facilitate public or private projects through loans, guarantees, equity participation and other financial instruments. In addition, NDB plans to cooperate and collaborate with international development organizations and other financial institutions, and offer technical assistance for projects of the Bank (NDB Website, 2017, http://ndb.int/genesis.php). This is a good example of SSDC with the involvement of developing/ emerging economies only.

In view of the huge infrastructure needs in the developing countries, new institutions in the infrastructure financing can play an important role to fill the financing gap. Newly established New Development Bank BRICS (NDB BRICS)—will also plan to invest in the infrastructure projects in Asia. However, there should be some distinct complimentarily in the role of these new institutions as well as an environment of a healthy completions among regional financing institutions and bilateral development bank or agencies for effective infrastructure development (Bhattacharyay, 2016).

NDB along with other new MDBs such as Asian Infrastructure Development Bank can play an important role if they can complement the existing MDBs such as WB, ADB, IADB, AfDB investing infrastructure and specialize in certain areas such as:

(i) "financing regional or cross-border infrastructure projects through developing appropriate instruments;
(ii) developing multicurrency infrastructure financing instruments; and
(iii) Islamic financial instruments among others".

NDB can compete (in a healthy manner), collaborate and cooperate with existing MDBs to:

(i) "effectively intermediate the larger use of financial assets for infrastructure development;
(ii) provide cost-effective and timely infrastructure loans and knowledge, particularly in energy,

and transport with simple, user-friendly and smooth practices, systems and procedures; and collaborate with the banking and financial sector in co-financing and guaranteeing private investment;

(iii) Prepare, develop, evaluate, prioritize regional infrastructure projects and negotiate with governments for the agreement to implement them;

(iv) Design, develop and implement effective instruments to direct Asian and international savings for its infrastructure development and develop expertise in regional infrastructure bond financing and other innovative financial instruments, such as:

- *Lending instruments for regional or cross-border projects;*
- *Multicurrency financial instruments or bonds based on Asian Currency Units;*
- *guaranteed and linked bonds;*
- *Islamic financial instruments like bonds and Sukuk;*
- *local currency bonds;*
- securitized infrastructure loans; and
- Sub-regional funds like ASEAN Infrastructure Fund;

(v) Guarantee instruments against major risks (e.g., operational, financial, country, disasters and political risk) and

(vi) Financing instruments for sustainable and inclusive regional or cross-border projects" (Bhattacharyay, 2016).

3.11 The IBSA[1]

One of the successful SSDC initiatives where South Africa is playing a key leadership role is the India, Brazil, South Africa Grouping (IBSA). IBSA was established in June 2003. It is a coordinating mechanism amongst three emerging countries belonging to three continents—Asia, South America and Africa. The main objective of IBSA is:

- "to contribute to the construction of a new international architecture;
- to bring their voice together on global issues; and
- to deepen their ties in various areas".

The main pillars of the IBSA Dialogue Forum are "participatory democracy, respect for human rights and the Rule of Law". The impact of this initiative has strong impact on the trade amongst

1 Based on IBSA website, http://www.ibsa-trilateral.org/about-ibsa/background

IBSA members. It is expected that the target of US$ 25 billion trade by 2015 will be met.

The IBSA activities and programs can be grouped into four areas:

- "Political Coordination;
- Sector Cooperation, through 14 Working Groups;
- IBSA Facility for Poverty and Hunger Alleviation (IBSA Fund); and
- People-to-People fora (Involvement of other actors beyond the Executive, e.g. civil society)".

In terms of the sector cooperation, working groups were formed for the following sectors to deepen the mutual knowledge and exploring common points of interest in sector areas:

- "Agriculture
- Culture
- Defence
- Education
- Energy
- Environment
- Health
- Human Settlements
- Transport and Infrastructure
- Public Administration
- Revenue Administration
- Science and Technology and Information Society
- Social Development, and
- Trade and Investment and Tourism".

In 2004, the IBSA Fund was established with the contribution of US$1million from each country per year to the Fund. The main objective of the fund is to promote "viable and replicable projects that, based on the capabilities available in the IBSA countries and in their internal best practices, contribute to the national priorities of other developing countries".

IBSA, a Head of State-level initiative is a pioneering intuitive to coordinate and implement South-South cooperation. Under this fund, "a large number of projects have been completed in several sectors such as agriculture, electrification/energy systems and health. The Fund Manager and Board of Directors' Secretariat is the Special Unit for South-South Cooperation (SU/SSC) of the UN Development Programme. IBSA projects are designed, coordinated and implemented through partnerships with UN agencies, national institutions, local governments and NGOs".

The major criteria for evaluating project proposals submitted to the Fund include "(i) potential for reducing hunger and poverty; (ii) alignment with the priorities of the recipient country; (iii) use of available capacities in the IBSA countries and their successful experiences; (iv) sustainability and identifiable impact; (v) innovation and possibility that the initiative can be replicated; (vi) achievement in 12-14 months". Several countries from Africa and Asia have gained from the projects under the IBSA Fund such as Guinea-Bissau, Haiti, Cape Verde, Cambodia, Laos, and Burundi (http://www.ibsa-trilateral.org/about-ibsa/ibsa-fund).

3.11 Bilateral International Relations and Cooperation Programme[1]

The main objective of bilateral international relation and cooperation programs of South Africa is to "enhance political, economic and social relations through structured bilateral agreements and high level engagements to promote South Africa's national priorities, the African Agenda and enhancing of South-South cooperation on an ongoing basis".

The sub-programmes under bilateral international relation and cooperation include:

- "Enhancing bilateral cooperation with individual countries in Africa with 47 diplomatic missions in the region, particularly through increasing trade of goods and services, foreign direct investment with technology transfers, and inbound tourism and skills development.
- Increasing bilateral cooperation with individual countries in Asia and the Middle East with 32 diplomatic missions in the region.
- Strengthening bilateral cooperation with individual countries in the Americas and the Caribbean; and
- Bolstering bilateral cooperation with individual countries in Europe with 28 diplomatic missions".

Under bilateral cooperation, "the African Renaissance Fund (ARF) and the New Partnership for Africa's Development (NEPAD) are offering financial assistance to several African countries for peacekeeping, technology development, research and education, amongst others. In addition, it provides assistance for projects in the areas of agriculture, justice, public service, public works, trade and industry" (Chidaushe, 2011).

During 2013-2014, "ARF provided financial and technical assistance to the following African partners: Chad Democratic Republic of the Congo Guinea Guinea-Bissau Madagascar Malawi Mali Niger Seychelles Sierra Leone Swaziland Zimbabwe. In the financial year 2013-14, the major contribution of ARF was in humanitarian assistance and disaster relief with a share of 30% of ARF's program spending, followed by socioeconomic development (24%) and democracy

1 Based on National Treasury (2016)

and governance (20 %). The share of funding in post conflict reconstruction and development, a priority sector for South Africa's foreign aid program, was 3%" (Devex, 2013).

4. South Africa's International Development Cooperation Programs: Objectives and Budget of Various Programs[1]

This section presents objectives and budget of various international development cooperation programs of South Africa during 2012-2019.

4.1 International Cooperation

The major objectives of South Africa's international cooperation programme are to

(i) "Strategically develop, promote and manage international partnerships that strengthen the national system of innovation;
(ii) Enable an exchange of knowledge, capacity and resources between South Africa and its international partners, with a focus on supporting science, technology and innovation capacity building in Africa; and
(iii) Support South African foreign policy through science diplomacy".

The Minister of International Relations and Cooperation is responsible for coordinating and aligning South Africa's international relations and monitoring developments in the international environment.

Table 12.4 presents South Africa's estimated expenditure budget during 2016-2019. The expected expenditure in the financial year of 2016/17 is Rand 579.4 Million which is expected to decrease by 2.5% reaching Rand 565.4 Million in 2017/18. The financial year 2018/19 will witness a slight increase of 1.5% reaching Rand 574.0 Million Rand. This may reflect South Africa's slowing economy and decrease fiscal flexibility.

Table 12.4 Expenditure of South Africa in International Cooperation

Year	2016/17	2017/18	2018/19
Expenditure (in Million Rand0	579.3	565.4	574.0
Percentage Change	—	-2.5%	1.5%

Source: National Treasury (2016) and Author

1 This section is mostly based on National Treasury (2016).

With respect to international development cooperation, South Africa maintains its engagement with strategic formations and cooperation of the North. At the same time, it supports "mutually beneficial South-South cooperation through structured bilateral mechanisms and multilateral agreements". In the medium term, the department of International Relations and Cooperation plans to "use the United States' African Growth and Opportunity Act as a platform for industrialisation and regional integration, as well as relations with the European Union (EU) on the establishment of joint infrastructure projects".

