

**THE IMPACT OF ASIAN DRIVERS ON THE DEVELOPING WORLD**

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AND THEIR IMPACT ON DEVELOPING COUNTRIES**

## 1. INTRODUCTION

The global economy is undergoing a profound and momentous shift. The first half of the 21<sup>st</sup> century will undoubtedly be dominated by the consequences of a new Asian dynamism. China is likely to become the second biggest economy in the world by 2016, and India the third largest by 2035. The rise of China and India as global economic and political powers is one of the most important transformative processes of our time – challenging the international political economy dominated by the “transatlantic West”. It is likely to remain significant for many years to come. A cluster of other countries in the Asian region, such as Thailand and Vietnam, are also growing rapidly. We refer to these newly dynamic Asian economies collectively as the “Asian Drivers of Global Change”. The term ‘driver’ signifies the distinctive and significant impact which these emerging economies are likely to have on the global economy, arising not just from their size, but also from their distinctive public and private actors. The economic processes they engender are likely to radically transform regional and global economic, political and social interactions and to have a major impact on the environment. This is a critical ‘disruption’ to the global economic and political order that has held sway for the past five decades. It is reshaping the world as we know it, heralding a new ‘Global-Asian’ era.

The impact of the Asian Drivers on the global political economy has, to date, largely been considered in relation to the developed world. Yet these newly emergent Asian economies pose huge challenges for the rest of the developing world, presenting both threat and opportunity. China, for example, offers a rapidly growing market for commodity exporting countries, but it is also the leading exporter for many labour-intensive, manufactured products, potentially accelerating a ‘race to the bottom’ elsewhere. Additionally, with their growing economic power, China and India can change the ‘rules of the game’ on international trade and in the global political economy more generally. Their successful experience – largely at variance with the “augmented” Washington Consensus (Rodrik, 2002) – also provides new policy role models for other developing economies.

This Special Issue addresses these challenges, based on an initial assessment of the impact of the Asian Drivers on the developing world. It reflects the initial output of a networked research programme, involving a group of researchers drawn from high and low income economies ([www.ids.ac.uk/asiandrivers](http://www.ids.ac.uk/asiandrivers)). In this Introduction we briefly address the historical significance of the Asian Driver economies, and provide a taxonomy for assessing their global impact, particularly on developing economies. Section 2 identifies six factors which convince us that the rise of the Asian Drivers is historically significant, having a non-marginal impact on the global economy. This is followed in Section 3 by a brief discussion of the challenges this poses to developing economies and to the development agenda, and a more extended treatment of the major channels of interaction between the Asian Drivers and the developing world. In this we elaborate a methodological framework designed to assess the nature and degree of these developmental

impacts. In the concluding section we briefly summarise the papers which are included in this Special Issue.

## 2. “ASIAN DRIVERS”

Regional economic agglomerations have been an important feature of recent economic history (Evans, Kaplinsky and Robinson, 2005). The global trading system during the 1960s was a bipolar world, dominated by the US and Europe and their close neighbours and ex-colonies. The following two decades saw the emergence of an East and Southeast trading group, largely reflecting the rise of Japan and the Asian Tigers, with increasingly close links to the North American trading bloc. Towards the close of the twentieth century, the Asian bloc grew to a dominant role in global trade, but this time driven by the dynamism of two large new Asian economies, India and China. In China’s case the growth spurt began in the late 1970s, and in India, from the early 1990s.

As Chaturverdi et. al in this volume show, China and India reflect very different growth paths. China is integrated into an outward-oriented regional economy, involving fine divisions of labour in many sectors. By contrast (at least until now) India represents much more of a “standalone” economic system. Yet, notwithstanding these differences in structure, they pose major and distinct challenges for the global and developing economies, for six major reasons.

The first is as a consequence of their size. As Figure 1 shows, from the beginning of their growth spurts (1979 and 1992 respectively), neither GDP or export growth in the two largest Asian Driver economies were unique. In recent years other Asian economies (for example Japan and Korea) have experienced similarly rapid growth paths. However, whilst China accounted for 20% of the world’s population and India for 17% in 2002, at no time did the combined population of Japan and Korea’s exceed four percent of the global total (Figure 2). So, unlike the case of Korea and Japan, who could grow without severe disruption to the global economy we have to suspend the “small-country” assumption In the case of the Asian Drivers. The very high trade intensity of China’s growth makes the big-country effect particularly prominent in its case (Figure 3). Between 1985 and 2005, China’s exports rose from \$50bn to \$772 billion, transforming China into the world’s third largest trading nation.

