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**Working Paper**

## South-South Economic Linkages: An Overview

ADB Economics Working Paper Series, No. 270

**Provided in Cooperation with:**

Asian Development Bank (ADB), Manila

*Suggested Citation:* Jha, Shikha; McCawley, Peter (2011) : South-South Economic Linkages: An Overview, ADB Economics Working Paper Series, No. 270, Asian Development Bank (ADB), Manila, <https://hdl.handle.net/11540/2016>

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## ADB Economics Working Paper Series



### South–South Economic Linkages: An Overview

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Shikha Jha and Peter McCawley

No. 270 | August 2011





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# **South–South Economic Linkages: An Overview**

**Shikha Jha and Peter McCawley**

August 2011

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**Asian Development Bank**

Asian Development Bank  
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©2011 by Asian Development Bank  
August 2011  
ISSN 1655-5252  
Publication Stock No. WPS113914

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## **Abstract**

The nature of South–South international economic relations has changed significantly in recent decades, especially since the early 1990s. In areas such as trade, investment, labor markets, technology, and policy coordination, regional cooperation between countries of the South and pro-market policies have supported a rapid growth in South–South linkages. Looking ahead, the prospects are that the changing architecture of international economic relations that South–South cooperation has underpinned will contribute to growth across the developing world. Governments in developing countries of the Asia and Pacific region can foster expanded South–South cooperation by strengthening the capacity of governments to support pro-market policies. Potential gains for the region include expanded opportunities to promote growth and productivity, openings to expand connectivity between and within countries, a stronger collective voice in global decision making, more effective regional institutions, and improved economic security and stability.

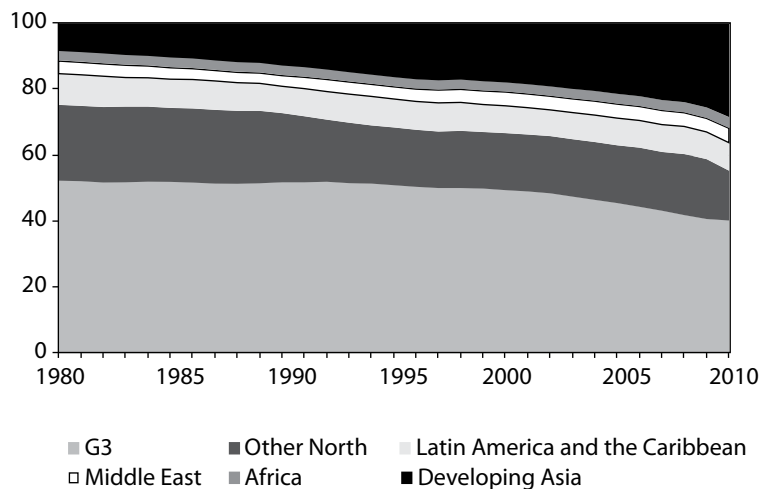




## I. Introduction: Changing Balances of Influence

Over the last 3 decades, the South—Africa, developing Asia, Latin America, and the Middle East—has emerged from the shadows to command a place in the international economic order. Economies of the South have together become strong drivers of global growth. The combined share of these regions has risen from about 25% of world gross domestic product (GDP) in 1980 to 45% in 2010 (Figure 1). Given the prolonged slowdown in industrial countries of the North following the global economic crisis, the challenge to take global growth forward has increasingly fallen on the South. While the vibrant developing Asian region was quick to recover from the crisis, emerging economies of Africa and the Middle East were not far behind (although the impact of recent developments in North Africa and the Middle East region is not yet clear). Despite being hit hard due to its strong links with industrial economies, Latin America—especially its emerging economies—weathered the crisis well and recovered strongly.

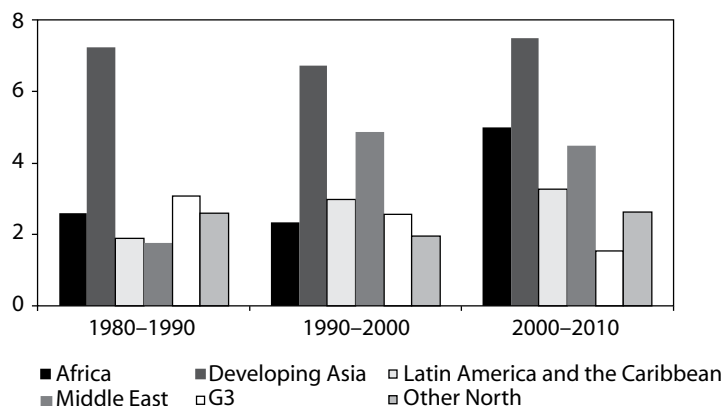
**Figure 1: Shares in World GDP (percent)**



GDP = gross domestic product.

Note: The 2010 estimate of regional shares is calculated from the World Economic Outlook database of the IMF, since the World Development Indicators database of the World Bank only has data up to 2009. Minimal differences (less than 3 percentage points) exist between these two databases. GDP is based on purchasing-power-parity valuation.

Sources: For 1980–2009, ADB calculations using World Bank, World Development Indicators online database (accessed 21 March 2011); for 2010, ADB calculations using International Monetary Fund, World Economic Outlook database, October 2010 (accessed 21 March 2011).

**Figure 2: GDP Growth by Region**

GDP = gross domestic product.

Note: Data refers to 10-year averages of regional GDP growth rates weighted by gross national income (Atlas method).

Sources: ADB calculations based on data from International Monetary Fund, World Economic Outlook database, October 2010; World Bank, World Development Indicators online database (accessed 15 March 2011); ADB, *Asian Development Outlook* database.

The rising share of the South in world GDP has transformed the international economic landscape. The region now has a stronger voice in global decision making processes, especially in new multilateral institutions such as the G20, with increased influence to promote international economic policy discussions. The opportunities of developing economies of the South to promote growth and productivity through more effective collective action by improving market-oriented linkages for the exchange of trade, investment, labor, and technology have improved. In the aftermath of the global economic crisis, their prospects for enhancing mutual economic welfare by reducing dependence on markets and institutions in Northern industrialized countries and by diversifying economic and institutional linkages have increased.

Developing Asia has been the strongest economic performer in the South (Figure 2). A combination of long and short-term factors has put it at the forefront as the leader of global economic growth. First, the growth rates across Asia since the 1970s have consistently exceeded growth rates in most other parts of the world (Table 1). Its share in world GDP (in purchasing power parity terms) trebled over the last 3 decades from over 8% in 1980 to close to 30% in 2010. While its two largest economies, the People's Republic of China (PRC) and India were the major contributors, even without them Asia's share rose from 4% to 10% during the period. As a result, the contribution of the region to world output growth almost doubled from 27% in 1981 to an estimated 51% in 2010, a trend that was accentuated by the global financial crisis. As the global economy's center of gravity shifts toward Asia, the region could account for about half of global output in 2050 as well as half of global trade and investment (ADB 2011a).

Second, riding on this growth, the Asia and Pacific region along with other parts of the developing world has emerged as a new source of potential world demand to effect global rebalancing. To be sure, issues of the rebalancing of aggregate world demand have become a central part of the international economic dialogue in recent years. Across the globe, the implications of rebalancing are still a subject of much debate, including, because of marked differences in view, between key policy makers in the South and in the North. However looking ahead, it seems clear that the Asia and Pacific region will need to play a key role in helping bolster world demand during the medium term. Its rapidly growing middle class is fast becoming a major consumer of global and domestic goods and services. With its willingness and ability to pay more, this class is driving demand for high-quality products, spurring innovations and more growth and providing a vibrant source of investment in human capital and savings. Consumer spending in the region, primarily by the middle class, reached an estimated \$4.3 trillion in 2008. By 2030, this figure is estimated to multiply to \$32 trillion, comprising about 43% of global consumption (ADB 2010a). The PRC, for example, is now the world's largest, and India the fastest growing, automobile markets.

Third, interdependence between the fast-growing Asian economies, as measured by output correlation, has risen and is now similar to that of Asia with the European Union and the United States. Moreover, growing relations of developing Asia with Africa, Latin America, and the Middle East have intensified South–South trade, while many southern economies are emerging as prominent outward investors.

As a result of these changes during the last decade, and especially since the global economic crisis, there has been growing support in emerging countries for activities to strengthen South–South economic linkages. Having expanded quite quickly during the past several decades, these activities are now beginning to form a significant part of the overall set of international economic relationships of some of the larger emerging countries (Rana 2007, ADB 2008).

Against this background, this paper provides a survey of the way that South–South linkages have been strengthening, especially since the early 1990s, and of some of the implications of these developments in the architecture of international economic relations. Section II describes the growth of South–South economic linkages in various dimensions.<sup>1</sup> Section III considers markets as drivers of change that have underpinned the expansion of these linkages. The next section discusses the role of regional cooperation in driving the development of these economic relations. Section V outlines policy implications for governments and institutions of the changing nature of South–South economic relations. Finally, Section VI concludes.

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<sup>1</sup> For further discussion of the rapid expansion of linkages in areas such as trade and investment between developing countries, see *Asian Development Outlook 2011* (ADB 2011b, chapter 2).

## II. The Growth of South–South Ties

### A. The Rationale

Strengthening economic linkages offers participating countries an opportunity to satisfy common interests. Economic integration gives them better access to wider markets and resources, helps them increase their productive capacity and growth, and improves the well-being of their populations. Combining their varied resources and markets provides them with a bigger platform from which to build physical, social, and institutional infrastructure; expand employment opportunities; create jobs; accumulate capital; upgrade technology; diversify production; and raise income levels. Proximity to neighbors reduces costs of communications, transport, and intermediate inputs.

Stronger South–South ties are thus expected to bring economic development. However, while economic linkages with industrialized countries are useful, the gaps in policies and resources between rich and emerging economies are so large that sometimes responses to economic challenges applicable in the North are not appropriate in the South.<sup>2</sup> Moreover, sharing of South–South experiences is more helpful in learning from each other than relying on industrialized countries either for policy assistance or for aid in technical activities. Among the considerations often mentioned in support of this approach are the poor quality of infrastructure; small scale of operations; the need for simple, low-cost products; a relative abundance of low-skilled labor and a marked shortage of capital; large informal sector; and poor regulatory environment in developing economies (Kumar 2009).

**Table 1: GDP Growth, North and South Regions**

	1970–1980	1980–1990	1990–2000	2000–2009
Africa	4.3	2.9	2.3	4.5
Developing Asia	5.5	6.8	6.4	6.9
Latin America and the Caribbean	5.5	1.3	3.2	3.0
Middle East	9.6	1.9	5.7	3.2
North	3.4	3.5	2.4	1.4

GDP = gross domestic product.

Note: Data pertain to exponential GDP growth computed using GDP at constant 2000 US\$.

Source: Staff calculations using data from World Bank, World Development Indicators online database.

Improving their economic relationships therefore allows developing countries a chance to share experiences and to learn from each other. In an interconnected world of multipolar growth, there is no “one-size-fits-all” model of development. Therefore, there is a need to diversify the sources of knowledge and to share diverse development experiences with one another. With rapidly developing information and communication technology, North–

<sup>2</sup> Lamour (2005) provides a discussion of the issues involved in institutional transfers of ideas and practices in governance in the context of the Pacific Islands.

South and South–South knowledge exchange is becoming a reality and a necessity for successful development. Within the South, the specific expertise of Southern countries tends to be easier to adapt and use, providing efficient development solutions and complementing the ones available in conventional North–South cooperation.