The department also plans to "enhance and consolidate South-South relations, which reflects the shift in the balance of the global distribution of power and the increasing importance of emerging economies in the multilateral trading system". In the medium term, the department has the following plans:

(i) "to continue to use its membership and engagements with groupings of the South, such as the Forum on China-Africa Cooperation, the G77, the People's Republic of China, and the Brazil-Russia-India-China-South Africa (BRICS), to promote South Africa's foreign policy objectives;
(ii) to promote trade and investment, strengthen market access opportunities and promote market interlinkages between the countries through the adoption of the strategy for the BRICS economic partnership; and
(iii) to finance infrastructure investment and sustainable development projects in the BRICS and other developing countries and emerging market economies through the new BRICS' New Development Bank";

The above activities are budgeted in the International Relations and International Cooperation programmes. Joint spending will witness a declining trend from Rand 4 billion in 2015/16 to Rand 3.6 billion in 2018/19.

One of the key areas of South Africa's development cooperation is "investment in science, technology and innovation. South Africa plans to participate in capacity building of African counties through supporting regional initiatives for the Southern African Development Community (SADC) and African Union (AU). This will promote Africa's growth and development agenda by strengthening cooperation in science, technology and innovation in Africa through technical and financial support for 39 approved SADC and AU science, technology and innovation initiatives and programmes by 31 March 2019. Furthermore, South Africa also participates in overseas science, technology and innovation bilateral cooperation with partners in the Americas, Asia, Australasia and Europe. These corporations involve human capital development and collabourative research in science, technology and innovation, and thus help to secure their support for joint cooperation with other African partners".

In order decrease the national aggregate expenditure, the government has planned to decrease the budget expenditure by R88 million in 2016/17, R300 million in 2017/18 and R307.1 million in 2018/19 on transfers to the African Renaissance and International Cooperation Fund. This reduction, however, is not expected impact fund's operation as it has adequate cash reserves to absorb the impact of the reductions.

4.2 The African Agenda and Regional Integration Programs

South Africa keeps on supporting regional and continental processes and programs, in the following areas:

- "Responding to and resolving crises,
- Enhancing regional integration,
- Promoting enabling trade environment,
- Enhancing intra-Africa trade, and
- Promoting sustainable development and opportunities".

South Africa's has a strong and increasing foreign aid and development assistance programs that are comparable with other BRICS emerging donor countries such as like China, Brazil, and India. Its foreign aid programs are currently scattered across numerous institutions, including

- African Renaissance and International Cooperation Fund (ARF);
- Southern African Development Community (SADC);
- New Partnership for Africa's Development (NEPAD)
- Programs at the national, provincial, and local government levels;
- India-Brazil-South Africa (IBSA) Poverty Alleviation Fund;
- Multilateral programs through concessional lending institutions such as the African Development Bank (AFDB) and the World Bank; and
- Southern African Customs Union (SACU) Agreements on Revenue Sharing or African Union (US Library of Congress, 2015).

The most development cooperation in Africa has been implemented through three major regional cooperation organizations, namely the African Union (AU); the Southern African Development Community (SADC); and the New Partnership for Africa's Development (NEPAD). The major activities include:

- "In terms of enhancing continental integration, strengthening AU and its structures will be the top priority.
- During the medium term, South Africa will continue to make resources contributions and strong effort for operationalising the tripartite agreement between South Africa, Angola and the Democratic Republic of the Congo to promote peace and security framework agreement for the Great Lakes region;
- Deploying the Southern African Development Community (SADC) intervention brigade;
- Operationalising (working with the Department of Defence) the AU peace and security architecture and the African Capacity for Immediate Response to Crises, which is the multinational African interventionist standby force set up in November 2013;
- In the medium term, South Africa will be engaged in integrating regional economic communities towards a continental free trade area, revitalising the New Partnership for Africa's Development (NEPAD) on infrastructure development, and facilitating good governance systems through the African Peer Review Mechanism"; and
- Supporting the AU's Agenda 2063 which aims to develop a new development trajectory for Africa towards self-determination, freedom, progress and collective prosperity".

The expenditure for the above and other related activities has been budgeted for in the Africa sub-programme of the International Relations programme and the Continental Cooperation sub-programme in the International Cooperation programme. Joint spending in the medium term is expected to be around Rand 3.4 billion.

In terms of peace and security, South Africa is one of the top African contributors to multilateral peacekeeping operations through the African Union as well as the United Nations. In addition to significant contribution to peace and security, South Africa has made "significant investments in African institution-building, infrastructure development and regional integration". It played a leading role in the reform of the Organization of African Unity (OAU), resulting in the launch of the African Union (AU) in Durban in 2002. In addition, South Africa is also a major financial contributor to a number of regional cooperation initiatives, such as:

- "New Partnership for Africa's Development (NEPAD),
- AU's socioeconomic development programme;
- Pan-African Parliament;
- AU budget with the largest contribution with a share of 5%; and
- Southern African Development Community (SADC) with 20% contribution of the operational budget.

- Through regional development initiatives such as NEPAD and SADC, the Programme for Infrastructure Development in Africa (PIDA), South Africa has been contributing significantly in developing African regional or cross-border infrastructure.
- Furthermore, it is contributing large financial assistance through the IDC and DBSA for regional water, transport, energy and telecommunications infrastructure projects (Grobbelaar and Chen, 2014).

This clearly shows that South Africa is contributing significantly in strengthening regional connectivity through implementing connecting infrastructure projects that are crucial for socio-economic development of Africa.

4.3 South-South Cooperation

South Africa is providing a strong leadership in the South-South development cooperation. For example, it is a member of trilateral inter-continental the India-Brazil-South Africa Dialogue Forum for engaging in cooperation and closer coordination on global issues and development. In addition, it is a member of diverse organizations of the Global South to promote the attainment of Millennium Development Goals and the International Finance Corporation Development Goals. At the same time, South Africa played a key leadership role for promoting closer economic ties between Africa and the Gulf Cooperation Council and facilitating GCC investment in African infrastructure, and facilitating China-Africa cooperation through the China-Africa Forum (Lao, 2013).

The Table 12.5 presents a comparison between South Africa's expenditure for South-South and Continental cooperation during 2012-2019.

Reflecting slowing economic growth since 2009, South Africa's expenditure for the South-South cooperation witnessed an average declining trend of 15.7% during 2012-2016 from Rand 6.1 million in 2012/13 to Rand 3.7 million in 2015/16. On the other hand, the expenditure for the continental cooperation witnessed an average increasing trend of 23.6% during the same period from Rand 82.0 million in 2012/13 to Rand 154.8 million in 2015/16.

However, the expenditure for the South-South cooperation is expected to increase by 29.9% during 2016-19 reaching Rand 8.1 million in 2018/19 whereas that for the continental cooperation will increase on an average by 3.2% only.

It is to be noted that the amount of expenditure for South-South cooperation is much smaller compared to that for Continental cooperation. The ratio of expenditure for Continental and South-South cooperation (as show in column 4 of table 1) has been increasing rapidly from 13.4 in 2012/13 to 41.8 in 2015/16. During 2016/17- 2018/19, the ratio shows a declining tend from 28.8 in 2016/17 to 21.0 in 2018/19.

The above analysis clearly shows that South Africa is giving increasing importance to the South-South cooperation but the magnitude of the assistance is still quite small compared to other emerging donors.

In terms of international fund transfer, South Africa is supporting multilateral activities that enhance South Africa's economic and diplomatic relations within the continent as well as with the world through:

- "Contributing annually membership fees of international organisations such as the UN, AU and SADC; and
- Contributing annually for transfers to recapitalise the African Renaissance and International Cooperation Fund as a contribution to its operations".

Table 12.5 A Comparison of the Trends in South Africa's Expenditure for South-South and Continental Cooperation (in Rand Million)

Financial Year	South-South Cooperation (2)	Continental Cooperation (3)	Ratio of Column (3) and (2)
2012/13	6.1	82.0	13.4
2013/14	6.9	124.2	18.0
2014/15	4.6	132.0	28.7
2015/16	3.7	154.8	41.8
Average growth rate (2012/13 to 2015/16)	-15.7%	23.6%	
2016/17	6.4	184.3	28.8
2017/18	7.2	176.0	21.5
2018/19	8.1	170.1	21.0
Average growth rate (2015/16-2018/19)	29.9%	3.2%	

The total budget of African Renaissance and International Cooperation Fund for 2016/17 is Rand 108.3 million. The fund provides funding for cooperation programs "between South Africa and other countries that relate to

- the promotion of democracy and good governance,
- the prevention and resolution of conflicts,
- socioeconomic development and integration,
- humanitarian assistance and relief, and
- human resource development, and infrastructural development".

5. Trends, Patterns and Structure of South Africa's Foreign Assistance Programs

This section discusses the past and future trends, patterns and structure of South Africa's foreign assistance programs.

5.1 Structure of South Africa's Foreign Assistance Programs

South Africa has been witnessing an increasing and comprehensive foreign assistance programs. The major foreign assistance program has been is the African Renaissance and International Cooperation Fund (ARF). It is administered by the Department of International Relations and Cooperation of the government manages ARF and numerous projects in Africa countries have been implemented under this fund. The ARF has been established under the African Renaissance and International Cooperation Fund Act. This law governs the ARF and provides the executive body with significant discretion to negotiate most assistance agreements and to impose restrictions and conditionality. The parliamentary appropriations is the major sources for ARF among several sources. ARF adheres to transparency and accountability through mandatory annual reports issued by the ARF and annual auditing by the Auditor General, an independent constitutional body.