Figure 1: Growth of GDP and Exports from onset of rapid growth: China, India, Japan and Korea

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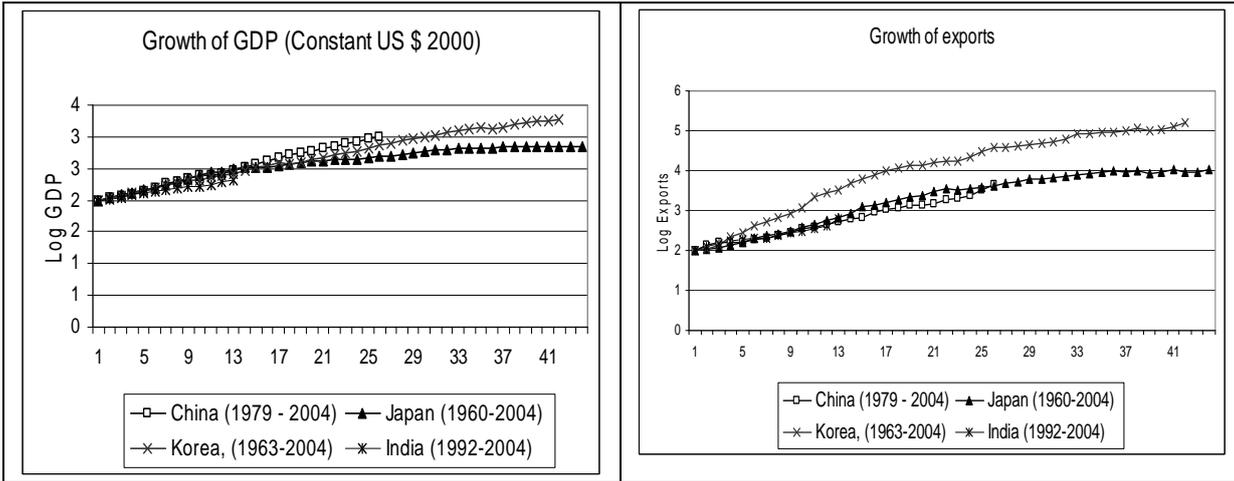


Figure 2.

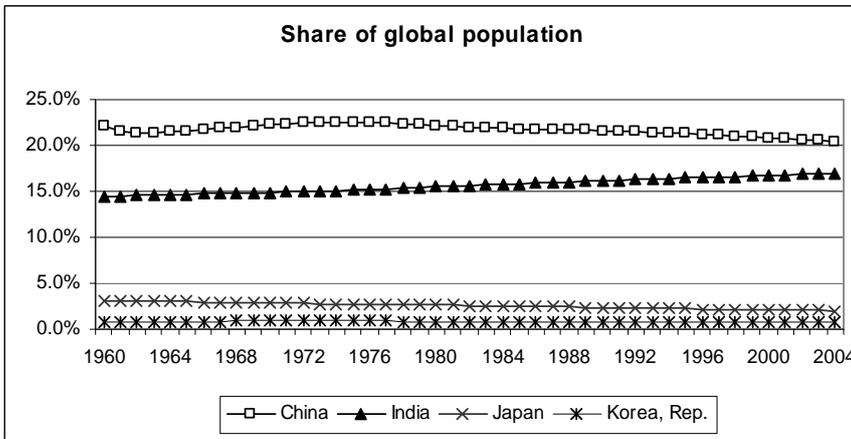
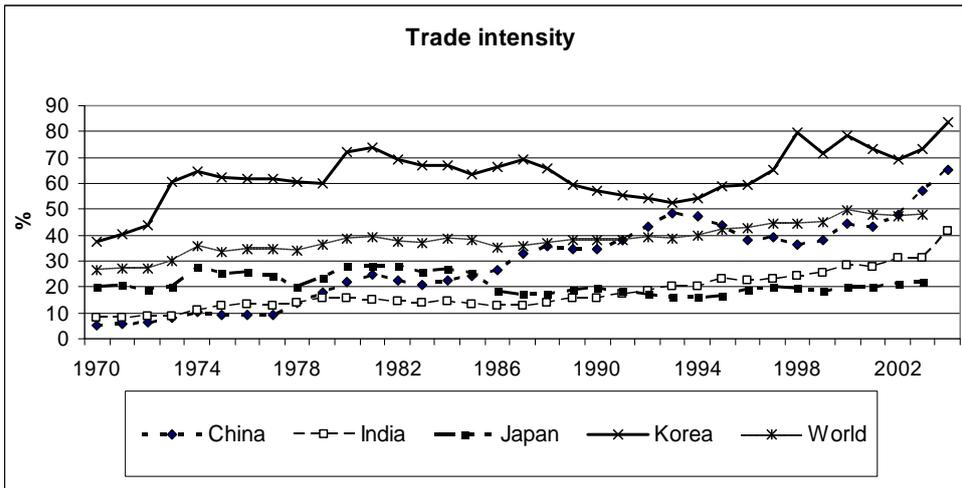


Figure 3. Trade as a proportion of GDP (%), 1970-2002



Source: Calculated from World Bank, World Development Indicators, 2004.

