

DESIGNING FOR IMPACT

SOUTH-SOUTH TRADE AND INVESTMENT



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Designing for Impact

South-South Trade and Investment

About the paper

The growth of South-South trade and investment has attracted the interest of funders and governments as a pathway to sustainable economic development.

This report finds that South-South projects must be flexible and encourage adaptation of easily replicable solutions and technologies, while bridging information and perception gaps in the Global South. The report provides insights drawn from interviews with International Trade Centre staff and case studies. It serves as a guide to design and implement effective South-South trade and investment programmes, with a focus on knowledge exchange and technology transfer, and based on a sustainable and inclusive approach.

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Foreword by the International Trade Centre

The international community gathered in Buenos Aires in March 2019 to renew its commitment to South-South trade and investment at the Second High-level Conference on South-South Cooperation, known as BAPA+40. For the first time ever, the outcome document adopted by the conference recognized South-South trade and investment as integral to achieving Agenda 2030.

South-South trade and investment are increasingly contributing to global growth and development. This means more must be done to showcase the value of promoting South-South. This report shows that South-South trade and investment cooperation can produce tangible results, especially by improving learning and adopting solutions and technologies that are adaptable to local circumstances.

This report shows development actors how to design and carry out successful South-South trade and investment programmes. The publication draws from the International Trade Centre's (ITC) extensive experience promoting South-South trade and investment through flagship programmes such as Supporting Indian Trade and Investment for Africa and the Partnership for Investment and Growth in Africa.

Insights from interviews with ITC staff and analysis from case studies in implementing South-South programmes in the agribusiness and light manufacturing sectors have been distilled into a practical guide for effective project management, trade and investment promotion, and facilitation of technology and knowledge transfer. Here is the key: in a South-South context, projects must be flexible and given space to determine which solutions work, while bridging information and perception asymmetries between Southern actors.

We are navigating challenging times. The COVID-19 pandemic has affected the global health and economic systems. The ultimate objective of the Sustainable Development Goals is to improve people's lives. This can only be achieved with economic transformation and, by extension, trade and investment cooperation. As 2030 draws closer, governments, institutions and development agencies must redouble their efforts to meet the targets set by the Sustainable Development Goals.

This report is timely. It helps development actors answer critical questions: why promote South-South trade and investment? How can we, as development actors, design and execute responsible and inclusive programmes that support the growth and resilience of micro, small and medium-sized enterprises in the Global South?

It is only by learning from doing and through collective action that we can produce solutions that address the most pressing challenges of our times.



Dorothy Tembo
Executive Director a.i.
International Trade Centre

Foreword by the Institute of Development Studies

As countries across the world grapple with the effects of COVID-19 and look towards ‘post-pandemic’ transformations, and as we enter the final decade of the UN Global Goals, fresh thinking and action in trade, investment and development have never been more welcome. In this, there are many opportunities to look to, learn from and strengthen South-South trade and investment flows.

Such flows are already growing. South-South trade stood at 52% of developing country exports in 2018. By 2025, companies from the South will generate one-third of global foreign direct investment outflows. There is growing evidence of the major opportunities provided, not just to enhance economic development, but also to generate positive impacts for social justice and sustainability, helping countries achieve many of the Sustainable Development Goals. Important questions concern not just the quantity of trade and investment, but quality, in terms of which actors and relationships are involved, and who gains or loses.

While learning is accumulating around such issues, programmes that support South-South trade promotion and catalyse investment flows towards inclusive, sustainable developmental outcomes are still relatively small. They are not easily or widely replicated, and few are scalable.

Moreover, historically, South-South trade and investment programmes have been critiqued for shortcomings related to design and implementation, lack of systematic follow-up and institutional capacity. Targeted support to make these partnerships work better to achieve development impact and scale-up has therefore become a priority of many donors and governments. Yet gaps remain in how to achieve this in practical terms.

This report, part of a close collaboration between ITC and the Institute of Development Studies, helps fill these gaps. Through accessible guidelines and case studies, it focuses on the often-neglected questions of practical design and implementation. It shows why these practical issues are so imperative for effective programmes aiming at more inclusive and sustainable outcomes that can be scaled up.

The report combined the experience, expertise and values of our respective organizations. In the case of the Institute of Development Studies, it also aligns closely with our new 2020–2025 Strategy ‘Transforming Knowledge, Transforming Lives’. I am delighted to see it published, and hope it will be of value to everyone concerned with the vital issue of how South-South trade and investment can contribute to a better world for all.



Professor Melissa Leach
Director, Institute of Development Studies

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Acronyms

Unless otherwise specified, all references to dollars (\$) are to United States dollars, and all references to tons are to metric tons.

ITC	International Trade Centre
MSMEs	Micro, small and medium-sized enterprises
PIGA	Partnership for Investment and Growth in Africa
SITA	Supporting Indian Trade and Investment for Africa

Executive summary

Development programmes that promote South-South trade and investment can play a major role in addressing economic challenges in the Global South.¹ As COVID-19 will undoubtedly aggravate these challenges, South-South trade and investment will be critical in supporting businesses. South-South programmes can identify and support opportunities for sustainable change, drive innovation in local contexts and share knowledge of best practices, emphasizing solidarity and collective interdependence.

This paper offers a practical guide for designing and implementing South-South trade and investment programmes. Two objectives, crucial to the 2030 Agenda for Sustainable Development, provide the basis for this analysis. They are: (a) identifying the main challenges and opportunities in South-South trade and investment; and (b) drawing lessons for effective design and implementation of programmes that contribute to sustainable development impact. These lessons are based on analysis of case studies from International Trade Centre (ITC) projects in the spice, textile and leather sectors.

While the Global South is growing, the benefits of South-South trade and investment are still limited in terms of product and sector reach as well as for micro, small and medium-sized enterprises (MSMEs).

ITC addresses these challenges by promoting business links between emerging and low-income countries in the Global South to create employment and income generation opportunities. Its portfolio of South-South programmes includes the Supporting Indian Trade and Investment for Africa project and the Partnership for Investment and Growth in Africa.

There has been limited analysis of existing South-South trade and investment programmes, and how best to design and implement such programmes for development impact. This created a general perception that South-South development programmes are not easily or widely replicated, and that few are scalable.

This reports fills a gap in development literature by showing how to make the partnerships underlying these programmes work better so they achieve development impact, which is now a priority for many donors and governments.

The guide, which draws from case studies in interventions in the agribusiness and light-manufacturing sectors, is summarized below. These case studies show that South-South trade and investment programmes should consider a pilot approach to determine the feasibility of projects. Such an approach builds flexibility into a project by allowing learning even from interventions that may not produce the expected results. Pilots also help project partners manage and minimize risk.

Above all, strong institutional partnerships will ensure the sustainability of project results, as one South-South success helps lead to others.

- Best practice for design and implementation includes:

For project management:

- Addressing perception gaps through on-the-ground engagement. This requires communication tools that overcome linguistic barriers, promote cultural understanding and build trust between Southern business partners.
- Using flexible management practices such as pilot projects to demonstrate feasibility, allow evolution and scale up.
- Peer-to-peer exchanges to strengthen sectors.

¹ The Global South is defined as least developed countries, transition economies and developing economies.

For trade:

- Regular attendance at business-to-business meetings and trade fairs is necessary to create visibility and promote sustainable trade links. To adapt to COVID-19, virtual business-to-business meetings can replace travel to trade fairs.
- Encouraging the marketing of businesses as a regional group or bloc for enhanced visibility. This approach is particularly useful for smaller countries or when a sector is still nascent.
- Exposing businesses to Southern technologies and best practices to encourage upgrading and value addition.
- Supporting producers in price discovery, which is particularly important in Southern contexts where market opportunities are unknown.

For investment:

- Developing detailed plans for services and outreach, e.g. separate plans to attract and facilitate investment and to provide aftercare service support. Programmes must consider where support starts and ends.
- Identifying and targeting investors through measures that are specific to a particular source country. To do this:
 - Conduct outreach through local sector associations;
 - Look subregionally and target medium-sized and small cities;
 - Target investors with long-term trading or business relationships in the region.
- Understanding that investment decisions are based on both business instinct and commercial factors.
- Realizing that few businesses will invest without support from their long-term primary buyers.
- Developing bespoke information products and services for investors.
- COVID-19 adaptation: Targeting investment promotion in essential and emerging sectors (such as agribusiness, pharmaceuticals and healthcare) and ensuring alignment with the priorities of partner countries.

For technology and knowledge transfer:

- Systematically identifying gaps, such as potential adaptation of machinery or demand for technology.
- Tailoring training and learning opportunities to bridge gaps in capacity or skills. This is most successful when coupled with concrete buyer or investor interest.
- Organizing visits to model businesses to understand best practices and learn from peers.
- Facilitating access to finance to ensure a smooth technology transfer for MSMEs.

CHAPTER 1 SOUTH-SOUTH TRADE AND INVESTMENT MATTER

The Global South is growing

Partners in the Global South are trading with one another more than at any other time in history.² South-South trade grew from \$2.6 trillion in 2007 to about \$4.3 trillion in 2018, representing roughly 52% of developing country exports in 2018³ and 28% of total world trade in 2017.⁴

Foreign direct investment flows into Southern economies have also grown steadily over the last three decades. In 2018, China, India, Singapore, Kenya and South Africa were all among the top 10 foreign investors in Africa by number of new projects.⁵

By 2025, firms from the South will generate one-third of global foreign direct investment outflows – particularly those to the manufacturing and service sectors of other Southern countries.⁶ This translates to access to bigger external markets, skills, technology and capital. Large and growing populations coupled with rising per capita incomes, resource endowments and a lower regulatory burden make the Global South an attractive investment region and trading partner.⁷

More opportunities to move up South-South value chains

Southern value chains provide opportunities with lower barriers for market entry.⁸ These opportunities emerge by concentrating on specific tasks for functional upgrading⁹ (increasing the skill content of activities) or making it easier to diversify and introduce more advanced goods into less diversified sectors.¹⁰ While North-South value chains provide companies with better prices and/or higher volumes, South-South value chains make it easier for enterprises to move up the value chain, increasing their competitiveness.¹¹

More opportunities for networking and technology transfer

Advances in technological capabilities in some Southern countries have created more opportunities for South-South technology transfer.¹² These countries benefit by importing cost-effective and adaptable technologies from other Southern partners that are better-suited to their particular circumstances. Countries

² Horner, Rory (2016). A new economic geography of trade and development? Governing South-South trade, value chains and production networks. *Territory, Politics, Governance*, vol. 4, No. 4, pp. 400–420. Available at <https://doi.org/10.1080/21622671.2015.1073614>.

³ World Trade Organization (2019). *World Trade Statistical Review 2019*. Available at https://www.wto.org/english/res_e/statis_e/wts2019_e/wts2019_e.pdf.

⁴ United Nations Conference on Trade and Development (2018). *World Investment Report 2018: Investment and New Industrial Policies*. Geneva: United Nations.

⁵ United Nations Conference on Trade and Development (2018). *Forging a Path Beyond Borders: The Global South*. UNCTAD/OSG/2018/1. Geneva: United Nations.

⁶ *Ibid.*

⁷ Jha, Shikha and Peter McCawley (2011). South-South economic linkages: an overview. ADB Economics Working Paper Series, No. 270. Manila: Asian Development Bank.

⁸ South Centre (2019). Key issues for BAPA+40: South-South cooperation and the BAPA+40 subthemes. Research Paper No. 91.

⁹ Mohanty, S.K., Franssen, Loe and S. Saha (2019). *The Power of International Value Chains in the Global South*. Geneva: ITC.

¹⁰ Amighini, Alessia and Marco Sanfilippo (2014). Impact of South-South FDI and trade on the export upgrading of African economies. *World Development*, vol. 64, pp. 1–17.

¹¹ Mohanty, S.K., Franssen, Loe and S. Saha, *op. cit.*

¹² Hanlin, Rebecca and Raphael Kaplinsky (2016). South-South trade in capital goods – the market-driven diffusion of appropriate technology. *European Journal of Development Research*, vol. 28, No. 3, pp. 361–378.; Kim, Hyuk-Hwang, Lee, Hongshik and Joonhyung Lee (2015). Technology diffusion and host-country productivity in South-South FDI flows. *Japan and the World Economy*, vol. 33(C), pp. 1–10; Dahi, Omar S. and Firat Demir (2017). South-South and North-South economic exchanges: Does it matter who is exchanging what and with whom? *Journal of Economic Surveys*, vol. 31, No. 5, pp. 1,449–1,486.

in the South no longer have to rely solely on those in the North for technology or as trading partners, because more goods are now available in the South at competitive prices and in quantity.¹³

South-South trade and investment promotion offers exchanges of knowledge and technology that differ from linear, traditional conceptions of technology transfer. The mechanisms are:¹⁴

- Mutual learning from peer-to-peer interactions;
- Training of the local workforce by lead companies;
- Knowledge transfer in a narrow range of tasks;
- Value chain pressure to adopt international standards;
- Learning by hiring skilled managers from other countries or through joint ventures;
- Firm clustering, such as through sector associations;
- Imitation of or learning through suppliers (within or outside the country).