Many government institutions and departments implement the majority of foreign aid programs in South Africa at the national, provincial, and local levels in many areas. These areas of foreign aid programs include:

- "Capacity-building training programs offered by the Department of Agriculture and the Reserve Bank to members of counterpart institutions in different African countries,
- Subsidies provided to foreign students to study in South Africa,
- South African military's peacekeeping missions, and
- South African Police Services members' participation in various nations as observers in conflict areas or in monitoring elections" (US Library of Congress, 2015).

One of the major weakness of the funding and implementation of various South African foreign assistance programs is the fragmentation of various implementing agencies across different government institutions and regional and international organizations. There is a need for a central implementing agency or a reporting mechanism for the effective implementation of South Africa's foreign assistance programs. Due this fragmentation, accurate and complete data on foreign assistance programs are not available. In order to consolidate the fragmented South African aid programs, it plans to replace the ARF with another fund, namely, the South African Development Partnership Fund. A new and independent central agency, namely, the South African Development Partnership Agency (SADPA) will administer this new fund along with other aid programs (US Library of Congress, 2015).

5.2 Trends and Patterns of South Africa's Foreign Assistance Contribution

The ARF was established in 2001. South Africa's foreign assistance through ARF witnessed a significant growth reaching Rand 50 million (about US$7million) in 2003/04 and US$36.4 million in 2007/08. Based on the report of the South African National, South Africa's expenditure through regional and international organizations (the United Nations, the African Union, the Southern African Development Community (SADC), and others) was US$19.6 million in 2008/09. On the same financial year, its spending on humanitarian assistance was US$2.9 million. Until 2008/2009, South Africa's contribution to the India-Brazil-South Africa (IBSA) Poverty Alleviation Fund was US$7.0 million since its inception in 2004. One of the major contributor of South African foreign assistance program had been the South African Department of Education—accounting for 36% of the overall aid in 2004. On the other hand, spending of South Africa on peacekeeping in 2004, was more than Rand 500 million (about US$70.5 million)—the second largest in the aid contribution (US Library of Congress, 2015).

South Africa's foreign assistance or ODA exhibits a mixed picture during 201-2016.

Figure 2 presents the trends in South African foreign aid or assistance during 2010-2016 into different initiatives or institutions—ARF, AU, UN, NEPAD, SADC, Humanitarian Aid and other activities.

After the peak of more than $100 million in 2010, South Africa's ODA fell sharply in 2011 followed by an increasing trend until 2013. During, 2012 and 2013, its foreign assistance was around $87 million—much below the ODA of traditional donors and lagging behind the BRIC countries. ODA declined in 2014 but it is expected to rise in 2015 and 2016. However, the budget for foreign assistance is estimated to be around at a modest level–$ 80 to $90 million (Lao, 2013).

This calls for a significant increase in ODA for producing effective results for the ODA recipients in its development assistance.

As exhibited in Figure 12.3, ARF, or the African Renaissance and International Cooperation Fund, has been the principal financing instrument for South Africa's foreign assistance followed by African Union and NEPAD. However, as noted earlier, Its average foreign aid is much lower than the amount it receives from traditional donors.

In recent years, South Africa is witnessing a weak economy with electricity shortages, low commodity prices; and low consumer and business confidence (see Section 2.1 and Table 12.1).

It also facing high unemployment, significant decrease in FDI, high current account and trade

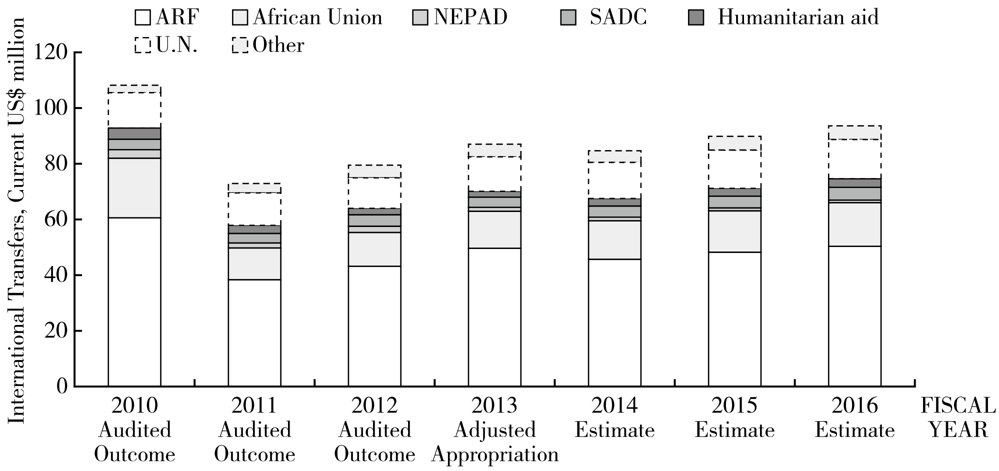

Figure 12.3 Trends in South African Foreign Aid: 2010-2016

Source: Estimate of Publie Expenaitres 2013, National Tressury of South Atrica

deficits, strikes in construction, mining and car industries. This situation is forcing South Africa to reduce its spending resulting in reduced fiscal flexibility. As a result, the planned levels of foreign assistance are modest for the coming years (Lao, 2013). There is a need to utilize multilateral, bilateral and unilateral initiatives to leverage funds for mobilising funds for its development programs in the region.

6. Future Prospects and Recommendations

This section provides future prospects of South Africa's development cooperation and recommendations for enhancing its development cooperation initiatives.

Africa is at a critical juncture in its development trajectory. During last century and this century, the world economy witnessed major shifts in production and trade patterns together with the emergence of new growth poles in the South. Since 2000, African continent including South Africa witnessed large and sustained growth across the region partially due to continued commodity boom as well as significant growth in retail, agriculture, services, transport and telecommunications. At the same time, civil and political conflicts decreased together with better economic management, governance and political stability—resulting in strong growth, In view of the above, the African continent is considered to be the next frontier for opportunity and a potential global growth pole as per the global market perception (ARF, 2015).

The major challenge for African countries is to formulate and implement effective policies and interventions to facilitate industrialisation and economic transformation. In recent years, the continent witnessed increased activities for economic integration of African countries and enhancing intra-African trade through several development cooperation initiatives, particularly through the Tripartite Agreement of the Common Market of Eastern and Southern Africa, East African Community and Southern African Development Community (SADC). Another major initiative of Africa is the African Union's (AU) which implements its socio-economic development programs through New Partnership for African Development (NEPAD) and NEPAD agency. The strategic framework of NEPAD for the African Agenda has moved from a poverty-reduction agenda to an economic growth expansion agenda. The AU/NEPAD programmes performed well—such as

- Programme for Infrastructure Development in Africa;
- Presidential Infrastructure Champion Initiative; and
- Comprehensive Africa Agriculture Development Programme (ARF, 2015).

In spite of above successes, Africa still faces several major challenges which need to be prioritized by the AU, its regional economic communities and national governments. The major challenges include (ARF, 2015):

- "Combating of unconstitutional changes in government,
- Boosting local skills and technological capabilities,
- Addressing the challenges posed by environmental and human-induced disasters,
- Operationalisation of the African Peace and Security Architecture,
- Addressing prevailing socio-economic disparities compounded by youth unemployment;
- Marginalisation of women in economic activities and
- Securing of limited resources to implement African development initiatives".

The Agenda 2063 was adopted to combat the above challenges and to map Africa's direction over the next 50 years (ARF, 2015).

One of the key tools for economic expansion, employment and income generation and industrialization, among others, is regional integration. There is an urgent need for enhancing trade, economic and physical/infrastructure integration among the African countries. Poor, small and landlocked African countries need to be connected to the business centres and major cities of more developed countries, particularly South Africa. Regional or cross-border infrastructure development and rehabilitation is necessary for market integration and developing regional or cross-border manufacturing production network.

As highlighted in section 3.2, there is no dearth of development initiatives where South Africa is an active member. Many of these initiatives are overlapping in terms of the country membership. The effective implementation of various development cooperation initiatives, however, is crucial for obtaining results in the ground. South Africa's skilled human capital and financial resources contribution (through ARF and other funds) can assist in building skills and developing institutional capacity of less developed countries of Africa and thus help in the effective implementation of the above initiatives.

The economic and political influence of South Africa along with other major emerging countries such as Brazil, Russia, India, and China and South Africa is rapidly increasing in the world. Consequently, South Africa is expected to play an important role in promoting official and non-official South-South Development Cooperation (SSDC) through development assistance. It is becoming an emerging donor for less developed countries, particularly in the Africa. Due to the advantage of local knowledge, proximity and the regional position, South Africa development cooperation is mainly focused on the home region—Africa.

According to a study by Global development advisory firm Dalberg, the emerging donors is expected to contribute around 20% percent of total foreign aid by 2020, much higher than an estimated 7-10 % in 2012 (Devex, 2014). Following this trend, the emerging donor like South Africa needs to contribute more foreign aid to developing countries in order to keep its leading position among emerging countries, particularly in Africa.