Second, these economies embody markedly different combinations of state and capitalist development compared with the industrialised world. Chinese enterprises have their roots in state ownership, usually arising from very large and often regionally-based firms (Nolan, 2005; Shankar, 2005). They reflect a complex and dynamic amalgam of property rights – “The ownership of each of China’s large SOEs [state owned enterprises] has spread gradually among a variety of public institutions, each of which has an interest in the firm’s performance... [b]ased on the ‘ownership maze’ and vaguely defined property rights” (Nolan, 2005: 169). With access to cheap (and often subsidised) long-term capital, these firms operate with distinctive time-horizons and are less risk-averse than their western counterparts (Tull, 2006). Indian firms are probably less distinct from the western model, although they tend to be less specialised and often include elements of social commitment which are largely alien to western firms (Humphrey, Kaplinsky and Saraph, 1998). Associated with these complex forms of ownership and links to regional and central state bodies, Chinese firms often operate abroad as a component of a broader strategic thrust. As Kaplinsky and Morris show in this Issue, this is particularly prominent in China’s advance in SSA in its search for the energy and commodities required to fuel its industrial advance. It is likely, therefore, that Asian Driver firms (and particularly Chinese enterprises) will interact with the global economy – including through outward FDI – in historically distinctive ways.

The third reason why the Asian Drivers present a new and significant challenge to the global and developing economies is that they combine low incomes and low wages with significant innovative potential. This means that they are able to compete across the range of factor prices. The oft-stated belief (and hope?) that China will run out of unskilled labour is belied by the size of its reserve army of unemployed, estimated at around 150m compared to the 83m people employed in formal sector manufacturing in 2002 (Kaplinsky, 2005). As Shenkar observes, “China’s enormous labor reserves, with pay scales radically lower in the hinterland than the coast and in urban areas (the average income on the farm, where more than half of the Chinese population lives, is less than \$25 per month), creates the equivalent of a country within a country; so, instead of Vietnam or Bangladesh replacing China as a labour-intensive haven, Hunan will replace Guangdong” (Shenkar, 2005: 134). Moreover by 2030, India, also with a large reserve army of underemployed, is likely to have a larger population than China. The Asian Drivers are altering the underlying patterns of the global labour markets (Polaski, 2006). China, for example, overtook Japan to become the world’s second largest investor in R&D in 2006.

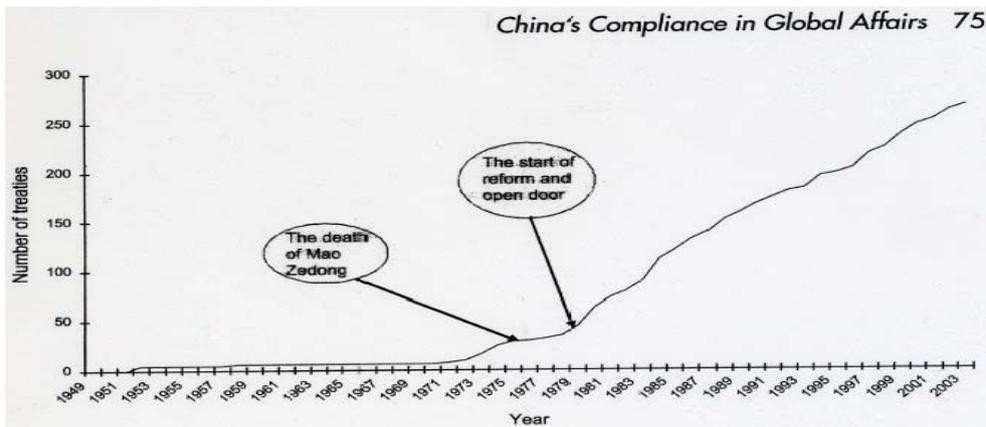
Fourth, China and India are associated with very different forms of regional integration. China is part of a distributed regional network of production, reflecting wider regional competitiveness. Traded goods ‘manufactured in China’ in fact usually emanate from regional production systems - China’s

trade deficit with East Asia grew from \$4bn in 1990 to \$40bn in 2002, and the region's share of China's merchandise imports grew from 55 to 62 percent in the same period (Lall and Abaladejo, 2004; Chaturverdi et. al in this Issue). An increasing proportion of China's trade involves the processing of imported raw materials and intermediates (widely referred to in the literature as "verticalised trade", @). Official data show that this form of trade grew to \$404.8 billion in 2003 (48 per cent of the total trade volume), up from \$2.5 billion in 1981 (5.7 per cent of total trade) (NiHaoOuZhou\_com, (2006), Foreign firms dominate China's exports, accessed 30<sup>th</sup> June 2006). By contrast, Indian exports are more an outcome of a "national system of production", so that the spread effects of the growth paths of these two Asian driver economies are likely to be very different.