Challenges remain: Lack of information, perception gaps, limited capacity

Despite growth in South-South trade and investment, the macroeconomic and political volatility of many Southern countries increases investor risk and unpredictability. Numerous challenges exist, including:

- Potential investors and trade partners face information and perception asymmetries.¹⁵
- For recipient countries, there is limited productive and operational capacity, low access to finance and weak institutional support.¹⁶
- Firms struggle to adopt more efficient production processes or move up the chain into higher value-added functions. This is due to gaps between locally available technologies and what are known as best practices.¹⁷
- Companies in the Global South also suffer from insufficient absorptive capacity¹⁸ – evident in low human capital and especially the low share of skilled workers. This severely hinders technology adoption and productivity.¹⁹
- Enterprises compete with cheap manufactured goods in the domestic market and indirect competition in export markets. This is coupled with limited local sourcing of labour and inputs.²⁰
- Firms in both source and recipient countries are highly vulnerable to risks from economic failures and shocks, as well as crises such as COVID-19, and they lack contingency plans and resources.

¹³ Banga, Rashmi and Amrita Saha (2016). *India's Participation in Global Value Chains*. Commonwealth Secretariat, London.

¹⁴ De Marchi, Valentina, Giuliani, Elisa and Roberta Rabellotti (2017). Do global value chains offer developing countries learning and innovation opportunities? *European Journal of Development Research*, December, pp. 1–19.

¹⁵ Perception asymmetries may include general mistrust about new markets or the use of unknown technologies.

¹⁶ Demir, Firat and Chenghao Hu (2016). Institutional differences and the direction of bilateral foreign direct investment flows: are South-South flows any different than the rest? *The World Economy*, vol. 39, No. 12, pp. 2,000–2,024; United Nations Conference on Trade and Development (2005). Enhancing South-South trade and investment finance. Background note by the UNCTAD secretariat. United Nations; Gold, Robert and others (2017). South-South FDI: is it really different? *Review of World Economics*, vol. 153, No. 4, pp. 657–673.

¹⁷ Saha, Amrita, Guariso, Daniele, Castro, André and Ben Shepherd (2020). 'Technology demand and the role of South-South trade in Tanzania's textiles and apparel: Examining linkages with India.' International Growth Centre.

¹⁸ This is the ability to identify, assimilate and exploit knowledge, a key enabling variable for technology transfer, leading to innovation and economic growth, thus inducing self-learning over time.

¹⁹ Saha, Amrita, Castro, André, Carreras, Marco and Daniele Guariso (forthcoming). Trade, Technology and Absorptive Capacity: Firm-level evidence from Tanzanian Textiles & Apparel. UNU-WIDER study.

²⁰ Fantu Cheru (2016). Emerging Southern powers and new forms of South-South cooperation: Ethiopia's strategic engagement with China and India, *Third World Quarterly*, 37:4, 592-610, DOI: 10.1080/01436597.2015.1116368.

Recognizing these challenges and supporting efforts to address them is a stepping stone towards increased South-South and North-South linkages.

Targeted programmes can address challenges

The International Trade Centre has promoted South-South programmes since its creation, gradually expanding its trade-only focus to include investment. In the 1970s, ITC pioneered initiatives for regional trade expansion in Asia and Latin America.²¹ Although ITC has refined its tools since then, its fundamental approach has not changed: facilitating South-South business links primarily by addressing perception asymmetries and providing the information companies need to do business in new markets.

The current ITC portfolio includes Supporting Indian Trade and Investment for Africa (SITA) and the Partnership for Investment and Growth in Africa (PIGA). Other initiatives are in the pipeline.

The objectives under each are:

- **Supporting Indian Trade and Investment for Africa:** Funded by the United Kingdom Department for International Development, SITA works to accelerate trade and investment links with knowledge and technology transfer between India and five countries in East Africa (Ethiopia, Kenya, Rwanda, Uganda and the United Republic of Tanzania). The goal is to improve competitiveness in select sectors through alliances with institutional partners and businesses from India.
- **Partnership for Investment and Growth in Africa:** PIGA is part of Manufacturing Africa, a flagship programme of the United Kingdom Department for International Development that facilitates foreign direct investment with high development impact into selected African countries. PIGA aims to contribute to job creation and sustainable growth in Ethiopia, Kenya, Mozambique and Zambia by helping these countries attract foreign direct investment, specifically Chinese investment, in the agroprocessing and light manufacturing sectors. ITC implements the programme in cooperation with the China Council for the Promotion of International Trade and the China-Africa Development Fund.

The outcome document adopted by the Second High-level United Nations Conference on South-South Cooperation in March 2019 recognized the importance of South-South trade and investment towards achieving the Sustainable Development Goals.²² This report specifically focuses on outcomes related to the following Sustainable Development Goals:

- 1 – No poverty
- 2 – Food security, improved nutrition and sustainable agriculture
- 5 – Achieve gender equality and empower all women and girls
- 8 – Decent work and economic growth
- 9 – Industry, innovation and infrastructure
- 17 – Partnerships for the goals

Report methodology and outline

This report is a practitioner guide for designing and implementing South-South trade and investment programmes. Effective, inclusive and sustainable design and implementation are at the very heart of its agenda.

As development agencies, donors and governments prioritize their commitments to South-South cooperation following BAPA+40, the report provides guidance through learning from best practices, on how to effectively design and implement future South-South trade and investment projects.

²¹ ITC (1998). *Organizing Buyer-Seller Meetings: A tool for Promoting Trade Among Developing Countries*. Geneva: United Nations.

²² United Nations (2019). Buenos Aires Outcome Document of the Second United Nations High-level Conference on South-South Cooperation. Draft resolution submitted by the president of the General Assembly. New York: United Nations.

This guide is based on three methods of analysis: a structured review of the existing literature on South-South trade and investment and secondary data analysis; thematic analysis of semi-structured interviews with ITC staff; and selected case studies of ITC work in facilitating South-South trade and investment, with ‘knowledge and technology transfer’²³ between Southern partners.²⁴

The guide will be divided into rationale, design, implementation and sustainability, as defined below:

- **Rationale:** Rationale will address the primary question of why to design and implement development programmes, from the point of view of donors focused on South-South trade and investment.
- **Effective design:** Design elements will be linked to the way incentives are developed between stakeholders and how risk management is planned. Effective programme design requires implementers to identify and create the right incentives for collaboration and to build trust between the right partners.

Best practice for enabling implementation: Implementation will deal with current best practice on how: interventions are taken forward and executed; trade and investment is enabled with knowledge and technology transfer, aided by the exchange of new knowledge between Southern actors; and risk is managed for specific interventions.

²³ The term ‘knowledge and technology transfer’ is used as an umbrella term in this report for both the exchange and transfer of knowledge and technology.

²⁴ Details in Appendix I of the paper.

CHAPTER 2 DESIGNING SOUTH-SOUTH PROGRAMMES

This chapter explores the design of South-South trade and investment programmes based on experiences from ITC's current and growing portfolio of interventions to promote South-South trade and investment. These include flagship programmes such as Supporting Indian Trade and Investment for Africa and the Partnership for Investment and Growth in Africa.

When creating such programmes, donors and implementers are faced with questions such as: Where to begin? How to ensure effective design and implementation to deliver quality results? Thematic analysis²⁵ of interviews with International Trade Centre staff, beneficiaries and partners reveals lessons for South-South trade and investment programmes in three key areas:

- Defining the **rationale** for a South-South programme;
- **Designing** an effective South-South programme;
- Best practice for enabling successful **implementation**.

Designing your programme

When making the case for a South-South trade and investment programme, various factors need to be considered. Common questions that donors face early on include: which countries to work with; whether to focus purely on trade promotion or include investment promotion; how can technology transfer be encouraged; and whether to take a sectoral approach.

Choose a geographic focus

The first step is determining the country or region of focus, to be able to make an informed assessment and build a coherent programme. The source country provides new investments, technology or knowledge, and the recipient is the partner receiving the support. It is worth noting that most South-South programmes will show clear benefits for both source and recipient countries, and at times this general division may blur.

Factors to consider when weighing up possible partner countries for a South-South programme include:

- **What drives economic partnerships between the source and recipient countries?** Examples include existing trade links, preferential market access, appropriate technologies, historical ties, geographic proximity, bilateral and regional trade and investment agreements, and trade and investment flows.
- **What are the likely challenges of these partnerships?** Examples include high trade costs, a complex business and investment climate, high production costs and foreign languages.
- **Are there benefits to taking a regional focus?** Examples include working with several recipient countries in a region to increase the potential for scale and tapping into a larger regional market, increasing the chance of spillover effects and wider positive impact.
- **Could other source countries be a better fit?** Examples include a larger Northern market with greater economic benefits for recipient country businesses and closer political ties to another country with complementary economic conditions.

Checklist: South-South focus

The factors listed above can help guide geographic selection. The following checklist can help a donor or implementer decide whether to develop a full-scale South-South trade and investment programme, or a

²⁵ Thematic analysis is a method of studying qualitative data; applied to interview transcripts.

South-South component within a larger programme, or to drop the geographical focus altogether. Some programmes may focus exclusively on trade or investments.

As a general rule, a programme must have at least one of the following elements to warrant a South-South trade and investment focus:

- **Potential for South-South trade opportunities:** Determined by, for example, export potential assessments, use of preferential trade agreements or integration into Southern value chains.
- **Potential for South-South investment opportunities:** Determined by, for example, investment potential assessments or the *World Investment Report*.
- **Government strategies for South-South trade and investment:** Determined by, for example, government commitments to promoting trade and investment with Southern countries (e.g. India-Africa Forum Summit and the Chinese Belt and Road Initiative), industrialization policies or sectoral focus (which will help identify priority countries in the design phase) or preferential trade agreements.
- **Development similarities – complementarity in technology, know-how and investment needs:** Determined by, for example, similarities in institutional capacity, which could provide a strong case for knowledge exchange; availability of appropriate technologies; or a match in a sector-level capacity gap in the recipient country with a sector-level capacity strength in the source country.
- **A basis for mutuality:** Beneficial business or knowledge exchange opportunities for both source and recipient countries. The most sustainable interventions are those where both parties can benefit.

The rationale will also need to demonstrate:

- **Programme additionality:** Determined e.g. by a persistent low use of South-South opportunities; inadequate information and challenges that prevent stakeholders from taking advantage of opportunities in the South; or lack of donor/government programmes that promote South-South business links.
- **Impact on the Global Goals (especially Sustainable Development Goals 1, 2, 5, 8, 9 and 17):** Determined by interventions that leverage Southern capacities and opportunities for jobs, income creation and poverty reduction; and that reduce possible negative externalities (social and environmental) from promoting South-South trade and investment links.

Implementing partners: Choose wisely

Donors will need to identify an implementing partner before moving to design. Based on lessons learned, the following list of characteristics is highly advisable for a programme implementer:

- **Neutrality** – a lack of political or financial interest in the business links created.
- **Deep understanding of both source and recipient countries'** political and economic context, and, ideally, a presence in both countries.
- **Technical understanding of trade and investment** processes and the capacity to identify sector-level market opportunities and challenges.
- **Flexibility** to respond quickly to the changing demands, opportunities and risks that will arise in a South-South programme.

Effective design requires implementers to use market intelligence, create the right incentives for collaboration to build trust between partners and make a plan with the support of partners and stakeholders.

While the steps may be common to other development programmes, certain considerations are particular to a South-South programme context (Table 1).

Table 1 Adapt project design to South-South contexts

Step	Outcome	South-South best practices
Stage 1: Analysis using market intelligence to design a programme based on an underlying rationale	<p>Long list of sectors.</p> <p>Identify whether to focus on investment or trade or both.</p> <p>Identify geographic focus (countries, regions).</p> <p>Understand the wider context of intervention.</p> <p>Develop a theory of change²⁶ for the intervention.</p>	<p>Tools: Export or investment potential assessments can provide a starting point for a list of sectors, countries and approaches as well as needs and demand assessment (of companies, institutions and policymakers) in both recipient and source countries.</p> <p>Best practice: A mix of quantitative and qualitative data provides a first reality check on the underlying rationale. This is important, as data availability and information asymmetry are particular challenges in Southern countries.</p>
Stage 2: Bring stakeholders together for a reality check on the rationale and analysis	<p>Finalize list of sectors and decide trade or investment focus.</p> <p>Identify possible beneficiaries.</p> <p>Identify possible institutional partners.</p> <p>Encourage early buy-in from stakeholders.</p> <p>Adaptation of theory of intervention.</p>	<p>Tools: Participatory stakeholder consultations (this can be combined with a value chain roadmap or strategy formulation). Institutional assessment and investor/buyer targeting.</p> <p>Best practice: A participatory approach helps (a) build buy-in, (2) balance priorities across business, governments and institutions, (3) give voice to stakeholders currently excluded from South-South opportunities and (4) mitigate political economy factors (monopolistic interests). This is particularly important in South-South programmes, as interventions often occur in markets with a few dominant players interested in keeping the status quo (in both source and recipient countries).</p> <p>Investor/buyer targeting can help identify champions or anchor investors that could lead others to follow suit. This is especially important in South-South contexts where no business linkages exist and a new programme will need to establish precedent and build trust by encouraging first movers.</p>
Stage 3: Make a plan with stakeholder support	<p>Clearly defined workplan including prioritized pilots, investor targeting and risk mitigation.</p> <p>Alignment with government strategies.</p> <p>Support governments to include South-South trade and investment perspectives in strategies.</p>	<p>Tools: A value chain roadmap/strategy (Box 1) that aligns with national strategies can aid the design and implementation of interventions. Risk mitigation strategy.</p> <p>Best practice: Involving potential investors or buyers (from Southern countries, in particular) for feedback in a roadmap development process can provide a reality check on investment or export targets or incorporate best practices from Southern partners.</p> <p>A strategy to deal with potential risks – whether political risks, sudden changes in trade or ‘behind the border’ measures – is important in South-South contexts where both source and recipient countries are likely to face volatility and unpredictability. This includes designing safety nets for vulnerable stakeholders such as farmers or small businesses that cannot afford losses from a high-risk pilot project or sudden market shocks (e.g. COVID-19 pandemic).</p>

Source: Authors' compilation.