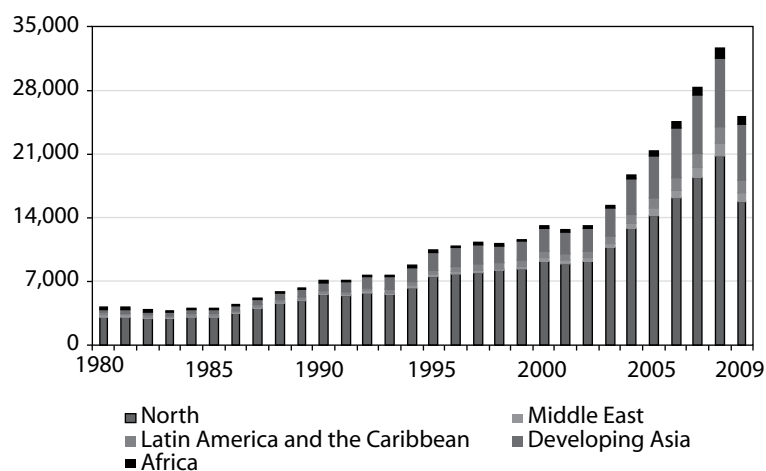
## **B. Expanding Economic Relations**

In recent decades, economic relations among the countries of the South have expanded rapidly. Traditionally, these relations referred essentially to interactions between countries that were relatively small in economic terms and that had little impact on the international economic order. Generally, the major decisions dealing with international monetary reform, trading arrangements, and investment priorities were made by economically stronger industrial countries (Rosenbaum and Tyler 1975). In the past, most multinational firms were based in industrial countries, but since the 1970s, large firms in more advanced developing countries such as Brazil, India, and Mexico started making direct investments abroad though the interactions usually vertically connected the subsidiary and the home office. Over time, some of the countries of the South have grown, become stronger, and are now in a position to influence the international economic system to their advantage. Likewise, South–South trade is no longer the trade between small countries with small markets but is driving the growth of even large developing countries.

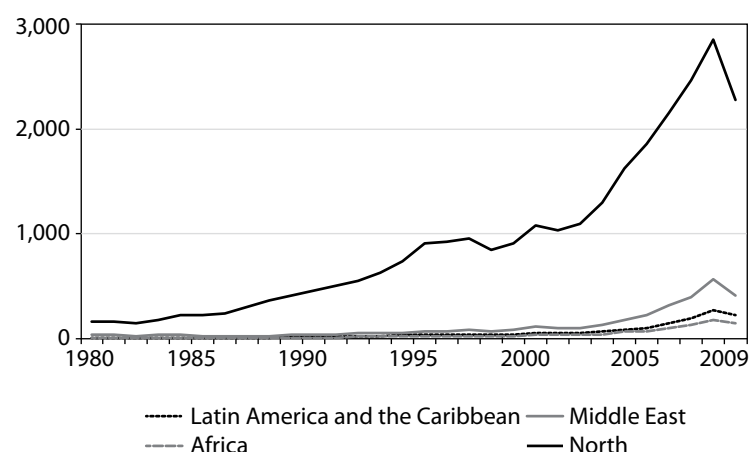
These trends have been strengthened by the expansion of the new connectivity agenda across the Southern region. The concept of connectivity broadens approaches toward economic relationships beyond the traditional focus on trade and investment links to include labor movements and remittances; sector and knowledge exchange; and macroeconomic cooperation.

### **1. Trade: Gaining in Strength**

Recognition of potential gains has intensified trade in goods and services as a key engine of growth for the Southern economies. Driven by relatively high economic growth, the rise of production fragmentation and network trade, and a progressive dismantling of trade barriers, South–South trade expanded rapidly from barely 7% in 1990 to 17% in 2009 as a share of world trade (Figure 3). Some of the Southern economies became major manufacturing exporters by specializing in production where they have a comparative advantage—low costs of production, low trade and communications costs, and efficient logistics. The rapid growth in intraregional South–South trade reflects a notable rise in developing Asia’s trade with Latin America, Africa, and the Middle East (Figure 4). About three fourths of total South–South trade happens within developing Asia driven by notably faster growth of exports to this subregion than to the rest of the world from both industrialized countries and non-Asia South. This suggests that developing Asia contributed significantly to global recovery by providing a much needed boost to global aggregate demand during the global crisis (ADB 2010b).

**Figure 3: World Merchandise Trade (\$ billion)**

Source: ADB calculations using data from UNCTAD statistics website, available: [unctadstat.unctad.org/TableViewer/dimView.aspx](http://unctadstat.unctad.org/TableViewer/dimView.aspx) (accessed 16 March 2011).

**Figure 4: Developing Asia's Merchandise Trade (\$ billion)**

Source: ADB calculations using data from UN comtrade online database (accessed 7 March 2011).

Developing Asia, led by the PRC, has evolved as the primary center of global production fragmentation and network trade. The expansion of global production sharing arrangements in the 1990s opened up new opportunities for developing countries to participate in international production chains and network trade. The expanding role of developing Asia is visibly seen in the trade pattern. Its lead in trade in parts and components has been the dominant force behind expanding South–South trade. The PRC has emerged as the regional assembly hub due to progressive reduction of tariffs and nontariff barriers, especially after its WTO accession in 2001. Relatively open trade, low tariffs on intermediate and capital goods, development of export processing zones, and

duty rebate schemes promoted manufactured exports from the four Asian tigers (Hong Kong, China; the Republic of Korea; Singapore; Taipei, China) as well as from Malaysia and Indonesia. These exports allowed these countries to import productivity-enhancing capital goods and technology, culminating by the early 1990s into the East Asian miracle. At a broader level, since the composition of South–South trade is mostly in parts and components induced by final goods export to the North, countries of the South still export substantially fewer varieties than industrial countries.

While the rise of PRC has brought benefits to emerging economies it has also created competitive pressures on them. An important ramification of the growth of the PRC's role was the birth of “Factory Asia” comprising intricate regional production networks and supply chains in industries such as electronics, automobiles, and machinery. This phenomenon opened a window of opportunity for other countries in the region with narrow export bases. The competitive position of the PRC and its expanding strength in particular brought numerous benefits to neighboring countries through employment creation in the ancillary industries with their backward and forward linkages, greater access to regional markets, and higher growth. However, non-Asia South has yet been unable to exploit these gains from trade. At the same time, some import-competing manufacturing sectors in emerging economies have found it difficult to cope with the rapid growth in the supply of low-cost manufactured goods from the PRC in the highly competitive trade environment. These developments have also crowded out industrialization laggards from entering “Factory Asia”.<sup>3</sup>

## **2. Capital and Investment: Increasing Flows**

Growing relations of Southern countries have spurred a rapid expansion of capital flows between these regions. The nature of capital flows varies greatly—main categories include foreign direct investment (FDI); portfolio investment (including equities and bonds); and various other types of financing such as bank loans (from commercial and development banks and other institutions), and official flows of various kinds (including export credits and official aid). These flows are a vital source of capital for developing countries. One key challenge for policy makers in emerging nations therefore is to create

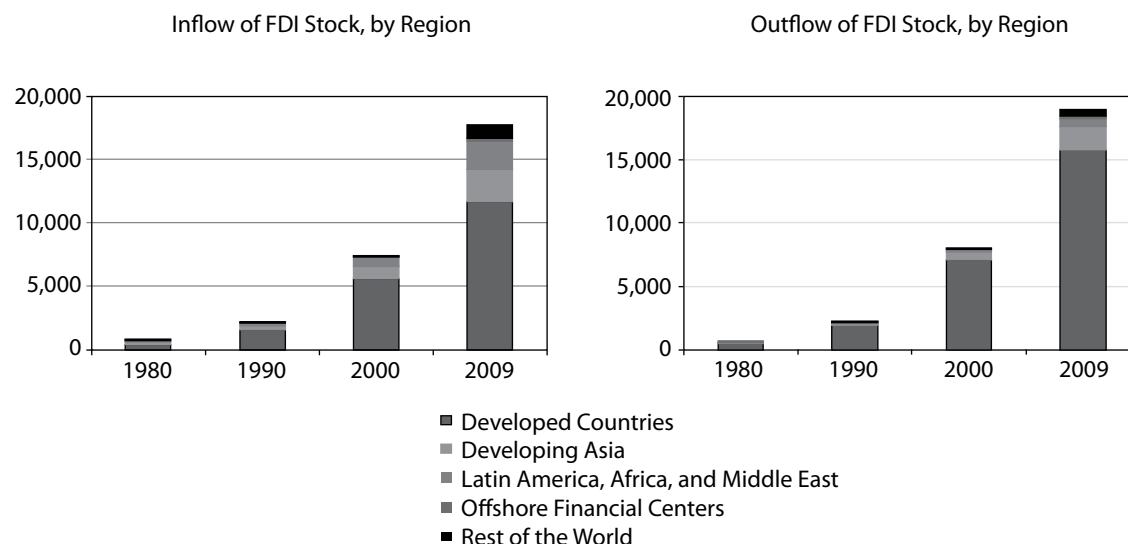
<sup>3</sup> The rapid expansion of the production chain pattern of trade across “Factory Asia” has led to significant problems in the calculation of trade flows. There is a well-known problem of double counting in current methods of measuring international trade because most current measures of measuring international trade report the gross flows of trade, not the value added (VA) at each stage of the production chain within each country. The Director General of the WTO, Pascal Lamy, for example, has recently suggested that international trade should be measured on a value added basis. When the difference between the gross value of exports and the VA within any particular country is small, then the measurement problems that arise from the traditional approach to recording international trade flows are less significant. But with the rapid expansion of production chain patterns of trade that have occurred in recent years in factory Asia, the differences between the gross value of exports and the net VA have become quite large. In some cases, in the production chain in Asia, the net VA between imports of a product at one stage in the supply chain and the exports of the product after domestic processing is quite small. Because of these problems, in the view of some observers, a revision to the traditional approach to the measurement of international trade is now needed (WTO and IDE-JETRO 2011).



a regional and domestic enabling environment that will attract finance to flow into local investments in the region.

The dispersion of the production process across Southern countries strongly contributed to regional and global economic integration by stimulating foreign direct investment (FDI) and intensification of trade in intermediate goods (ADB 2010c). Rapid expansion of trade by the South was achieved through openness to trade and investment that brought foreign capital along with the know-how. The share of the South in global FDI has grown rapidly. By 2009, about a quarter of global inward FDI stock and about 13% for outward FDI stock was in the South. FDI linkages within the South are particularly noticeable in developing Asia in comparison with Africa, Latin America, and the Middle East. South–South FDI flows started to play an increasingly important role in the recent trend as developing Asia, in particular, saw its share of outward FDI increasing from 3% of global outward FDI in 1980 to 9% by 2009 (Figure 5).

**Figure 5: Inward and Outward FDI Stock by Region (billion US\$)**



Note: Offshore financial centers include Bermuda, British Virgin Islands, Cayman Islands, and Panama.

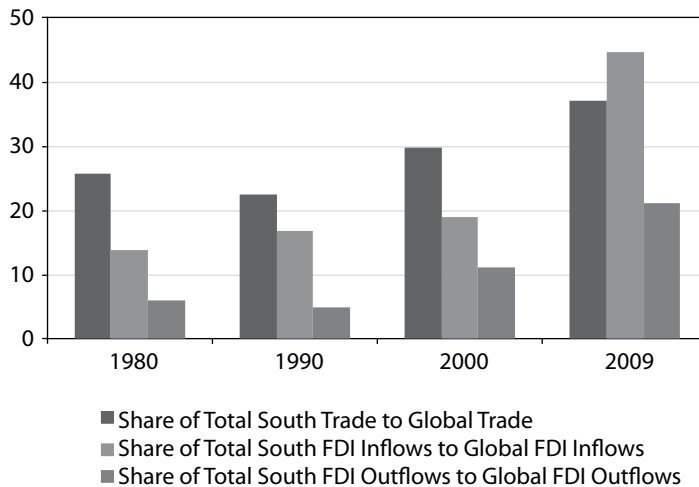
Source: UNCTAD Stat website, available: [www.unctad.org/Templates/Page.asp?intItemID=1584&lang=1](http://www.unctad.org/Templates/Page.asp?intItemID=1584&lang=1) (accessed 25 Feb 2011).

While the lion's share of FDI is dominated by flows between the Northern countries, Southern countries also emerged as recipients of FDI in the late 1980s. Among the regions in the South, investments from the North have been dominant in Latin America. In recent years, the PRC and India have emerged as major FDI recipients in developing Asia, overtaking Singapore and Taipei, China. The lead is taken by Nigeria in Africa, Saudi Arabia in the Middle East, and Mexico and Brazil in Latin America. However, on a global basis, the movement of FDI flows is still largely from the North to the South while Southern countries remain less integrated.

Although a major proportion of global outward FDI flows and stocks still originate from the North, Southern economies too have emerged as important sources of outward FDI in

the 2000s. Developing Asia is a major player in this trend, accounting for more than 60% of the outward FDI from developing countries. Most outward FDI flows from developing Asia are intraregional, especially among the economies of East and Southeast Asia, encouraged by regional integration efforts, the expansion of production networks, and the relocation of production to lower cost areas within the region (Brooks and Jongwanich 2010). In 2009, the share of total trade from the South to total global trade was 37% and the share of total South FDI inflows to global FDI inflows about 45%. But the share of total South FDI outflows to global FDI outflows was only 33% (Figure 6).