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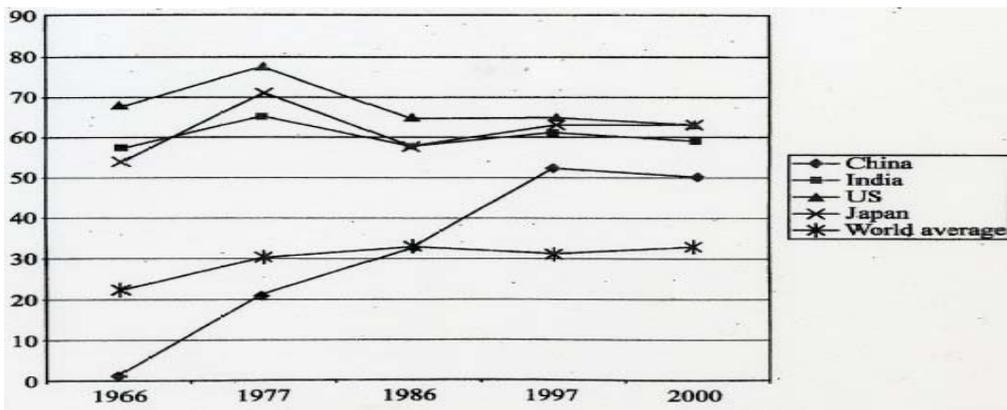
Fifth, both China and India are now heavily engaged in global institutions (Figure 4), but whereas India has long been a participant, China's global presence is more recent (Figure 5). Whilst the nature of their political engagements with the rest of the world differ sharply, they increasingly affect global and regional governance (Humphrey and Messner in this Issue). The role of China and India as actors of global change has largely been ignored in the global governance literature (Nye/ Donahue 2000, Kennedy/ Messner/ Nuscheler 2002). But the simultaneous rise of both Asian giants in world politics represents a far reaching power shift in global affairs with few parallels in history. India plays a major role as an "advocate" of the interests of the developing countries, for example as the leader of G22 within the WTO. China is profiling the Shanghai Cooperation Organisation (formed by China, Russia, Kazakstan, Kirgistan, Tadjikistan and Uzbekistan) as a significant player in the area of global energy policies. China and India also provide a different policy role-model for many developing economies, with the possible rise of a "Beijing Consensus" to rival the Washington Consensus. Ramo, interviewing key informants in China in the early years of the twenty-first century, characterises this new policy agenda as involving a measured pace of reform (rather than a big-bang approach) and allowing for country-specific responses (rather than a one-size-fits-all policy agenda) (Ramo, 2004). We perceive these dynamics as a transition from a quasi-unilateral US-dominated world order to a multipolar power constellation, that could lead to new turbulences and conflicts between the rising and the declining powers within the global governance system and that will reshape the existing "North – South relationships" (Humphrey/ Messner 2006). Whilst the more proactive global engagement of China and India may lead them to become "responsible and productive global citizens" (Bergsten et a., 2006: X); they will definitely challenge the interests of other major powers and existing international norms. Richard Haass put it this way: "The choice ... is between an effective multilateralism and either a gradual return to a world of great power competition or a world overwhelmed by disruptive forces, or both." (Haass, 2005: 17)

Figure 5: China's accession to international treaties, 1949-2003 (cumulative sum)



Source: Chan, 2006, China's compliance in global affairs, p. 75

Figure 4: China's international organization memberships in comparative perspective



Source: Johnston, 2003, China and international institutions, p. 315

Finally, the huge natural resource hunger and energy needs of China and India will in the future serve to place the issue of sustainability squarely back on the agenda of global politics and development policies. By 2015 China's energy demand is expected to roughly double, India's to rise by 50 per cent. Today China is the second largest emitter of greenhouse gases (only exceeded by the US) and is already responsible for 16,5 per cent of global CO<sub>2</sub> emissions, the corresponding figure for India being 4 per cent (Germany 3,5 per cent). And as far as imports of tropical timber are concerned, China now comes in close behind Japan, to take the second place. The world's

biocapacities will not be sufficient to feed China's and India's resource hunger and sustain their growth. In other words: none of the key global environmental challenge will be solved without China and India (World Watch 2006). The flip side of the discussion on sustainability and global climate change is the renaissance of geo-economics and geo-politics: competition between the "old" and the "new" global powers for energy and resources in Africa, Latin America, Central Asia and Russia (Umbach 2005).

### **3. ASSESSING THE IMPACT OF THE ASIAN DRIVER ECONOMIES ON THE DEVELOPING WORLD**

The rapid and distinctive growth of these large Asian Driver economies thus poses six distinct development-related questions

1. What are the consequences of the emergence of the Asian Drivers for economic growth in other developing economies, both in relation to individual-country performance and for different regions?
2. Who are likely to be the losers and winners from the growing dynamism of the Asian Drivers, within and between low-income economies, and within and between regional clusters of low-income economies?
3. Given these growth and distributional impacts, what are the implications for development strategies in developing economies?
4. How should developing countries engage with the global economy in general, and the Asian Drivers in particular?
5. Given the rapid growth and size of the Asian Drivers, what are the implications of this shift in global power for institutions of regional and global governance, in the public, private and non-governmental sectors? How will this shifts in the global governance arenas affect developing countries?
6. Given the enormous resource and energy hunger of the Asian Drivers, what are the consequences for other developing countries in environmental terms (e.g. impacts of accelerating climate change), economic terms (e.g. rising resource and energy prices), geopolitical terms (e.g. conflicts for resources) and regarding development strategies and policies (e.g. from pro poor growth to sustainable development)?