²⁶ A theory of change is a comprehensive description of how and why a desired change is expected to happen in a particular context.

Box 1 Sector strategies identify priorities

In the Supporting Indian Trade and Investment for Africa programme, sector strategies and roadmaps set out the actions required of institutional partners, governments and industry over a five-year period. Ten roadmaps were developed in textile and apparel, leather, pulses and sunflower oil for Ethiopia, Kenya, Uganda and the United Republic of Tanzania. Eight of these have been adopted by the countries' industry or government as their national roadmaps.

National priorities were identified during a broad engagement phase that included facilitated conversations between all stakeholders to align incentives. The strategies set achievable goals, outline responsibilities and encourage accountability.

An inclusive and consultative approach to sector development enables the identification of trade and investment priorities along the value chains. These priorities can guide South-South programmes on targeting investors and promotion.

Source: Analysis of ITC work.

Partners and beneficiaries: Choose wisely

A value chain roadmap exercise, which included a stakeholder consultation, was a great icebreaker! Indian companies met 30–40 African industry stakeholders. The industry stakeholders got an outside (Indian) perspective on their roadmap's trade and investment objectives and the Indian companies got a 360 degree view of the industry.

-International Trade Centre SITA staff

Early in the design phase, the programme partners will need to decide whether to take a sector-wide approach covering all stakeholders from government to small-scale producers, or to have a deeper focus on one or two beneficiary groups (Table 2 and Figure 1).

Apart from ensuring buy-in, programmes must involve stakeholders early on, as many opportunities may not be obvious to a programme designer. In many cases, the best choice may not be a high-tech or expensive solution, but a simpler one, which is may not be documented. The best way to select appropriate technologies and know-how is to involve the beneficiaries or users themselves, as they know what makes the most sense for their needs.

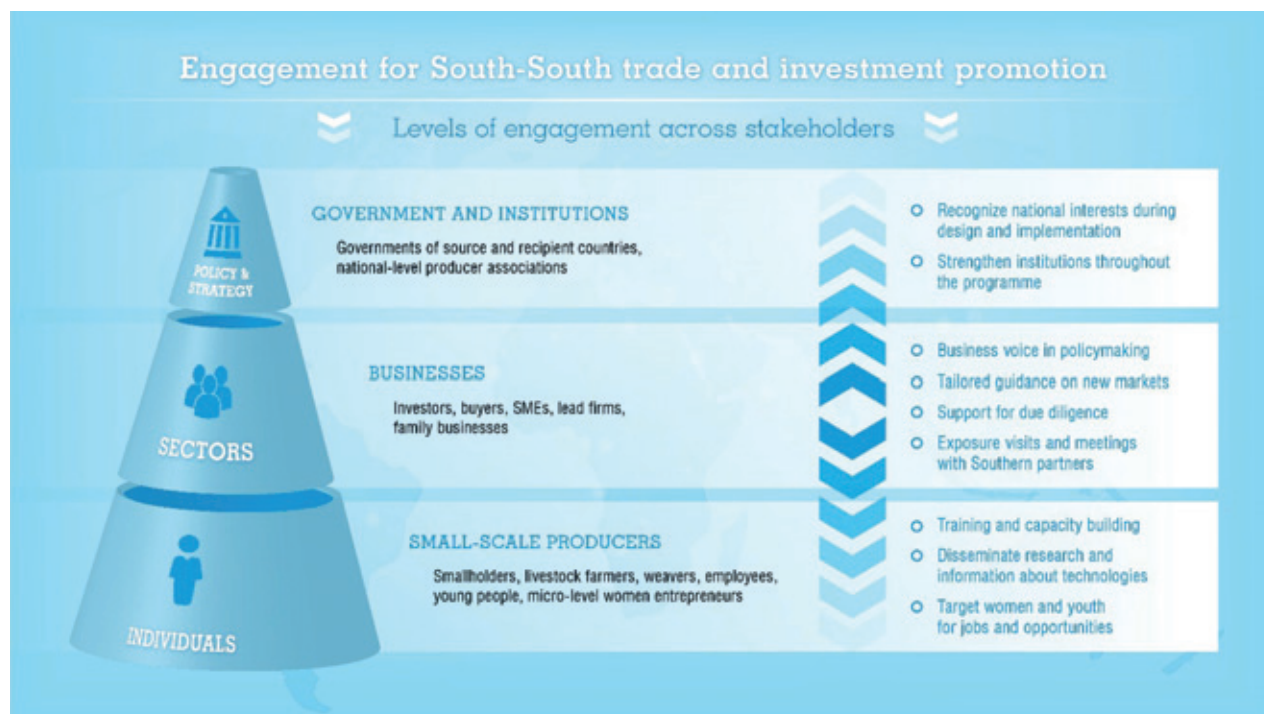
It is important to communicate carefully and clarify where programme support begins and ends, particularly regarding business transactions. In investment promotion programmes, for example, this would include deciding with partners whether to limit support to investment promotion or extend it to aftercare. Such decisions need to be made in partnership with the relevant local institutions, especially as their support is required to ensure the continuation and sustainability of longer term investments.

Table 2 South-South opportunities benefit policymakers, firms and institutions

Stakeholder	What South-South opportunities can offer
Government	<ul style="list-style-type: none"> • Chance to work with strategic partners – whether for economic, research or political purposes • Peer-to-peer learning • Identify regulatory or policy changes that can enhance Southern trade and investment • New financing opportunities
Organizations such as industry associations (institutional partner links)	<ul style="list-style-type: none"> • Peer-to-peer learning from institutional partners • New services and markets for members
Investors/buyers	<ul style="list-style-type: none"> • New markets including first mover²⁷ advantage • Outsourcing production processes
Micro, small and medium-sized enterprises	<ul style="list-style-type: none"> • Product and market diversification – in some instances, easier market entry (than Northern markets) and greater opportunity for upgrading • Peer-to-peer learning (for instance, leather tannery case study)
Small-scale producers (i.e. farmers, micro entrepreneurs)	<ul style="list-style-type: none"> • Appropriate technologies • Learning best practices (e.g. Good Agricultural Practices) from other Southern countries. Benefit is that farmers there are likely facing similar challenges and opportunities (for instance, chilli case study)

Source: Authors' compilation.

Figure 1 Programmes should be inclusive and tailored to beneficiaries' needs



Source: Authors' illustration.

²⁷ A first mover is a business that gains a competitive advantage by being the first to market with a product or service.

Designers should consider the composition of the implementing team. Team members should ideally:

- Understand how to talk to businesses in both recipient and source countries;
- Know the local business environment – speak the local language(s) (this is especially important in South-South contexts, because the implementing partner often acts as a cultural translator);
- Inspire trust;
- Include a mixed skill set. For example, team members should include trade and investment professionals and those with sector expertise (such as in agriculture or light manufacturing).

CHAPTER 3 LEARNING FROM CASE STUDIES



Interviews with International Trade Centre staff and external beneficiaries (25 in total) in April–September 2019 revealed several best practices to ensure that interventions lead to value added trade, investment, technology transfer and inclusive development. This chapter presents case studies and draws from these experiences a broad sets of recommendations to implement successful South-South trade and investment programmes.

Case studies in spices

ITC interventions in the spice sector help East African smallholders strengthen production and value-added trade. They also support Indian firms to analyse and tap into new investment and sourcing opportunities in East Africa (see Appendix III).

Four spice interventions are summarized below.

Rwandan chilli – establish feasibility through pilots

Although Rwanda has a suitable geography and climate to cultivate many spices, the sector is still in its infancy. ITC's engagement in the Rwandan spice sector started in early 2016 (Figure 2). At that time, the country was growing small amounts of chilli, primarily for domestic consumption.

India is one of the leading producers, consumers and exporters of premium-quality chilli in the world, but it depends on imports to satisfy domestic demand. Indian producers are looking outward to meet high demand for chillies and find new sourcing and production destinations.

ITC is working to connect the two markets. The first step was to conduct a feasibility study and trial on spice production in Rwanda that ITC presented to various Indian companies, the Government of Rwanda and a few Rwandan farmers.

Following the trial, the project was expanded to include other farmers who were supported to grow different hybrid chilli varieties in different parts of the country. They were given seeds, shown different cultivation practices and trained by Indian agronomic experts.

An investor and I travelled across Rwanda and he said, 'There is so much potential – fertile land, good weather and potential for more high-value crops. I am willing to invest here.' Knowing how approachable government officers in Rwanda were, was an added bonus.

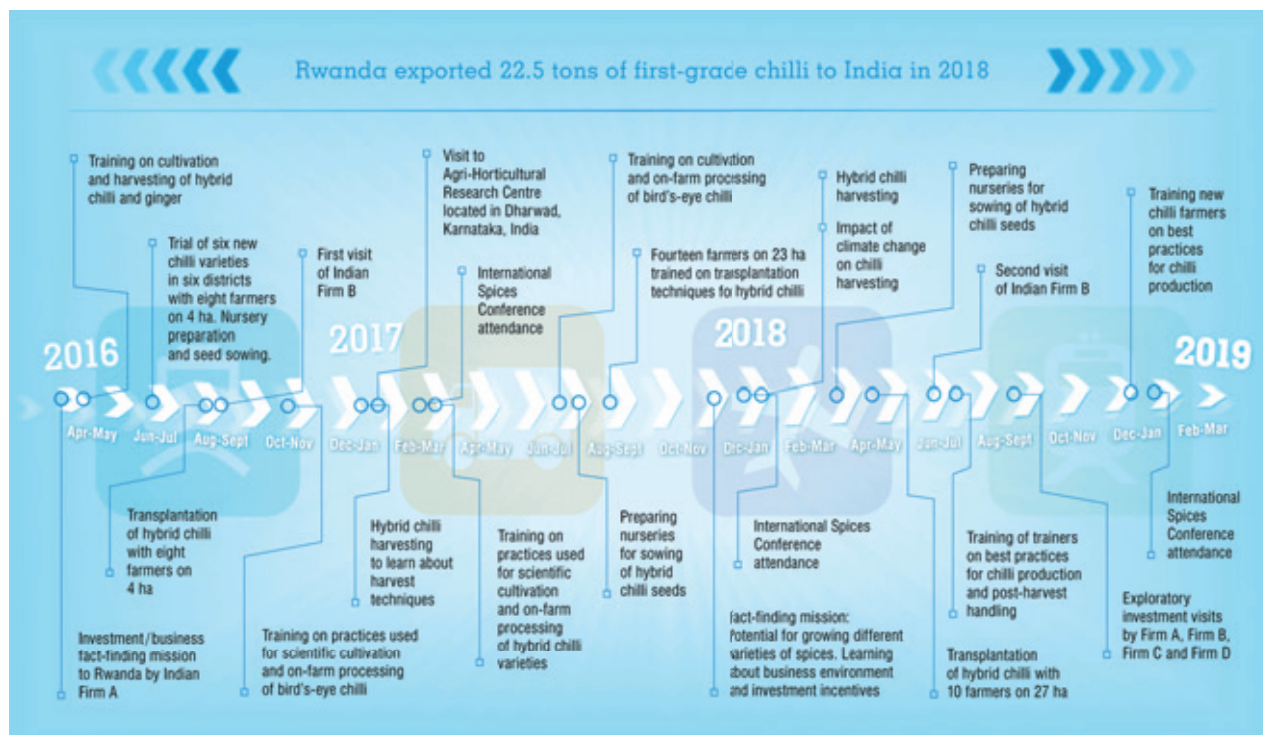
-International Trade Centre staff

In addition, various Indian buyers agreed to purchase the entire harvest for the current season (provided their quality requirements were met) at \$1 per kilogram of dry chilli. They also invested in a warehouse in Rwanda and export logistics to India. The buyback arrangements help protect smallholders against the high risk that is typical of agricultural interventions.