**Figure 6: Total South Trade and FDI (percent)**



Source: UNCTADStat website, available: [unctadstat.unctad.org/TableViewer/dimView.aspx](http://unctadstat.unctad.org/TableViewer/dimView.aspx) (accessed 16 March 2011).

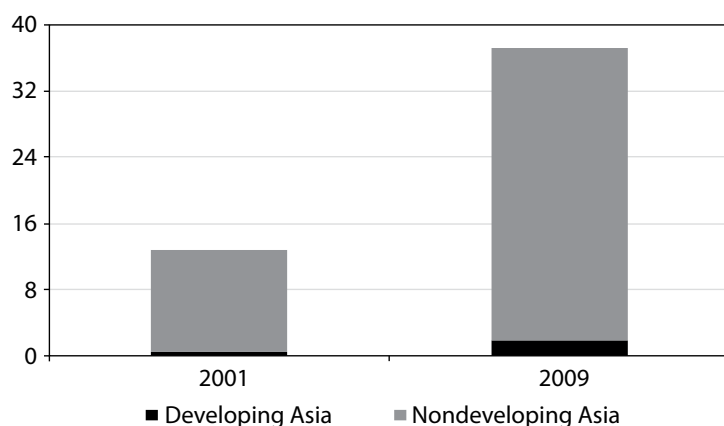
These numbers indicate that although the importance of the South in global FDI is growing, it does not mean that its independence from the North is growing. Technology transfers and spillovers from FDI flows arising from the South remain limited in comparison to those coming from the North. Evidence for positive spillovers from South-owned investments is mixed. While spillover effects appear apparent with the vertical FDI or “North to South” flows, lateral flows, both among the North and the South, appear limited. The insignificant impacts found so far seem to be driven by the fact that such Southern lateral investments are mostly in labor-intensive industries with relatively low productivity. This is consistent with the prior that spillovers might tend to be larger for North–South FDI because the North-owned firms are the main possessors of technology in most industries. Nevertheless, less advanced technologies used by the Southern-country investors are more suited to the conditions of the host Southern countries, such as labor force or management skills, levels of education, or local customs, and might be more easily imitated or learned than those of the Northern-country firms. In other words, spillovers might be the largest when the technology differences between home and

host countries are not too large. Such source countries include the Republic of Korea; Taipei, China; and Singapore in the case of Indonesia.

In the postcrisis period, the importance of FDI from the South to other developing countries in the South is intensifying. This is reflected in the fact that outflows from developing countries were less affected by the contraction in global FDI flows than those from developed countries. In 2008, global FDI fell by around 20% while outward FDI from the PRC, for example, nearly doubled. Although the global financial crisis has slowed the rate of FDI growth into developing Asia in 2009, it has reinforced the region's position in attracting foreign investors. Countries in the South attract foreign investors through incentives such as tax rebates and exemptions, subsidized credit, and import privileges at overvalued exchange rates.

Even though South–South FDI trend is rising, financial integration within the region has only marginally grown compared with South–South trade. Unlike trade, Asia still has to catch up with the North in the financial market. Most Southern funds are intermediated through global rather than regional capital markets. For example, a surprisingly low share of Asia's financial resources is invested in Asian assets (Asian Development Bank 2008, 4). One illustration of the way that regional financial markets in the Asia and Pacific region are still on the periphery of international capital flows is reflected in the changes of global portfolio assets over the period 2001–2009. While the total value of global assets expanded by \$24.4 trillion, only \$356 billion (less than 1.5%) of this expansion took place in the Asia and Pacific region (Figure 7 and Table 2). This shows that financial assets grew only marginally compared with trade in the South.

**Figure 7: Geographical Distribution of Portfolio Investments (trillion US\$)**



Source: International Monetary Fund, Coordinated Portfolio Investment Survey Data website, available: [www.imf.org](http://www.imf.org) (accessed 11 January 2011).

**Table 2: Geographical Distribution of Portfolio Investments, 2001–2009 (\$ billion)**

<b>Investment Destination</b>	<b>2001</b>	<b>2009</b>	<b>Increase, 2001–2009</b>
Central Asia	0	10	10
East Asia	235	1,127	892
Pacific	16	13	-3
South Asia	104	324	220
Southeast Asia	1	357	356
Australia	170	812	642
Canada	319	890	570
Cayman Islands	416	1,493	1,077
France	777	2,649	1,872
Germany	1,166	2,893	1,727
Ireland	177	1,182	1,005
Italy	580	1,569	989
Japan	542	1,198	655
Luxembourg	525	1,842	1,317
Netherlands	705	1,807	1,102
Spain	285	1,289	1,005
Switzerland	219	638	419
United Kingdom	1,290	3,372	2,082
United States	3,101	7,308	4,207
Other	2,085	6,387	4,302
<b>Total</b>	<b>12,712</b>	<b>37,160</b>	<b>24,448</b>

Sources: Appendix Tables 1 and 2.

There have been significant increases in other types of South–South capital flows, especially from capital-exporting countries such as the PRC and Middle Eastern oil-surplus countries. Increases in foreign aid and other types of outward investment from the PRC have attracted much comment in recent years. According to an official report on *China's Foreign Aid* released by the State Council of the PRC in April 2011 (State Council of the People's Republic of China 2011), by the end of 2009, the PRC had provided a total of 256 billion yuan (around \$39 billion in 2011 exchange rates) as aid to foreign countries. The largest proportion of this was supplied in grant form while the rest was provided in various types of concessional loans (Table 3). But in addition to these aid flows, a wide range of agencies in the PRC, especially state-owned firms, have been supplying capital to numerous developing countries in various other ways as well (such as export credits, FDI in selected projects, and so on). Capital flows from the PRC to countries in Africa have been widely discussed in recent years (Brautigam 2009 and 2010, *The Economist* 2011a) while there have been numerous reports of aid and investment from the PRC for countries in Asia (such as Indonesia, Sri Lanka, Viet Nam, and other nations) as well. In the Pacific, Hanson and Fifita (2011, 1) have estimated that “[the PRC] is now one of the Pacific’s major donors. An analysis of its aid program in the region from 2005 to 2009 suggests it is reducing the grant component of its aid and increasing the soft loan proportion. [The PRC] has pledged over \$US600 million to the Pacific since 2005 ...”

**Table 3: Aid from the PRC, Total Amount to End-2009**

Type of Aid	Yuan (billion)	US\$ (billion)
Grants	106	16
Interest-free loans	76	12
Concessional loans	74	11
Total	256	39

Note: US\$ data is official yuan data converted at a rate of yuan 6.5 = US\$1.

Source: State Council (2011).

Investment flows from Middle Eastern capital exporting nations to developing countries in Asia, Africa, and Latin America have been rising as well. As noted in Box 1, institutions such as the Islamic Development Bank and the Arab Bank for Economic Development in Africa are supporting investment programs in developing countries, as are a range of other Middle Eastern institutions and investors. Thus, overall, although comprehensive data are not available, it seems clear that South–South capital flows have increased markedly during the past decade.

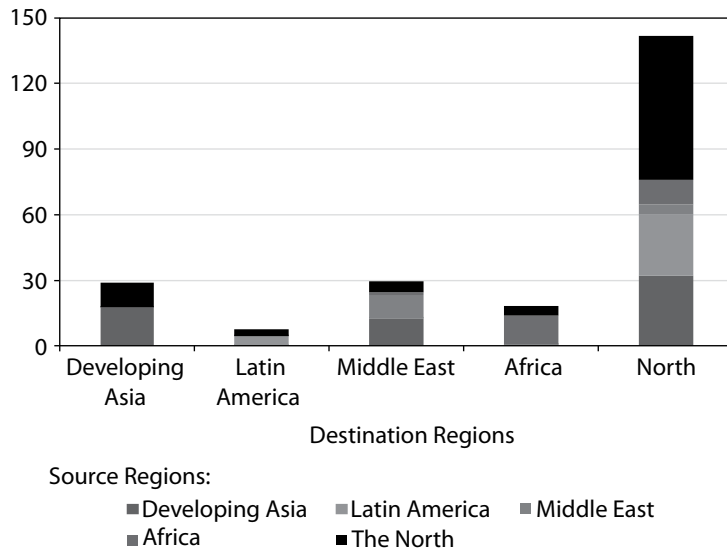
### **3. Labor Movement and Remittances: Changing Profiles**

Just as globalization is transforming markets for goods and capital, rapid changes in international markets for services, especially labor, are taking place as well. Labor movement has increasingly become an important part of the pattern of global economic linkages since the latter decades of the last century. Technological change and growth in South–South trade and investment flows have stimulated demand for both unskilled workers and for high-skill professionals. Labor flows within the South picked up in the early 1970s when the Middle East started attracting thousands of workers from Asia for construction work and domestic service funded by the oil price boom that substantially raised household incomes in the Gulf countries. In particular, the rush came from Bangladesh, India, Indonesia, Pakistan, the Philippines, and Sri Lanka (ADB 2008). More recently, Southeast Asia became a major destination for Asian workers by promoting export-led development with free trade zones. Notable host countries in this subregion are the newly industrialized economies of Hong Kong, China; the Republic of Korea; Singapore; Taipei, China; and the emerging economies of Malaysia and Thailand.

Industrial countries of the North continue to be the most sought-after destinations for migrant workers. However, the largest size of migrant settlers has moved from the economies of the North to reside within the same region (Figure 8). This perhaps reflects labor movements within Europe and within the northern hemisphere generally. Among those originally from the North, the second largest group of settlers have found developing Asia as their main destination, followed by the Middle East, Africa, and Latin America in that order. Interestingly, the stock of migrants from almost every part of the South is bigger in the North than within their neighborhoods. While the North seems to

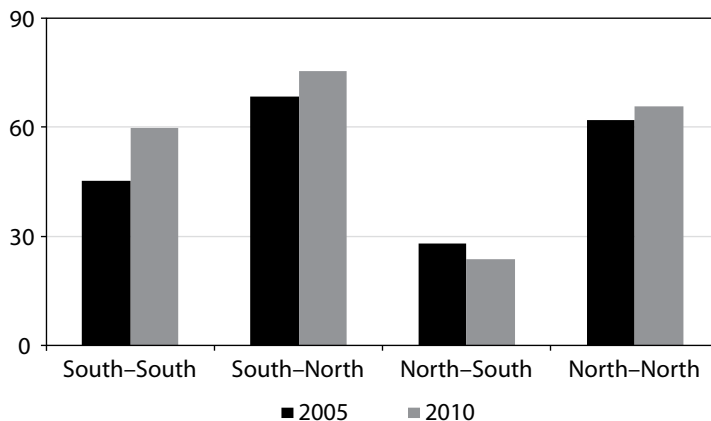
be the most attractive place to immigrate, beyond that, large migrant stocks seem to be confined to each subregion from where they originated. For example, most African nations are linked together in intracontinental migration flows. This may reflect physical, policy, and institutional constraints to labor mobility apart from cultural and linguistic closeness. However, in recent years, rising labor mobility within the South has noticeably increased the corresponding migrant stock, bringing it closer to the South–North stock at a rapid pace (Figure 9). This growth in South–South labor links adds another strong dimension to the trade and investment links within the region.

**Figure 8: Stock Estimates of Migrants, by Region, 2010 (millions)**



Source: World Bank (2010a).

**Figure 9: Stock Estimates of Migrants, 2005 and 2010 (millions)**



Source: World Bank (2010a).

### **Box 1: Selected Examples Of South–South Cooperation Programs**

#### **The People's Republic of China**

The PRC supports one of the largest programs of South–South cooperation across the emerging world. In recent years the PRC program of development cooperation has expanded rapidly. Recent estimates suggest that the total value of activities now amounts to around \$2 billion annually. A high large number of programs are in Africa, including in Sub-Saharan Africa, while other important programs are supported in the Asia and Pacific region, including in Indonesia, South Asia, and the Pacific Islands. Activities supported include large infrastructure projects (such as railways in Africa and electric power in Indonesia); scholarships (it is reported that up to 10,000 Africans travelled to the PRC for courses between 2006 and 2009 as part of a program now offering 4,000 scholarships per year); and a wide range of technical assistance schemes.

