



Eastern promise

Financial, political and industrial developments have seen China, India and Japan's fortunes rise. But with that growth comes a rivalry that could be either constructive or destructive.

Bill Emmott reports.

The global economic crisis has brought many shocks. But one feature that has surprised few people is that Asia's emergent economic giants, China and India, have proven resilient and begun their recoveries more quickly than Europe or America. Whether this proves to accelerate the long-run shift in economic power from West to East or just leaves trends as they were before the crisis depends on how durably and strongly the western economies eventually recover. Shifts in power are relative events, not absolute ones.

Yet we can already conclude that Asia's rise is set to continue, having begun in the 1970s when Japan's economic development came to be emulated by South Korea, Singapore, Taiwan, Malaysia and then most spectacularly by China. With that rise comes the most important phenomenon of all: a growing rivalry between the region's three great powers – Japan, China and India. Respectively, they are the world's second, third and twelfth largest economies by GDP, or third, second and fourth if GDP is adjusted to reflect purchasing power parity and thus living standards.

“The growing rivalry between China, India and Japan could become constructive rather than destructive by being channelled into regional institutions that reduce disputes, misunderstandings and even conflict.”



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01

Previous pages

Labourers at work on a skyscraper in China's commercial capital, Shanghai, probably the world's biggest construction site

The swift Asian recovery reflects a point that has not been well understood in the West, such is westerners' conviction that the world revolves around New York and London. It is that China, India and some other emerging economies have passed through a different sort of economic cycle from the western one. Rather than their downturn being caused by a banking crisis, the Chinese and Indian downturns were caused by an inflation crisis. In the first half of 2008, both countries experienced high and rising inflation rates, pulled by their own monetary laxity and pushed by the boom in oil and other commodity prices, which forced their monetary authorities to tighten policy sharply.

As a result, both China and India would have experienced a slowdown

in growth even if Lehman Brothers had not collapsed in September 2008 and world trade had not plummeted thereafter. Falling exports contributed only about one-third of China's slowdown in 2008-09; the rest came from tighter money at home and from the country's own property market and construction-industry slump.

Change in reverse

The result now is even more important. When a slowdown is caused mainly by anti-inflation policies, recovery can come rapidly and strongly when those policies are put into reverse. And that is what has been happening in China and India.

On the far eastern edge of Asia, the economic crisis has had a different

shape and effect. Japan had no banking troubles linked to derivatives or sub-prime mortgages, having lived through its own financial instability in the 1990s, but it took a big direct hit from the slump in world trade and demand for manufactures. In economic terms, this pushed Japan back into a deflationary spiral for prices and wages, from which it emerged briefly in 2006, and sent unemployment to record levels.

Politically, however, the crisis, at least in principle, has been beneficent. At the general election on 30 August this year, voters responded to their economic woes by destroying the parliamentary strength of the Liberal Democratic Party that had ruled the country almost uninterrupted since 1955, breaking the parliamentary deadlock by giving a governing majority in both houses to the centre-left Democratic Party of Japan, and some small-party allies.

Constructive rivalry

The combination of radical political change in Japan with the swift emergence from economic downturn of China and India is potentially extremely significant for the Asian region as a whole, not because of any shift in power from the West but because of its effect within Asia itself. It opens up a chance that the growing rivalry between these three great powers could become constructive rather than destructive by being channelled into the development of regional institutions that reduce the danger of disputes, misunderstandings and even conflict.

Simply speaking of Asian rivalry and the balance of power between China, India and Japan is both a novelty and welcome. Since the era of European colonisation of Asia began in the



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03

16th century, the only countries that have sought to shape their policies on an Asian scale have been outsiders: first the Europeans and then the United States. And when the European empires withdrew after 1945 they were replaced by inward-looking, isolationist approaches in Mao Zedong's China and Jawaharlal Nehru's India, while

01 At a Tokyo brokerage, an employee ponders the market as Japan starts to suffer the impact of the world economic downturn

02 A loaded Chinese vessel off Kwai Chung Container Port in Hong Kong. China has steadily increased the number of traders, ships and mining companies into the Gulf and Africa across the Indian Ocean

03 At a factory near Jaipur, Rajasthan, employees assemble solar panels to be exported and also sold domestically throughout India

Japan's eyes were focused firmly on its relationship with the US. Contact between the great Asian powers was sadly negative: the border war between China and India in 1962, the lining up on different sides in the Korean and Vietnam wars, and the recurrent wrangling over historical grievances.