A visit to India was organized to help the farmers understand the opportunities and challenges of diversifying into the spice sector, as well as the necessary cultivation and post-harvest handling practices. Model farmers were

able to see best practices first-hand, and to interact with Indian spice farmers. This helped build buy-in and commitment with key actors before wider trainings were organized for farmers in Rwanda.

Figure 2 Rwanda exported 22.5 tons of first-grade chilli to India in 2018



Source: Authors' illustration using ITC data.

Results: Chilli in Rwanda

- Four Indian spice firms have piloted cultivation of new high-value chilli varieties with Rwandan farmers for export to India. If the pilots prove scalable, the companies have a long-term interest in investing in agroprocessing. Despite initial setbacks, production under the pilots has increased 26-fold since 2016, covering a total of 104 hectares in 2019. As of February 2020, five Indian spice companies were involved in the pilot, covering a production area of 198 hectares.
- Rwandan hybrid chilli was exported to India for the first time in 2018 (22.5 tons, worth \$22,926), with a further 36.8 tons in 2019.
- One youth entrepreneur diversified into chilli oil, following a setback in the first year when the first chilli crop did not meet the quality specifications of the Indian buyer. The strategy to upgrade into chilli oil has become a profitable venture, with the entrepreneur signing two successful deals with foreign buyers to export the oil.
- Thanks to the Rwandan chilli pilot, ITC was in a good position to introduce one of the key Indian business partners to a Kenyan tea producer. The interaction led to a partnership with her company diversifying into herbs (rosemary). The Indian company, and others involved in the chilli pilot, are now looking beyond chilli and beyond Rwanda at new business opportunities in herbs and spices in Kenya and the United Republic of Tanzania.

In 2017, I went to the World Export Development Forum and met an expert working for the International Trade Centre. In April 2019, I sent a sample of rosemary that I was growing to a potential Indian buyer for testing and match with international standards. It matched! Now we're starting a pilot with our farmers to produce rosemary.

-Kenyan business recipient of investment

Ethiopian ginger – flexibility is vital to manage risk

Some 80,000 farmers in Ethiopia depend on ginger cultivation. A 2011 outbreak of bacterial wilt, a plant disease, reduced ginger yields nearly to zero, resulting in an export ban and putting farmer livelihoods at risk.

In India, ginger cultivation is widespread. Indian farmers have developed practical solutions to deal with bacterial wilt that have not eradicated the disease, but have allowed farmers to manage good yields in spite of it.

In 2016, ITC supported the development of a value chain roadmap for the spice sector. During discussions on the roadmap, Ethiopian stakeholders strongly voiced the need for ginger rehabilitation, and requested support to deal with the bacterial wilt problem.

The programme team designed a pilot that replicated the tailored package of practices that had worked in India. The pilot was to be tested in one region in collaboration with an Ethiopian commercial farmer who used new planting, ploughing and fungicide use techniques. The pilot had a specified timeline to test the approach and then determine scalability.

The programme decided to include the pilot, even though ginger did not neatly fit the rationale criteria (limited opportunities for South-South trade or investment). A case was built given the knowledge transfer opportunity coupled with strong project value additionality (a shortage of donor or government support in this sector) and the large potential impact on livelihoods.

Results: Ginger in Ethiopia

- Despite the interventions, the pilot crop due for harvest in December 2017 failed. The practices that worked in India did not produce successful results in Ethiopia due to challenges including the differing quality and availability of agricultural inputs. The pilot project was phased out the next year.
- However, farmers subsequently received far more support than before the pilot had started. Starting with a workshop organized by the Ethiopian Coffee and Tea Development and Marketing Authority and ITC, a number of initiatives took off, including:
 - Development of a 30-month ginger rehabilitation plan funded entirely through national resources;
 - Other donors pooled resources to invest in revitalizing the sector. Consequently, many workshops were organized across the country and different approaches were tested, such as intercropping with turmeric and planting lab-grown ginger;
 - The export ban on ginger was lifted in 2018.

Ethiopian turmeric – adapting suitable solutions can lead to better prices

Ethiopia is a major producer and consumer of turmeric. While Ethiopian turmeric has a high curcumin content, the quality of the crop was losing much of its value due to poor post-harvest handling.

Indian spice processors use turmeric to produce health supplements for Northern markets. However, they lacked high-quality turmeric (i.e. high curcumin content) and were seeking new regions from which to source the spice.

Over four years, ITC took Ethiopian spice producers and processors to international business-to-business events and trade fairs, including one of the largest, the International Spice Conference in India. In 2016, Rwandan and Ethiopian spice producers formed the first East African delegation to attend the conference. Since then, a delegation of East African spice producers has annually attended and jointly marketed the region as a premier source for spices.

Turmeric in Ethiopia has almost double the curcumin content of turmeric in India, but was selling at a great discount because it was always dark. Turmeric requires cleaning and an exact cooking process, but 80% of our farmers didn't have watches, and therefore were losing value from overcooking. We came up with another solution where you use a stick to test the colour periodically as the turmeric cooks, so you don't need a watch.

-International Trade Centre staff

Following initial exposure to Indian buyers during these events, the programme also facilitated targeted business links between Ethiopian turmeric exporters and Indian buyers.

The Indian companies noted the high quality of turmeric that could be produced in Ethiopia. However, they also recognized the challenge of high losses during post-harvest handling. Small improvements in the boiling, drying and storing processes help farmers avoid these losses and produce export-quality turmeric.

In 2017–2018, ITC arranged for 72 field trainers to disseminate best agricultural practices for ginger and turmeric. These trainers have since trained more than 3,000 spice farmers. Simple technologies such as improved boiling barrels and adapted storing and drying

practices were introduced, and trainings were carried out with the help of posters and pictorial leaflets in farmer field schools.

Results: Turmeric in Ethiopia

- Farmers who used better agronomic practices after the trainings were able to sell at almost 60% above standard market prices as buyers recognized the improved quality of their turmeric.
- Regions with strong cooperatives were able to apply the suggested post-harvest practices and disseminate trainings effectively. In regions without cooperative structures, the trainings were less effective and more follow-up was needed. This has implications for the longer term sustainability of the training.
- An Indian spice processing company started sourcing Ethiopian turmeric to process into dietary supplement tablets that are sold in Europe and the United States.
- The value of spice exports (beyond turmeric) has increased as a result of attendance at international trade fairs.

Tanzanian cinnamon – visual learning as a tool for success

Another ITC programme is the European Union-funded Market Access Upgrade, which promotes, among others, spice exports from the United Republic of Tanzania to European markets. Although it is not wholly focused on South-South interventions, learnings from the South have been used in the programme as a tool for learning and upgradation.

Tanzanian farmers don't have to make the same mistakes. They can learn from the mistakes we made and corrected over the last 2,000 years.

-Sri Lankan master trainer

ITC identified cinnamon as a high-potential spice because the United Republic of Tanzania is among the few countries that produce true cinnamon (*Cinnamon Zeylanicum*). Most 'cinnamon' available in the market is actually Cassia, which is grown in Indonesia and is half the price of real cinnamon. However, lack of knowledge about cinnamon processing means the United Republic of Tanzania sits at the bottom of the cinnamon value chain.

ITC is trying to change that by bringing Sri Lankan knowledge to Tanzanian farmers. Cinnamon is native to Sri Lanka, where it has been grown for more than 2,000 years. Sri Lankan farmers have mastered the art of cinnamon cultivation and processing, and their cinnamon commands a premium in the world market.

In July 2019, the programme trained more than 1,000 Tanzanian farmers on modern cinnamon cultivation and harvesting practices. The programme invited the chairman of Sri Lankan cinnamon training academy to be the master trainer and share lessons on improving quality.

Telling stories, not giving instructions

ITC's instruction medium was a series of illustrations, like a comic book, that showed a local man and woman producing and processing cinnamon. Through 13 illustrations, the project mapped the journey of cinnamon processing. Farmers were also shown a video of Sri Lankan farmers going through the same process and achieving great results.

Results: Cinnamon in the United Republic of Tanzania

- Cinnamon exports grew from \$200,000 in 2018 to more than \$700,000 in 2019
- Production of cinnamon has more than doubled from 2018
- The first order for cinnamon quills was priced at \$20/kg instead of \$2.50/kg that was being offered for cinnamon chips

Case studies in leather and textiles



The ITC programme provides targeted support to East African tanneries and exporters, and Indian investors. The objective is to increase the value of exports of wet blue,²⁸ crust and finished leather from East Africa by improving quality and adding value, and to facilitate investments from India in the East African leather value chain.

In textiles, ITC has helped Indian companies understand and analyse new market and investment opportunities in the East African fabric and apparel sector. Targeted awareness-raising campaigns in major textile clusters across India promoted East Africa to potential investors.

²⁸ Wet blue is raw hides and skins converted into tanned leather using chromium salts.

Table 3 Building business linkages to develop capacity

	Leather sector		Textile sector	
Countries	Kenya, Uganda and United Republic of Tanzania		Ethiopia, Kenya, United Republic of Tanzania, Uganda	
Products	Wet blue, crust and finished leather		Cotton (research); yarn to clothing	
Direct beneficiaries	Tanneries in East Africa	Indian firms	East African and Indian Research Institutions	Indian investors
Role of Supporting Indian Trade and Investment for Africa	Enhanced productive capacity, improved environmental performance and created new trade links	Identified new sourcing and investment opportunities	Linking cotton research institutions in India and East Africa and facilitating exchange on germplasm and technology	Identified new sourcing and investment opportunities
Indirect beneficiaries	<ul style="list-style-type: none"> • Smallholder livestock farmers in East Africa • Leather products manufacturers 		Smallholder cotton farmers in East Africa Ethiopian garment producers	

Source: Authors' own elaboration.

Ugandan leather – institutional partnerships are crucial for sustainability

The biggest challenge Africa faces is access to the market. Previous development interventions did not do this. The others focused on production processes (cleaner, more efficient), but the marketing promotion has had a significant impact.

-Interview with tannery owner

The Ugandan leather sector has considerable untapped potential. Like many of its neighbours, Uganda mostly exports semi-processed leather, despite good quality and quantities of livestock. The production capacity for finished leather products remains low.

On the Indian side, limited potential to expand domestically, decreasing international demand and an opportunity to cater to growing retail markets in Africa have led to an active interest among leather businesses in investing abroad.

ITC organized awareness-raising missions targeting all principal leather clusters across India (Figure 3). These included high-level government representatives. Missions to East Africa were then arranged for interested Indian businesses, usually combining visits to two to four countries.

Investment agencies were actively involved in planning and carrying out the missions. As a result of the close involvement and various visits to leather tanneries, the Uganda Investment Authority developed a good level of familiarity and expertise on how to target and facilitate leather investments.

On the East African side, six tanneries in Kenya, Uganda and the United Republic of Tanzania were aided in their goal to obtain Leather Working Group certification.²⁹ This internationally recognized standard helps tanners gain new buyers and sell their products at a higher price.

Tanners committed to achieving Leather Working Group certification also were supported to attend trade fairs – particularly those targeting Southern markets, such as the All Africa Leather Fair, the India International Leather Fair and the Asia Pacific Leather Fair. The regular presence of these tanners, as well as deliberate marketing of the region as a supplier of quality leather, strengthened their international visibility.

²⁹ Leather Working Group is a protocol that assesses the environmental compliance of leather manufacturers and works to promote sustainable business practices in leather industries.

Figure 3 East African tanneries work towards certification



Source: Authors' illustration using ITC data.

When I started to work with the leather sector, the East African companies would not collaborate among themselves. By working with them as a group – exposing them to markets, taking them to international fairs where they could jointly display their products and talk to new customers – they became friends.

-International Trade Centre staff

The programme also used attendance at trade fairs to promote knowledge transfer in manufacturing. East African tanners were trained at the Central Leather Research Institute in India in August 2019.

Results

- Following a visit to four East African countries, an Indian investor set up a shoe manufacturing plant in Uganda in 2016 – one of the first major foreign direct investment-led factories in the sector.
- A Ugandan company passed the Leather Working Group audit with silver medal status in April 2019.
- The Uganda Investment Agency and government counterparts were strengthened to effectively promote Uganda as a leather investment destination through exposure to new markets and continuous sector-specific investment targeting
- Both the value of leather exports and interest in pursuing value addition increased due to attendance at international trade fairs.

Ethiopian and Kenyan textiles – target regional hubs for investor outreach

As production costs rise in traditional textile and clothing producing nations such as India and China, manufacturers are looking to shift operations to new regions. East African countries – particularly Ethiopia and Kenya – are positioning themselves as alternative locations with duty-free access to major export markets and a growing regional retail market.

However, the opportunity still remains largely untapped as companies in emerging economies are often unaware of the benefits that the region has to offer, or have dated perceptions of the investment climate of the region.

We didn't have Africa on our radar. Within 36 hours of being there, we decided to invest.