#### **India**

India has a large program of South–South cooperation currently estimated to amount to around \$1 billion per annum. Over 100 partner countries are listed as participating in Indian programs. The main focus of activities, however, is in the Asia and Pacific region, especially in South Asian countries such as Afghanistan, Bhutan, and Nepal. In Bhutan, India has supported investments in the hydroelectric power sector through investments in the Chukha and Tala projects, which supply electricity both to consumers in Bhutan and, through exports of power, to the Indian market. India has assisted with the building of hospitals in a range of countries in Asia and in Africa, and with the expansion of health services in the SAARC region. Information and communication technologies (ICT) are another priority sector for Indian partnership in developing countries.

#### **Brazil**

South–South cooperation supported through the *Agencia Brasileira de Cooperacao* (Brazilian Cooperation Agency) assumed an important place during the Lula presidency (2003–2010). Attention was given to programs to foster regional stability, especially with Bolivia and Paraguay, but efforts to expand Brazil's economic linkages with Africa were also seen as important. Main partners are in the South American region, the Community of Portuguese Language Countries, and some Sub-Saharan countries. A large share of Brazilian development cooperation activities, estimated at nearly 80%, is channelled through international agencies such as the United Nations and multilateral development banks.

#### **Middle Eastern Countries**

A large number of development cooperation programs across the developing world are supported by various Middle Eastern countries. While some of the partnerships programs are bilateral, many are supported through regional and plurilateral agencies in the Middle East. These include the following:

- (i) Islamic Development Bank (IsDB), based in Jeddah, Saudia Arabia (authorized capital: \$44.4 billion as of 2010). The IsDB, established in 1975, is a specialized institution of the Organization of the Islamic Conference. It provides various forms of assistance to governments and public sector institutions of member countries such as soft loans, profit, and capital contributions in addition to grants and technical assistance. Much of the activities that the IsDB supports are in Africa but countries in Asia such as

- Afghanistan, Bangladesh, Indonesia, Malaysia, Pakistan, and Tajikistan are members of the IsDB. The IsDB has played a leading role in introducing financing tools consistent with Islamic religious (Shari'ah) law. In 2009 it partnered with the ADB to launch the new Islamic Infrastructure Fund to support infrastructure development in Asia.
- (ii) The Arab Bank for Economic Development in Africa (BADEA) was established in 1974 by the League of African States to strengthen economic, financial, and technical cooperation between Arabian and African states. The authorized capital of BADEA in 2009 was \$2.8 billion. The bank funds projects that are usually part of the priority programs of the participating countries and also supports grant-financed technical assistance.
  - (iii) Arab Fund for Economic and Social Development, established in 1971 by the Economic and Social Council of the Arab League, with estimated total resources (end-2007) of over \$9 billion. The principal purpose of the Fund is to contribute to the financing of economic and social development projects in Arab countries. The Fund provides loans on concessionary terms to governments and public corporations, and also supports private sector activities, giving priority to projects that are vital to the Arab world and joint Arab projects.

Other main Arab development and economic institutions include the Arab Organization for Agricultural Development, the Arab Monetary Fund, the Arab Fund for Technical Assistance to African Countries, and the Arab Authority for Agricultural Investment and Development.

### **Thailand**

The Thai International Development Cooperation Agency (TICA) of the Thai Ministry of Foreign Affairs supports programs in seven key areas of expertise: agriculture and rural development; development in support of a self-sufficiency economy; community-based economic development; public health; management of natural resources, environment, and energy; tourism; and other selected areas of expertise. In recent years TICA, in cooperation with other Thai and international organizations, has supported a wide range of projects in various Asian countries including in Aceh after the 2004 tsunami (malaria preparedness training and livelihood programs); Afghanistan (the Balkh livestock and rural enterprise development project); Myanmar (rural health and irrigation); and regional activities to improve disaster preparedness (working through the Asian Disaster Preparedness Centre based in Bangkok).

### **South Africa**

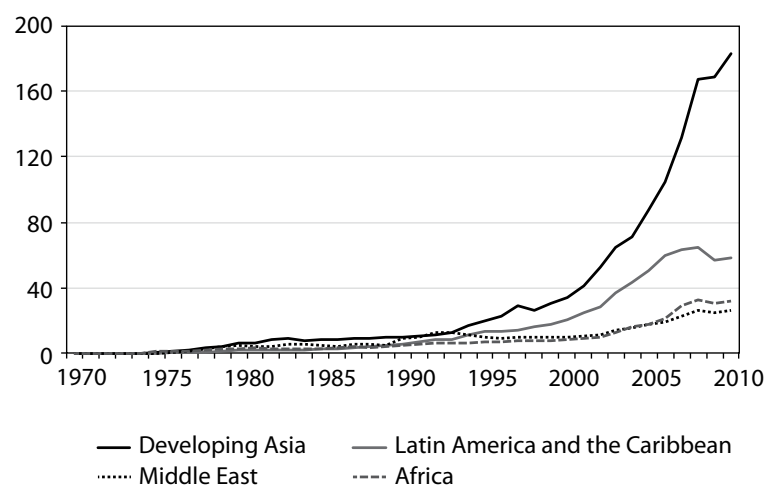
Since 2001 the South African government has been promoting development cooperation in Africa through the African Renaissance and International Cooperation Fund. The new Fund was intended to be more multilaterally oriented than previous development cooperation funds supported by the South African government. The establishment of the Fund was seen to enable the South African government to promote a range of objectives: cooperation between South Africa and other countries, particularly African countries; promote democracy and good governance; help prevent and resolve conflict; support socioeconomic development and integration; provide humanitarian assistance; and foster human resource development. More recently, it has been announced that during 2011, South Africa will establish a new agency, the South African Development Partnership agency, to support development initiatives, especially in Africa.

Sources: Brautigam (2010), Kumar (2009), Deniz (2011), Houacine (2010), Rowlands (2008), State Council of the People's Republic of China (2011), and other sources.



Growing migration has gone hand-in-hand with rising flows of international remittances, which contribute to economic growth of recipient countries and provides a source of finance to their receiving households. Most of the top 10 remittance-receiving countries in the world in absolute terms (namely, India, Mexico, the PRC, Philippines, Bangladesh, and Viet Nam) are in the South, of which developing Asia accounts for the lion's share (Figure 10). The rates of growth of remittances into the Asia and Pacific region have been higher compared to those into other parts of the South. Total remittance inflows to all developing countries averaged around \$315 billion annually in the 3 years to 2010. The bulk of these inflows went to middle-income countries, particularly in the Asia and Pacific region, which has received around \$170 billion of these flows on an annual basis in recent years. As a share of GDP, remittance receipts were especially important in Asia for such countries as Bangladesh, the Kyrgyz Republic, Nepal, the Philippines, and Tajikistan, and also for several of the Pacific Island economies (Table 4).

**Figure 10: Remittance Inflows of Selected Regions (billion US\$)**



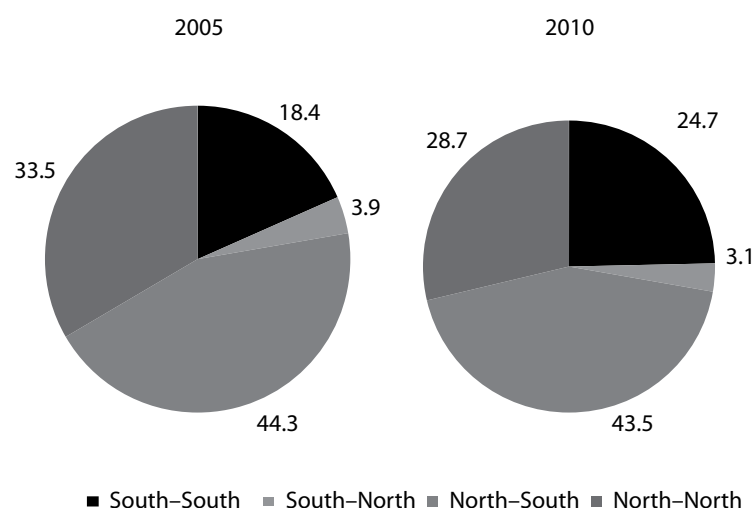
Note: 2010 is an estimate.  
Source: World Bank (2010b).

**Table 4: Remittance Inflows, Selected Countries, Asia and the Pacific, 2009 and 2010**

	<b>2010 (billion US\$)</b>	<b>2009 (% of GNP)</b>
South Asia		
Nepal	4	23
Bangladesh	11	12
Sri Lanka	4	8
Pakistan	9	6
India	55	4
East Asia		
PRC	51	1
Southeast Asia		
Philippines	21	12
Viet Nam	7	7
Indonesia	7	1
Central Asia		
Tajikistan	2	35
Kyrgyz Republic	1	15
Armenia	1	9
Georgia	1	6
Pacific		
Tonga	0.1	28
Samoa	0.1	22
Kiribati	..	6
Republic of Fiji	0.1	3

Source: World Bank staff estimates based on IMF Balance of Payments data.

Although North–South transfer of worker remittances account for as much as 45% of global flows, links between countries of the South too have become important. Growing economic resilience of the South has manifested itself in a rapid rise in the share of South–South remittance flows in global flows from 18% in 2005 to 26% in 2010 (Figure 11). At the same time, there was a decline in the North–North share from about 34% to 23%. Even though the main remittance-sending countries were adversely affected by the global crisis and remittance flows slowed down, they remained robust. In particular, the growth in flows to developing Asia declined but the drop was not sharp and is likely to revert back to a higher path soon (Jha, Sugiyarto, and Vargas-Silva 2010).

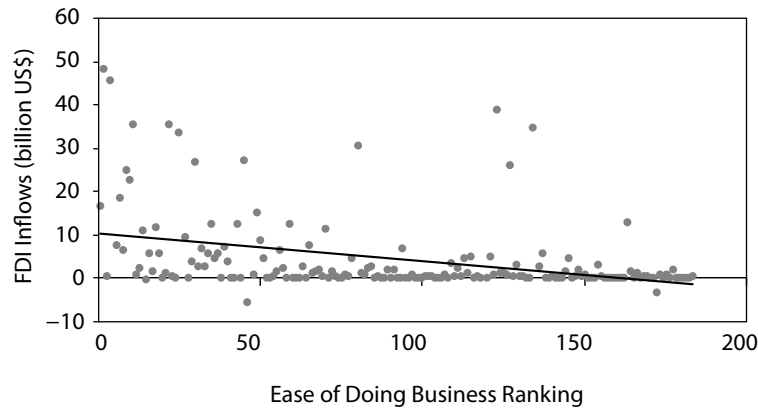
**Figure 11: Shares of Global Remittance Flows (percent)**

Source: World Bank (2010a), available: [econ.worldbank.org](http://econ.worldbank.org) (accessed 3 February 2011).

### III. Markets as Drivers of Change

Having seen significant economic setbacks during the recent crisis, it will likely take some time for industrial economies to reassume their role as the primary source of demand for the global economy. At the same time, economies of the South have shown strong promise to grow rapidly in the face of dwindling growth of the countries in the North (ADB 2011b). The rising consumption of emerging economies and new investment flows within the South show high prospects for becoming a major source of global demand. To make these prospects a reality and to assist in the global recovery process, domestic expenditures in the South will have to increase—not just for consumption but also for investment, which would help to drive South-South trade and FDI. South-South linkages are creating new drivers of aggregate demand in achieving a more resilient and balanced global growth.

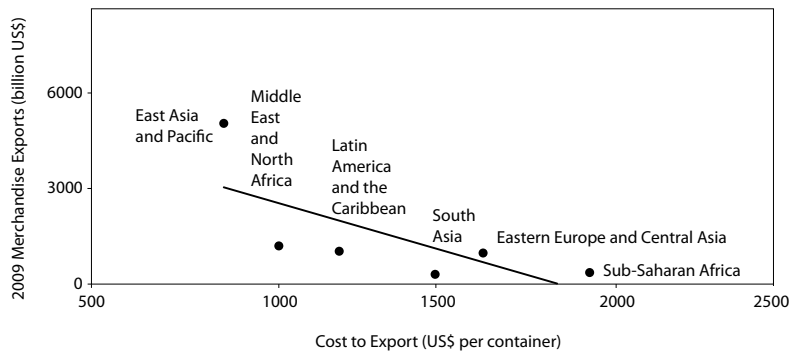
Much of the growth in economic linkages between emerging countries across the globe has been largely market-driven. For example, FDI flows are higher where it is easier to do business (Figure 12).