The priority sectors in South Africa's development cooperation are: peace building democracy and governance; and humanitarian assistance. In 2010, ODA of South Africa is larger than even the ODA target set for traditional donors—with ODA between 0.7% and 1% of gross national income for the development and stability of Africa (Grobbelaar, and Chen, 2014). However, the magnitude of its ODA is much smaller than those of the traditional donors and smaller than the major emerging donors.

In particular, the expenditure of South Africa for South-South cooperation is much smaller compared to that for Continental cooperation. At the same time, South Africa still receives more foreign aid than its external development assistance. In future, South Africa needs to enhance its external development assistance in order to become more effective as an emerging donor.

As stated earlier in section 3.8, the African Renaissance and International Cooperation Fund is the most visible and active development cooperation initiative of South Africa. In terms of policy considerations, ARF provides more importance on:

- Cooperation with African countries, particularly in the areas of democracy; and conflict resolution; and
- Economic development and integration.

As exhibited in the trends and patterns of assistance disbursement (see Table 3), under ARF, South Africa's foreign aid policy focuses on:

- Neighbouring countries, especially member countries of the South African Development Community (SADC); and
- Education and peacekeeping assistance.

During the financial year 2014-1015, with the exception of the projects in Niger and Sierra Leone, all the projects involved SADC countries. ARF South Africa's foreign assistance through ARF was geared to SADC member countries, particularly neighbouring countries, namely Botswana, Lesotho, Mauritius, Mozambique, Namibia, Niger, and Zambia. South Africa needs to extend its foreign assistance to non-SADC countries in order to fulfil the Agenda 2063.

In order to take a leading role among emerging donors such as other BRICS members, South Africa needs to diversify the disbursement of ARF and other foreign assistance funds to other countries within and outside the region as well as in other emerging issues, particularly infrastructure connectivity in terms of transport, energy, telecommunications, water and sanitation. Infrastructure connectivity is crucial for enhancing sustainable economic development and integration, trade integration, and poverty reduction among others. South Africa can utilize its membership in World Bank, African Development Bank and New Development Bank-BRICS for facilitating infrastructure development in Africa.

South Africa is planning to introduce a new bill for the replacing ARF and the creating of a new fund, namely the Partnership Fund for Development. This new fund is expected to strengthen the utility of the fund and also enhance significantly the governance of the partnership fund (ARF, 2015). This new fund should be established at the earliest.

Being an emerging donor for less developed countries, South Africa needs to learn the challenges associated with the development cooperation. It can learn from the lessons and the experiences of major donors and development partners and formulate appropriate strategies for delivering aids effectively to developing countries.

South Africa can to utilize and leverage multilateral, bilateral and unilateral initiatives for mobilising funds for its development programs in the region. IBSA fund is a very good example for effective selection, design and implementation of development related projects. South Africa can learn for the best practices of IBSA fund and replicate these models in the other development projects.

Utilizing development cooperation assistance and programs for bringing solid benefits for less developed countries is a formidable challenge in the prevailing unpredictable and turbulent world socio-economic situation. South Africa needs to further develop its knowledge base, technical capacity, strategies, competencies, management skills, project management skills among others to bring aid effectiveness in multi-partner projects involving many stakeholders.

South Africa is currently involved in many development cooperation initiatives. Many governments departments are presently involved to manage various development cooperation programs and projects. The management of these development initiatives is fragmented across many government departments and agencies.

There is an urgent need to establish a central coordinating agency in this regard. South Africa is in the process of establishing a new institution, namely the South African Development Partnership Agency (SADPA) for coordinating, facilitating and integrating its aid and development cooperation activities, namely all South African official outgoing development cooperation programmes and projects. The agency is expected to have an annual budget of Rand 500 million (approximately US$ 50 million). The size of SADPA's budget and its technical resources is quite small compared to those of many traditional donors. In order to be effective, SADPA needs to have adequate skill, knowledge and management capacity:

- to formulate and implement appropriate strategies based on its national, regional and international aid architectures; and
- to place South Africa in a proper position compared to traditional donors, emerging donors and development partners (https://issafrica.s3.amazonaws.com/site/uploads/Paper252.pdf).

Major development related activities of South Africa include reconstruction, infrastructure and development; security, and peace-building; and 'state and institution' building; human resource development and capacity building in Africa through bilateral, trilateral and multilateral programs. It needs formulate appropriate strategies and implement those effectively to enhance the effectiveness of its joint programs and projects for a better impact on the regional countries.

The NEPAD agency, and South African Development Partnership Agency (SADPA) are the most suitable organizations for coordinating and implementing reconstruction, infrastructure and development programs in the region. Another area which needs urgent action is the building strong capacity of two key development agencies of South Africa, namely SADPA and NEPAD. The technical and financial capacity of these institutions needs to be enhanced significantly for developing effective programs including those for South-South cooperation. At the same time, the expertise and capacity of other related government departments should be strengthened. South Africa should utilize the trilateral cooperation for generating additional funds for SADPA as well as learn from best practices (Grobbelaar, and Chen, 2014).

South Africa has a comparative advantage compared to traditional northern donors in providing solutions to southern development challenges of southern countries because of their similar cultural, political and strategic interests in the global agenda (Grobbelaar, and Chen, 2014). South Africa needs to leverage these comparative advantages to deliver effective development assistance to the poor countries.

Lastly, coordinating and implementing development programs and projects in less developed Africa and other less developed regions has been a big challenge. South Africa needs to play a larger and effective role to represent African interests and issues as well as those of other regions in multilateral initiatives and programs and find unique solutions for designing, coordinating and implementing complex development cooperation programs in Africa and beyond. In order to have an effective role in Africa's development, the country needs to strengthen its own economy, social conditions, governance and human capital development among others.

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Chapter 13

Changing Dynamics of International Development Cooperation*

1. Introduction

Over the last decade, the global development landscape has changed rapidly. New waves of anti-globalisation, the emergence of strong nationalism, nascent protectionism, the "BREXIT" vote, and the election of the Trump Administration, has led governments, practitioners and academics alike to ask whether it is indeed time to move development policy and practice "beyond aid." At the centre of this evolution, China and other emerging powers have emerged as critical players. They have rapidly expanded their development finance programmes and launched new multilateral initiatives. With this increasing diversity of actors and flows, the development community now faces difficult questions about how to move forward and beyond aid, together in meaningful and effective partnership.

From discourse to cooperation modalities to new institutions, the emerging powers have served as an influential driver of shifting development paradigms. Furthermore, as a result of its overseas activity, development finance has diversified beyond official development assistance (ODA), entering recipient countries through other channels such as investment and trade. What

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are the prospects for post-2015 global partnership? With the growing role of China and other non-traditional donors, many have asked what the future of development cooperation might look like and whether a new SDG global partnership might be possible.

2. Emerging Powers and International Development Cooperation

Emerging powers

In the debate over the future of international development cooperation and the search for new, more effective approaches, great store has been placed on the role and potential contributions of states that have come to be known as "emerging powers", but are often also labelled "rising powers" or "emerging economies". But who or what are these emerging powers? There are contending answers to this question. Some commentators are even sceptical of the whole idea that there are emerging economies, arguing that while there may well be a strong case for applying the term to China, there is little substance to extending it to other economies as their trajectories of growth and the foundations of political stability are relatively recent and tentative. Such reservations notwithstanding, groupings such as BRICS (Brazil, Russia, India, China and South Africa) and other emerging economies are an increasingly prominent and influential part of the contemporary landscape of international development. A deeper understanding of their role and significance is necessary to explain and understand better the changes in international development cooperation.

Younis *et al.* (2013) use the term 'rising powers'. For these authors, these include both the BRICS group, as well as other states who are becoming increasingly influential in global development, such as Mexico, Turkey and Indonesia. These 'rising powers' can be divided into roughly two groups of actors in South-South development cooperation (De Renzio and Seifert 2014). First, a smaller group of larger countries that have been involved in development cooperation for longer and are generally more critical of traditional aid (e.g. Brazil, China and India). Second, actors such as Chile, Indonesia, Mexico and Turkey. This is a more diverse group with a variety of approaches to development cooperation.

Clearly, the number of states actively involved in international development cooperation has increased markedly in the past ten years as their economies have strengthened, domestic political systems stabilised and South-South dialogue and cooperation has increased. This has made for a broader and more diversified development environment than previously was the case. Countries such as India and China, have long-standing 'development' relations with many countries. But recent years has seen a significant step-change in the character, substance and range of their partnerships. China has been instrumental in initiating and administering the Forum on China-Africa Cooperation (FOCAC). Other countries, such as Brazil, Russia and South Africa are more recent BRICS members to engage in international development cooperation. In addition, next-wave “emerging economies” such as Indonesia, Mexico, and Turkey are also engaged in international development assistance.

At the heart of this dynamic of change are the principles of partnership and mutuality and a commitment to both bilateral and multilateralism. Turkey, for example, has had a development partnership dialogue with Africa reaching back to 1998 and held its Second Turkey–Africa Partnership Summit in November 2014 in Malabo, Equatorial Guinea (RoT, 2014). Finally, it is also worth noting that many of these ‘new donors’ are distinctive in that they are not only providers of assistance, but are also recipients as developing countries in their own right. The emergence of such development partnerships has given rise to an argument that there is an alternative development ‘model’ being established, a so-called ‘Beijing Consensus’, juxtaposed to an asserted mirror-image model labelled the “Washington Consensus’ in which the state plays a central and important role in guiding development (Babb, 2013).