These questions need to be addressed in a systematic framework, and here we distinguish between three sets of structuring principles – the channels of Asian Driver interaction with the global economy; the distinction between complementary and competitive impacts; and the difference between direct and indirect impacts.

#### (a) Channels of interaction

There are a variety of different channels through which individual countries interact with other economies, in their regions and elsewhere. Clearly, these channels are contingent – they change over time, and vary in importance depending on factors such as location, resource endowment, trade links, and geo-strategic significance. Currently, and in aggregate, six key channels stand out in importance.

The first of these are the trade links between the Asian drivers and the global economy. China's share of global merchandise trade had risen to 6.7 per cent by 2004, exceeding that of Japan, and growing particularly rapidly from the mid 1990s (Table 1), a period in which the US's share of merchandise trade fell appreciably. By 2004, China's share of global manufacturing exports had risen to 8.3 per cent, still below that of the US and Germany, but growing rapidly. By contrast, India's share of global merchandise trade was basically stable in the same period, at a much lower level than China's. However, India's share of global service trade, particularly IT services grew (although no clear comparative data are available).

**Table 1: World merchandise trade by region and selected economy, 1948, 1953, 1963, 1973, 1983, 1993, 2003 and 2004 (\$bn and per cent)**

	1948	1953	1963	1973	1983	1993	2003	2004
	Exports Value							
World	58	84	157	579	1838	3670	7342	8907
	Share							
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
United States	21.7	18.8	14.9	12.3	11.2	12.7	9.9	9.2
S. and C. America	11.4	9.8	6.3	4.3	4.4	3.0	2.9	3.1
Brazil	2.0	1.8	0.9	1.1	1.2	1.1	1.0	1.1
Europe	31.5	34.9	41.4	45.4	43.5	45.4	46.1	45.3
Africa	7.3	6.5	5.7	4.8	4.5	2.5	2.4	2.6
Asia	13.6	13.1	12.4	14.9	19.1	26.1	26.1	26.8
China	0.9	1.2	1.3	1.0	1.2	2.5	6.0	6.7
Japan	0.4	1.5	3.5	6.4	8.0	9.9	6.4	6.4
India	2.2	1.3	1.0	0.5	0.5	0.6	0.8	0.8
Six East Asian traders	3.0	2.7	2.4	3.4	5.8	9.7	9.4	9.7

Source: WTO AR 2005, [http://www.wto.org/english/res\\_e/statis\\_e/its2005\\_e/section2\\_e/ii02.xls](http://www.wto.org/english/res_e/statis_e/its2005_e/section2_e/ii02.xls), accessed 20th September, 2006.

The second major channel of interaction is FDI. Already the Asian Drivers account for the major share of global inward FDI, with China and Hong Kong alone attracting almost 40 per cent of total FDI destined for developing countries (UNCTAD, 2005). But the Asian Drivers are increasingly also a source of outward FDI. In some regions – SSA in particular (Kaplinsky and Morris in this Issue) – China has become the major source of new inward FDI, particularly in economies which because of their political fragility, have been shunned by western investors for some years. There are four primary types of

FDI – technology-leveraging, resource seeking, market seeking and cost reducing. Chinese outward investment clearly fits-into the first three of these – technology leveraging investments in the US (and, to a lesser extent, the EU), and resource-seeking and market-seeking investments predominantly in other developing economies.

The third channel is finance. Large trade surpluses in both China and India coupled with these countries' ability to attract FDI and other categories of capital flows have led to a build-up of large foreign reserves, estimated at more than \$1trillion in 2005. A significant change in how Asia's capital surpluses are managed could cause an abrupt adjustment in the US interest rates and the dollar and thereby destabilise the entire world economy. It could also accelerate a slow-moving structural change which is the gradual weakening of the role of the dollar as the world's main reserve currency. Both of these developments have significant indirect implications for other developing countries, affecting the structure of global financial markets and the competitiveness of their exchange rates.

The fourth channel of interaction arises in relation to institutions of global and regional governance. The emerging strategies of China and India towards multilateral institutions such as the WTO, the UN, World Bank and IMF, and the global climate regime and the bilateral interactions between the US, Europe and the Asian Drivers will profoundly change the international context for other developing countries (Chan 2006, Messner 2006). This could create new options for developing countries in global governance institutions if China and India would play the role of "voices of the South" in global politics. If they would look primarily to their own interests, new conflicts between the Asian Drivers and other developing countries might arise – e.g. in the area of trade, and regarding access to resources. China's close cooperation with "difficult states" like Sudan, Myanmar, Uzbekistan, and Zimbabwe and its close energy partnership with Iran provoke tensions with western countries and demonstrate that the Asian Drivers are able to alter geo-strategic maps and north-south relationships (Humphrey and Messner in this Issue). The boldest Asian initiative to organize regional cooperation and global impact is JACIK, a framework for economic and political cooperation of Japan, ASEAN, China, India and Korea (Kumar 2005). It is not yet clear whether this project will be realised in a near future. But there is no doubt the JACIK – and/or similar initiatives – are likely to make an enormous difference in the global governance system.