**Figure 12: Ease of Doing Business and FDI Inflows**

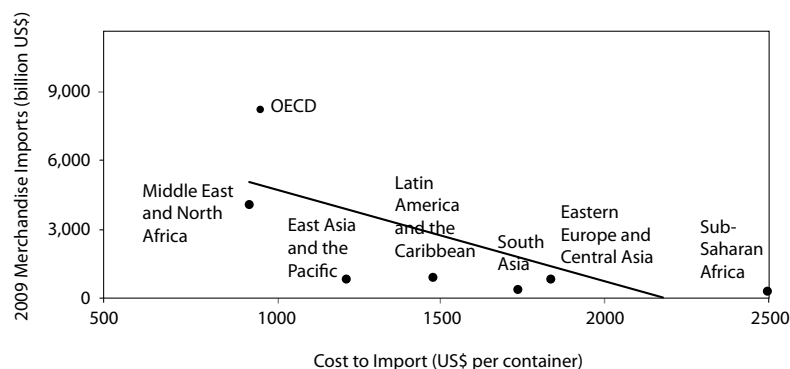
Note: FDI inflows data are for 2009. Outliers were removed from the sample, namely, the PRC, France, and the United States.

Sources: UNCTAD statistics website, available: [unctadstat.unctad.org/TableViewer/dimView.aspx](http://unctadstat.unctad.org/TableViewer/dimView.aspx) (accessed 16 March 2011); World Bank; 2011 Doing Business data, available: [www.doingbusiness.org/rankings](http://www.doingbusiness.org/rankings) (accessed 25 April 2011).

While the costs of exporting and importing are low in the OECD countries, they are even lower in East Asia and the Pacific (Figures 13 and 14). The next regions in line are Middle East and North Africa, Latin America and the Caribbean, South Asia, Eastern Europe and Central Asia, and Sub-Saharan Africa. As these figures show, for regions that have higher unit costs of exporting, the magnitude of exports is smaller, and where it is cheaper to import, higher imports take place.

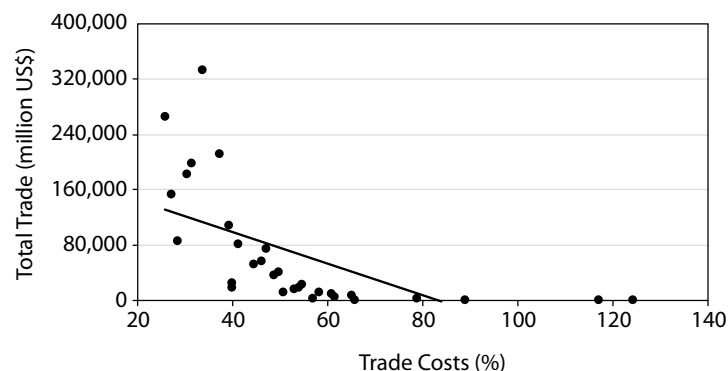
**Figure 13: Exports versus Cost to Export**

Sources: World Bank, World Development Indicators online database; World Bank (2011), available: [www.doingbusiness.org/rankings](http://www.doingbusiness.org/rankings) (accessed 25 April 2011).

**Figure 14: Imports versus Cost to Import**

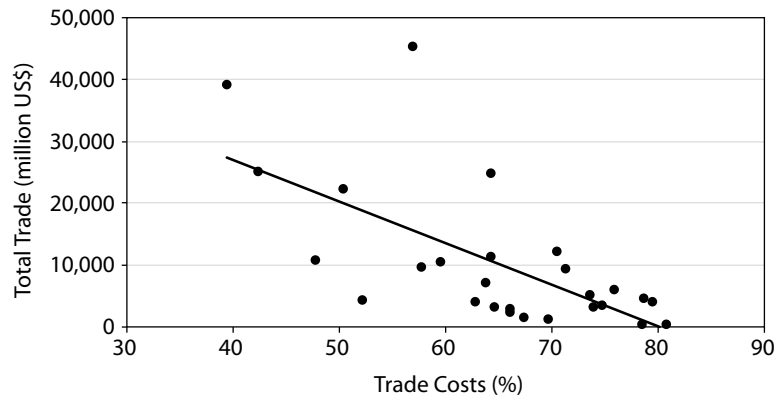
Sources: World Bank, World Development Indicators online database; Doing Business data website, available: [www.doingbusiness.org/rankings](http://www.doingbusiness.org/rankings) (both accessed 25 April 2011).

The same logic can be extended to bilateral trade over time. There is a negative relationship between trade costs and associated bilateral trade, as seen for the case of the PRC and India in Figures 15 and 16.

**Figure 15: Bilateral Trade and Trade Costs: The PRC**

Note: Data refer to bilateral trade and associated trade costs (calculated as tariff equivalent, in percent) of the PRC with India; Japan; the US; EU3 (France, Germany, the United Kingdom); and ASEAN-4 (Indonesia, Malaysia, the Philippines, and Thailand) for 1985, 1990, 1995, 2000, 2005, and 2008.

Sources: *ADO 2010 Update* (ADB 2010b); UN Comtrade online database (accessed 26 April 2011).

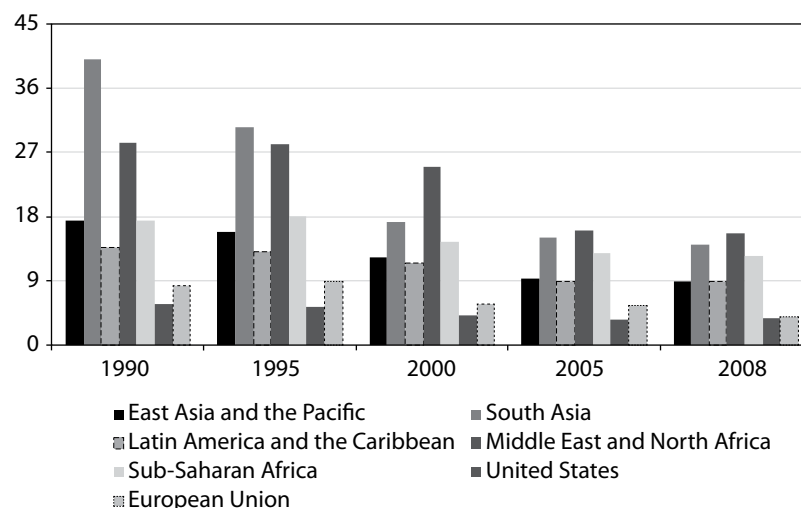
**Figure 16: Bilateral Trade and Trade Costs: India**

Note: Data refer to bilateral trade and associated trade costs (calculated as tariff equivalent, in percent) of India with Japan; the US; EU3 (France, Germany, and the United Kingdom); and ASEAN-4 (Indonesia, Malaysia, the Philippines, and Thailand) for 1985, 1990, 1995, 2000, 2005, and 2008.

Sources: *ADO 2010 Update* (ADB 2010b); UN Comtrade online database (accessed 26 April 2011).

Similar to the flows of capital and goods, movement of labor too is driven by market opportunities. More than ever, people are on the move from the South to the South than from South to the North. The movements reflect divergences in opportunities and demography, wage differences, and structural transformation. Gains from increased labor mobility accrue from better allocation of labor. Out-migration from labor-surplus economies increase their labor productivity, and in labor-scarce countries, in-migration provides cheap or qualified labor as a scarce resource. In both circumstances, labor movements contribute to economic growth.

Markets are a key determining factor in the movement of goods, capital, and labor across the world. Yet, they face various constraints in taking market integration forward. Although tariffs have fallen markedly, countries across the South still suffer from numerous “behind-the-border” problems. Average tariff rates declined across the globe over the last 2 decades (Figure 17). Although the decline was remarkable in the South in comparison with the North, average tariffs imposed by Southern countries on imports of goods originating from other countries in the South are significantly higher than on those originating from the North. Moreover, structural weaknesses and nontariff barriers—such as poor trade-related infrastructure and logistics, and inefficient administrative procedures—hinder expansion of trade by Southern countries by adding significantly to the costs of traders trying to compete in international markets. The affluent markets in the North therefore continue to be the most important destination for final goods produced in the South that rely predominantly on intermediate inputs from the South. For example, in 2009, total trade of developing Asia with other regions of the South was about \$780 billion as against \$2,280 billion with the North, or barely 25% of the total.

**Figure 17: Average Tariff Rates (percent)**

Note: Refers to simple average of most favored nation rates for all products. Regional classification follows that of the World Bank.

Source: World Bank, World Development Indicators online database (accessed 16 March 2011).

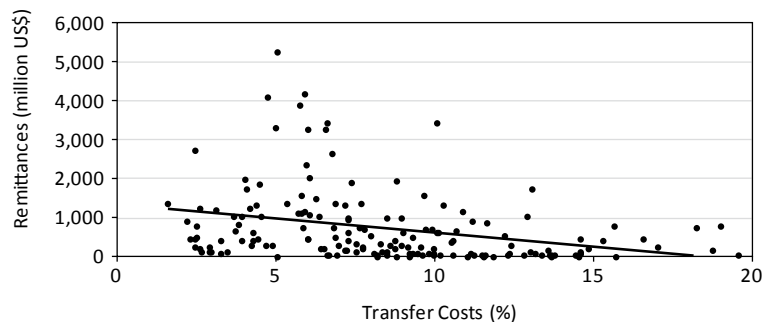
Removal of tariff and nontariff barriers can significantly expand South–South final goods trade and boost the growth of the region over the medium term. Gradually eliminating barriers to trade—both tariffs and behind-the-border trade costs—along with trade facilitation and harmonization of customs has the potential to considerably boost trade in final goods within the region. In view of the changing economic center of gravity from the North to the South, expanding intraregional trade would allow many economies in the South to transition away from labor-intensive to capital- and knowledge-intensive manufacturing and put them on a higher growth profile. The region’s successful reliance on trade for its development will need to be seen in a new light as the region strives toward more balanced growth. With domestic demand emerging as a vital driver of growth alongside exports, these economies must become increasingly important markets for each other’s final products. Especially, the prospects of Asia for final goods trade are bright since most Latin American countries are already middle-income countries with a domestic-expenditure oriented economic structure, and which are in need of large infrastructure investments in the near future. If Asia’s high savings can be channelled to funding infrastructure investment needs in Latin America and within Asia, the current Factory Asia pattern of growth can be effectively and swiftly changed. Therefore, the need to reduce the bottlenecks to trade and investment within Asia and between Asia and non-Asia South becomes more urgent.

In recent years, as the Southern economies had grown rapidly, their needs for highly qualified technical experts such as engineers, pilots, doctors, nurses, and scientists multiplied. But large and growing mismatches between the skills needed and those available became a serious business constraint, resulting in productivity losses and idle

capital, rising wage costs, increased turnover, and higher placement and training costs for new workers. To compound the problem, regulations and policies relating to labor flows remain more restrictive in most countries than rules governing the movement of goods or capital. These concerns arise from the need for immigrants to have relevant skills in receiving countries and to prevent brain-drain while protecting the rights of their workers abroad from sending countries. The global crisis saw discrimination against foreign workers as unemployment rose. Creation of mutual benefits for both home and host countries calls for policies to support labor market integration further.

Market rigidities have also constrained transfer of worker remittances. Figure 18 demonstrates a negative association between the cost of remitting money and the amounts remitted. A number of cooperative policy measures have been undertaken by different countries to improve the flow of remittances. The cost of remitting through formal channels has declined and led to a larger share of these flows through wire transfers. Compared to the flows carried by individuals these wire transfers are much more easily recorded by central banks. Continued financial sector coordination would facilitate faster, cheaper, and more secure ways of transferring remittances through formal channels while at the same time improving statistics on remittance flows, large parts of which currently go unrecorded. This requires reduction of high transaction fees, deepening financial market access, and discouraging remittance through blackmarkets operating at the borders.

**Figure 18: Bilateral Remittances and Transfer Costs, 2010**



Note: The transfer costs (including the transfer fee and exchange rate margin) reflect the percentage of the sum remitted that the immigrant must pay in order to send about US\$200 back home. Transfer cost data refers to the 3<sup>rd</sup> quarter of 2010. Data for bilateral remittances are estimates for 2010. These data are estimated using assumptions and arguments as explained in Ratha and Shaw (2007). The number of countries is 165, after removing the outliers.

