

## Global Governance in Flux – Arising Perspectives through “New Drivers of Change”

### “Towards a Global South-South & Triangular Partnership Compact for Development”

A Presentation Note by

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1. In the past few years, the world's attention has been drawn to an unprecedented phenomenon: Many developing country economies have grown much faster than some developed and transition economies. New patterns of trade, investment and other economic linkages among the countries of the global South are emerging rapidly, eroding the structures inherited from a colonial past. These new dynamics are dramatically changing the institutional and power structures of the South, presenting before us an entirely different landscape of South-South relations and, for that matter, also South-North relations politically, economically and culturally.

2. This reality poses a new set of challenges to all of us in the international development community: (1) Do we fully understand the new dynamics and are we prepared to embrace them as new possibilities, rather than “threats”? (2) Are the existing global governance structure and its development cooperation architecture, including the multilateral system, adequate to respond to the new dynamics and the “new drivers of change”? (3) What kinds of innovative public-private and South-South and North-South-South triangular partnership mechanisms must be built or re-built to deliver the much desired “net gains” to the poor, especially those in the economically and geographically most vulnerable groups of countries?

#### I. The Changing Landscape of the Global South

3. Gross domestic product (GDP) statistics indicate that 20 to 25% of the world's GDP is accounted for by the developing countries. On a purchasing power parity basis, the share of the developing countries is about 40%. The South has also expanded its share of world manufacturing value added from 17% in 1990 to 24% in 2003. In 1990, developing countries accounted for 19% of world manufacturing exports. By 2003, this share had increased to 30%. Asia especially has witnessed a huge expansion of its manufacturing capacities and, as pointed out by the UNDP Asia-Pacific Human Development Report for 2006, “Asia is rapidly developing as the factory for the world”. In a similar vein, although Africa has tended to lag behind, Latin America has powered ahead. Yet another striking feature is the accumulation of large financial surpluses by many Asian countries and by oil-producing countries.

4. Writing last year in the UN Non-Governmental Liaison Service bulletin, “Go Between”, Dr. Supachai Panitchpakdi, the Secretary-General of UNCTAD, said, “One of the most encouraging dynamics of the world economy today is that developing countries as a group are an increasingly important player in international trade”. Indeed, South-South trade grew rapidly over the past decade, reaching \$562 billion in 2004 compared to \$222 billion in 1995. From 2000 to 2004, South-South trade grew at a startling annual rate of 17.6%, much faster than South-North exports, which grew at 9.7%. South-South trade made up 26% of developing countries' exports in 2004. South-South exports as a percentage of developing-country exports to developed-country markets exceeded 80% in 2003 (the average during the period 2000-2003 was about 74%). From 1995 to 2003, South-South trade in raw materials went up by 126%, intermediate goods by 91% and capital goods by 213%. In his view, “it is the spectacular growth achieved by some large developing countries, particularly in Asia, that is allowing many smaller countries to benefit from increased exports of commodities and products that are in great demand in these growth centres. Similar trends are apparent in international investment flows.”

5. Capital flows among developing countries thus increased substantially in the past decade. According to the latest UNCTAD World Investment Report, of a total global FDI inflow of \$916 billion in 2005, inflows to developing countries came to \$334 billion, the largest figure ever recorded. This amounted to a 36% share, while an additional 4% went to countries in transition (i.e., Southeast Europe and the Commonwealth of Independent States). Also significant is the fact that, while developed countries remain the main sources of FDI outflows, the role of developing countries and transition countries as sources of FDI has been increasing. “Negligible or small till the mid-1980s, outflows from these economies totaled \$133 billion (in 2005), corresponding to some 17% of the world total.” Syndicated loans grew from \$0.7 billion in 1985 to \$6.2 billion in 2005. It is noteworthy that developing countries' small and medium-sized enterprises (SMEs) also provide a significant amount of investment in other developing countries. In India, for example, SMEs accounted for 26% of overseas projects in manufacturing and 41.1% in the software industry.