Migration from the Asian Drivers and interactions with diaspora communities represents a fifth channel of impact. To some extent, migration is an already accomplished historic phenomenon, with large Chinese diasporas in Asia. Outward migration from India to SSA occurred during the late 19<sup>th</sup> century and first half of the twentieth century, and in the latter twentieth century extended to Europe, North America and Australasia. But more recently, Asian Driver migration has risen, particularly to SSA and from China. For example, by some counts, there are currently 300,000 Chinese living in South Africa, most of whom are recent migrants. The Chinese population of Lusaka grew from

3,000 to 30,000 between 1995 and 2005 and Chinese migrant communities are increasingly prominent in many African countries, including from poor regions in China.

The sixth and final major channel of impact on other economies arises from environmental spillovers. Rapid growth in China and India consumes natural resources and generates cross-border environmental damages within the Asian region.. Problems with the use of natural resources are widely documented. Little of the region's timber is managed sustainably, and illegal logging is rife. For example, there have been repeated denunciations of the activities of illegal Chinese logging companies in Myanmar. Cross-border environmental challenges include the Songhua River incident (and subsequent water pollution incidents) in November 2005 in northern Chinese rivers and the problem of acid rain: it is estimated that between one third and one half of acid rain in South Korea and Japan is the result of sulphur dioxide emissions from China (Umbach 2005: 212). Beyond that, China's and India's rapidly rising imports of natural resources from all over the world are creating environmental problems in Africa, Latin America and the rest of Asia. The most import global environmental impact of rapid growth in the two Asian giant economies will be their contribution to global climate change. China's share of world wide CO2 emissions could reach 25 per cent in 2025, the corresponding figure for India being 10-15 per cent. The currently discussed Kyoto II regime to control climate change, neglecting the role of China and India, would be completely ineffective.

#### (b) Complementary and competitive impacts

Simplistically, and as a starting point, the interactions between the Asian Drivers, the global economy and individual regions and countries can be seen in a binary framework as comprising a range of complementary or competitive impacts. Figure 4 provides some examples, notional, but informed by the emerging nature of Asian Driver expansion. In each of these channels of interaction, we can observe a mix of complementary and competitive impacts. For example, with regard to trade, the Asian Drivers may both provide cheap inputs and consumer goods, and be a market for the exports from other developing countries. On the other hand, imports from the Asian drivers can readily displace local producers. In relation to FDI, the Asian Drivers may either be a direct source of inward FDI or crowd-in FDI from third countries as parts of extended global value chains. But the Asian drivers may also compete with other economies for global FDI. The rising power of the Asian Drivers in a western dominated global governance system may strengthen the voice of developing countries in international organizations. But the emerging conflicts between the Asian Drivers, the US and Europe on energy, resources and markets might also marginalize development policy issues in word politics. Similarly, financial flows environmental spillovers and migration may be either complementary or competitive.

The key element of these interactions is the "for whom" component. Countries may be affected differentially – in some cases, for example, the export of fabrics from the Asian Drivers may feed productively into a vibrant clothing

and textile value chain; in other cases, it may displace a country's exports and production for the domestic market. But these effects are not just felt at the national and economy-wide level. They affect groups within countries differentially. For example, cheap clothing imports from China may displace clothing and textile workers, but cheapen wage goods and hence reduce wage costs for producers in other sectors (which is indeed what has been occurring in many high-income economies during the early years of the 21<sup>st</sup> Century). These impacts on a complementary-competitive axis may also change over time, and most importantly, they will vary for different classes, regions and groups within economies.

Figure 6: Examples of complementary and competitive impacts

<b>Channels</b>	<b>Impact</b>	<b>Nature of links</b>
Trade	Complementary	Imports of cheap consumer goods from Asian Drivers; Exports of commodities to Asian Drivers
	Competitive	Imports from Asian Drivers displace local producers
FDI	Complementary	Inflows of FDI from Asian Drivers
	Competitive	Competition for US FDI from Asian Drivers
Finance	Complementary	Loans from Asian Drivers to governments and private actors
	Competitive	Low-cost finance from Asian Drivers displaces local financial intermediaries
Global Governance	Complementary	Support for Development Round from Asian Drivers in WTO
	Competitive	Asian Drivers side with EU in WTO
Migration	Complementary	Asian Driver migrants intermediate complementary trade with home countries
	Competitive	Asian Driver migrants displace local entrepreneurs
Environment	Complementary	Asian Drivers cooperate in regional water projects
	Competitive	Asian Drivers as significant motors of global climate change