Sources: World Bank, Remittance Prices database, available: [remittanceprices.worldbank.org/Country-Corridors](http://remittanceprices.worldbank.org/Country-Corridors) (accessed 25 April 2011); Bilateral Remittance Estimates for 2010, available: [econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:22803131~pagePK:64165401~piPK:64165026~theSitePK:476883,00.html](http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:22803131~pagePK:64165401~piPK:64165026~theSitePK:476883,00.html) (accessed 26 March 2011).



## IV. Regional Cooperation as a Tool to Strengthen Economic Links

South–South economic links go beyond market-driven trade, investment, and labor movement. A wide range of South–South cooperative activities is carried out each year supported by numerous exchanges between officials, academics, professional practitioners, nongovernment organizations and social activists, journalists, and many other groups in developing countries. There has been a very large number of interventions (ranging from modest, specific programs to much larger efforts of coordination) by governments in developing countries. The policies and roles of governments in the South and North underpin the growth of such activities.

### A. Policies for Increasing Openness

With trade becoming one of the key engines of growth for developing countries, a broad consensus has emerged among many leading policy makers in the region that trade-promoting policies are desirable. This consensus underpins the broadening support for market-oriented policies that strengthen economic linkages between developing countries. To be sure, numerous factors helped fuel the growth of trade across the region. Certainly other key elements of economic policy contributed to the pro-growth trade environment in emerging countries as well. Nevertheless export-oriented trade policies were clearly one of the main factors in facilitating growth.

It was not always this way. During the postwar colonial period across the region—in the 1950s and into the 1960s—leaders in some of the newly independent countries were wary of opening their domestic economies to international markets. Memories of the colonial period when openness to international markets seemed to bring little benefit to people across the region still had a strong influence on policy. In many countries, import-substitution industrialization (ISI) policies that provided protection for domestic producers were popular. But by the late 1960s an increasing number of studies had provided strong evidence that protectionist ISI policies were not effective. Increasingly, the argument began to be heard that policies reflecting “export pessimism” were inappropriate, and that there was much to be said for reducing barriers to international trade. For example, in an influential study Myint (1972) endorsed the emerging international consensus in favor of promoting export-oriented industrialization. He argued that the existing import-substitution policies should be replaced by a new industrialization strategy based on the expansion of manufactured exports, particularly of the processed and semiprocessed materials that linked abundant natural resources of developing economies with the expanding world market demand for their products (Myint 1972, 161).

Support for this approach grew during the 1970s and was set out in detail in a World Bank study (Cody et al. 1980). As it turned out, international economic conditions during

the 1970s were not as conducive as expected to the implementation of export-oriented strategies in developing countries. The two large oil shocks, as well as conditions of stagflation in the industrialized North, greatly complicated the economic policy choices facing governments in the region during the decade. But by the 1980s, there was growing support for a move toward the development of export-oriented manufacturing sectors in a number of developing Asian countries. In the four Asian Tigers as well as in Malaysia and Indonesia, manufactured exports began to expand quickly. By the early 1990s, the World Bank was ready to talk of the “East Asian miracle” in the region (World Bank 1993). During the 1990s, India and especially the PRC began to increasingly emphasize export-oriented approaches with the result that the economic growth rate in both countries accelerated markedly into the first decade of the current century. These trends were summarized in an ADB study (ADB 1997, 16) as follows:

East Asian governments put relatively open trade, especially export promotion, at the top of their agenda. They maintained a policy environment that supported exporters. Tariffs on intermediate and capital goods were low or moderate, and exporters were insulated from the negative effects of tariffs through specific institutions, such as export processing zones and duty rebate schemes. This institutional environment allowed the East Asian economies to begin to export manufactured goods successfully, even though they began from a low base of technology and industrialization. In turn, the rapid growth of manufactured exports allowed these countries to import productivity-enhancing capital goods and technology from abroad. Exports also provided an objective criterion for measuring the effectiveness of state support for industry.

Although tariffs have fallen markedly across the region in recent years, there are still numerous “behind-the-border” problems—such as poor infrastructure and inefficient administrative procedures—which add significantly to the costs of production for suppliers trying to compete in both domestic and international markets. Various policy measures are needed to tackle these behind-the-border constraints on trade, of which increased investment in sectors such as infrastructure is one.

## **B. Sharing of Knowledge and Ideas**

Mobility of ideas across borders also reduces economic disparities among regions. But many knowledge sharing exchanges have been more of a bilateral or multilateral cooperative arrangement between participating groups who each fund all or most of the costs of their own participation. Some exchanges are sponsored by larger emerging countries such as the PRC and India within the context of the broader approach to international economic policy. The United Nations Economic and Social Council (ECOSOC 2008) gives examples of South–South knowledge sharing. These include technical cooperation programs of various countries, such as Argentina, Chile, Egypt, and Tunisia, as well as the PRC, India, the Republic of Korea, Singapore, and Thailand. It

notes, however, that Southern multilateral institutions play only a limited role in technical cooperation and that Southern bilateral development cooperation is driven mainly by geographic proximity, except the PRC's. Drawing a distinction between North–South and South–South cooperation, ECOSOC observes that projects supported by Northern donors focus more on social sectors, whereas Southern bilateral and multilateral institutions prefer projects in hard-core infrastructure sectors such as communications, energy, and transport. For Asia, Schulz (2010) lists numerous examples of cooperation on knowledge-sharing spanning a wide range of areas such as poverty reduction, sector programs, local administration, microfinance, and aid management. The International Poverty Reduction Center, set up in 2005 in the PRC, promotes experience sharing with developing countries and assists them through training, research, and exchange events.

According to the World Bank (Puri 2010, 2), “the intensification of South–South exchanges under the broad rubric of technical and economic cooperation has meant that its share in overall development cooperation flows has risen to about 10 percent or US\$17 billion of total development cooperation flows at the end of 2009. In fact, South–South flows registered an increase of 63 percent between 2006 and 2008.” New opportunities for global learning across regions and countries are opening up, and the sharing of development experiences (including through North–South, South–South, and triangular cooperation) to strengthen and broaden sources of knowledge for growth and development has expanded. Indeed, South–South knowledge exchange is one of the nine pillars of the G20 Development Consensus for effective collaboration among developing countries on development solutions. It can be enhanced through triangular cooperation, which provides a new avenue for exchange of knowledge and experiences between a developing beneficiary country and an emerging new donor country generally within the same region, supported by an established traditional donor. Emerging new donor countries in the South include the PRC, India, Malaysia, and Thailand in developing Asia; Kenya, South Africa, and Tunisia in Africa; Saudi Arabia in the Middle East; and Argentina, Brazil, and Mexico in Latin America. Traditional donors, usually members of the Development Assistance Committee of the Organisation for Economic Co-operation and Development, include bilateral and multilateral aid agencies. At present, the scale of triangular cooperation is small though it is catching up among southern economies.

Prospectively, countries in the South can learn from each other on various other issues. Sharing best practices in environment-friendly management of solid and hazardous waste, for example, can enhance economic sustainability and reduce health care costs. Similarly, knowledge sharing on farming technology and practices that increase agricultural productivity, as well as on mitigating the impacts of global warming on agricultural production, can improve food security. Knowledge-sharing mechanisms have mushroomed at all levels, but they lack harmonization, with communication and coordination among the layers limited. Building a strong architecture for South–South cooperation calls for systematically sharing these mechanisms.

## C. Macroeconomic and Financial Cooperation

Coordinating macroeconomic policies and institutional measures has become an effective means of international economic cooperation. For example, the G20's actions during the global crisis helped to synchronize fiscal and monetary stimuli across countries. And following the return to growth of the global economy, it is now focusing on how global imbalances are best addressed. The recovery of the world economy underscored the value of South–North macroeconomic cooperation. South–South cooperation, however, is likely to figure more prominently in global rebalancing initiatives. Indeed, proposed solutions cannot focus on PRC–United States bilateral trade balances alone, because many developing Asian economies also have trade deficits with the PRC. Instead, coordinated exchange rate adjustments can mitigate the disruptive effects of, for instance, a unilateral exchange rate realignment on other economies.

An important part of the efforts to encourage increased South–South linkages has been the various measures introduced to strengthen financial cooperation. However, despite the widespread agreement that measures of this kind need to be given priority, moves to strengthen financial cooperation between countries in the South have proceeded only slowly. In many developing countries financial systems are bank-dominated, often by state-owned banks, and government-directed lending policies have left financial markets relatively underdeveloped. Further, the experience of the 1997–1998 financial crisis led to an understandable wariness of the risks of opening capital markets, even in countries that escaped relatively unscathed from the direct impact of the crisis. It is not surprising, then, that programs to encourage the integration of bond and equity markets across the Asia and Pacific region, and more broadly across the developing world, have been approached with caution.

Policy makers are continuing to consider the issues involved in moving to liberalize regional financial markets quite carefully. Experience from the 1980s and 1990s in the region suggested that while financial liberalization promised substantial long-term benefits, in the short term it created vulnerabilities. Asian financial markets remain more integrated with global markets in the industrialized countries than with each other (ADB 2008). Given that financial markets and regulatory structures in the South remain underdeveloped, policy makers in some main countries have reached the conclusion that financial liberalization (both of the domestic financial sector and of regional capital markets) is a process that should be approached with considerable caution. In particular, there is no support in the region for any type of “big bang” approach to financial sector liberalization.

In recognizing the need to strengthen economic linkages to mobilize international finance, two main considerations need to be borne in mind. The first is that for a range of reasons that have received much attention in policy making circles in the Asia and Pacific region, not only are regional capital markets as yet somewhat underdeveloped, but the

phenomenon of capital “flowing uphill” out of developing Asia to the Northern hemisphere financial markets has been a notable feature of international capital flows in recent years. Numerous observers have noted that most Asian funds are intermediated through global rather than regional capital markets and that a surprisingly low share of Asia’s financial resources is invested in Asian assets (Asian Development Bank 2008, 4). One illustration of the way that regional financial markets in the Asia and Pacific region are still on the periphery of international capital flows is reflected in the changes of global portfolio assets over the period 2001–2009. While the total value of global assets expanded by \$24.4 trillion, only \$356 billion (less than 1.5%) of this expansion took place in the Asia and Pacific region. To be sure, given the nature of the problems that emerged in Northern financial markets during this period, there were some advantages for countries in Southern countries to be on the periphery. Nevertheless, looking to the future, policy makers in many countries in the Asia and Pacific region agreed that greater efforts are needed to attract flows of financial capital from Northern hemisphere markets.

Second, it needs to be recognized—because the fact sometimes seems to be overlooked—that the great bulk of investible resources in most developing countries (sometimes over 90%) is raised from *domestic* sources. In fact, domestic savers and investors are the key players in most economies across the world. The attitude of international investors is usually significantly influenced by the behavior of domestic savers and investors (Hill 2004). The implications of this for policy—including measures designed to improve the mobilization of international capital—are that governments in the Asia and Pacific region need to give priority to improving the *overall* saving and investment climate within their countries, rather than designing specific and often expensive packages that provide particular benefits for selected foreign investors.

Nevertheless, despite slow progress, there is much support for the numerous efforts made in East and Southeast Asia in recent decades to improve the operations of financial markets. For ASEAN+3 projects, these consist of setting up of the informal ASEAN Surveillance Process (for example, to monitor and exchange information on financial and economic developments); developing Asian bond markets; adopting the Economic Review and Policy Dialogue process (for exchanging views on global, regional, and country economic development issues as well as on risks affecting regional economies and the policy options); and establishing the multilateralized Chiang Mai Initiative (a \$120 billion reserve pool intended to provide short-term liquidity to supplement existing international financial arrangements).

Two other instances of macroeconomic and institutional cooperation involve countries adopting a common economic policy. Addressing short-term volatility in capital inflows by imposing temporary capital controls can be harmful for a country if it acts unilaterally. But the policy may be feasible if it is executed in an internationally coordinated manner. As mentioned in Part 1 of the *Asian Development Outlook 2011* (ADB 2011b), G20’s plan to establish practical indicative guidelines for assessing a country’s current account

imbalances and set out principles for capital control is a useful start, to which the South, particularly Asia, can provide many lessons. In a similar vein, using the South's savings to fund regional investment projects rather than placing them in safe assets in the North can contribute to global rebalancing. But this requires deepening the regional capital markets and adopting coordinated policies for capital market liberalization.