6. Another striking feature is the accumulation of large financial surpluses by many Asian countries and by oil-producing countries. As South-South trade and FDI have expanded, many banks have followed their clients. FDI in banking is correlated with bilateral trade and FDI between source and host countries. For example, Banco de Chile, the country's second-largest bank in terms of assets, recently opened a branch in Beijing in order to position itself to benefit from a new free-trade accord between the two countries. A number of Central American banks (e.g., Panama's Banistmo, El Salvador's Banco Cuscatlan) are also seeking growth opportunities in other Central American retail financial markets to capitalize on regional trade integration and the recently concluded Central American Free Trade Agreement (CAFTA). The Standard Bank of South Africa has established a sizable presence in southern and eastern Africa, reflecting South Africa's increased investment in and trade with the region. As more and more capital-rich countries in the South gain capacity to supply new and "alternative" sources of financing, deeper and better structured South-South macroeconomic and financial cooperation is not only possible but feasible.

7. Obviously, developing-country multinationals enjoy some advantages over industrial-country firms when investing in developing countries because of their greater familiarity with technology and business practices suitable for developing-country markets. Technological advances have reduced the costs of transportation and communications, facilitating greater cross-border integration of production networks and financial transactions. Geographical proximity, common language, and cultural and ethnic ties reduce the risks of lending and investment and make coordination of foreign operations more effective, according to the IMF, World Bank and UNCTAD. There is a wealth of experiences, such as those of the Arab Monetary Fund, the Chiang Mai Initiative and the Latin American Reserve Fund, that can be shared on a South-South basis. In the recently published book, *Regional Financial Cooperation*, Under-Secretary-General for Economic and Social Affairs, Mr. Jose Antonio Ocampo pointed out, "in an era when developing countries have made a call for greater South-South cooperation, financial cooperation should be placed at the top of the agenda".

## II. Embracing the New Drivers of Change in Development Cooperation

11. Traditionally, official development assistance (ODA) has been largely a North-South phenomenon. Over the last few decades, however, various forms of assistance among developing countries have emerged. With increasing financial resources and an enhanced awareness of interdependence among Southern countries, there are now prospects for increased development assistance flows among developing countries. Already, considerable assistance flows, amounting to some 5-10% of current ODA levels, or approximately \$3-5 billion, are accruing among Southern countries on concessionary and grant terms. In the global South, new groups of countries, the private sector led by Southern multinationals and civil society organizations (CSOs) are entering the international development cooperation scene as "new drivers of change".

### A. "Emerging Donors"

12. We have observed that an increasing number of developing countries, such as Algeria, Brazil, Chile, China, India, Qatar, Nigeria, Malaysia, South Africa, Thailand, Tunisia, Turkey, Venezuela and some OPEC Member States as well as some new OECD DAC and non-DAC Member States, to name just a few, have shown greater interest and commitment to supporting the development efforts of other developing countries in achieving their MDGs through increased and diversified bilateral and multilateral South-South development assistance. For illustration purposes, these emerging donors (or emerging major development partners) and their efforts to expand development assistance are clustered into four groups.

13. The China + IBSA Group. China, India, Brazil and South Africa (some call it the China +IBSA group) are taking the lead in the emerging trends in South-South assistance. China, with foreign exchange reserves that reach \$1 trillion, not long ago cancelled the debt of 31 least developed countries (LDCs) in Africa totaling \$1.27 billion. By 2009, China will double its assistance to Africa, provide \$5 billion in preferential loans and buyer's credit to the region and create a \$5 billion China-Africa development fund to encourage Chinese firms to invest in Africa. It will increase zero-tariff products from Africa from 190 to 440. India, too, has built up significant balance of payment surpluses. Its commitment to Africa's development was underlined by its pledge to provide \$200 million for NEPAD and a credit line of \$ 500 million to the "Team Nine" initiative in West Africa, in addition to cancelling substantial amount of debt owed by some LDCs, especially in Africa. India also plans to expand its assistance. Several other initiatives are in the pipeline. Brazilian cooperation with Africa encompasses many areas, including agriculture, infrastructure, trade and public administration. The country has also written off more than \$1 billion in debts of African countries. Most recently, Brazil decided to grant duty-free access to its market for products from the 50 LDCs. South Africa, on the other hand, co-financed the \$2 billion construction of the Mozal aluminium smelter in Mozambique. Commodity and energy producers in the South are looking more and more to these countries for their markets and for new opportunities in trade, investment and transfer of technologies.