(c) Direct and indirect impacts

The complementary-competitive axis of impacts is readily comprehended and widely recognised. Less widely acknowledged is the distinction between direct and indirect impacts. In part this is because the indirect impacts are difficult to measure. However, in many cases, the indirect impacts may in fact be much more significant than the direct ones. Figure 5 gives some examples, for purposes of illustration contrasting direct complementary impacts with indirect

competitive impacts in Lesotho, a poor SSA economy.<sup>1</sup> In 2000-2004 Lesotho's clothing exports to the US under the AGOA scheme grew very rapidly, but were undermined in 2005-6 by Chinese competition following the removal of MFA quotas (Kaplinsky and Morris, 2006). Looking at the trade channel, thus, direct complementary impacts included the supply of fabrics used in Lesotho's clothing exports. On the other hand, the indirect impact on Lesotho of China's growing competitiveness in the US led to a 17 percent fall in exports during 2005. Whilst some of these exports arose from Taiwanese-owned plants, in other cases potential foreign investors in Lesotho preferred to manufacture clothes in China (and India and Bangladesh). Lesotho suffered badly from the appreciation of the Rand (to which its currency was tied), an indirect impact of Southern Africa's burgeoning commodity exports to China. Lesotho also stands to lose from China's accession to the WTO and the power it might wield in removing preferential access to major markets for the exports of least developed countries, outweighing any possible positive impact of potential budgetary aid to government. Finally, Lesotho's major export other than clothing (vulnerable to Asian Driver competition) and unskilled migrant labour is its water. A change in rainfall patterns consequent on global warming is likely to have very adverse economic impacts.

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<sup>1</sup> Of course we could also compare direct competitive with indirect complementary impacts, but for the moment this is only a notional exercise to illuminate the taxonomy which we are using.

Figure 7: Examples of direct complementary and indirect competitive impacts on Lesotho

<b>Channels</b>	<b>Impact</b>	<b>Direct</b>	<b>Indirect</b>
Trade	Complementary	Asian Driver fabrics used in Lesotho's clothing exports	
	Competitive		Asian Driver competition in US squeezes out Lesotho clothing exports
FDI	Complementary	Asian Driver investment in Lesotho's clothing sector	
	Competitive		US foreign investors relocate clothing factories from Lesotho to China
Finance	Complementary	Asian Driver aid for budgetary support	
	Competitive		Asian Driver led realignment of currencies forces up the value of the Rand, and undermines profitability of Lesotho's clothing exports
Global Governance	Complementary	Budgetary support to government augments state power	
	Competitive		Asian driver input into WTO removes AGOA preferences
Migration	Complementary	Chinese migrants facilitate imports of cheap consumer goods	
	Competitive		Chinese migrants squeeze out local traders
Environment	Complementary	Indian solar technologies enhance energy efficiency in rural areas	
	Competitive		Asian Driver carbon emissions lead to global warming and reduce rainfall in Sub-Sahara Africa

As in the case of the complementary/competitive access, the impact of the direct and indirect impacts can be gauged either at the country level, or at intranational levels, for example with regard to different regions, sectors, classes and genders.

## 5. CONCLUSIONS

Based on this template of different channels of interaction and the recognition that impacts can be both complementary and competitive, it is possible to move towards a comprehensive assessment of the impact of the Asian Drivers on other economies in general, and developing economies in particular. As we have noted, this assessment will be contingent on the period, the location, the economy in question and the welfare of different groups. The pace of change is such that these contingencies are of considerable significance.

The papers which follow in this Special Issue address some of these issues. The first four papers focus on regional impacts. Using a new global general equilibrium trade model, McDonald, Robinson and Thierfelder analyse the impact on the global economy, especially developing countries, of the dramatic expansion of trade by India, China, and an integrated East and Southeast (E&SE) Asia trade bloc. While both India and China are very large economies, the two main Asian Drivers differ in economic structures and trade patterns. China is an integral member of the E&SE Asia bloc, with strong links through value chains and trade in intermediate inputs, while India is not part of any trade bloc. The analysis considers the importance of their different degrees of integration into regional and global economies, focusing on potential complementarities and competition with other developing countries.

Chaturverdi, Humphrey, Kuman and Schmitz extends the arguments of the previous paper (McDonald et al.) by focusing on two questions. First, how does economic integration in Asia, in which China and India play the key role, contribute to the dynamics of the region? Second, what is the impact of the new dynamics on the weaker and poorer Asian countries? The paper distinguishes between regional integration driven by institutions (regional trade agreements) and integration driven by business (manufacturing enterprises, traders, supply chain co-ordinators). It contrasts regional integration initiatives in South Asia, which are characterised by the former, and that in East Asia, which is characterised by the latter. The paper then goes on to analyse the prospects for pan-Asian integration and attempts by India to develop linkages with ASEAN and the ASEAN+3 grouping.