Fortunately, regional financial institutions in the South have been taking steps to integrate with global markets, develop domestic capital and bond markets, and promote macroeconomic coordination. Many efforts at macroeconomic cooperation are under way in the South. In Latin America and the Caribbean, initiatives include the proposal to establish a cohesion fund (a structural instrument intended to reduce economic and social gaps and to promote regional economic stability) for member states of the Central American Common Market, and the creation of the Mercosur Structural Convergence Fund (that also promotes competitiveness and social cohesion, particularly among economically smaller members).

#### **D. Emerging Patterns of South–South Cooperation**

The architecture of global development cooperation is changing. The World Bank (Puri 2010, 2) estimates that “no fewer than 25 countries have robust South–South cooperation agendas that encompass a wide spectrum of technical and economic engagement.” These programs are generally still modest in terms of financing but the modes of cooperation between South–South countries often differ in significant ways from the traditional North–South patterns of development cooperation programs based in OECD countries.

In recent years there has been a rapid expansion, initially from small levels, of South–South cooperation programs between developing countries (Rana 2007, Kumar 2009). The growth of these programs is documented in detail in the regular reports on South–South cooperation activities issued by the United Nations (United Nations 2003, 2005, 2007, 2009a, and 2009b). Beyond the Asia and Pacific region, countries such as Brazil and South Africa have expanded their programs of development cooperation, especially with nearby countries.

Within the Asia and Pacific region, several of the main ASEAN countries established small programs of cooperation in the 1980s and 1980s. These programs suffered some setbacks after the Asian financial crisis in 1997–1998. Thailand, for example, developed programs of cooperation with several neighboring countries in the Greater Mekong Subregion in the late 1980s. Indonesia initiated programs of South–South cooperation with Africa and other parts of the developing world in the early 1990s (Nitisastro 2010).

Both the PRC and India have developed significant cooperation programs as part of their overall approach to international partnership in recent years. The largest program

appears to be that of the PRC, which is providing assistance to a wide geographical region: to Africa, to a number of countries in Asia, and also to various countries in the Pacific (Brautigam 2009, Pasquini 2010, State Council of the People's Republic of China 2011). The total volume of international aid by the PRC is now approaching total World Bank lending, driven by its national economic goals of economic stability and growth (Box 2). Like the PRC and India, Brazil, Middle Eastern countries, and South Africa play expanding roles. Other partners involved in South–South cooperation in the Asia and Pacific region include Singapore and Thailand. Elsewhere, Chile, Egypt, Mexico, as well as other emerging countries support programs of various sizes.

The extremely competitive position of the PRC and its consequent expanding strength have brought numerous benefits to neighboring emerging countries in the Asia and Pacific region. But the PRC's success in expanding into global markets has also given rise to new dilemmas. On one hand, the rapid development of trade links between the PRC and other parts of the developing world—especially through expanding global supply chains—has supported the emergence of new sources of exports for a significant number of emerging countries including in East and Southeast Asia. The PRC's rapidly expanding need for raw materials has stimulated the development of resource sectors as well, both within the Asia and Pacific region and as far afield as Africa. For example, Indonesia's coal exports, a growing proportion of which are now supplied to the PRC and India, have expanded rapidly in recent years.

On the other hand, some import-competing manufacturing sectors in developing Asian countries have found it difficult to cope in the face of the rapid growth in the supply of low-cost manufactured goods from the PRC into regional markets. And while the recent implementation of the ASEAN-China Free Trade Agreement opens up new opportunities for export-oriented sectors in ASEAN countries, it has also led to protests from some domestic producers in these countries who fear that they will find it hard to adjust to the new, highly competitive environment.

### Box 2: ASEAN–PRC Economic Linkages

ASEAN countries and the PRC have had significant programs of cooperation to strengthen economic linkages for over 20 years. During this period, the PRC has been increasingly active in establishing programs to institutionalize economic cooperation across the ASEAN region, working through direct links with ASEAN as well as through other regional organisations such as APEC, ARF, EAS, and ASEAN + 3. In addition to the ASEAN–PRC Free Trade Agreement (ACFTA) which came into effect in January 2010, recent important areas of cooperation include programs to support activities in the Greater Mekong Subregion (GMS), the Pan-Beibu (Tonkin) Gulf regional cooperation, the Nanning (Kunming)–Singapore economic corridor (NSEC), and infrastructure programs.

- (i) The GMS development program was the first main Southeast Asian regional cooperative mechanism in which the PRC participated. The PRC became increasingly involved in GMS activities during the latter part of the 1990s. The province of Yunnan in the PRC, especially, has engaged in a number of bilateral and multilateral cooperative mechanisms with countries in the subregion under the GMS program. It is planned that the development of the transport network will enable Yunnan Province and the northern Lao People's Democratic Republic (Lao PDR) to gain access to international seaports in Thailand and Viet Nam, provide a continuous land route between the South China Sea and the Andaman Sea, offer access to seaports in northeast Thailand and central regions of the Lao PDR, accelerate the westward flow of goods including to India, and ease the movement of goods and people including tourists in the region.
- (ii) The Pan-Beibu Gulf Economic Cooperation program, proposed in 2006 during the Forum on Economic Cooperation for the Beibu Gulf Rim, represents a relatively recent opportunity for subregional cooperation in East Asia. The focus is on promoting subregional cooperation in the area covering the southern provinces of the PRC, Viet Nam, and the oceanic provinces of ASEAN countries including Brunei Darussalam, Indonesia, Malaysia, the Philippines, and Singapore. There will be a special emphasis on maritime-based cooperation. Improving ocean-going trade, port development, and maritime-related private sector investment will complement the GMS efforts to promote connectivity over land.
- (iii) The development of Nanning–Singapore Economic Corridor (NSEC) has been promoted through the activities of the PBG Economic Cooperation Forum. The proposed corridor will begin in Nanning in the PRC and run through Ha Noi, Vien Chang in Lao People's Democratic Republic, Phnom Penh, Bangkok, Kuala Lumpur, and Singapore by railway, expressways, waterways, and air routes. The vision is for participating countries to develop infrastructure such as roads and rail to form a transnational economic corridor. The corridor was initiated in 2006 after a consensus was reached by the PRC and ASEAN members.
- (iv) In all of these programs there is an emphasis on infrastructure development to expand connectivity between the southern provinces of the PRC and the ASEAN region. In Lao PDR, for example, the government announced plans to develop a Lao PDR–PRC high-speed railway starting during 2011. Official discussions are also under way for the high-speed rail link to extend through Thailand to the border of Malaysia. The cost of the investments is put at over \$20 billion. In turn, there are plans for the rail to Malaysia to link up with a Malaysian-funded high-speed rail link between Kuala Lumpur and Singapore, although details are still under consideration. Plans for the Pan-Beibu Gulf program involve port developments, while there are also extensive plans for the development of the road network in the GMS region.



## **V. Policy Implications of the Changing Global Architecture: The Role of Governments and Institutions**

Experiences in times of economic crisis have strengthened the impetus to improve cooperation. For example, following the events of the Asian financial crisis in 1997–1998, there was a widespread view in some regional countries that the Bretton Woods institutions had failed to provide effective support. More recently, moves to strengthen South–South linkages have received considerable impetus in the wake of the 2008–2009 global financial crisis. In the space of just a few years difficult fiscal problems have emerged in a number of major northern countries that have seemingly transformed the budgetary outlook in the foreseeable future. Major northern countries which, in the past, have often been critical of emerging countries for failing to exercise appropriate fiscal discipline now find themselves facing budget deficits of up to 10% of GDP. Further, national debt levels are now forecast to rise markedly in the coming years, and a number of the northern majors are effectively relying on international capital markets to fund short-term budgetary needs. Moreover, the difficult financial and economic strains that have been exposed across the European Community, as successive European countries (Greece, Ireland, and other Southern European nations) have faced severe financial problems, have shown how hard the process of regional integration can be.

### **A. Regional Institutions and Economic Communities**

Just as European nations after World War II decided that moves toward establishing an economic common market and, ultimately, a European Community would bolster common economic security, leaders of the six original ASEAN members in 1967 decided that the potential economic and social benefits of establishing an effective regional organization would be considerable. The idea that emerging nations share common interests that could be reflected in regional cooperative arrangements between them and through other South–South links has been echoed in many discussions in recent years. There is now a rich, and sometimes confusing, architecture of institutions that support the expansion of economic linkages between emerging countries. These exist at the multilateral, plurilateral, regional, and bilateral levels.<sup>4</sup>

Haggard (2011, 1) argues that for many years, “a dominant puzzle was the relative paucity of regional institutions in the Asia-Pacific when compared to Europe or even

<sup>4</sup> The two intermediate levels between multilateral and bilateral economic relations are at the regional and plurilateral level. There are distinct criteria for joining in regional and plurilateral activities (both of which are exclusive in the way that a purely multilateral activity cannot be). Participation in regional activities is based on geography. However in the case of plurilateral activities, criteria for participation are based on other grounds that may be objective (in the way that only oil-producing nations may be members of OPEC) or subjective (such as countries that choose to join, and are admitted, to institutions such as regional development banks). For a discussion, see Woolcock (2007).

the Western Hemisphere.” However, more recently, there has been “an explosion of institution-building that has produced overlapping arrangements.” Haggard sees at least five institutional complexes becoming influential in recent years in the area of regional cooperation in the Asia and Pacific region: ASEAN; ASEAN + 3 (the PRC, Japan, and the Republic of Korea); East Asian Summit; APEC; and numerous regional trade arrangements.

The growing awareness of the advantages of strengthening regional institutions underpins the growth of South–South economic relations. Trends in the area of economic integration and economic cooperation activities indicate that approaches have been highly flexible and pragmatic. Rather than moving toward any grand design of regional architecture, policy makers in the region have adopted a cautious “building bricks” approach. One commentator recently described the East Asian integration as the continuing agglomeration of many frameworks and agreements, rather than the creation of a common “grand design” for the future (Okamoto 2011). ADB (2008, 19) summarized the patterns of cooperation in the region as “typically pragmatic and cautious”. For example, integration of regional capital markets faces the challenges of different country laws and regulations governing financial markets and the high risks in the financial sector, especially in light of unexpected systemic failure in financial markets in North America and Europe. Similar bottlenecks to change exist in nearly all other main sectors in Southern economies.

There are frequent suggestions that new organizations be established. The expansion of regional institutions, especially at the South–South level, is likely to be constrained by the restricted capacity of governments in the region to participate effectively in the work of more than a limited number of international bodies at any given time. Further, the expanding role of global institutions such as the G20 is imposing additional demands on the capacity of governments.

## **B. Responses from the North**

The responses of traditional northern donors to proposals to expand South–South cooperation have been varied. Within the Asian region, Japan has been one of the most active of the traditional OECD donor countries in promoting discussions about regional architecture and South–South links (Orr 1990). Japanese agencies (such as JICA, JBIC, the Department of Foreign Affairs, and other sectoral bodies) have sponsored many conferences, study programs, and joint research activities involving participants from the Asian and Pacific developing countries as well as Africa and Latin America (such as the Tokyo International Conference on African Development).<sup>5</sup> Efforts to support South–South programs have been included in some other OECD country programs as well (German GTZ programs are one example). However most other traditional donors have not yet moved to make significant allowance for South–South programs in their own activities.

<sup>5</sup> For details, see Ministry of Foreign Affairs of Japan (2011).

The important 2010 Quadrennial Diplomacy and Development Review from the US, for example, does not emphasize the role of South–South activities within the overall US program. But certainly US policy recognizes the growing importance of regional players in the Asia and Pacific region in an explicit way. Thus one main challenge for traditional OECD donor countries in the next decade will be to adjust their bilateral programs to allow for expanded South–South activities in developing countries (Manning 2006).

### **C. Strategies for Southern Countries**

It is clear that developing countries have much to gain from designing programs to strengthen South–South linkages. But while some linkages can be expected to emerge without official support, there is a strong case for governments to develop policy approaches designed to encourage market-driven expansion of South–South linkages. An approach to policy for individual countries might ideally be designed to encompass commitment at the individual country level, pro-market programs, adequate resources to support initiatives, policies to promote overall international economic relations, and stronger linkages with regional and multilateral agencies. Governments need to approve roadmaps to provide guidance to implementing agencies to encourage them to expand South–South linkages. In practice, effective internal teamwork within governments will be needed to ensure a whole-of-government approach because usually a range of agencies and departments will be involved.

