SOUTH CENTRE

International development cooperation in a changing scenario

Summary of the presentation by Dr. Carlos Correa, South Centre Executive Director, at the Emerging Development Partners' (EDP) Meeting in Bali on 11 June 2024

The ongoing changes in the world economy and its geopolitical configuration require a repositioning of international development cooperation. The world economy was largely dominated by the United States at the end of the 2nd World War, with a share of about 50% of global gross domestic product (GDP). The US Dollar became then the main currency for reserves, financial transactions and international trade. Key technological advances also took place in the USA, such as electronics followed by microelectronics, and then modern biotechnology. The USA also became the principal military power, only partially counterbalanced by the Soviet Union. While a process of decolonization took place in the 2nd half of the 20th Century, Europe succeeded in the integration of its national economies ultimately leading to the establishment of the European Union. Japan in the meantime consolidated a strong industrial base, including dynamic sectors such as electronics and microelectronics. However, neither the Euro nor the Yen displaced the USD as the dominant currency, nor the US military supremacy challenged.

A well succeeded technological catching-up, however, allowed Japan and later South Korea to challenge the US position in some markets. The 'voluntary' export restrictions imposed by the USA on Japan in the areas of cars and semiconductors illustrated some of the weaknesses of the US economy, whose manufacturing sector growingly became less competitive vis-à-vis locations with lower labor costs. The shift by US companies of manufacturing to third countries (while research and design activities were retained in the US) largely explains the US structural trade deficit.

As regards to the Global South, as a result of the oil crisis of 1973 and the collective power organized through Organization of the Petroleum Exporting Countries (OPEC), developing countries were able to get the adoption of the United Nations (UN) Declaration on the New International Economic Order (NIEO) and its Program of Action which, *inter alia*, called for international code of conducts on transfer of technology and transnational corporations (which were never finalized and adopted).

As the weight of the US declined in the world economy (albeit not its military supremacy) to around 25% of the global GDP, Germany, on the one hand, and Japan, China, South Korea, India and other Asian countries increased their participation in global GDP. Currently, Asia accounts for 60% of global GDP. China, in particular, was able to overcome the so-called 'middle income countries technological gap' as it has dramatically increased (research and development) R&D investment (which reached 2,4% of its GDP) and made enormous progress in many fields, such as solar technology, speed trains, 5G, face recognition, artificial intelligence, aerospace, electric vehicles, etc.

Overall, developing countries' weight in the global economy increased dramatically since the adoption of the NIEO, accounting now for about 42% of the global GDP, with South-South trade becoming the largest share of world trade, and a participation of around 22% in global R&D (almost four times than at the end of the last century). South-South Cooperation (SSC) has also expanded substantially. Some weaknesses and vulnerabilities still remain, notably due to an anachronic international financial architecture and the persistent dominance of the USD, an unbalanced international investment regime, lack of progress in the World Trade Organization (WTO) in respect of issues of critical importance for those countries (notably agriculture), the rise of trade protectionism, massive subsidies (such as for the green economy and the semiconductor industry) and industrial policies in developed countries aimed at reshoring industries and preserving their technological edge. Policies for screening foreign direct investments on the grounds of a broad concept of 'national security', bans for the export of technology to China, and the pervasive application of unilateral coercive measures are also manifestations of developed countries' efforts to keep their competitive advantages.

In this context, expanding South-South and Triangular Cooperation (SSTrC), as a complement and not a substitute for North-South cooperation, is essential, particularly as Official Development Assistance (ODA) never reached the 0,7% of the GDP target (it only accounts for 0,34% of GDP) and an increased portion of ODA is spent in developed countries themselves to address refugees' needs and the Ukraine crisis rather than in developing or least developed countries (LDCs). Military expenditures, in contrast, have continued to grow, reaching an all-time high of US$ 2,4 trillion in 2024. Only a fraction of this expenditure will be needed to address poverty and hunger around the world.

The Buenos Aires Plan of Action (BAPA+40) represented a major opportunity to assess the evolution and prospects of SSTrC. While the UN Office on South-South Cooperation is active in promoting SSTrC, and the Working Group on SSC regularly considers its evolution, there is no mechanism to set a SSTrC agenda which is rather normally aligned with the foreign policies of countries engaging in such cooperation as providers of services or goods.

Can the international cooperation agencies contribute to shape the multilateral system? They can do indirectly, by supporting developing countries in participating in key debates and processes and in developing the narratives that reflect their interests. While there is a tendency of such agencies to focus on hands-on projects, addressing policy issues may have a broader and more sustainable impact.

For example, developing and LDCs cannot depend for their development on foreign aid, financial support or foreign direct investment (FDI). They need to mobilize their domestic resources, notably by a taxation system that is suitable for the digital economy, taxes the super-rich and introduces adequate corporate tax rates. In this regard, the Organisation for Economic Co-operation and Development (OECD) 'Two Pillar Solution', including the proposed multilateral agreement on Amount A, presents many gaps and flaws in terms of developing countries' interests. The call for a UN Convention on Tax Cooperation is a major development with promising impacts if developing countries can effectively participate in its design. Recent OECD estimates point out that up to USD 378 billion are annually lost due to tax evasion and avoidance through tax havens and other mechanisms.

Other examples where active policy interventions are necessary are the delayed reform of the international financial architecture, which is a critical objective for developing countries, the reform of the international investment regime with negotiations taking place at the United Nations Commission on International Trade Law (UNCITRAL) Working Group III, and a decisive action against illicit financial flows including those arising out from price manipulation in trade and for the recovery of assets still retained in developed countries. There are 131 pending cases, 10 of them for up to 20 years and another 10 cases for more than 20 years. Similarly, developing countries need to adopt policies on trade and environment and face the impact of Carbon Border Adjustment Measures that penalize their exports, ironically in many cases by polluting industries that were earlier shifted from developed countries. Access to technology, particularly for a green transition, and addressing the impact of the digital divide (around 2,7 billion people still have no access to Internet) and of the deployment of artificial intelligence (AI) are other important policy issues that need to be addressed.