14. The Second Group. This group includes mainly Malaysia, Singapore and Thailand in Asia; Chile, Columbia, Mexico, Peru and Venezuela, in Latin America; and Botswana, Ghana and Nigeria in Africa. They, too, have become important players and have joined the mainstream of the global economy, expanding linkages with other countries of the South as well as with the North. These are all countries with substantial technical capacities, trading potential and financial resources. Together with Brazil, China and India, they have established themselves as regional centres of economic, commercial and financial influence, and they are well placed to expand their prosperity not only within their respective regions and subregions but also on an interregional basis. They are investors in other countries in terms of both direct investment and portfolio investment. Nigeria, for example, has provided \$400 million to a trust fund within the African Development Bank. Their stock markets are expanding, bringing into engagement a widening spectrum of small- and medium-scale investors. The building up of financial surpluses in these countries has enabled them to become more influential in regional and global negotiating forums.

15. The Third Group. This group comprises mainly the six members of the Gulf Cooperation Council (GCC), i.e., Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates which are normally viewed as a distinct entity within the global South. Not only are they geographically joined together; they also possess a large pool of financial resources that will likely grow even more in the next decade. Thanks to high oil prices, the GCC countries currently command around \$1 trillion in resources, much of which is searching for investment opportunities. No wonder there has been a rapid expansion of the financial sector in these countries, with foreign banks establishing an expanding presence and regional countries desirous of becoming regional and global financial centres. This group and other OPEC countries have a track record of assistance starting in the mid-1970s. It is estimated that about \$2-3 billion annually have been provided from the GCC and other OPEC countries. Some of these countries have recently moved to direct new resources to support South-South cooperation. Qatar, for example, announced a \$20 million contribution to the newly established G-77 South Fund for Development and Humanitarian Assistance during the Second South Summit held in Doha in May 2005. An important issue for South-South cooperation is the extent to which the Gulf countries' resources could be productively engaged in investments in the South.

16. The Fourth Group. The new OECD (DAC or non-DAC) Member States such as Mexico, the Republic of Korea, and some Eastern European countries may constitute the fourth group. Although strictly speaking, they are no longer considered by the G-77 as part of the "South", they are taking the South-South and triangular approach both as a national policy and an international cooperation strategy in achieving MDG No.8. The Republic of Korea has announced that it is seeking to reach a \$1 billion aid programme by the year 2010. Although, some Eastern European countries that joined the OECD, but are not yet members of the OECD-DAC still require varying degrees of capacity-building to enhance aid management, they, too, have intensified their efforts to dramatically expand the development assistance programmes in developing countries. Another phenomenon worth noting is the emerging interest on the part of the traditional donors such as Australia, Canada, Japan and USAID to support South-South learning under North-South-South triangular arrangements or through sponsoring third-country training programmes.

## **B. Southern Multinational Corporations**

17. That the business sector of Southern countries is already a potent actor in the international scene was recognized by the International Finance Corporation (IFC) and the Financial Times (FT) through a conference on Southern multinationals that they jointly organized in Mumbai, India from 9 to 10 November 2005 with the UNDP Administrator, Mr. Kemal Dervis, being one of the keynote speakers. Entitled "Southern Multinationals: A Rising Force in the World Economy", the conference was held against a backdrop in which more and more Southern companies are going beyond domestic success by expanding both regionally and globally through acquisitions and investments in other developing countries or in the North. According to UNCTAD, the number of large Southern transnational corporations skyrocketed from 19 in 1990 to 58 by 2005.

18. Drawing attention to the ability of some Southern countries, Mr. Dervis pointed out that "Half of the Global Compact's 2,300 participating companies are based in developing countries, with strong engagement by companies in Argentina, Brazil, China, India, Singapore and South Africa, among others". He pointed out that "Southern multinationals are broadening the geographical base of globalization and creating a new dynamic of potential inclusiveness that may be capable of fundamentally altering the unequal nature of the world economy. Southern multinationals cannot, however, do this alone. Their energies, initiatives and strength must be accompanied by public policies, public-private partnerships and approaches to global governance that keep the goal of poverty reduction and inclusiveness firmly at the centre of our attention." He believed that "the new strength of Southern multinationals is part of this change and it signaled a very important occurrence: the emergence of new poles of innovation, financial capability, technological sophistication and management know-how in Southern countries." He hoped that "this development becomes the driver of a more balanced, more equitable globalization, whereby in a few decades,

today's distinction between the rich Northern 'centre' and the poor Southern 'periphery' will have disappeared or at least be greatly diminished." There is therefore enormous opportunity and potential that Southern multinationals could contribute to development through innovative public-private partnership arrangements.