While it is true that markets in the developing world often do not operate well, market forces are very powerful. The operations of markets are very influential in determining the allocation of resources in most developing countries and ultimately have a dominating influence on the growth of productivity and overall growth rates. Under these circumstances, the most effective approach to policy is to design programs that are consistent with the operations of markets and that aim to improve the way in which markets work, rather than limit the way in which markets operate. Examples of pro-market approaches in the context of strengthening South–South linkages include discussions about harmonizing trading arrangements, conferences to discuss improvements to financial markets, and support for programs to establish networks between sectoral experts in such areas as agriculture, health, industrial technology, nontraditional security issues, and so on.

The establishment of regional networks across emerging countries will be greatly assisted by the work of effective regional institutions. Regional institutions, in turn, can only operate effectively if individual member countries provide adequate resources to support proper participation in these institutions. Individual member countries therefore need to prioritize their participation in the international system and indicate clearly which

organizations they have the resources to support and which, for the time being, will need to be given lower priority.

## VI. Conclusions

In recent years rapid growth in emerging economies, notably Brazil, the PRC, and India, has significantly outpaced growth in the advanced countries. This growth has translated into a significant drop in poverty rates across the South. Driven by market forces and private initiatives, the accelerating expansion in South–South trade and investment has fostered a sense of optimism that has underpinned regional growth. For example, the brisk pace with which the PRC has developed its trade and investment partnerships with Sub-Saharan Africa has strongly contributed to growth in the area. Official initiatives such as the India–Africa Summit have helped as well. Given their strong links with the North, countries of the South have the potential to help pull the global economy on to a stronger growth path. But faced with large domestic and regional challenges, the overall contribution they can make to overcoming global imbalances will be constrained for some time to come.

Looking ahead, stronger South–South linkages across the Asia and Pacific region will promote flows of people, goods, and ideas, and will provide opportunities for mutual benefits in learning and trade. Closer regional integration will shorten travel times, create easier access to markets, increase manufacturing activity and productivity, and generate employment. This in turn will boost demand in neighboring areas that will feed back into expanded economic linkages and stimulate spillovers, thus encouraging growth. This virtuous cycle can be facilitated by reducing distance-related costs or spatial frictions (World Bank 2009).

Improvements in connectivity facilitate more effective operations of both markets and governments. Investments in hard, physical connectivity include expansion in traditional infrastructure sectors such as transport, power, water, and telecommunications. Across much of the developing world, despite large investments in recent decades, the physical infrastructure needed to support modern connectivity is still in short supply. Investments to improve soft connectivity are just as important. There are many laws, regulations, standards, and even professional understanding and social practices that hamper official and private sector linkages across the South. Close cooperation is needed between governments, the private sector, and nonprofit institutions to reduce barriers hampering the expansion of effective networks between emerging countries necessary to underpin growth.

In addition to structural constraints that hold back growth, underdeveloped financial systems and limited access to international finance present major barriers to sustained development as well. The per capita GDP gap between least developed countries (LDCs) and developed countries has continued to widen in recent decades. Unlike their fast-growing emerging partners, LDCs continue to find it hard to compete in global export markets. They often face rising trade deficits and high indebtedness which, in turn, encourage a dependency on foreign aid. Expanded South–South cooperation can help alleviate these constraints. Proactive policy reforms and regional policy coordination is needed to help tap the potential of South–South economic relations to support the growth of LDCs. The more prosperous countries of the South could offer LDCs duty-free and quota-free access to their markets to facilitate better integration and to include them in the process of growth across the South.

The task of strengthening effective pro-market policies in developing countries remains daunting. On one hand, there is general acceptance on the part of policy makers that the broad thrust of policy to promote economic linkages should be pro-market. On the other hand, in many countries there is skepticism, including in policy making circles, about reliance on pro-market policies. It is true that reliance on markets can bring problems. It is also true that there are numerous market failures in developing countries of the Asia and Pacific region, and that the capacity of governments across the region to intervene effectively in markets is often limited. Thus, while as a general rule it is agreed that the aim of policy should be to work with markets and not against them, it is also agreed that states will need to improve the way they work with the private sector to ensure that markets operate well.

More effective pro-market policies need to be supported by more effective governments as well. The task of harmonizing the “soft infrastructure” of laws, regulations, and practices across the region is urgent but difficult. Numerous studies point to the economic burden that a myriad of conflicting and confusing regional regulations cause for business.<sup>6</sup> Efficient and well-operating markets that deliver satisfactory results to citizens cannot operate unless governments can guarantee a reliable enabling environment for markets to operate within. Part of the challenge of improving the operation of markets, therefore, is to improve the role that governments play as regulators in the markets. More effective regulation (which sometimes calls for closer regulation, sometimes less) across a wide range of markets (domestic and international goods and services markets, financial markets, labor markets, infrastructure sectors, and so on) is thus necessary.<sup>7</sup>

Looking ahead, closer South–South cooperation can be a powerful force for development and change in emerging countries. With the changing architecture of South–South economic relations, the challenge is to convert the potential into practical programs that deliver worthwhile results. The Asia and Pacific region is well-placed to contribute

<sup>6</sup> These problems are documented, for example, in the regular World Bank “Doing Business” reports.

<sup>7</sup> See the comments by Sheng (2006), one of the Asia and Pacific region’s long-experienced policy makers, on challenges to reform in financial markets in the region.

to promoting security and prosperity in other parts of the emerging world. The potential gains for the region through stronger South–South cooperation include the following:

- (i) At the broadest level, prospects of strengthening mutual economic security and stability by more effective collective action, by reducing dependence on markets and institutions in northern industrialized countries, and by diversifying economic and institutional linkages.
- (ii) A stronger voice in global decision-making processes, especially in new institutions such as the G20, with increased influence to promote international policy discussions in such areas as macroeconomic policy, trade, investment, environment, and labor policies.
- (iii) Opportunities to promote growth and productivity by improving market-oriented linkages with other emerging regions for the exchange of trade, investment, labor, and technology.
- (iv) Opportunity to build more effective regional institutions to manage cross-border public goods policies in nontraditional security sectors such as health, environment, law enforcement, and safety.
- (v) Establishment of programs of cooperation for the exchange of information, knowledge, and technology to improve both hard and soft connectivity across the emerging world in such sectors as infrastructure and the harmonization of policies across many sectors.

Appendix Table 1: Geographical Distribution of Portfolio Investments, 2001 (billion US\$)

	Investment from																			Total
	Belgium	Bermuda	Canada	France	Germany	Hong Kong, China	Ireland	Italy	Japan	Luxembourg	Netherlands	Norway	Spain	Switzerland	United Kingdom	United States	SEFER	Other		
Investment to	Central Asia	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
	East Asia	1	1	6	3	3	16	4	4	14	12	14	1	0	3	42	89	0	22	
	Pacific	0	0	0	0	0	0	0	0	0	2	1	0	0	0	3	8	0	2	
	South Asia	0	2	2	1	1	7	1	1	7	4	2	0	0	1	19	36	0	19	
	South East Asia	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
	Australia	1	1	2	4	3	19	3	2	19	8	4	1	0	2	22	55	6	17	
	Canada	2	1	0	10	5	5	4	3	22	11	3	2	0	6	15	211	8	11	
	Cayman	4	7	2	21	12	20	4	18	133	20	3	1	9	13	46	71	0	33	
	France	30	2	9	0	74	3	15	44	64	59	45	5	20	28	131	144	56	48	
	Germany	32	2	7	86	0	5	33	60	111	150	68	10	33	62	130	134	146	96	
	Ireland	4	3	1	12	20	0	0	16	26	12	3	1	2	5	19	32	3	18	
	Italy	42	1	3	74	81	0	25	0	34	47	44	8	24	7	91	48	25	27	
	Japan	3	2	15	17	10	9	10	12	0	27	12	11	4	11	94	198	75	32	
	Luxembourg	57	1	1	31	103	8	2	106	46	0	8	2	7	74	22	13	3	41	
	Netherlands	23	1	6	84	87	3	14	53	46	54	0	3	14	38	72	149	17	39	
	Spain	15	1	3	43	39	0	14	12	13	24	17	4	0	4	31	40	7	20	
	Switzerland	3	0	5	12	23	0	4	6	7	17	11	2	3	0	30	77	3	16	
United Kingdom	12	6	24	69	73	31	84	34	110	60	41	12	15	25	0	513	41	139		
United States	29	119	153	117	108	39	146	74	490	178	142	27	17	83	309	0	748	322		
Other	22	11	21	127	148	40	69	107	145	135	68	13	25	129	228	485	145	165		
Total	280	162	261	710	792	206	433	552	1,290	821	486	101	173	491	1,304	2,304	1,282	1,066		

Source: International Monetary Fund, Coordinated Portfolio Investment Survey Data, available: [www.imf.org](http://www.imf.org) (accessed 11 January 2011).

Appendix Table 2: Geographical Distribution of Portfolio Investments, 2009 (billion US\$)

		Investment from																		Total
		Belgium	Bermuda	Canada	France	Germany	Hong Kong, China	Ireland	Italy	Japan	Luxembourg	Netherlands	Norway	Spain	Switzerland	United Kingdom	United States	SEFER	Other	
Investment to	Central Asia	0	0	0	0	0	0	0	0	0	1	0	0	0	0	6	2	0	1	10
	East Asia	2	11	19	30	11	174	30	3	45	102	25	15	4	5	115	377	3	156	1,127
	Pacific	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	10	0	0	13
	South Asia	0	0	2	7	1	7	0	1	5	31	4	3	2	1	17	67	0	177	324
	South East Asia	0	2	5	8	5	16	10	1	19	35	13	7	0	2	30	118	1	82	357
	Australia	5	7	12	26	20	41	35	4	108	41	21	12	4	17	91	276	32	59	812
	Canada	4	22	0	26	26	8	23	3	52	37	11	14	2	20	41	540	31	29	890
	Cayman	6	41	12	61	29	162	35	5	404	57	21	5	18	32	117	373	0	115	1,493
	France	109	13	26	0	272	18	120	149	156	285	174	43	75	103	202	357	351	196	2,649
	Germany	55	12	23	338	0	12	102	112	203	360	164	58	50	106	258	289	474	277	2,893
	Ireland	38	6	4	137	161	13	0	75	51	73	50	12	31	29	193	120	25	165	1,182
	Italy	69	3	7	337	188	1	150	0	76	174	95	21	71	3	131	79	73	91	1,569
	Japan	3	4	40	104	17	18	44	4	0	65	22	26	1	17	164	405	191	75	1,198
	Luxembourg	149	2	2	143	436	22	47	265	81	0	73	11	47	142	77	94	7	246	1,842
	Netherlands	109	8	10	292	228	13	57	91	84	141	0	20	58	69	165	233	98	130	1,807
Spain	52	2	7	285	230	1	73	41	38	97	71	32	0	5	90	113	70	79	1,289	
Switzerland	4	2	18	24	31	3	19	6	23	42	16	19	3	0	64	305	13	49	638	
United Kingdom	31	20	51	244	202	90	347	70	183	223	104	85	51	63	0	958	152	500	3,372	
United States	47	300	320	218	199	92	442	119	919	434	350	150	51	145	841	0	1,866	814	7,308	
Other	94	16	49	599	452	120	267	168	400	494	194	117	171	317	456	1,236	430	809	6,387	
Total	777	472	609	2,879	2,508	811	1,802	1,116	2,846	2,693	1,407	651	636	1,076	3,058	5,953	3,818	4,050	37,160	

Source: International Monetary Fund, *Coordinated Portfolio Investment Survey* Data, available: [www.imf.org](http://www.imf.org) (accessed 11 January 2011).



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**About the Paper**

Shikha Jha and Peter McCawley survey the expanding South–South international economic linkages in recent decades and note the growth in the areas of trade and investment relations; and in various other forms of economic relationships as well such as through labor markets, technology, policy coordination, and regional cooperation. Looking ahead, the prospects are that the changing architecture of international economic relations that South–South cooperation reflects will continue to gain in importance and will contribute to growth across the developing world. Policies that support both pro-market linkages and effective government partnerships will help South–South cooperation to grow further.

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ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than \$2 a day, with 903 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

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Asian Development Bank  
6 ADB Avenue, Mandaluyong City  
1550 Metro Manila, Philippines  
[www.adb.org/economics](http://www.adb.org/economics)  
ISSN: 1655-5252  
Publication Stock No. WPS113914



Printed in the Philippines