Jenkins, Dussel Peters and Moreira assess the impact of the Asian Drivers on Latin America. The rapid growth of China in particular, and its increased integration with the global economy is having both direct and indirect effects on the Latin American and Caribbean region. This paper identifies the main channels through which China's growth is affecting the region and undertakes a preliminary analysis of the impacts that it is having on development. The

growth of China represents both opportunities and challenges for the Latin American and Caribbean economies and the paper suggests where, in terms of both countries and sectors, these are concentrated. Finally the paper discusses the challenges facing policy makers both in the region and in China.

Finally with regard to regional issues, Kaplinsky and Morris focus on China's impact on SSA. China's role in SSA is advancing at a dramatic pace, and is reflected in the growth of trade, FDI and aid. The major driver of this growing presence in SSA is China's search for long-term access to resources. This has major impacts for SSA. For many economies producing raw materials and importing consumer goods, China represents opportunity; similarly, low-income and war-torn SSA economies welcome the growing presence of Chinese FDI, including by small-scale entrepreneurs. However, at the same time, reorientations in trade specialisation (away from manufactures to commodities) poses significant threat to SSA's industrial future, has adverse Dutch-disease effects and is likely to make income distribution more unequal. An additional impact is to weaken global attempts to impose more transparent and better governance on fragile SSA states.

The growth of Asian Driver demand for commodities has begun to have an impact on the terms of trade (Kaplinsky, 2006). Gottschalk and Prates show that whilst the commodity export boom has contributed to improved external accounts in Brazil, Chile, Peru and Venezuela, it has posed challenges to macroeconomic management. Policy makers in Latin America have responded by pursuing prudent macroeconomic management policies. Venezuela is the only country that has increased public expenditure significantly, mainly in the social sectors. A striking finding is that in Peru, Government revenues from the mining sectors are very small. A further finding is that public investment in the four countries has not increased in line with the increase in surpluses. However, foreign investors have demonstrated interest in investing in the extractive sectors in these countries. This paper concludes that Latin American countries benefiting from the ongoing upward trend in commodity prices should do more to increase investment, especially in infrastructure. They should also avoid excessive currency appreciation, which undermines the competitiveness of their labour-intensive manufactured exports.

Three papers focus on the impact of the Asian Drivers on institutions of global governance. Humphrey and Messner argue that the rise of China and India in the world economy and as an important actors in global governance arenas may result in an emerging tectonic shift in institutions of global governance. The current global governance architecture, with its quasi-unilateralist (i.e. US) bias, is unlikely to last more than a brief historical moment. A multipolar power constellation is emerging, with the US, China, India, and possibly Europe as significant poles. This authors discuss challenges in three dimensions. First, the rise of China and India will create turbulences that global governance institutions will have to manage, while at the same time challenging the way that these institutions operate and the agreements and alliances that have sustained them. Second, the challenges for developed countries will be to work with self-confident and demanding partners that are likely to challenge established consensus around development policies

(from the “Washington to the Beijing Consensus”?). Third, developing countries will have to adapt to significant turbulences and shifts in the world economy and in global governance arenas and make strategic decisions about how to align themselves with the emerging powerful actors in Asia.

Cooper and Fues address the roles played by China and India in reform of the UN system. The UN may play an important role in managing the emerging, unstable and conflictive multilateral power constellation between the US, China, India and Europe. In the past, China and India have demonstrated only limited commitment to the UN reform process, except for the contested issue of Security Council enlargement. The article will outline the changing major interests and concerns of China and India in UN reform and seek to identify their future UN strategies. It is self evident, that any serious effort to prepare the UN for the global challenges of the 21<sup>st</sup> century will fail unless these key nation states become active stakeholders.

Scholz and Richerzhagen focus on the roles played by China and India in the governance of climate change. China and India belong to the largest emitters of greenhouse gases worldwide. Due to their dynamic economic growth, emissions are increasing enormously, despite drastic improvements in energy efficiency and coal technology. At the same time, both countries will also suffer immensely under the impacts of climate change. In this situation both countries face multiple challenges: How to include the climate factor into an energy policy strategy? How to develop adequate plans and measures for adapting to climate change? How to combine growth with greater energy-efficiency? The authors analyse the learning processes and national interests of China and India in the areas of climate and energy policies.

The final paper addresses the question of whether the Asian drivers will remain as technological followers. Altenburg, Schmitz and Stamm question the extent to which the Asian Drivers will not just use off-the-shelf technologies, but also be innovators, and ask how these outcomes are influenced by policy. In several manufacturing and service sectors China and India are rapidly moving into knowledge-intensive stages of production. Given the magnitude of their economies, the speed and breadth with which both countries make inroads in knowledge-intensive production is likely to provoke dramatic changes in the global division of labour. The authors propose an analytical framework for analysing technological upgrading and apply it to two Chinese and two Indian sub-sectors. This comparison shows that the policies underlying the upgrading process are by no means uniform. The role of different elements of industrial policy including strategic planning, public research-enterprise linkages, acquisition of foreign technology companies, and conditionality imposed on foreign investors to share technologies is discussed.

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