A fresh look

The beginnings of change came in 1978, with Deng Xiaoping's ascent to power in China and his gradual adoption of capitalism ("with Chinese characteristics", according to his famous phrase) and of foreign investment and technology.

However, these really started to have an impact only in the 1990s. China's economy grew rapidly to become a low-cost manufacturing hub drawing on imported parts and components from around the region, with foreign policy becoming focused on improving relations with its neighbours – rather than, as under Mao, exporting revolution to them – as China prepared to join the World Trade Organisation in 1999 and to reduce its trade barriers radically.

At the same time, India was liberalising its previously closed and over-regulated economy too, and successive governments there pursued a 'Look East' policy of building better ties with east and south-east Asia, but with less vigour and speed than China managed.

If the critical development of the 1990s was the emergence of an open,

economically dynamic China, reaching out across the region and beyond, the most important trend of this present decade has, however, been the acceleration of India's emergence too. India's growth rate has approached double digits at last, trade has doubled in proportion to GDP (from 20 per cent in 1990 to 40 per cent now, albeit against China's 65 per cent), and the economic linkages between India and the rest of Asia have strengthened. Moreover, manufacturing industries and infrastructure investment have become big parts of India's growth story, alongside the familiar world of IT and outsourcing. Four significant consequences have ensued.

Conflicts of interest

The first is that growth in Asia is not, as is sometimes portrayed, simply a story of the rise of China. China's regional and global importance is indeed growing, but so is that of India and of many smaller economies in the region. China is not going to have things all its own way, either in Asia or in the world as a whole.

The second, related, consequence is that the interests of China and India

01

Justin Guariglia/Corbis



01 Employees of an electronics factory in Guangdong. China's manufacturing economy began to grow substantially in the 1990s

02 Engineers of Oil and Natural Gas Corp in India's Kalol oilfield. Mineral and energy sources will be a major boost to the country's global trade

03 A worker at the Nissan Oppama Plant. Japan is slowly emerging from unprecedented unemployment levels, having been heavily impacted by the slump in world trade and demand for Japanese goods

have begun to overlap and even come into potential conflict, especially in and around the Indian Ocean. Chinese industry's hunger for resources has been sending its traders, ships and mining companies across that ocean into the Gulf and to Africa, crossing what had long been India's backyard.

