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CHINA'S SOUTH-SOUTH COOPERATION: OPPORTUNITIES AHEAD

September 12 marks the United Nations (UN) South-South Cooperation (SSC) Day. Celebrated on December 19, 2004 for the first time, the SSC Day was later changed to September 12 to commemorate the adoption of the 1978 Buenos Aires Plan of Action (BAPA) for Promoting and Implementing Technical Cooperation among Developing Countries, which provided the first global framework for SSC. Today, almost four decades since the adoption of the BAPA, SSC has become a significant source of financing and global knowledge exchange. China, as the largest developing country in the world, has been actively engaged in SSC and has become an increasingly important partner for the rest of the developing world.

Global trends in SSC

The 1955 Bandung Conference was the first major event that saw the strengthening of the relationship among developing countries, establishing core principles that still underpin SSC today: respect for national sovereignty, equality, non-interference and mutual benefits. Although SSC is not only limited to economics but covers technology, society, culture, peace and security and environment, economic cooperation remains the focus of SSC, which includes trade, foreign direct investment (FDI) and development cooperation. Today, the South exports more to other developing countries than to developed countries.[i] FDI flows to developing economies, most of which comes from the South, accounted for 52 percent of global FDI inflows in 2013.[ii] A number of emerging economies have also become major development cooperation providers, such as China, India, Mexico, Brazil, South Africa, Turkey and the Gulf States, not only because of their increasing financial support to other developing countries, but also the relevance of their development experiences for mutual learning.

China's SSC: mutual benefits and challenges

For China, cooperation with other developing countries serves as the "foundation" in its foreign relations, and China emphasizes the principle of mutual benefits and "win-win" in its policy discourse. Over the past decades, China's SSC has seen significant growth in trade, FDI and development cooperation, which has not only brought about benefits to China and partner countries, but also presented some challenges.

➢ *Trade*

South-South trade between China and other developing countries has been growing rapidly over the past decades, promoting the exports and economic growth of both China and other developing countries. In 2013, China accounted for 12.5 percent of developing countries' total merchandise exports and 15.7 percent of total imports, up from 5.8 percent and 6.9 percent in 1995 respectively. Africa, which hosts the majority of the world's least developed countries (LDCs), enjoyed an even more significant expansion of trade relations with China: 15.9 percent of Africa's total exports went to China's in 2013, up from 1.2 percent in 1995, largely driven by fuel exports. China also provided a growing share of Africa's total imports, from 2.6 percent in 1995 to 14.5 percent in 2013, consisting largely of manufactured goods.[iii]

As the largest market for LDCs' exports since 2008,[iv] China has taken further steps to promote trade with developing countries. In July 2010, China began to grant tariff-free treatment to 60 percent of goods exported from LDCs and expanded this preferential treatment to 97 percent of all exports, starting from January 2015. Between 2010 and 2012, 90 large- to medium-scale infrastructure projects in Africa were related to trade.[v]

China's rise as the world's largest trading nation has led to trade imbalances with other developing countries and regions. For instance, China's demand for raw materials has led to Latin America's increased dependence on commodity exports which account for 73 percent of the region's total exports to China.[vi] In May 2015, China signed a series of cooperation agreements with the region which may represent a shift from this commodity trade-based relationship to other areas such as infrastructure investment, energy and technology.

➢ *Foreign Direct Investment*

FDI represents a critical source of financing for countries' long-term economic development as it can provide the much needed capital, physical infrastructure and jobs. FDI between China and other developing countries has surged, especially since China's "going global" policy was initiated in 2000. Although most of the FDI flows between China and the rest of the developing world came from the wealthier East Asian economies, most notably Hong Kong, other regions account for significant increases, such as Southeast Asia, Latin America and the Caribbean and Oceania. For example, while China's total outward FDI grew 16-fold from 2003 to 2012, the increase was more than 40-fold for all African economies, and almost 50-fold for Southeast Asia.[vii] China is also benefiting from increasing inward FDI from other developing countries. For example, Samoa, a small island country in the Pacific region, had accumulated larger FDI stock in China (US$19,928 million) than Germany had by 2012 (US$19,762 million).[viii]

China's FDI in developing countries is increasingly diversified. Contrary to the common perception that China is primarily attracted to natural resources of African countries, research shows that, between 1998 and 2012, few investments were made in the natural resource sectors, and most projects were in services with a significant number in manufacturing.[ix]

While China's FDI has become an increasingly important source of financing for other developing countries, it does not automatically translate into equitable economic development. There is scope for Chinese investment to generate more benefits for local communities if China and the partner country can jointly ensure infrastructure building, technology and skills transfer, favourable business environment, alignment with government policies and strong linkages with local economies.

- *Development cooperation*

China has become one of the major development partners in the world. During the three-year period between 2010 and 2012, China provided a total of US$14.41 billion to 121 countries, more than half of which was allocated to LDCs. China's development cooperation focuses largely on infrastructure, which has increased from a negligible amount to 20 percent among major sources of external finance for Sub-Saharan Africa's infrastructure.[x] Recently, China has signed a Memorandum of Understanding with the African Union (AU), planning to improve transportation networks across the continent. This could contribute substantially to Africa's regional integration.