BRICS in international Development

However, whilst recognising the importance of this greater breadth and variety, in terms of the most significant driver of change, the BRICS members have particular characteristics that mark them out for specific attention and offer the strongest potential for influencing the long-term future of international development assistance. The origins of BRICS lie in a process of discussion and negotiation reaching back to 2006. In the following decade, the group has established itself as a significant development actor. It owes its acronym to its use in a 2001 global economics research paper by Jim O’Neill, at that time the head of Global Economic Research at Goldman Sachs. O’Neill coined the acronym “BRICs” as a convenient collective term and play on words to describe the four economies he was analysing in his paper (O’Neill, 2001). This, in turn, found increasing currency and utility as the political impulse increased for a grouping of these economies (later joined by South Africa).

It is easy, with the use of such acronyms, to assume a homogenising uniformity across the membership of such a grouping. This is not the case with BRICS where significant historical, economic, political and developmental differences are to be found among the members. These differences could form a barrier and limit cooperation between the members. Again, this is not the case with BRICS. Rather, this diversity has contributed to, and strengthened, the development of the group and reinforce their significant commonalities and shared perspectives. If we examine these differences first, we can gain an understanding of the achievement in establishing and consolidating this group.

The BRICS members bring to the group very different continental, maritime and archipelagic geographies, histories, cultures, and values as well as different political systems and economic systems. One of the most obvious differences is that of political system and culture, with widely differing versions of ‘political democracy’ within the respective BRICS member states. If India is widely recognised as the world's largest political democracy characterised by a pluralistic, multi-party, representative system of government, it has proven more challenging in recent decades for Brazil, Russia, and South Africa to establish similar systems. The importance of democratisation has been central to the development trajectories of both Brazil and South Africa, whilst China's conception and practice of democracy retains the Communist Party at the heart of the fabric of the Chinese state and the political culture, whilst promoting a socialist market economy.

This range of domestic experience presents highly differentiated ideas and practices about issues central to the international development agenda from civil and human rights; political, economic, corporate and environmental accountability; the quality of governance; and the role of civil society and non-governmental organisations.

One school of thought, (Rowlands, 2012; Hobo and Sobo, 2015) argues that differences between BRICS members, when it comes to roles as aid donors, are stronger than their similarities. According to Qobo and Sobo (2015: 283) 'beyond their dissatisfaction with Western dominance of international institutions, the BRICS countries appear to have little in common'. This includes differences in development cooperation modalities, for example: Brazil and India have attempted to distinguishing themselves from China in Africa through greater openness for hiring local workers for large infrastructure projects (Stuenkel 2013).

However, De Renzio and Seifert (2014) note that a shared agenda is emerging on some issues, e.g. need for data collection and strengthened evaluation and shared learning. However, there is a lack of a shared vision on whether and how these countries should act jointly to coordinate on strategy, policy and operations. They propose that this could develop through the GPEDC; at the UN; or through increased coordination among themselves, e.g. forums like the NDB. Similarly, Constantine and Pontual (2015) find that if emerging powers struggle to work together in forums like the UN, the regional and bilateral spaces will become more important.

Despite differences, BRICS states have a substantial degree of convergence in their outlook on, and understanding and practice of, international development today and its future. They each bring to the table a wealth of experience, a set of remarkable stories of colonisation, independence struggles and conflict, state-building, economic and societal reconstruction; root-and-branch reforms; impressive rates of sustained GDP growth, pulling millions out of abject poverty whilst still facing shared challenges of poverty, growing economic, health, education and social deprivation. Each member, except Russia, describes themselves as a developing state. Embedded in their development stories and their approach to development is acceptance of the idea that the state has a legitimate and important role to play in domestic and international development. 'On reflection of their own development experience from many of the emerging nations, many recipient states are beginning to question whether they actually need aid, and if so, whether it would be better to receive aid from those donor countries who themselves had this ‘shared experience’ (Watson, 2014; Gu *et al,* 2014).

The BRICS members have also committed to a collective process of institutionalising their co-operation. This is contextualised by a shared commitment to South-South Cooperation and to triangulated development cooperation with ‘the North’. Triangular technical co-operation, defined by Brazil as establishing agreements with both developed and developing countries “to acquire and disseminate knowledge applied to social and economic development,” (ABC, 2012) is a growing component of the emerging architecture of international development promoted by emerging economies, such as Brazil and China. The Accra Agenda for Action called for further development of triangular co-operation. In response, various organisations and groupings such as ECOSOC, the G8, the UNDP, and the OECD-DAC have held conferences on triangular development co-operation. At the core of such dialogue and cooperation is the importance of seeing development relationships as ‘partnerships’ grounded in mutuality and respect as an essential means to move ‘beyond aid’ and the connotations of unequal relations embedded in established, conventional practices of international development assistance. In other words, the approach of Brazil, India, China and South Africa to international development assistance emphasises a more horizontal, rather than the vertical/hierarchical, practice often attributed to ‘traditional’ approaches (Quadir, 2013).

In 2014, researchers argued that there was an evident and limiting lack of research from emerging powers on the development policies of others (Hackenesch and Janus, 2014). In the case of China, at least, this is a rapidly fading and outdated picture. China’s Development Research Centre of the State Council has been actively engaged in international dialogue and collabouration with international partners to exchange knowledge and gain a closer understanding of ‘better’ international practices. In addition, China’s major universities have incorporated the study of international development into their academic profiles and teaching programmes. This is important, not only for capacity-building, but for higher-quality, empirically-grounded and informed policy-making.

3. New Dynamics: Principles, Practices, Institutions

Changing principles

What are the BRICS and emerging powers bringing to the key processes of current and future change in international development assistance? As we have already seen above the first and perhaps most obvious change is in the understanding of the core principles and values at the heart of development-partnership and equality, mutuality, political non-interference, and a rejection of conditionality; all embedded in shared past and present experience and common aspirations for the future. These have long-established antecedents, reaching back to the Bandung Declaration of the conference of newly independent and non-aligned states that met in 1954. A prime contributor to the declaration from that conference was Chinese Premier Chou En-Lai, who introduced China's own Five Principles of Peaceful Coexistence into the conference debate and final document, principles that remain part of the political position of China, BRICS and many developing countries today (Gu, Shankland and Cheony eds., 2016).

China's President Xi Jinping's speech to the seventh BRICS summit in Ufa, Russia, in July 2015 set out his vision of a BRICS approach emphasising the need for developing countries to take on more responsibility for their own development while BRICS provides assistance in meeting critical capacity-building needs and promotes further South–South Co-operation. In President Xi's view, "The BRICS nations should also establish a new type of global development partnership, urge the developed countries to shoulder their due responsibilities, and help developing countries improve their self-development capability, so as to narrow the North–South gap, intensify South–South cooperation and seek self-improvement through cooperation on the basis of mutual benefit and win-win." Brazil's approach also stresses the importance of working within the principles and practices of South–South Cooperation "as it enhances general interchange; generates, disseminates and applies technical knowledge; builds human resource capacity; and, mainly, strengthens institutions in all nations involved" (Brazilian Cooperation Agency, n.d.).

If we examine one of these principles, non-intervention, this forms a core BRICS principle. It refers to non-intervention in the domestic affairs of partners, retaining the values of mutuality and equality of relations. In other words, the guiding principle is to respect the legal and political sovereignty of partner states by not intervening in their domestic affairs. This principle has often raised criticism from 'traditional' donors, NGOs and media commentators that it represents an abrogation of responsibility, turning a blind eye to economic, financial and political deficiencies of governance, corruption, weak rule of law, and human rights abuses that 'contingency' provisions are designed to overcome (Watson 2014).

Changing practices

The second substantial contribution of the emerging powers to changing international development assistance is changed practices. South-South Cooperation, in contrast to 'traditional' aid, usually provides financial flows independent of political pre-requisites of requirements for reform. This principle is well favoured by recipient countries. This is not to say that this aid is not 'tied'; financial flows may be linked to commercial or diplomatic interests just not to political requirements (Gu, 2015; Constantine *et al*, 2015; Chandy. and Kharas, 2011)). For example, Chinese development assistance often requires the use of Chinese materials and labour (Quadir 2013). Whilst there is the prospect for non-tied aid to be more effective through giving the recipients a greater role in the development process, Quadir, however, remains sceptical, concluding that this remains more a case of rhetoric rather than representing a serious political commitment.