-Interview with Indian investor

Since 2015, ITC has helped Indian companies understand, analyse and seize new market and investment opportunities in the East African textile and apparel sector. Targeted awareness-raising campaigns in major textile clusters across India, including in medium-sized and small cities, promoted Ethiopia, Kenya and East Africa more broadly to potential investors. The programme reached out to businesses through sector associations.

The programme also facilitated exposure missions from India to East Africa for businesses that were interested in exploring the region. From this experience, it became clear that company size and type played a role in investment decisions, and targeting investment promotion activities accordingly could boost the chances of interest actually leading to an investment deal.

Knowledge tools that highlighted general opportunities, such as investment profiles, were developed. In addition, and a more specific list of frequently asked questions was collected based on the particular questions that the programme encountered from businesses. Tailor-made support helped build trust through regular and open communication.

Trust can be affected by small informal things – delays for meetings or slow responses to e-mails. Investors want to know they are valued in the countries they operate in, especially in the Global South.

-International Trade Centre staff

A value chain roadmap for the textile and clothing sector was developed in Ethiopia and Kenya. This filled a particular gap in policy coordination in Kenya by creating a public-private sector apex body that managed implementation of the roadmap. The Indian Skills Council assessed the skills gap in the Kenyan garment sector through the apex body, and this led to a new curriculum and training programme.

Results

- Two Indian investors set up garment companies in Ethiopian industrial parks.
- Outreach to more than 280 Indian textile companies via nine textile and apparel associations (first high-level contact between Ethiopians and seven of the nine Indian associations).
- Kenyan sector coordination and institutional capacity were strengthened through development of value chain roadmaps and the creation of an apex body.

CHAPTER 4 A GUIDE FOR IMPLEMENTATION

Based on the case studies and interviews, the following best practices can help guide programme implementers. Similar to the section on effective design, this section does not seek to cover all aspects of 'good' project implementation. Rather, it highlights those that are especially relevant in a South-South programme context.

Project management: Requires flexibility

1. Spend time to **address perception gaps through on-the-ground engagement**. This requires tailored communication tools and strategies to promote mutual understanding.
2. **Flexible management practices** including using **pilots to demonstrate feasibility**, allow evolution and scale up.
3. **Peer-to-peer exchanges** for sector strengthening.

Address perception gaps through on-the-ground engagement

Perception and information asymmetries³⁰ or gaps are often more pronounced in South-South partnerships. This could be due to limited market information, lack of experience or exposure, or existing biases (Table 4 and Box 2). This holds for both source and recipient countries.

For example, investors may have initial misperceptions about the risks, opportunities, social and political contexts, or ease of doing business in the recipient country. Similarly, for trade promotion, there might be a lack of understanding or trust between buyers and sellers, or on specific issues such as suitable packaging and delivery time.

We do a lot of invisible work in India for investment promotion: awareness raising, speaking at big industry events. This is important as it can deliver a multiplier effect, although it does not necessarily translate to immediate interest. It takes time to change perceptions.

-International Trade Centre SITA staff

³⁰ Information asymmetries occur when one party to an economic transaction has greater material knowledge than the other party.

Table 4 Communicate to build trust in a South-South context

Perception gaps	Solution	Appropriate tools
General misconception of business challenges or simply a lack of reliable information. There is often broad information asymmetry in both source and recipient countries.	Provide the facts: Research and compile frequently asked questions and tailor-made communication products that provide updated market and trade intelligence. This should not be mistaken with marketing materials. The intention is not to sell, but to provide an accurate picture of the business environment.	Tailored communication tools (Box 3) (frequently asked questions and one-pagers that are simple and client-specific) Research (fact-finding, business process analysis)
	Raise awareness-through first-hand exposure: Business-to-business meetings, trade fairs or investment promotion missions (whether to or from the source/recipient countries) are among the most effective ways to overcome initial misperceptions and biases.	Exposure events (Box 2); tailored communication
	Involve third party or expert opinion: e.g. someone who is already investing in (sourcing from or selling to) the country in question and can speak the same language. For technical questions, involve an expert who has experience in both source and recipient countries.	Third-party/expert opinion
Enterprises may know the country, buyer or seller in question, but do not trust them (often based on previous negative experiences or scaled to perceptions about doing business in Africa or Asia).	Understand what went wrong previously and find out if it was a one-off or a more structural problem. In many cases cited, the negative experience is rarely first-hand, but often anecdotes from many years ago and specific to an individual buyer or seller. It is important to communicate how the situation is different now . This may involve providing the right facts, exposure missions and other solutions.	Targeted communication
	For trade promotion programmes, work with institutional partners to encourage an industry 'self-regulation' mechanism . An example is to maintain a 'blacklist' of companies that frequently default on contracts. This pressures companies to stay in good standing and helps the institution maintain a positive image internationally.	Encouraging industry self-regulation to guarantee a level of reliability
	For investment promotion programmes, work with companies and institutional partners on due diligence and investor targeting helps to ensure the 'right' investors are being sought.	Due diligence and investor targeting
Language and intercultural communication barriers	Intercultural training on conducting business in a different cultural setting can be very helpful to prepare for business-to-business meetings or investment negotiations.	Tailored training, for instance, on 'Doing Business with Chinese people' (Box 3)
	A lesson learned is to use the 'right' digital tools for the country in question. Carrying out business in India without WhatsApp and in China without Weibo or WeChat is next to impossible.	Using the appropriate digital tools (translation services, WhatsApp/Weibo) (Box 3)
	Simple translation tools that aid communication between buyers and sellers. An example from SITA is the pulses dictionary, which translates between languages so buyers and sellers understand which product is being discussed.	Simple translation tools

Source: Authors' own elaboration.

Box 2 Exposure missions help bridge perception gaps

Exposure missions are essential to address perception gaps and challenging stereotypes. In the Supporting Indian Trade and Investment for Africa programme, for example, few Indian investors had ever done business in East Africa, and they perceived the region as risky. But once they arrived on the ground and interacted with East African counterparts during visits and meetings with suppliers, they recognized the potential of untapped opportunities.

Visits between China and Africa under the Partnership for Investment and Growth in Africa programme brought similar benefits. Exposure missions included visits to established Chinese investors who shared their experiences in Ethiopia, Kenya, Mozambique and Zambia. These exchanges helped generate better perceptions of the reality, opportunities and hurdles tied to investing in these countries.

Exposure missions of high-level officials from partner countries were also organized in China for African delegations. This enabled them to understand the projects discussed, the capabilities of the investing companies, their policies in terms of environmental and social compliance, the technologies used and how these could contribute to solve their country's challenges

Source: Interviews with ITC employees and supported businesses.

Box 3 A communication strategy helps prevent cultural misunderstandings

In the PIGA programme, engagement by Ethiopian, Kenyan, Mozambican and Zambian firms with 75 Chinese investors and one-on-one matchmaking meetings required deep discussion with the investment recipients to present the best information to secure financing. To ensure smooth communication, specific WeChat groups were created for each investment or each business lead with the assistance of Chinese-speaking experts.

It is essential to avoid any cultural misunderstandings. African delegations and companies supported by PIGA were asked to complete a course on 'Doing Business with Chinese people' before they participated in any investment or business matchmaking event. This ensured that they understood the most important aspects of Chinese business culture.

ITC is now developing a course on intercultural communication for Chinese stakeholders willing to do business or invest in Africa.

The Partnership for Investment and Growth in Africa also helped investment promotion agencies develop web platforms in Chinese to adequately inform Chinese stakeholders about investment and business opportunities in their country. Finally, the project organized the hiring of a Chinese-speaking expert in each investment promotion agency to address the specific needs of Chinese companies and ensure smooth communication.

Source: Analysis of ITC work.

An adaptive management approach ensures that the programme can respond to changing situations, the political environment and market opportunities, and incorporate meaningful risk mitigation. This is especially important in a South-South programme context, where implementers deal with many risks in both source and recipient countries as well as information asymmetries. These programmes must be in a position to test, adapt and replicate quickly to achieve impact and ensure value for money.

- **Pilot projects** can be used for proof of concept and to demonstrate when a strategy works – and when it does not. This is helpful in a South-South context, where the efficacy of new technologies and approaches still need to be tested or where investors/buyers are first movers facing higher risks. Use pilots to demonstrate feasibility, allow evolution and scale up.
 - Design and implement pilots gradually, starting small to keep the risk manageable. Monitor and review on a regular basis and adapt the approach in partnership with stakeholders. Incorporate a clear timeframe and measurable targets to determine feasibility, including clarity on when a pilot should be replicated or scaled up and when it should be exited.
- **Plan and budget for flexibility:** Programmes should plan (Chapter 2) and build budgets to be able to respond to opportunities. This would allow for pilot projects to be tested and adapted, but also exited (Table 5). They should also have the flexibility to change or expand sectors.
 - In the case of SITA, a larger number of sectors and value chains were selected in the design phase, with a mix of low- and high-risk interventions. This was done in the expectation that some might be dropped or modified, depending on how the trade, investment or knowledge exchange opportunity unfolded. During implementation, three pilots were eventually exited (Table 5) and the scope and approach of several others were adjusted.
- **Crisis mitigation is necessary:** South-South programmes must be able to adapt existing initiatives to reflect a market shock arising from crises. This includes being able to help partners, especially MSMEs, form new strategies and survive in a market downturn (e.g. many textile companies temporarily shifting to production of personal protective clothing) and to take advantage of opportunities and learning from the South.

Such lateral thinking is simpler when a programme already has an adaptive management approach and flexibility to mobilize resources quickly.

Table 5 Ginger, information technology and coffee pilots were tested and exited

Value chain	Description of activities	Was the pilot feasible?	Why was the pilot discontinued?
Ginger, Ethiopia	Training on good agricultural practices to contain bacterial wilt disease (see case study on ginger in Ethiopia)	No	For a proof of concept, a much larger outreach, deeper hand-holding and training would be required over a longer period of time. The costs for the project and risk to the farmers were considered too high. Several new homegrown initiatives for ginger were started. These were better placed to adapt lessons from the ginger pilot.
Information technology-enabled service	Internships for young East African graduates in Indian information technology companies	No	There was insufficient demand from source country stakeholders (India). A significant gap between the skills of Indian and East African tech graduates would need to be addressed for the pilot to be taken to scale. This would entail significant resources for education as well as initiatives for technical and vocational education and training, which went beyond the scope of the project.
Coffee	Supporting high-end value-added coffee production (already packaged and processed)	No	Buyer interest was limited, as the market was not willing to pay premium prices for high-end quality coffee. The focus thus shifted to the European Union market.

Source: Authors' own elaboration.

Box 4 Pilots have four important advantages

- **Adaptation** – The ‘trial and error’ approach allows for flexibility to respond to market changes; for example, willingness to step away if no results are seen within set timeframes.
- **Respond to changing trends in supply and demand** – The Supporting Indian Trade and Investment for Africa programme identified interest from buyers for particular commodities, but subsequently faced some issues with supply. In these cases, SITA was able to diversify into new markets, such as in response to changes in Indian demand for pulses.
- **Build a portfolio of interventions** – The pilot approach allows for a mix of low-hanging fruit (i.e. quick wins) while also giving time for other value chains to mature.
- **Identify where to scale up** – Small and medium-sized companies start small-scale to build trust and confidence, test the water and then scale up.

Source: Analysis of ITC work.

Many African trade associations already have engagements with Northern or European counterparts (e.g. European Union Chamber of Commerce). However, compared with North-South interactions, there is a strong argument that Southern partnerships can provide a complementary or different kind of learning given the greater similarities between Southern countries. These include:

- The initial phase of developing specific sectors is within memory (allowing first-hand experience sharing), offering greater opportunities for knowledge exchange;
- The operating environment is familiar and there is contextual understanding.

Peer-to-peer exchanges can strengthen a sector. Alongside support for businesses, implementers should build the capacity of organizations such as trade associations and industry bodies throughout the programme. Engaging with these bodies to influence the design of the program fosters credibility during implementation and establishes a legacy at the end.

To build resilience into a sector in any country, you need to build strong institutional capacity.

-International Trade Centre SITA staff

Implementers must carry out due diligence exercises and assess capacities to ensure that the partner agency is effective. If an agency has limited capacity but willingness and commitment to the programme, the implementers should act to build its capacity. If both capacity and commitment are absent, the intervention is not sustainable.

Trade promotion: Requires visibility

This section highlights some lessons and recommendations on how to apply trade promotion activities in a South-South programme. Many of the fundamentals of when and how to structure business-to-business meetings or trainings for producers to meet buyer requirements will be the same as for any other trade promotion programme. However, certain aspects may need more attention or adaptation to be effective in a South-South context.

Some examples include:

- Regular attendance at business-to-business meetings and trade fairs is necessary to create visibility and promote the sustainability of trade links. It will depend on the Southern parties and sectors in question, but in many cases, attendance by a Southern business delegation at a trade fair or business-to-business meeting hosted by another Southern country will be a novelty. This can lead to trial orders and enquiries.
- However, reaching a point where buyers and sellers conduct regular business requires a level of trust that will take several interactions to establish. Programmes that aim to create sustainable business linkages therefore must plan for repeated attendance, ideally over several years.