### **C. Southern Civil Society Organizations**

19. A key global trend that is also contributing to substantial Southern change is the pervasive growth of civil society organizations as well as an expansion of their influence on international public policy, including development policy and such related issues as trade, aid and debt relief. Some global CSOs headquartered in Northern capitals have been particularly instrumental in securing recent donor-country decisions on debt relief. Unlike the situation a few years ago, most Southern countries today have relatively vibrant civil societies that are articulate in raising public policy issues that have both domestic and global implications of considerable importance. Civil society institutions are now influencing public policy in such centrally important areas as trade liberalization and privatization. Indeed, in many Southern countries, the shift to market economies and open economies is even being slowed by civil society pressure. Where previously it was mainly a Southern government that was trying to check globalization and the move to more open economies, today it is many civil society institutions that have taken over this role. It is therefore essential, from the vantage point of effective global policy and governance, that these bodies be engaged.

20. Increasingly, Southern non-governmental organizations (NGOs) have become instrumental in the forging of path-breaking partnerships. A notable example concerns a landmark event announced in Dhaka, Bangladesh, on 6 July 2006. This was the closing of the world's first large-scale securitization for the micro-credit industry. Structured by RSA Capital, a financial boutique based in Boston and Dhaka, by Citigroup, by the Netherlands Development Finance Company and by KfW Entwicklungsbank, the transaction will provide the large Bangladesh NGO BRAC with aggregate funding of Bangladesh Taka 12.6 billion (the equivalent of \$180 million) over six years. In announcing the securitization, the BRAC chairperson, Mr. Fazole Hasan Abed, rightly claimed that his organization and its public- and private-sector partners in the venture had brought the global financial markets to the doorsteps of nearly 1.2 million poor households in Bangladesh. The Bangladesh NGO had already begun operations in the Republic of Tanzania and Uganda combining education, agriculture and health programmes with micro-finance schemes and would now extend such interventions to Kenya, Malawi and southern Sudan. Developments such as these show that many civil society organizations are today at the forefront of innovations in development practice---innovations that are spurring new types of public-private partnership as well as greater diversity in North-South cooperation and triangular cooperation. Full-fledged civil society participation in South-South cooperation will thus become crucial.

### **III. Driving the New Dynamics – Challenges to the International Development Community**

21. Without a doubt, South-South cooperation in all fields and various manifestations will continue to increase, and the scope and volume of South-South development and humanitarian assistance flows will continue to expand. At the same time, the current pattern of globalization is obviously not producing the desired inclusive and equitable growth in the global South. And the existing global system or, for that matter, the international development cooperation architecture that was built and continues to operate on the North-South axis, also has not been able to respond to these new dynamics. Some major players or makers of the new dynamics continue to direct their flow of assistance through bilateral channels without necessarily and consciously linking them with internationally agreed development goals (IADGs), including the MDGs. Multilateral mechanisms to improve monitoring, coordination and coherence of such South-South development transactions are clearly lacking. This situation is exacerbated by the lack of transparency, thus giving some alarmist media the reason to frequently portray them as "negative forces" or "threats" to development. The international community must now pause to rethink carefully how to reform its current global governance structure, including its development cooperation architecture, to help the "new drivers of change" to direct or redirect their new dynamics towards helping the poorest among the poor to achieve the IADGs and MDGs.