The emerging powers' approach to delivering international development assistance is also distinctive in utilising a wider range of financial and other instruments in their international development cooperation than is defined as 'aid' in the DAC's definition (Chahoud, 2008). One of the most evident of these instruments is that of 'concessionary loans' (Mawsley, 2012). Whilst 'aid' from the traditional donors has largely drawn a distinction between overtly 'commercial' and 'development' considerations, emerging powers' use of concessional loans tends to be less clear-cut, with the lines rather opaquer. The trade-off is one in which loans are set at well below commercial rates and with much more extended repayment periods. Repayment in kind, i.e. by a lender agreeing to receive goods or resources in return for the loan or by accepting the use of resources as the guarantee or security for the loan. This instrument and the use of these non-traditional provisions is criticised by traditional donors. However, as Bräutigam has pointed out, this can provide a more viable and attainable way of gaining repayment than established orthodox methods; this being particularly the case in conditions where a recipient country is high in resources, but low in stocks of foreign exchange reserves (Bräutigam, 2011). This type of loan usually forms part of a wider package of measures. For example, China's President Xi announced at the 2015 FOCAC Johannesburg Summit that China would provide major new funding to support the China-Africa agreement on ten major development projects. China will provide a total of US$60 billion in funds. This includes US$5 billion of free aid and interest-free loans, US$35 billions of preferential loans and export credit on more favourable terms, US$5 billion of additional capital for the China-Africa Development Fund and the Special Loan for the Development of African Small and Medium Enterprises each, and a China-Africa production capacity cooperation fund with the initial capital of US$10 billion (Xinhua, 2015*a*).

A second instrument of note is the use of export credits. These are widely used by emerging powers to provide incentives for domestic public and private companies to conduct business in recipient countries. Export credits are not restricted to domestic firms, they have all been provided to a range of international financial institutions and agencies, including regional development banks, foreign firms and even governments. The advantage of using these is that they offer a concessional basis for these agencies and firms to pay for goods and services from the donor country. Advocates justify the use of export credits as a way of promoting higher productivity and increasing trade to the benefit of the recipient economy. Critics argue, however, that these instruments have little or nothing to do with promoting 'development' in its own right and rather more to do with increasing opportunities for increasing the donor's own domestic exports. Bräutigam (2011) argues that much Chinese financing will only be provided on concessional terms initially to help Chinese firms get established overseas and, following this period, rates will be raised to more commercial levels.

Box 13.1 Case Study of Export Credits: Indian 'Lines of Credit' (LOCs)
(from Chenoy and Joshi 2016, p.98)

India's Exim bank widely uses LOCs to promote trade and investment. These are characterised as part of development cooperation as they contain a grant element of 25%. They have assisted investments in multiple fields from agriculture to electrification. Examples include the 'Focus Africa' which offers LOCs worth millions of US dollars. 17 years after the start of LOCs (as of March 2015), the Exim Bank has supported 149 export projects by 56 Indian companies, to 63 countries in the South, with \$11.68 billion. These LOCs are packaged with technical assistance: including 10,000 scholarship slots in diverse subjects for officials from developing countries at 47 institutions.

A key feature of the emerging powers' approach to development cooperation is a focus on technical cooperation. To some extent this is playing to established strengths of these states. Technical cooperation from emerging powers is often based on their own specific development experiences. For example, based on its own experience, Brazil asserts expertise in 'combating urban violence and youth gangs, literacy programmes, agricultural technologies, and HIV/AIDs awareness and prevention initiatives' (Mawdsley 2012). Countries such as India, China and Brazil have long-established relationship with other developing countries grounded in technical support covering a vast range of fields, from health, education, agricultural production, telecommunications, transport infrastructure, scientific knowledge, construction technology and, most recently 'clean' energy. A focus on technical cooperation brings a number of advantages to the emerging powers. For example, being more tangible, they offer greater opportunities for managerial oversight and control of projects and assessment of progress with benchmarking of specified practical outcomes.

Technical cooperation is also advantageous insofar as this ties in well with the central themes and focus of South-South Cooperation in promoting knowledge and skills sharing and exchange and to meet the SDGs and post-2015 Sustainable Development Agenda objectives, for example with respect to education and health (King, 2014). As is noted below, much of the 10-project programme of China-Africa projects announced by President Xi Jinping at the 2015 Johannesburg FOCAC Summit fall into this category of assistance, building on a decade-and-a-half of such commitments made at the six China-Africa Ministerial Meetings held since 2000. India too strongly emphasises technical cooperation through its Technical and Economic Cooperation programme (ITEC), instigated in 1964, and covering 158 developing countries. In 2011, India provided US$700m to build institutions and establish training programmes with an additional US$300m to develop the Ethio-Djibouti Railway. ITEC provides capacity building through technical training and knowledge sharing; project assistance; and specialised institution-building to support skills development and scholarships for higher education administered through the Indian Council for Cultural Relations. Technical Cooperation also offers providers with useful potential public relations gains in being able to record these tangible outcomes as evidence of a no-nonsense approach that 'gets things done' on time and on budget—a point often raised in support of Chinese technical assistance projects in Africa.

Box 13.2 Case Study of research cooperation for development: Brazil
(taken from Vaz and Inoue 2007, p.15)

'Two programmes are illustrative of the kind of action Brazil is pursuing in research for development: PROSUL and PROAFRICA. These programmes are sponsored by the National Council for Scientific and Technological Development and focus on South America and Africa–priority regions for Brazilian foreign policy. PROSUL was originally proposed by Brazil in the context of the 2000 South America Summit as a means to create a regional strategy for science and technology development. It aims to enlarge science and technological cooperation by intensifying regional research initiatives. PROSUL supports initiatives and projects that generate regional networks, innovation, joint research, and science and technology events. During the past two years, the programme has supported 102 projects in agriculture, biology, health, social and human sciences, the natural sciences, and engineering–61 projects in the latter two areas alone.'

Changing institutions

The third aspect of change is that of institutions. Much of this follows from the emphasis placed by emerging countries on infrastructure development and technical cooperation-whether bilateral, triangular or multilateral.

The estimated annual global infrastructure investment need is about US$3.7 trillion, of which only about US$2.7 trillion is currently met on an annual basis. The majority of this need centres upon the developing countries. China has been a strong proponent and sponsor for new institutions designed specifically to address the infrastructure financing gap. This commitment comes directly from China's own development experience. The imperative to completely rebuild China's infrastructure from the devastation of colonial desecration, wars, and a failed and venal state and the economic failings of the early decades of the PRC entered the DNA of China's approach to development. A perceived deficiency in the established development funding provision and wider international development institutional architecture led China, other members of the BRICS group and wider emerging economies to initiate new institutions to fill the gap. Hence, recent years have seen the creation of the AIIB, the BRICS NDB, a dedicated fund within the AfDB and a SSC Fund. In 2013, the BRICS countries established a New Development Bank (NDB) with initial capital of US$100bn to fund infrastructure and sustainable development project, and a US $100bn Contingency Reserve Arrangement (CRA) to help deal with potential financial crises in emerging countries.

The cumulative effect of this institutional drive has been to provoke a major debate over the intent behind it. Is this a challenge to the established international institutional order, replacing the Bretton Woods architecture or new agencies intended, as the sponsoring governments claim, simply adjuncts to meet gaps in the existing system and, therefore ought to be viewed as welcome contributions to strengthening the existing system? Dixon (2015: 5) sees them as 'reflecting moves towards a new international financial order' especially in the post-global financial crisis context. Qobo and Soko (2015: 1) argue that, while they do pose a challenge, 'there is little evidence to suggest that the BRICS grouping has intentions to overhaul the current global order'. Watson, Younis and Spratt (2013: 3) perhaps summarise the situation best: as an 'alternative mechanism for providing development financing, [the NDB] does represent a necessary (though not sufficient) condition for [a challenge to the established institutions].'

The National Development Bank (NDB)

The NDB's remit is to provide critically important infrastructure investment, reflecting the priorities of the BRICS' national development programmes and SSC more broadly as well as the importance attached to this factor by China (Abdenur, 2014). Rodrik (2014) expresses disappointment in the focus on infrastructure cooperation, arguing it represents an outdated view of economic development. However, others argue this is '[filling] a major gap in international financial architecture' (Dixon 2015: 4; see also Chin, 2014) left by traditional donors who have shifted their focus substantially to health and education; spending less than 10% of aid budgets on infrastructure (Chin, 2014).

However, some critics argue that this new institution's primary responsibility is to fill the 'infrastructure financing gap' in the BRICS group itself, rather than investing beyond the group (Chin, 2014). This focus is hardly surprising, given the significant infrastructural funding gaps faced by the members of the grouping. Clearly, facing significant infrastructural capacity-guiding need, investment for critical infrastructure is important for each of the BRICS members in order to sustain their economic growth: providing much-needed investment infrastructure for resource production in Brazil and Russia, and for export facilities in China and India (Dixon 2015). South

Africa, however, adopts a wider perspective, seeking to promote financing for Africa as a whole.

It has been argued by Schablitzki that the 'Global South' shares the BRICS disappointment in the existing financial system (2014). If this is truly an accurate representation of the view of a multitude of countries, then, Qobo and Soko argue that the NDB is positioning itself to represent, harness and effectively take a lead in infrastructure investment in the developing world (2015). Indeed, some observers argue that the NDB is stepping-in to fill a hole in the existing institutions' development assistance (Dixon 2015: 4; Chin 2014; Griffith-Jones, 2014).

