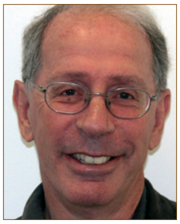
Overtaken by the Orient?

Raphael Kaplinsky explores how rapid growth in China and India impacts upon the rest of the developing world



Raphael Kaplinsky is professor of international development at the Open University

Since the late 1980s, both China and India have grown very rapidly. Other economies have grown at similar rates in the past, and for longer periods. But the distinctive character of these two 'Asian driver' economies is their size. Each accounts for approximately one-fifth of the global population.

Thus, whilst expansion in Japan and Korea basically left the external world unchanged, sustained growth in China and India affects everyone.

The external impact of their growth is transmitted through a number of channels – through trade, through aid, through investment flows, through migration and through the environment. These impacts may be either complementary for other countries, or competitive with them.

In some cases, these impacts may be direct, for example as a consequence of China's growing trade with another economy. But, more often, and more difficult to unravel, these impacts may also be indirect.

For example, China's clothing exports to the US squeezed out those from Lesotho, resulting in a 27 per cent decline in employment in Lesotho clothing firms. These less visible, indirect impacts may often be much more significant than the high-profile and easily recognised direct impacts.

China has been busy forging links with Sub-Saharan African nations, such as Sudan, where it holds large stakes in the oil industry

From the development perspective, perhaps the greatest effect on other countries of China's rise is its impact on the terms of trade, that is the relative prices of manufactures and commodities. China's rapid expansion of manufacturing has led to a fall in the price of manufactures, whilst infrastructural investments in China, and now in India, have led to a boom in commodity prices – minerals, metals, energy and food.

We must ask: in what ways does the expansion of these two Asian driver economies affect the developing world, and what implications does it hold for the UK's development policy?

First, there is a much-reduced need for UK development assistance to China, which has made great strides in the reduction of absolute poverty levels (albeit with rapidly deepening inequality).

In India, absolute poverty levels remain stubbornly high, and predominantly in rural areas. UK aid should be directed to these pockets of poverty, rather than to support the central government, lead firms and research institutions.

Sub-Saharan Africa is particularly affected by China. Its manufacturing exports have been undermined, affecting Kenya, Lesotho, Madagascar and Swaziland, particularly adversely. Manufacturing for the domestic markets is now much more difficult for local producers, who find it difficult to build their capabilities in the face of low-cost imports. So attention needs to be given to the protection and encouragement of industrial sectors.

The boom in demand for energy only benefits five major oil exporters; the boom in the price for minerals and metals only benefits 12 African economies; and most African economies, and especially its urban dwellers, will be adversely affected by rising food prices. Minerals and commodities are also very capital-intensive sectors, so the impact on income distribution – both between and within countries – may be adverse and severe.

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China's quest for energy and other raw materials have led it to take advantage of attempts by the OECD economies to encourage better governance in fragile states, such as Sudan, with regard to the Darfur crisis.

But China and India do not only represent a threat to the development challenge. They show what can be done with a combination of enhanced skills, dynamic entrepreneurship and governments which are not afraid of running against the Washington consensus and its inflexible adherence to free markets. These rapidly growing economies also offer potential as a market for products from other developing countries.

The challenge for UK aid should therefore be to assist other developing economies – particularly (but not exclusively) in Sub-Saharan Africa – to take advantage of these opportunities without being submerged by the challenges posed by the rise of the Asian driver giants. ■