#### **A. Change the Mindset**

22. As advocates and supporters of development, especially South-South development, we welcome these new dynamics, embracing them as "new drivers of positive change", as they have clearly produced tangible development results not only in Southern development but also in terms of their contribution to global growth. Southern "emerging donors" are bringing a new dimension to development cooperation, as argued by UNDP Associate Administrator, Ad Melkert. He stressed the need for the discussion on emerging donors to "go beyond financial aid to international cooperation that includes trade, debt relief, and the transfer of new technologies, expertise, knowledge, good practice experiences, in-kind contributions and peer learning" and the

need to “avoid drawing Southern donors into a Northern paradigm built on donor-recipient relations”. This forward-looking view echoed the OECD/DAC new position on South-South cooperation, as announced in its February 2005 joint statement with UNDP, where it “agreed that South-South and triangular cooperation can improve the aid efficiency and effectiveness in emphasizing ownership and inclusive partnerships.” And it committed to support “a more systematic approach to sharing experiences, knowledge and lessons learnt in the area of South-South and triangular cooperation”. The importance of South-South cooperation was also, for the very first time, recognized in the 2005 G8 Gleneagles Summit Communiqué. The traditional donor community should now not only welcome but also provide concrete support to such cooperation as a complement to rather than competition with North-South cooperation.

23. For the alarmists, their fears can be eliminated for the following six reasons, as the Secretary-General of UNCTAD, Dr. Supachai Panitchpakdi, articulated at the 2006 United Nations Day for South-South Cooperation:

- First, the North has been much more a partner than a competitor in the success of the South. It has shared in the dividends of this success and will continue to do so.
- Second, a stronger South will increase purchasing power, generate demand for exports from other countries in the South as well as in the North and boost investment opportunities with higher returns.
- Third, consumers worldwide are already benefiting, and will do so increasingly, from the low-cost, high-quality products and services now on offer from the South.
- Fourth, the fact that more and more developing countries are becoming competitive participants in global production chains and labour markets is likely to have a net job-creating impact in the South and North alike.
- Fifth, the more successful developing countries set good examples for others to follow, enabling them to avoid repeating past mistakes and embark on development models that have already been proven to work.
- Sixth, emerging countries in the South can join the ranks of other nations in confronting such global challenges as migration, the environment, avian flu and HIV/AIDS and other pandemics.

#### **B. Drive the New Dynamics to Benefit the Most Vulnerable Groups of Countries**

24. While embracing these new development dynamics, a global governance structure and its new development cooperation architecture must provide the policy space and enabling institutional environment to help direct or redirect the new dynamics and the “new drivers of change” to effectively channel their resources more towards the economically and geographically most vulnerable developing countries, namely, the LDCs, the landlocked developing countries (LLDCs) and the small island developing states (SIDS). The poorest of the poor must feel the positive impact and share the benefits of the new dynamics.

25. To enable the economically and geographically most vulnerable countries to feel the impact and benefits of the new dynamics, the new South-South and triangular partnership agenda must aim to help strengthen their capacities, not only by giving policy advices but also by building on-the-ground capacities in order for them to: (a) acquire more relevant knowledge and technologies to improve the quality and quantity of their products, and to innovate new ones; (b) diversify and expand their domestic, regional and international markets; (c) attract more foreign investment and raise capital from domestic, regional and international investors; (d) present their own development programmes and projects for funding from all possible sources, public, private; and (e) protect and preserve their cultural and other “intangible assets” and provide them with the modern means of ICT and channels to turn such “intangible assets” into “tangible wealth”.

#### **C. Reform the Current System**

26. Over the last three to four decades, various types of institutions and mechanisms have been established with the aim of promoting economic and technical cooperation among developing countries. Most of these mechanisms are either integrated within the UN system or are closely associated with it. At the global level, there are bodies such as the Group of 77 (G-77) and the Non-Aligned Movement (NAM) that are more or less universal in their Southern coverage. Additionally, there are structures such as the Organization of Islamic Countries (OIC) that seek to cover all regions but limit membership to countries possessing certain specific attributes. These bodies meet from time to time at various levels---at the summit level, the level of foreign ministers, and at the level of officials. There is a range of subgroups addressing specific tasks within these bodies and reporting to them. At the regional level, there are many organizations such as the African Union. At the subregional level, there are many others such as ASEAN, ECOWAS, SAARC and SADC. These South-South institutions or policy-exchange forums remain almost exclusively at the government-to-government level. Action decisively to reduce poverty and achieve other MDGs is not only a

government responsibility, it is now more so also a responsibility of the private sector and civil society. The new global governance structure and its development cooperation architecture must create the conditions to allow the broadest possible participation by the private sector and civil society not only as opinion-makers or observers but as “main stakeholders” in key decision-making processes as well as in actual delivery of South-South development transactional activities.