- Encourage marketing of businesses as a regional group or bloc for better visibility. This recommendation goes hand in hand with regular attendance at trade fairs. This approach is especially useful for smaller delegations or in countries where the sector may still be nascent with only few companies active.
- Jointly marketing as a regional bloc gives potential buyers an impression of the scale and diversity on offer that may not come across if marketed by a country individually. It also encourages exchanges, learning and business linkages among businesses within their own region (see spice and leather case studies).
- Expose businesses to Southern technologies and best practices to promote upgrading and value addition. Trade fairs and business-to-business meetings in other Southern countries are excellent learning opportunities that complement exposure activities. In many cases, fair organizers can easily offer this opportunity with some guidance from a programme to target the learning to the interests of the group (e.g. presentations on sector opportunities or visits to state-of-the-art factories).
- The learning effect can be particularly effective in a South-South context, because the technologies adopted and business challenges in one country are often both similar and relevant to other Southern countries.
- Support producers in price discovery. This is especially important for agricultural goods and for Southern markets, because many market opportunities are unknown. An example of this is the higher price paid in India for turmeric with high curcumin content (see case study turmeric, Ethiopia).
- Spend time to address perception gaps through on-the-ground engagement. This requires tailored communication tools and strategies, as previously discussed.

Box 5 Practical tips for organizing trade and investment meetings

Even the best-prepared trade and investment missions can go very wrong if airport pickups are missed, food restrictions ignored or if an unfortunate pickpocketing incident or a scheduling change causes disappointment. Some practical recommendations to keep in mind:

- **Venues:** The quality of hotels can be the first and last impression a business person takes from a mission. Ensuring that hotels are up to standard (e.g. internet connectivity) and early communication with the delegation on preferences are important. This is true for any delegation, particularly if this is a first visit to the country.
- **Food:** Consider food preferences and restrictions. This includes speaking to the chef to ensure there is a common understanding of food restrictions in question.
- **Cultural or religious considerations:** Researching the opening times, languages and openness of local religious services to foreigners can go a long way in helping a delegation feel welcome. This can be an important factor, especially on longer missions or those that coincide with religious holidays.
- **Security:** All members of the delegation should be aware of the general security situation in the country, city and area where they are staying. Written notes may not be read, so having initial briefings on dos and don'ts are highly advisable. It is also prudent to provide phone numbers of local staff or partners who can provide support in case of any emergency.
- Keep flexibility in the agenda for possible changes while communicating clearly what is fixed. Business people will create their own opportunities after the first few meetings and may ask to make ad hoc changes. However, it is also important to communicate clearly when important meetings have already been set (e.g. with ministry partners) that cannot be changed. This scheduling diplomacy requires practicality, cultural sensitivity and good communication.

Source: Interviews with ITC staff.

Investment promotion: Requires smart targeting

This section outlines several lessons and recommendations on how to best carry out investment promotion activities in a South-South programme. With investment opportunities in the South growing, it is important to understand how these can be better harnessed for a sustainable development impact.

- **Develop detailed plans and services outreach:** Separate plans to attract, facilitate and provide aftercare support for investments. In most of the case studies presented in this report, work has focused on attracting investment. However, as the number of Southern origin investments is likely to grow, programmes need to consider whether and how support should be extended beyond investment promotion and facilitation (Chapter 2).
- **Identify and target investors:** The approach must be specific to the source country in question, as what works in China, for instance, may not work in India. As a general rule of thumb, the following lessons on investor targeting have held true for the South-South programmes assessed in this report:
 - **Conduct outreach through sector associations:** These organizations provide a multiplier effect with regard to investment promotion outreach and establishing a basis of trust. In the longer run, sector associations can be supported to carry on investment promotion activities (providing information, creating linkages, etc) for their members independently, thus ensuring sustainability.
 - **Look subregionally and target medium-sized and small cities.** In larger source countries such as India or China, searching subregionally and targeting medium-sized and small cities is often a good way to reach a large pool of potential investors who typically have had little exposure to Southern market opportunities.
 - **Target larger companies as well as family-owned companies.** These are often able to make quicker decisions on investment, especially in the manufacturing sector. This can be an important factor if needing to identify first movers.
 - **Target investors with existing trade relationships or long-term strategic interest in the region.** These firms already have a good understanding of the business environment and risks involved (i.e. more willing to deal with start-up costs and difficulties).
 - **Anchor buyers are a key success factor for investment decisions.** Without the support of an end buyer, few investors will consider a new investment destination. South-South programmes need to consider trilateral approaches of targeting anchor buyers (many still in Northern countries), in parallel with South-South investment promotion.
- **Investment decisions in agricultural processing tend to require more time.** Most investors will first want to establish the productive capacity of the agricultural commodity in question. This means that many will decide to start with a pilot intervention, such as working with a few farmers on a buyback arrangement, to see whether the required quantity and quality can be produced (e.g. see chilli case study). Overcoming production challenges becomes a prerequisite that can be a longer term undertaking.
- **Investment decisions are made based on a combination of instincts and commercial factors.** Commercial factors are not easily changed, but key challenges (logistics costs and non-trade barriers, for instance) can be identified and addressed within a programme context. Having buy-in from government partners on the common objectives is therefore vital. Intangibles such as trust and mutual understanding also play a critical role and to some degree can be built (Table 2).
- **Develop bespoke information and services for investors.** Generic investment promotion information will only go so far in investment attraction and facilitation. South-South Programmes can support in providing bespoke research and compiling answers to the specific questions that may have kept an investor from deciding to take the next step.

No single activity is a silver bullet – it's the accumulation that enables the investment lead becoming actuality.

-International Trade Centre staff

Often the problem is a lack of sector specific information without which proper cost estimations cannot be done. At the same time many investment promotion agencies will not have the sector specific know how or resources to provide such information. The gap is one which a South-South programme would be well placed to fill.

Knowledge and technology transfer: Requires learning from relevant role models

Southern countries can benefit from cost-effective and adaptable technologies from other Southern partners that are relevant to their current development context. This can often occur organically as a result of trade and investment, but it can also be promoted and enhanced through a programme.

This section highlights some lessons and recommendations on how to promote such an exchange:

- **Systematic identification of gaps, such as use of machinery or demand for technology.** A programme can help identify the technological gaps in an industry. By structuring the gap assessment, it becomes easier to identify possible appropriate and affordable technology or know-how solutions in Southern partner countries.
- **Exposure visits to model businesses or institutions for learning from best practices.** Facilitate peer-to-peer exchange between MSMEs, farmers or institutions. This can often be the most effective and organic way to organize knowledge and technology transfer, because there is no interest pushing particular machinery, nor has a programme arbitrarily filtered which types of technology may be most relevant in advance. Many suitable technologies or know-how can be very low-cost solutions (Table 6).
- **Tailored training and learning opportunities to address the gaps.** This is most successful when coupled with concrete buyer or investor interest (e.g. chilli or turmeric case study).
- **Couple technology transfer with financing options for MSMEs.** A major constraint for many small businesses to adopt appropriate technologies is cost – even if the technologies are cheaper. Programmes should aim to work with financing institutions from the design phase.

Table 6 South-South solutions must be adaptable

Examples	Example 1	Example 2	Example 3	Example 4
The case	SITA work in Ethiopian turmeric	SITA work in the Ugandan sunflower oil sector	PIGA training on drip irrigation systems with Chinese experts for a planned joint venture	PIGA work in the Ethiopian pharmaceuticals sector
The problem	Turmeric was selling at a great discount because it was too dark. It needed to cook for exactly 15 minutes to become the right colour. SITA began training, but found that 80% of farmers had no watches.	How to improve oil extraction when producing small – rather than large – volumes of sunflower cake. Indian business owners were processing much higher volumes, using different methods.	Productivity is low, with very basic irrigation techniques. This led to low production yields, insufficient to supply the envisaged tomato processing plant. Structured discussions on local requirements helped identify specific irrigation needs for a planned investment in a tomato processing plant in Mozambique.	Key gaps where government representatives could benefit from knowledge exchange in the pharmaceutical value chain.
The solution	Quick fix: A stick was used to take stabs at the cooking turmeric until the right colour was reached.	Intergenerational transfer: The owner of an Indian business asked his grandfather, who remembered the process for smaller volumes and could teach the Ugandan business to use the machinery appropriately.	Partnership for knowledge: Joint venture training on drip irrigation systems.	Research: The programme learned about the infrastructure requirements to build the pharmaceutical processing plant in an environmentally sound manner.

Source: Authors' own elaboration.

APPENDICES

Appendix I: Research methods

This report used a blended research methodology, comprising a literature review and data analysis, thematic analysis and semi-structured interviews, targeted case studies and mapping of interventions, and outcomes. Details of each are outlined briefly below.

Method 1: Structured literature review and data analysis

Structured literature review

At the beginning of the research, a structured literature review³¹ was conducted of documented work on South-South trade and investment. This review assessed the core strengths and weaknesses of South-South trade promotion and investments. It also shed light on the drivers of South-South economic links; their enablers; India's role in East Africa (for both investment and trade); and the design and implementation of South-South development programmes.

Attempts were made within this literature review to provide rigour, transparency and replicability through a structured review strategy. While the literature on South-South trade and investment links is not huge, the research team sought to capture a wide scope of articles through a set of inclusion and exclusion criteria. A three-track retrieval mechanism was used, including:

- An academic literature search through the University of Sussex Library, Web of Science, Google Scholar (**track 1**).
- A snowball sampling approach informed by relevant literature found and its representative bibliographies and literature reviews (**track 2**).
- Finally, non-academic search engines were used (**track 3**). While we found a significant amount of grey literature,³² some of this lack sufficient evidence to use in the analysis. One problem here (especially for trade flow analysis), is the reliance on national reporting systems, which vary considerably from country to country in East Africa.

Potentially relevant sources underwent an abstract review and key-word search as a primary sift for relevant research findings. From there, a decision was made whether to spend further resources to review the documentation. This approach aimed to enhance the rigour of the review, while also driving efficiency and user-friendly handling of retrieval and analysis methods.

Each article was summarized in a specific format. This process yielded 31 articles included in the literature review. We typically focused on articles from the last 15 years to ensure relevance to current debates and understanding with regard to South-South trade and investment (findings forthcoming in Saha, O'Flynn and Barnes).

There were several limitations. There was little consensus on how to assess South-South programmes through specific analytical frameworks. This makes it much more difficult to develop insights into effective design and implementation, and add to the rationale for enhanced cooperation based on existing evidence.

³¹ Petticrew, Mark and Helen Roberts (2006). *Systematic Reviews in the Social Sciences*. Oxford: Blackwell.

³² Research that is either unpublished or has been published in non-commercial form, such as government reports, policy statements and issues papers.

These limitations stem from several factors. The first is a lack of historical trends or baselines captured in the literature. This is largely due to the negligible trade and capital flows throughout most of the post-Second World War period through to the 1990s, which resulted in South-South trade and investment often being ignored in reviews of global trends.

Secondly, poor data-collection systems in least developed countries means there is less data to analyse or poor continuation in surveys and data panels. Thirdly, funding of research has not prioritized South-South programmes and related trade flow analysis in the South.

Further, limited firm-level data means South-South programmes are assessed at a macro level. This can distort the conclusions that are drawn about benefits, given that firm-level outcomes may not make their way to state-level agencies. These limitations highlight the need for continued research into South-South trade and investment, especially regarding data collection and firm-level surveys.

Data analysis

Given the major focus of ITC on East Africa in this report, trade data for key East African countries were examined. Export and import flows were evaluated³³ (Ethiopia, Kenya, the United Republic of Tanzania, Rwanda and Uganda), broken down into the United Nations *Broad Economic Categories* (Rev.4). This disaggregation helps evaluate the nature of trade flows in terms of capital goods (K), intermediate goods (I) and consumption goods (c).³⁴

Kenya's export basket consists primarily of consumption goods, while Tanzanian and Ugandan exports are mainly intermediates. Ethiopia's key exports to the world consist of intermediate goods and consumption goods, with intermediate goods at consistently higher levels. Rwandan exports are the lowest relative to its East African counterparts.

For the SITA context, India's granting of duty-free tariff preference to least developed countries in 2008 supported increased trade between India and Africa.³⁵ India was the first developing country to extend this facility to least developed countries. To become a beneficiary under the duty-free tariff preference scheme, prospective beneficiary countries must provide a letter of intent as well as specimen seals and signatures of the officials authorized to issue the certificate of origin.³⁶

Of the SITA countries, Ethiopia, the United Republic of Tanzania, Rwanda and Uganda are all noted beneficiaries. Some products are excluded from the scheme, however, which suggests a closer look at trade flows – both at an aggregated level and disaggregated by partners and goods.

The lack of duty-free tariff preference uptake was a key rationale for SITA's design and funding. Respondents affirmed that the programme began with the assumption that people did not know about duty-free tariff preference or how to navigate it. SITA therefore began with just a business guide on the duty-free tariff preference scheme that promoted uptake. However, not all countries can use it (for example, Kenya is not a least developed country).