The agreement to locate the NDB's first regional office in South Africa is a positive signal that there is a commitment to wider development. Nonetheless, the Bank's organisational structure suggests strongly that it will be BRICS-led and no 'bank of the South' (Schablitzki 2014, p. 9). Interestingly, membership of the NDB is open to non-BRICS, UN members and could, despite some obstacles, expand in future (Dixon 2015).

Prado and Salles (2014) note that the practical need for infrastructure financing doesn't explain the establishment of the NDB, arguing that the BRICS could have achieved this cheaper through their own national development banks. The literature (Carey and Li 2014; Qobo and Soko 2015) emphasises the opportunity the NDB provides for elabouration and institutionalisation of the principles of SSC, and thus pose an intellectual challenge to the dominant international organisations. Schablitzki (2014) notes that, as both a representation of consensus between the BRICS and of South-South ties, the NDB helps legitimise SSC by challenging the impression of it being predominantly self-interested. Qobo and Soko (2015) also see a longer-term goal in strengthening the BRICS countries agenda-setting power in existing multilateral organisations, through fortifying their 'soft (knowledge) and material power resources'. They argue 'the recent call for the NDB to define itself as a knowledge bank, in addition to infrastructure financing, should be understood against this perspective' (Qobo and Soko: 281). Abdenbur (2014) sees these forming opportunities to challenge the existing hegemony without direct confrontation, as the main reason for Chinese support for the Bank, which otherwise makes a relatively small addition to its existing development cooperation. In addition, Stunkel (2013) argues that the importance of the CRA has been overlooked in comparison to the NDB, but its close connections to the International Monetary Fund mean its impact on the established global financial order is likely to be less substantial (Schablitzki 2014).

Asian Infrastructure Investment Bank (AIIB)

The AIIB was proposed by China in 2013 and started operation in late 2016. The AIIB's task is to help finance infrastructure needs. In particular, the AIIB is expected to support China's One Belt One Road (OBOR) initiative to promote connectivity and cooperation between China, Asia and Europe (Callaghan and Hubbard, 2016). President Xi Jinping declared: 'China's inception and joint establishment of the AIIB with some countries is aimed at providing financial support for infrastructure development in countries along the 'One Belt, One Road' and promoting economic cooperation.' The establishment of the AIIB is also seen as a response to the reluctance of developed countries, in particular the US (Callaghan and Hubbard 2016; Griffith-Jones *et al* 2016; Kawai 2015; Reisen 2015), to allow increased emerging power and developing country influence at the World Bank and IMF. It is suggested by both Reisen (2015) and Wang (2016) that the new institutions may speed up reforms to increase the voice of rising powers at the existing multilateral institutions. Poverty reduction is not an explicit target of the AIIB unlike the existing MDBs. Its focus on infrastructure instead is similar to the NDB, but one study argues that 'the AIIB will likely be able to ramp up lending faster and achieve a portfolio more than twice as large as the NDB within 10 years' (Humphrey *et. al.*, 2015: 3). Nevertheless, the AIIB's remit is not to prioritise poverty reduction, health or education, or to offer concessional loans to developing countries (Kawai 2015: 8).

The AIIB has indicated that it has adopted existing multilateral development bank (MDB) standards for environmental protection and monitoring. The AIIB has expressed an emphasis on integrating standards with a recipient country's procedures. A failure of existing MDBS to do the same is described by Humphrey as a 'major failure of existing MDBs, which often seem more concerned with protecting their own projects against criticism from NGOs and domestic politicians than in achieving development goals. ... The AIIB could take the lead in this area by having a team of experts to advise on engineering, sustainability, social and environmental impacts, fiscal, regulatory and pricing issues, project financial structuring, and attracting external public and private investors' (Humphrey, *et. al*. 2015: 6).

This question of conformity to international standards extends beyond the domain of environmental policy. It is embedded in a deeper question regarding the extent to which emerging powers such as China can be effectively integrated into the existing development cooperation system of rules, regulations and practices? Callaghan and Hubbard (2016) suggest that, for political reasons, Asian countries may be more open to accepting AIIB infrastructure projects (even if they are led by China) than direct bilateral Chinese projects. More broadly, Humphrey *et. al.* (2015) see the AIIB as a positive step towards Chinese funding development cooperation through multilateral means, which enable greater coordination and adherence to international standards. Kawai (2015) further argues that for the AIIB to be a success, China may have to reduce some of its language and practice relating to the 'common, but different' approach and coordinate more with traditional donors.

IBSA Dialogue Forum

The IBSA dialogue forum of Indian, Brazilian and South African representatives, established during the 2003 G8 summit in France, predates the BRICS institutions. This bloc has 'turned into an interesting platform for the three emerging powers to engage, allowing them to debate, coordinate and articulate a range of domestic and geopolitical issues' (Stuenkel 2013: 17). The motivation behind the grouping is their common interests, which although they face similar criticisms as with the BRICS to their divergence, should in principal–as all democracies–be more similar. This grouping has taken some steps, albeit small, to institutionalising SSC–notably an IBSA fund (to which each country contributes US$1 million annually) managed by the UNDP which has funded projects across the Global South (ibid). However, the relative lack of institutionalisation of the grouping, Stuenkel (2013) argues, is the main difference from traditional international organisations. For example, 'there is no sign that the group will develop binding rules and norms [and] this is perhaps the most fundamental difference between traditional multilateral institutions and new endeavours to institutionalise South-South cooperation' (ibid, p. 19). While this may change with the growth of the new BRICS institutions, it illustrates the ways in which new regional forums aren't always complementary; creation of the AIIB and NDB by China and other emerging powers has reduced the importance of IBSA somewhat.

A Growing Multilateralism?

- MDGs to SDGs The establishment of these new institutions and the willingness of emerging powers to utilise a broader range of instruments in providing development assistance form part of a dynamic of change driving a growing commitment to multilateralism at regional and global levels. This dynamic is evident in a new engagement with development through the Sustainable Development Goals (SDGs) and post-2015 Sustainable Development Agenda.

The major international effort that constituted the Millennium Development Goals (MDGs) was conceived as a fresh start in promoting international development through strengthened collabouration between donors and by establishing a series of measurable benchmarks-agreed goals and targets to be achieved by 2015. The agreement on the MDGs was followed by the Paris Declaration in 2005, the Accra Agenda for Action (AAA) in 2008 and the Busan Partnership for Effective Development Co-ordination in 2011. The significance of this is that, together, these produced a momentum, an impetus for consensual change and a widely-accepted sense of direction for the future.

Each of these agreements contributed new, important and necessary facets in an evolving international development system. The Paris Declaration emphasised the importance of ownership, alignment, harmonisation, results and mutual accountability. Accra too re-emphasised ownership and achieving meaningful, effective outcomes through genuinely inclusive partnerships (OECD n.d., a). Busan recognised the importance of South-South Cooperation in promoting a more inclusive aid domain, one characterised by an increasing number and diversity of aid agencies, both star and non-state. Busan's approach, mainstreamed the core principles and practices for more effective future development assistance—ownership, results, inclusive partnerships and transparency and accountability within the diverse approaches of different actors—in ending poverty and promoting sustainability.

Underlying these policy developments was a process of change that would become most apparent as the MDGs came to an end and the process of formulating a post-2015 successor agreement and framework began. This process of change centred upon the role and orientation of the emerging powers in helping to determining the future direction of development assistance. The MDGs had been predicated on a continued commitment to international development assistance, particularly overseas development aid (ODA) as the principal instrument for facilitating economic growth which would, it was assumed, in turn eradicate poverty (Watson 2014: ix). The MDGs were driven by the established donors and the DAC model of development assistance. However, during the course of the 15 years of the MDG initiative, the dynamics of the global economy saw the strengthening of economies outside of the group of advanced economies of the traditional donors and the arrival on the scene of the emerging powers with their own understandings and approaches to international development. Whilst clearly not excluded from the MDG process, the nature of the origins, aims and the established delivery pathways of the MDGs set almost two decades before the SDGs left the emerging powers somewhat at the margins as drivers of the MDGs. Recent studies have concluded that, at least for the larger of the emerging powers, the MDGs did not feature centrally in domestic policy, relations with other developing economies or in South-South Cooperation (Hackenesch and Janus, 2014; King, 2014).

The process of consultation for the post-2015 development programme offered a new and timely opportunity for the global development initiative to catch-up with the structural and political changes in the global economy and with the changing dynamics of outlook and approach accompanying these systemic transformations. We have noted the significant ways that the emerging powers have brought substantial change in the understanding of the principles, practices and institutional framework of development assistance. For the BRICS members, a more inclusive process than that of the MDGs is a fundamental requirement for the SDGs (Gu, 2017; Constantine and Pontual, 2015: 12; Niu, 2014). The move in the 2030 Sustainable Development Agenda to focus on sustainable development, grounded in inclusivity, equity and mutuality of benefit and focused on the further efforts to eradicate poverty and to meet the growing challenges of economic inequality and social deprivation is a recognition of these seismic shifts and the pivotal importance of the emerging powers in promoting future sustainable development. The emerging powers are central to the success of the SDGs. The extent to which this role is realised in practice depends on many factors over the course of the 15 years of the SDGs and the Agenda.