Human resources development is an emerging focus of China's development cooperation. Over the past six decades, China has provided training to more than 12 million participants from partner countries. Debt relief has also been an important instrument of China's development cooperation. By the end of 2014, China had exempted government debt worth of 30 billion RMB owed by 50 heavily indebted poor countries (HIPCs) and LDCs.[xi]

While the growing volume of China's concessional loans provides important financing for developing countries, there is growing concern about debt sustainability. A World Bank report finds that since 2010, multilateral creditors' share of official lending to Sub-Saharan Africa fell while bilateral lending increased, driven mainly by China, contributing to the region's rising long-term debt.[xii] However, there is indication that China will increase concessionality of its lending in the future, which may alleviate the debt burden of HIPCs.[xiii]

Opportunities ahead

China's SSC in trade, investment and development cooperation has brought mutual benefits for both China and other developing countries but also posed some challenges. China's current economic transformation and future policy orientations will have a significant impact on the global economic structure and development landscape, and important implications for other developing countries.

Firstly, developing countries will continue to surpass many of the developed countries to become China's major trading partners. However, under China's current "new normal" characterized by economic slowdown, China is increasingly turning to the domestic market. China's falling demand for commodity products and increased demand for consumer goods and services will alter developing countries trade patterns with China, eventually resulting in their repositioning in terms of trading specializations vis-à-vis China.[xiv] China's economic transformation will impact those resource-rich countries that depend heavily on China's demand for commodities, but can prompt them to diversify their economies. Developing countries can also take this opportunity to develop their manufacturing sector and tap into China's domestic consumption market.

Secondly, China's FDI to and from other developing countries will continue to increase and diversify. As the Chinese economy seeks to shift away from low-cost manufacturing to be driven by technology and innovation, China is increasingly exporting its surplus productive capacities to countries with lower production costs, and move up the global value chain. This could expose other developing countries to new knowledge and technology from China, and provide local people with jobs and training opportunities, contributing to the industrialization process of the countries and regional integration with the much needed capital and human resources.

Finally, in the context of the newly adopted 17 UN Sustainable Development Goals, the Government of China is committed to strengthening international development cooperation, tackling challenges and sharing development opportunities, achievements and experience under the framework of SSC.[xv] Progress has been identified in the area of working with partner countries to share development cooperation information.[xvi] Given the huge infrastructure deficit in Asia, Africa and Latin America, there is ample scope for them to take advantage of China's increasing development cooperation to fill the infrastructure gaps and meet their national development needs.

These opportunities become all the more critical in the larger context of China's global strategy, including the "One Belt One Road" strategy, the Asian Infrastructure Investment Bank and new cooperation agreements with Africa and Latin America. All of these will provide necessary political support, cooperation frameworks and sources of financing for boosting China's SSC with these developing regions. Whether or not developing countries can fully benefit from China's initiatives and mitigate potential challenges depends primarily on their capacity to engage China both individually and collectively. For example, political commitment from developing countries' top leadership and strong institutional capacities are prerequisites for carrying out necessary economic and social reform, ensuring job creation and skills transfer and creating an enabling business environment for foreign investors. Chinese actors also have an important role to play in terms of better identifying and targeting partner countries' needs.

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[ii] UNCTAD, *Global Investment Trends Monitor*, No. 15 (28 January 2014). Available from: http://unctad.org/en/PublicationsLibrary/webdiaeia2014d1_en.pdf
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[vii] China's outward FDI to Africa grew from US$0.5 billion in 2003 to US$21.7 billion in 2012, and FDI to Southeast Asia increased from US$0.6 billion in 2003 to US$28.2 billion in 2012. UNCTAD FDI statistics on China. Available from: http://unctad.org/Sections/dite_fdistat/docs/webdiaeia2014d3_CHN.pdf
[viii] Same as note vii.
[ix] Chen Wenjie, David Dollar and Heiwai Tang, "Why is China Investing in Africa? Evidence from the Firm Level", *Brookings Institution* (August 2015). Available from: http://www.brookings.edu/~/media/research/files/papers/2015/08/why-china-is-investing-in-africa/why-is-china-investing-in-africa.pdf
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[xii] World Bank Group, *International Debt Statistics* 2015 (Washington DC, 2015). http://data.worldbank.org/sites/default/files/ids2015.pdf
[xiii] According to one of our Chinese government partners at a seminar held at UNDP China in October 2014.
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[xv] Same as note v.
[xvi] United Nations Development Programme in China, "Demand-Driven Data: How Partner Countries are Gathering Chinese Development Cooperation Information" (Beijing, July 2015). Available from: http://www.cn.undp.org/content/china/en/home/library/south-south-cooperation/demand-driven-data---how-partner-countries-are-gathering-chinese.html