³³ World Integrated Trade Solutions data on exports from the East African countries includes some missing values for certain product categories and certain years. Despite this limitation, we still detect some interesting patterns concerning the exports across goods categories and country of origin.

³⁴ Capital goods (K) is the sum of the following categories: 41* Capital goods (except transport equipment); 521* Transport equipment, industrial. Intermediate goods (I) is the sum of categories: 111* Food and beverages, primary, mainly for industry; 121* Food and beverages, processed, mainly for industry; 21* Industrial supplies not elsewhere specified, primary; 22* Industrial supplies not elsewhere specified, processed; 31* Fuels and lubricants, primary; 322* Fuels and lubricants, processed (other than motor spirit); 42* Parts and accessories of capital goods (except transport equipment); 53* Parts and accessories of transport equipment. Finally, Consumption goods (c) is the sum of categories: 112* Food and beverages, primary, mainly for household consumption; 122* Food and beverages, processed, mainly for household consumption; 321* Fuels and lubricants, processed (motor spirit); 522* Transport equipment, non-industrial; 61* Consumer goods not elsewhere specified, durable; 62* Consumer goods not elsewhere specified, semi-durable; 63* Consumer goods not elsewhere specified, non-durable.

³⁵ Gakhar, Shruti and Subir Gokarn (2015). India-Africa trade and investment: A backdrop. In *India and Africa: Forging a Strategic Partnership*, Subir Gokarn, W.P.S. Sidhu and Shruti Godbole, eds. New Delhi: Brookings India.

³⁶ India, Department of Commerce, 2017.

India's exports and imports with SITA partner countries have increased sharply since 2010, but with fluctuations and significantly different patterns across destinations and product categories (details forthcoming in Saha, Bontadini and Cowan). Key stylized findings are:

- Kenya and the United Republic of Tanzania are India's largest export destinations and the biggest source of imports for India among the five SITA partner countries; consumption goods dominate India's export flows to these countries, while intermediate goods are consistently exported in larger amounts than capital goods.
- Rwanda and Uganda are two smaller destinations for Indian exports, but with a surge in exports of both consumption and intermediate goods, and exports to Uganda being much larger than to Rwanda.
- Ethiopia sets itself apart as an export destination with a large increase in the export of intermediates to India. Consumption goods follow a similar pattern, but they remain at consistently lower levels than intermediate goods. Indian imports from Ethiopia show a differential trend from the other partners, as this is the only country from which India (most recently) imports marginally more consumption goods than intermediate goods, and over a sustained period of time, i.e. from 2012 onward.

Economic growth in the South as well as increasingly liberal capital policies have contributed to the rise of investment driven by Southern firms. It is expected that by 2025, one-third of global foreign direct investment outflows will be generated by companies from the South, particularly towards the manufacturing and service sectors of other developing countries (South-South).³⁷ Both North and South overseas foreign direct investment respond to standard host economy determinants such as market size, income level, distance, common language and diplomatic links.³⁸

Foreign direct investment can be categorized into three distinct types,³⁹ with each variety resulting in different spillover effects:

- **Resource-seeking** foreign direct investment in the primary sector tends to be concentrated in enclaves, dominated by foreign firms that have few links to the domestic market or product, has limited spillover effects and does not contribute significantly to the economic growth of the domestic market.
- **Efficiency-seeking** foreign direct investment, where firms invest to capitalize on lower production costs – inputs or labour – is more likely to introduce technology and know-how that is compatible with the level of development of the host country and local suppliers.
- **Market-seeking** foreign direct investment invests to access the domestic market or markets accessible via preferential trade agreements. This type of foreign direct investment is the most likely to lead to modernization of local production as well as the introduction of new products to the market.

Examining these three types of foreign direct investment and their relationship to North-South and South-South investment strategies shows distinctions between the types of engagements. Multinational companies founded in the North have led traditional foreign direct investment patterns into the Global South. These firms have adopted a mix of the three foreign direct investment strategies in the South, but traditionally have tended to invest for resource- or efficiency-seeking reasons.

³⁷ Franssen, Loe (2017). Extracting value in South-South and South-North value chains. International Trade Centre Working Paper series WP-03-2017.E. Geneva: ITC.

³⁸ World Bank Group (2018). *Global Investment Competitiveness Report 2017/2018: Foreign Investor Perspectives and Policy Implications*. Washington, DC: World Bank. Available from <https://openknowledge.worldbank.org/handle/10986/28493>.

³⁹ Amendolagine, Vito and others (2013). FDI and local linkages in developing countries: Evidence from sub-Saharan Africa. *World Development*, vol. 50(C), pp. 41–56.

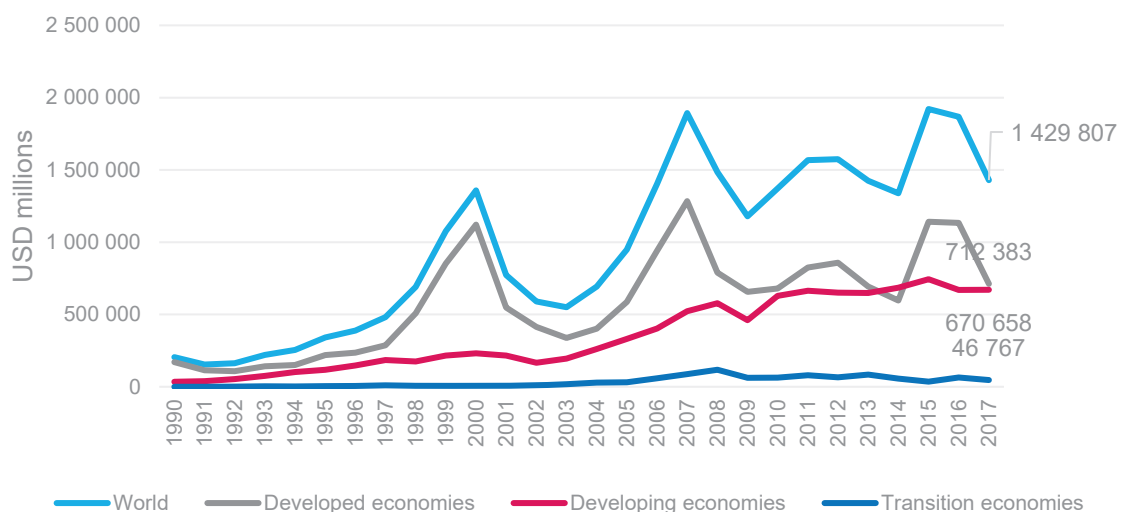
More recent economic growth in the Global South has created an incentive for further investment to access markets. It has been noted that companies from the South that invest in the primary sector are more likely to be state-owned and thus are influenced by considerations other than economic ones.⁴⁰ Such investors are less deterred by poor institutions than large private multinationals, which traditionally operate in the primary sector of industrialized economies.

South-South investment is also noted as a key preparation tool for emerging economy firms to venture further into developed economies. Known as a 'stepping stone' strategy, this involves firms expanding into large and complex markets only after first successfully expanding into smaller, lower-income economies in the same region.⁴¹

Foreign direct investment into developing economies has grown steadily over the last three decades, as illustrated in Figure 5. Total foreign direct investment inflows were valued at \$1.4 billion in 2017, of which 47% were inflows to developing economies.⁴² However, the composition of foreign direct investment inflows has been on relatively shaky ground since the 2008–2009 financial crisis. This is largely because commodities drive foreign direct investment in the region.

Flows to Africa were worth \$41.8 billion in 2017, down from \$53.2 billion in 2016. Figure 6 breaks down the composition of foreign direct investment by region, showing how Europe, North America and Asia dominate on foreign direct investment, while Africa and South America lag behind.⁴³

Figure 4 Foreign direct investment to developing countries has quadrupled



Source: Data from United Nations Conference on Trade and Development, 2018.

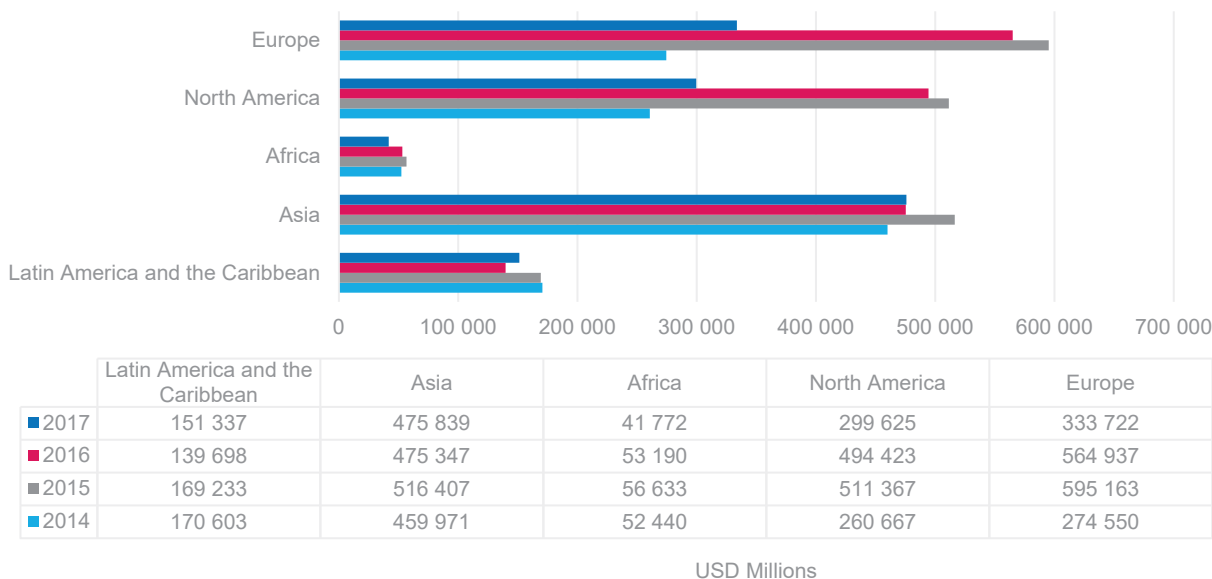
⁴⁰ Aleksynska, Mariya and Olena Havrylchuk (2013). FDI from the south: The role of institutional distance and natural resources. *European Journal of Political Economy*, vol. 29, issue C, pp. 38–53.

⁴¹ World Bank Group (2018). *Global Investment Competitiveness Report 2017/2018: Foreign Investor Perspectives and Policy Implications*. Washington, DC: World Bank. Available from <https://openknowledge.worldbank.org/handle/10986/28493>.

⁴² United Nations Conference on Trade and Development (2018). *World Investment Report 2018: Investment and New Industrial Policies*. Geneva: United Nations.

⁴³ *Ibid.*

Figure 5 Asia attracts most foreign direct investment (2014–2017)



Source: United Nations Conference on Trade and Development, 2018.

Method 2: Thematic analysis using semi-structured interviews

Themes

A comprehensive thematic analysis was conducted to identify the most prevalent themes and the recurring characteristics of South-South (versus North-South) trade and investment. The broad themes from the literature review were extracted using NVivo, summarized below: institutional similarity, productivity and employment, technology and knowledge diffusion, product diversification, and preferential access and regional trade agreements. These themes were used to direct the semi-structured interview analysis.

Table 7 What distinguishes South-South from North-South trade and investment?

Themes	Evidence	Implications
Institutional similarity	Institutional similarity is a major driver for South-South foreign direct investment and strengthened trade relations. ⁴⁴ One key institutional difference is the maturity of financial markets. ⁴⁵	<ul style="list-style-type: none"> • Legal and administrative support to potential investors • Reducing institutional differences
Productivity and employment	North-South investments raise productivity, while South-South investments create employment. ⁴⁶	<ul style="list-style-type: none"> • Weighing trade-offs of South-South trade links with Sustainable Development Goals
Knowledge diffusion and technology enhancement	Empirical evidence is mixed; technological spillovers from South-South foreign direct investment and trade links may be more likely to be captured throughout the domestic value chain; ⁴⁷ some evidence has been seen in Chinese-origin capital goods. ⁴⁸	<ul style="list-style-type: none"> • Factors for diffusion of technology
Product differentiation	North-South foreign direct investment promotes diversification within primary goods industries while South-South foreign direct investment raises the ability to diversify manufactured exports and introduces more advanced goods into less diversified sectors. ⁴⁹	<ul style="list-style-type: none"> • Drivers of product differentiation
Trade barriers and regional trade agreements	The Global South is turning to interregional or intraregional trade due to inability to access Northern markets. ⁵⁰	<ul style="list-style-type: none"> • The South should seek to strengthen and expand trade relations with other developing countries and to remove barriers to South-South trade⁵¹
Real exchange rate	South-South trade and investment is less sensitive to volatility in changes in the real exchange rate (i.e. after taking account of changes in inflation). This is particularly the case for primary goods. ⁵²	<ul style="list-style-type: none"> • Implications for both national level and products to focus on in ensuring stable capital flows.