One such factor is the question of leadership on global development issues. Weinlich (2014) argues that while China, India, South Africa and Brazil are increasing comfortable in bilateral development coordination, they are less willing to take a leadership role in development policy at the UN. Instead, she argues, they appear content to be seen as 'ordinary' developing countries, and strongly emphasise (with the other global South countries) the importance and distinctiveness of South-South Cooperation. The reasons suggested for this reluctance include the political and material costs of a more dominant leadership position being too high and a desire to maintain solidarity with other developing countries. Brown and Weiss (2014) find that the emerging powers are yet to establish themselves as a grouping with their own voice, instead preferring to retain solidarity with the Global South. However, the emerging powers were central to the global dialogue and negotiations on the SDGs and 2030 Agenda and have been instrumental in the Paris Climate Change Agreement. The question of leadership will be discussed further below. However, it is important to note the importance of strengthening the knowledge-base of the emerging powers, something they themselves have readily acknowledged by reaching out to international organisational bodies such as DAC, to national development agencies and internationally-recognised think-tanks and civil society organisations to help build knowledge and skills networks (Gu, 2015; Shankland and Constantine, 2014).

- The Role of the International Institutions

A diverse group of international development cooperation actors and perspectives is evident through the G20 (Kharas, 2010). The principles of the most recent G20 presidencies have shown a significant degree of commonality and a shared sense of direction and focus on international development. China held the presidency in 2016. Its focus and aim for the year was to get the G20 onto a road that would deliver "an innovative, invigorated, interconnected and inclusive world economy'. It focuses on 4 priorities: (i) "breaking a new path for growth"; (ii) "more effective and efficient global economic and financial governance"; (iii) "robust international trade and investment"; (iv) "inclusive and interconnected development". The Chinese Government used its year-long tenure of the G20 presidency to stress the importance of inclusivity and inclusive growth, the need to bring in African and other developing countries to the heart of the G20's growth and development dialogue, policy and practice.

It is not only groupings such as the G20 that are setting-out new perspectives and agendas in response to changing global dynamics and to contribute to them. The Organisation for Economic Cooperation and Development (OECD) too has sought to demonstrate a degree of responsiveness. The Global Partnership for Effective Development Cooperation (GPEDC) was created to replace the high-level forums on aid effectiveness hosted by the OECD's Development Assistance Committee (DAC). The GPEDC includes representatives of developed countries, emerging economies and developing countries. However, one recent analysis identifies reservations among emerging powers, concerned that the GPEDC retains a procedural "business as usual" approach in practice and that the GPEDC has sought to bind the countries to outcomes that recipients had understood to be voluntary. Nonetheless, the study argues that the GPEDC could take on a beneficial role as the key forum for increased and more effective mutual learning and knowledge-sharing (Constantine *et. al*., 2015).

4. Conclusions

This chapter has examined the dynamics of change in international development. The analysis focused on the growing importance of the emerging powers in changing the way that international development cooperation and assistance are understood and practiced. In particular, the study pointed to three primary aspects in the emerging powers' influence on the dynamics of change: changing principles, practices and institutions. By prioritising and mainstreaming values and principles of inclusivity, equality, mutuality, partnership and sustainability, the emerging powers are steadily producing a sea-change in the culture of international development cooperation. This is facilitating a broadening and deepening of the membership of the global development community. It is generating a range of better practices in the formulation, conduct and delivery of more effective sustainable development, bilaterally and multilaterally and at national, regional and global levels. The emerging powers are instrumental in changing the dynamics of governance in development cooperation, whether through increased influence on the agendas of established institutions such as the OECD and groupings such as the G20, through the creation of new multilateral financial institutions focused on infrastructure capacity-building such as the NDB and AIIB or through the strengthening dialogue, structures and processes of South-South Cooperation.

This process of change is not without significant challenges. The move to begin providing substantial financial and technical development assistance is relatively new for the emerging powers and has involved negotiating a steep learning curve. Many have responded by initiating knowledge and skills sharing dialogues with other donors, both traditional and new, creating domestic research and policy structures and agencies, and have joined and created international development networks.

Some emerging powers have also faced, or face, capacity-building challenges in their administration of development cooperation and assistance, whether these be budgetary, organisational or in terms of personnel, skills and knowledge shortages (Qadir 2013). In China, for example, responsibility for the 'development portfolio' is shared between the Ministries of Commerce and Foreign Affairs, raising questions of coordination. In some of the larger emerging powers, there has been governmental restructuring to meet the increasing demands and policy complexities of their new involvement in international development cooperation and assistance. An additional aspect of governance given consideration in the debate over the role of the emerging powers in future development cooperation is an absence of institutionalised regional tier coordination, for example with respect to establishment of common performance monitoring standards for which DAC standards may be less applicable, may be an obstacle to the BRICS group being considered as an alternative to the exiting DAC- anchored architecture in the development coordination system (Niu, 2014).

Added to these challenges is the difficult job of striking an effective balance between bilateral partnerships and multilateralism. The preferred option for many of the emerging powers in dealing with development partners still appears to be that of bilateral relationships, partly for reasons of familiarity and often long-established fraternal relations and partly for reasons of straightforward control management, given the complexities and nuances of their diverse range of partners. However, as we have seen above, the emerging powers have also embedded their approach to international development cooperation in multilateral processes, such as the Turkey- Africa Partnership and the well-established and institutionalised high-profile FOCAC. For China, the FOCAC is the 'framework' within which China's bilateral strategic partnerships are situated. With the first FOCAC Summit held in Beijing in 2000, the initiative was one of the first of a growing number of development-related multilateral initiatives to originate in China stretching to the Beijing Government's "One Belt, One Road" (OBOR) and to the South-South Cooperation Fund.

The Johannesburg FOCAC Summit and 6th Ministerial Conference in December, 2015 attracted heads of state, government and representatives from around 50 African countries, with the FOCAC Business Forum taking place at the same time. These Summits and Ministerial Conferences have been preceded by announcements of Chinese Government development assistance, including debt relief, import tariff concessions and wide-ranging technical support, with health, education, agriculture knowledge and, more recently, innovation and entrepreneurial skills transfers featuring in these provisions. consolidating political mutual trust, striving for win-win economic cooperation, enhancing exchanges and learning from each other's cultures, helping each other in security, and cementing unity and coordination on international affairs. The 2015 Summit was notable for the elucidation by President Xi Jinping of his vision for future China-Africa relations. President Xi's speech specified five "pillars": consolidating political mutual trust, striving for win-win economic cooperation, enhancing exchanges and learning from each other's cultures, helping each other in security, and cementing unity and coordination on international affairs. To achieve these goals, Chinese and African leaders agreed to implement ten major cooperation plans covering the areas of industrialisation, agricultural modernisation, infrastructure, financial services, green development, trade and investment facilitation, poverty reduction, public health, people-to-people exchanges, and peace and security (FOCAC, 2015*a*).

There is also a challenge of leadership for the emerging powers collectively and particularly for China. On the one hand are assumptions regarding the very character of 'power' itself, embodied in the age-old maxim 'with greater power comes greater responsibility'. Hence, with 'emerging power', comes emerging responsibility. Recent studies of the emerging powers' role on development issues in the UN suggest an unwillingness to take on such a mantle. However, 'leadership' takes many different forms and new perspectives and approaches from emerging powers embed different political cultures with distinct understandings of the nature of leadership, decision- making and negotiating from those located in the Western traditions of political practice. On the other hand, the increasing 'leadership' by the emerging powers requires delicate handling for two main reasons. Firstly, as developing countries themselves, governments of emerging powers need to ensure that they do not become detached from their wider constituency. Secondly, the arrival of the emerging powers as aid donors and development partners has proven controversial, subjecting them to particularly intensive scrutiny and criticism ranging from failure to intervene over human and civil rights abuses in their partner states, an inconsistent record over worker rights, failure to transfer knowledge and skills, limited local employment provision, wen corporate social responsibility and poor environmental protection. Most bitter-tasting of all has been the accusation raised by some African officials and civil society commentators that China is simply the latest in a long line of 'neocolonial' powers to come to Africa. This is a claim taken sufficiently seriously in Beijing that FOCAC issued a strong rebuttal describing the claim as "groundless and unreasonable" as the Johannesburg Summit closed, quoting various African leaders in its defence including this from Zimbabwe's President Mugabe at the Summit: "Here is a man [Xi] representing a country once called poor. A country which never was our coloniser ... He is doing to us what we expected those who colonised us yesterday to do" (Xinhua, 2015*c*).

The process of change is inevitably difficult to manage and major systemic change even more so. The development cooperation community is experiencing a period of significant transition with the arrival of the emerging powers. Collectively and individually, the emerging powers are changing the way development is understood and, increasingly, the way that it is practiced in an evolving institutional architecture. This increasing involvement does not necessarily presage a new condition of turbulence, competition or confrontation within the development cooperation community. Rather, the existing evidence suggests that the community is, itself, adapting, adopting and mediating the contributions of the emerging powers as they themselves acquire a closer understanding and definition of their own approach to international development and accumulate further knowledge and experience in development cooperation.

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