27. A major policy issue worth highlighting is the continuing need for reducing the asymmetry that is inherent in prevailing donor-recipient relationships. A UNDP publication of 2002 recommended that steps be taken to strengthen the voice of recipient countries in debates about aid policy. The book pointed out that, while, at the international level, donors already had the OECD/DAC, there was no equivalent forum for developing countries to share their experiences, find common positions and develop aid guidelines from a Southern perspective. Southern forums on development and technical cooperation, the publication argued, could be an important platform for balancing the donor-recipient relationship. That this idea is also a Southern idea was demonstrated at the 17th Meeting of International Cooperation Directors of Latin America and the Caribbean held in Caracas in May 2005. Mr. Roberto Guarnieri, Permanent Secretary of the Latin American Economic System (SELA), proposed at the meeting, which SELA organized, that “an OECD of the South” be established. “Why not have an institution of our own, based on excellence and our best human resources?” he asked. Discussions on the need for improved global governance and development cooperation architecture may include supporting such a mechanism – a Southern DAC.

#### **D. The Role of the United Nations**

28. The agenda and priorities of South-South development cooperation at the global and interregional level are largely set by the developing countries themselves and intra-South commitments are often made through their intergovernmental processes, such as the G-77 South Summit, the NAM Summit and the OIC General Assembly. The United Nations system support to such cooperation, at the policy level, has been dealt with since 1978 by the General Assembly High-level Committee on South-South Cooperation (HLC), which meets every two years and serves as an oversight and governing body on system-wide support for such cooperation. The system’s thematic or sectoral support to South-South cooperation is carried out by the various organizations and specialized agencies in their respective areas of competence. For example, UNCTAD is required to provide support in the area of South-South trade and investment; FAO in food and agriculture; UNESCO in education, science and culture; WHO in health; UNIDO in industrialization, etc., and regional South-South cooperation is facilitated by the regional economic commissions. Progress made and achievements by various UN organizations, regional commissions, UN specialized agencies, and funds and programmes are reported to the Secretary-General and the General Assembly through the Special Unit for South-South Cooperation, which has been established by the General Assembly as a “separate entity” in UNDP since 1978 to coordinate such cooperation on a global and system-wide basis. The Special Unit also manages the United Nations Fund for South-South Cooperation and organizes the annual UN Day for South-South Cooperation.

29. To take full advantage of the new dynamics in Southern development and of the renewed commitment on the part of both the Global South and the traditional donor community, the Special Unit for South-South Cooperation on the 2006 UN Day for South-South Cooperation launched a campaign toward a New Global South-South and Triangular Partnership Compact for Development, based on the following 5-point guidance framework:

##### ONE set of globally agreed common goals:

1. The Millennium Development Goals (MDGs) and internationally agreed development goals (IADGs).

##### TWO levels of triangular partnerships:

1. North-South-South Triangle.
2. Public-Private-CSO Triangle (PPP).

##### THREE multilateral support platforms:

1. A Global South-South Development Forum (a Southern Davos, including a Southern Leaders Roundtable, a Global South Business Roundtable and a Southern Development Cooperation Roundtable – Southern DAC).
2. A South-South Global Assets and Technology Exchange System (a market-based, self-sustaining private-sector engagement and transactional system).
3. A Global South Development Knowledge Gateway (a network of Southern centres of excellence).

##### FOUR vulnerable groups of countries and their peoples:

1. The least developed countries (LDC).

2. The landlocked developing countries (LLDC).
3. The small island developing states (SIDS).
4. Africa in general, especially Sub-Saharan Africa.

**FIVE** measurements to assess impact on the above four groups:

1. Access to Southern and global markets.
2. Access to capital and financial services, including development financing.
3. Access to appropriate technologies for job creation and competitiveness.
4. Access to relevant development knowledge and solutions.
5. Access to infrastructure support and other basic social services.

30. The Special Unit for South-South Cooperation welcomes all partners in the development effort to join this South-South Partnership Compact to create new momentum, build new mechanisms, open new frontiers, explore new possibilities and mobilize new resources to make South-South development a truly inclusive global development agenda for the benefit of all.

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