⁴⁴ Li, Yuefen (2018). Assessment of South-South cooperation and the global narrative on the eve of BAPA+40. South Centre Research Paper No. 88. Geneva: South Centre; Pérez-Villar, Lucia and Adnan Seric (2015). Multinationals in Sub-Saharan Africa: Domestic linkages and institutional distance. *International Economics*, CEPIL research center, issue 142, pp. 94–117.

⁴⁵ Dahi, Omar S. and Firat Demir (2017). South–South and North–South economic exchanges: Does it matter who is exchanging what and with whom? *Journal of Economic Surveys*, vol. 31, No. 5, pp. 1,449–1,486; Demir, Firat and Omar S. Dahi, (2011). Asymmetric effects of financial development on South-South and South-North trade: Panel data evidence from emerging markets. *Journal of Development Economics*, vol. 94, No. 1, pp. 139–149.

⁴⁶ Gold, Robert and others (2017). South-South FDI: is it really different? *Review of World Economics*, vol. 153, No. 4, pp. 657–673.

⁴⁷ Schiff, Maurice and Yanling Wang (2006). North-South and South-South trade-related technology diffusion: An industry-level analysis of direct and indirect effects. *Canadian Journal of Economics*, vol. 39, No. 3, pp. 831–844. Available from <https://onlinelibrary.wiley.com/doi/abs/10.1111/j.1540-5982.2006.00372.x>.

⁴⁸ Hanlin, Rebecca and Raphael Kaplinsky (2016). South-South trade in capital goods – the market-driven diffusion of appropriate technology. *European Journal of Development Research*, vol. 28, No. 3, pp. 361–378.

⁴⁹ Amighini, Alessia and Marco Sanfilippo (2014). Impact of South-South FDI and trade on the export upgrading of African economies. *World Development*, vol. 64, pp. 1–17.

⁵⁰ Diaw, Diadié, Rieber, Arsène and Thi Anh-Dho Tran (2014). Performance à l'exportation et commerce Sud-Sud: Une analyse sectorielle appliquée à l'Afrique sub-Saharienne. *Revue économique*, vol. 65, No. 6, pp. 931–956.

⁵¹ Bernhardt, Thomas (2016). South-South trade and South-North trade: which contributes more to development in Asia and South America? Insights from estimating income elasticities of import demand. *CEPAL Review*, vol. 118, No. 118, pp. 97–114.

⁵² Caglayan, Mustafa and Firat Demir (2019). Exchange rate movements, export sophistication and direction of trade: the development channel and North-South trade flows, *Cambridge Journal of Economics*, bez005. Available from <https://doi.org/10.1093/cje/bez005>.

Semi-structured interviews

Interviews were conducted with 25 respondents to validate themes and obtain first-hand perspectives on South-South programme design and implementation, beyond what was available in the existing literature. Identifying incentives and enablers from the thematic analysis of South-South cooperation helped construct a frame for comparison with Supporting Indian Trade and Investment for Africa's experiences.

A list of questions was drawn up: What changes are needed to foster more South-South trade and investment? What does the ITC approach yield in terms of methodology for South-South trade and investment? Preliminary insights suggested the following checklist that was taken up for detailed analysis.

- **Mapping needs:** Using criteria for sector selection that match the needs of the East African companies. As seen in SITA, the strengths and interests of the cooperating Indian firms are crucial to being able to match the right type of cooperation. Here, the product-level data analysis was compared with SITA's sector selection criteria derived from the semi-structured interview to examine the robustness of the approach of 'mapping needs'.
- **Targeting information asymmetry:** A key question was how ITC was able to fill a gap. Was cooperation possible because of the resources that were brought in organizing knowledge-sharing events, business-to-business meetings, public awareness and visibility, capacity development, or political and policy influence and advocacy?
- It was important to look at the critical success factors, based on feedback from participants, to understand the enablers and barriers to success. Bringing robustness to this theme required qualitative case studies, comparing with the trade and investment flows that are already ongoing.
- **Context similarity:** The United Kingdom Department for International Development selected the beneficiary countries and allowed ITC to choose how to proceed. The country selection in SITA, for instance, was based on a trade flow analysis in which, according to the interviewees, the Department for International Development found that Ethiopia, Kenya, Rwanda, the United Republic of Tanzania and Uganda had both a significant level and negative balances of trade with India.
- It appears that in addition to politics, India's obvious interest in East Africa emerged from its historical connection, which facilitated the initial bridging for trade. Indian and East African companies had similar experiences (over different periods of time) that enabled a contextual understanding that promoted perception change, identification of opportunities and willingness to trade. Some of the cultural similarities between East Africa and India are reflected in East African food that is actually from India.
- East Africa is seen to be taking the same path India took 70 years ago, in terms of the learning curve, the lessons learned and the pitfalls to avoid. One interviewee mentioned that 'colleagues from the North sometimes would be baffled by how East African farmers are working, but Indian companies know that things like that happen and are more prepared for it'.
- **Deal-making versus institution-building:** SITA was designed to promote trade and investment and get the deals done. That was its mandate and that is what it focused resources on. The rationale was that deal-making would eventually contribute to a more vibrant sector, the need for institutional capacity, and then strong institutions. However, this was not always the case and there were some trade-offs.

Method 3: Case studies

The case studies were chosen based on a systematic timeline analysis of SITA activities to identify specific cases where the interventions were followed up with sufficient traction in recent years. A comparison was done with secondary information using findings from existing investment case studies and the design stage. Specific cases were selected where significantly improved products or processes have been developed from Supporting Indian Trade and Investment for Africa interventions.

Case studies were picked using a framework on 'pathways to economic development through innovation and technology', designed to map specific experiences of technology or innovation.⁵³ The pathways typology from technology/innovation to outcomes suggests there are multiple potential pathways between innovation and economic development that depend on variables that influence the adoption and diffusion of technology, their impact on outcomes and the complementarity or trade-offs inherent in these processes.

The framework explains why and how a technology/innovation is adopted, diffused and used, whether and how it scales up, and whether and how it leads to development outcomes. SITA staff were closely consulted to finalize the cases. Finally, targeted interviews were conducted and feedback was solicited to further validate, refine and reposition the research focus.

⁵³ Saha, Amrita, Thorpe, Jodie and Seife Ayele (2018). Inclusive structural change: Case studies on innovations in breeding practices in Kenya and anti-retroviral therapy service provision in Mozambique. IDS Working Paper vol. 2018, No. 505. Brighton: Institute of Development Studies; Saha, Amrita and Tommaso Ciarli (2018) Innovation, structural change, and inclusion. A cross country PVAR analysis. SPRU Working Paper Series 2018-01. Brighton: Science Policy Research Unit, University of Sussex.

Appendix II: Examples of tools used for ITC interventions

Table 8 ITC uses an array of tools

Tool	Examples: Spice sector	Examples: Leather sector
Training for capacity building	<ul style="list-style-type: none"> Smallholders were trained in production, post-harvest techniques and best practices Companies were trained in processing, marketing and standards (Hazard Analysis and Critical Control Points and International Organization for Standardization)⁵⁴ 	<ul style="list-style-type: none"> Training on lean methodology⁵⁵ Showcasing successes from bigger tanneries, including efficiencies in production processes and compliance methods
Research activities	<ul style="list-style-type: none"> Rwandan farmers were concerned about the impact of weather change on chilli harvesting. It was decided to change the sowing period. Investment fact-finding missions to Rwanda 	<ul style="list-style-type: none"> An Indian leather expert led a workshop on the global leather industry, technology and market requirements in Uganda (2017) Two-day workshops on international leather standards requirements
Exposure events	<ul style="list-style-type: none"> Participation in the International Spices Conference Exposure missions to India and in Rwanda and Ethiopia 	<ul style="list-style-type: none"> Investment missions for members of India's Council for Leather Exports (2018) Attendance at the India International Leather Fair in 2017, 2018 and 2019 Attendance at the Asia Pacific Leather Fair in 2019
Business-to-business activities	<ul style="list-style-type: none"> Meetings between exporters and major Indian buyers (2015) Meeting for a Rwandan company to supply bird's-eye chilli to a French company (2016) Roundtable discussion between Ethiopian and Rwandan spice stakeholders in Addis Ababa (2016) Meetings between an Indian company and a chilli cooperative (2017) 	<ul style="list-style-type: none"> All India Skin and Hide Tanners and Merchants Association visit to the United Republic of Tanzania, Kenya and Uganda (2016) Stakeholders attended the All Africa Leather Fair in Addis Ababa to facilitate links between Kenyan, Ugandan and Tanzanian producers of semi-finished leather (2018)
Tailored communication	<ul style="list-style-type: none"> Frequent conversations with farmers and firms Brochures and leaflets for model farmers and agricultural experts in local languages 	<ul style="list-style-type: none"> Frequent conversations with firms
Digital platforms	<ul style="list-style-type: none"> Introduction of a mobile application – Level A Africa – allows checking of commodity prices and access to agricultural news on the Indian market 	<ul style="list-style-type: none"> New e-learning course on leather standards launched in 2017
Institutional strengthening	<ul style="list-style-type: none"> Facilitated Ethiopian Spices, Aromatics and Herbs Growers and Processors Association participation in membership development training for trade and investment support institutions in Zanzibar (2016) 	<ul style="list-style-type: none"> Engaged national sector associations, e.g. Council for Leather Exports in India and All India Skin and Hide Tanners and Merchants Association Supporting Indian Trade and Investment for Africa presented 'Leather sector business opportunities in Africa' and highlighted specific opportunities in Africa's leather sector (2018)

⁵⁴ Hazard Analysis and Critical Control Points focuses on the sanitation of facilities, equipment and products, all of which must meet government and municipal standards. International Organization for Standardization is a quality control method.

⁵⁵ The concept of 'lean' is where the non-value added activities of an organization are promptly identified and removed.

Appendix III: Summary of SITA's intervention designs across two sectors

Table 9 Different designs for spice and leather interventions

Spices			
Indian and international demand and existing supply capacity provided strong incentives	Identified incentives for source and recipient countries	Source (India):	Recipient:
		Other markets:	Country-specific
		Rwanda:	Ethiopia:
	Achievability	Existing supply capacity meant the possibility for improved production with support, but with recognition of accompanying risks to smallholders	
	Timeframe	Only limited results in the short term as agriculture is riskier than other sectors	
Exposure and public sector support created incentives for collaboration	Consultation workshop	Improve understanding of export market access conditions and market opportunities for selected value chains (2015)	
	Field visits	To assess the techno-commercial feasibility of spice production	
	Public sector support	<ul style="list-style-type: none"> Rwandan Government on board Ethiopian Government created a range of investment incentives 	
	Networking	Network of support programmes within ITC (such as Mitreeki) ⁵⁶	
Roadmaps designed with Indian best practices in production	Stakeholder selection	Farmers selected – already registered and operational for at least two years.	
	Objective	Value chain roadmap exercise validated with national coordinators (2015).	
	Focus	Introduction and scaling up of new chilli varieties, improving processing and exporting, as well as attracting new investment into the sector.	

⁵⁶ SITA launched the Mitreeki EA-India Partnership to build a platform for African women to share ideas, knowledge, experience and best practice with Indian and international experts.

Leather				
Shortages in India and East Africa; national priorities provided strong incentives	Identified incentives for source and recipient countries	Source (India): <ul style="list-style-type: none"> • Several Indian tanneries closed down • Issues with availability of 'right sized' effluent treatment and flaying technology in India 	Recipient: <ul style="list-style-type: none"> • Emphasis on development of the leather industry, demonstrated by development plans and strategies • Availability of raw material in these three East African countries 	
			Country-specific	
			Kenya: Significant export share (hides, skins and footwear) in the Common Market for Eastern and Southern Africa	United Republic of Tanzania: Third-biggest animal population in Africa, yet with a fledgling industry
			Uganda: Relatively large livestock population with larger quantities of hides suitable for upholstery	
	Achievability	Promising, with priorities across all stakeholders		
	Timeframe	Obvious short-term gains		
A common sector strategy created the right incentives for collaboration	<ul style="list-style-type: none"> • Environmental and rapid tannery assessment missions provided information on productive capacity of East African tanneries and determined environmental risk and performance. • Public and private stakeholders – including tanneries, shoe and leather goods manufacturers, regulatory bodies and financial institutions – met to define SITA workplans. • Assessments of East African institutions – Kenya Leather Development Council, Uganda Leather and Allied Industries Association – and national environmental management authorities. • SITA supported the Common Market for Eastern and Southern Africa Leather Sector Strategy as well as the United Republic of Tanzania Leather Strategy. • Roundtable planning meetings with leather industry stakeholders. 			
Indian best practice and East African local knowledge as roadmaps	Stakeholder selection	SITA mapped out the requirements to improve performance. Indian leather sector development (taxes, duties, policies and investment support) was used as best practice.		
	Objective	From production of raw materials to production and marketing of value-added products.		
	Focus	Support Indian investors in writing up project plans, and detailing investments and expectations to the Ugandan Government. Engaging both was critical.		

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