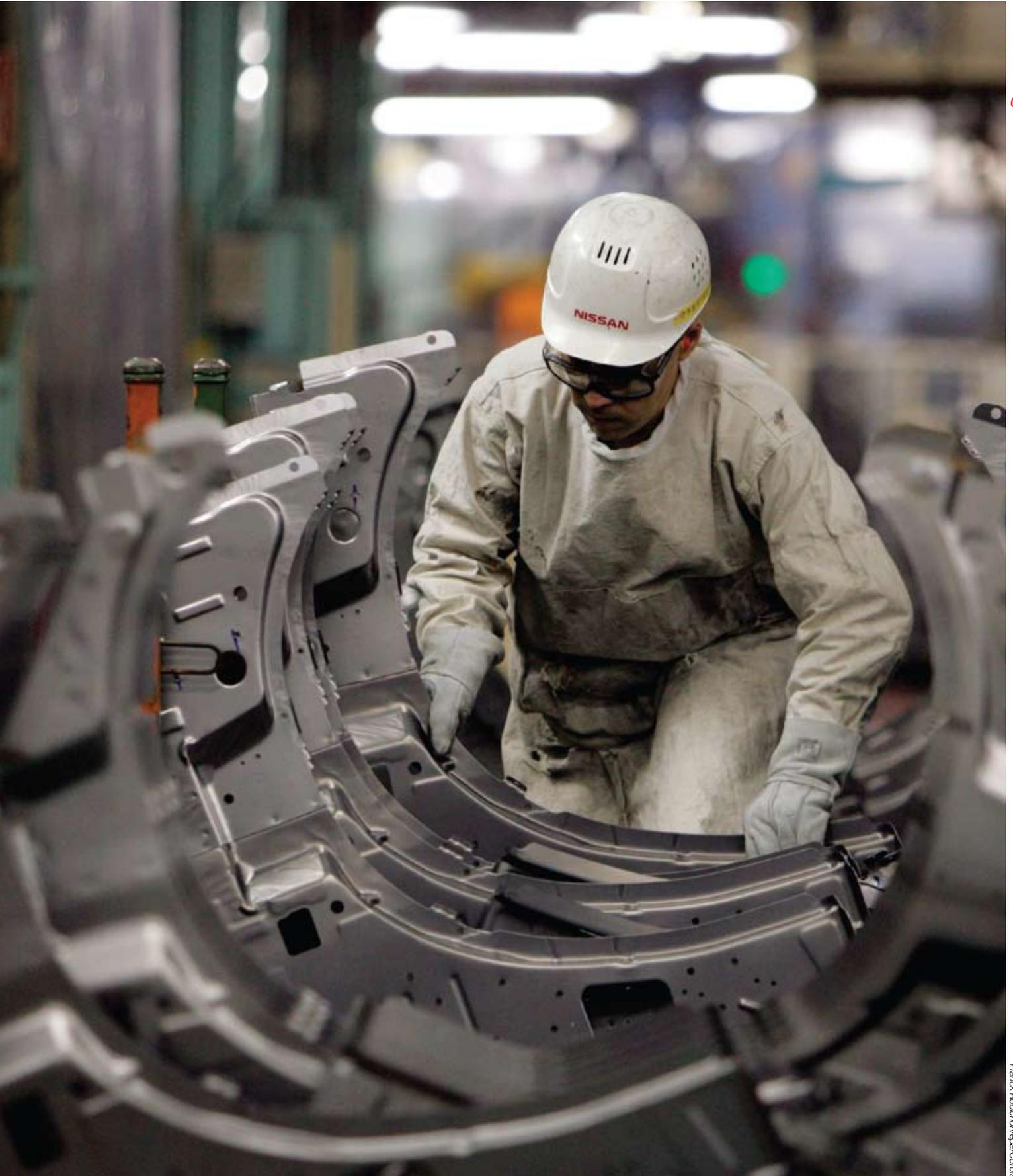
Just as significantly, that hunger has increased China's strategic interest in developing alternative routes for resources supply from Africa, the Gulf and beyond, to avoid becoming dangerously dependent on shipping lanes through the Malacca Strait between Malaysia and Indonesia. Thus, it has been building roads and pipelines through Pakistan and Myanmar, as well as ensuring its naval vessels have friendly ports available in Sri Lanka, the Seychelles and Bangladesh.

Naturally, this has raised hackles and suspicions in India, prompting talk among military strategists of a Chinese 'concirclement' plan – that is, combining encirclement and containment. This has made the pre-existing territorial disputes between the two countries, involving large areas in the Himalayas, including Tibet's Aksai Chin plateau, held by China since



Anil Dave

02



Franck Robichon/Agas/Corbis

1962, and the Indian state of Arunachal Pradesh, attain even greater symbolic importance in Indian domestic politics and media commentary. Nevertheless, India has been doing some reaching out of its own into China's backyard, seeking closer ties with South-East Asia and with China's old foe, Vietnam, both for military reasons and to foster investment and trade.

The third consequence is that the India-China rivalry has attracted the interest of the main non-Asian power in the region, the United States. Starting with President Bill Clinton in the late 1990s, but then pursued with greater tenacity by George W Bush, America has been cultivating India in order to ensure it can and will be a counter-weight to China.

This is quite a change, given that India was allied with the Soviet Union during the Cold War and that America insisted on sanctions being imposed after India tested nuclear weapons in 1998. President Bush sealed this strategic change by signing two things: a joint defence framework with India in 2005, which opened the way to US weapons sales to India; and, most importantly, a civil nuclear-energy pact

01



that bypassed the global nuclear non-proliferation framework.

The controversy surrounding the nuclear pact was such that it took until President Bush's final months in office before it was ratified by both the Indian parliament and America's Congress, as well as by other countries in the Nuclear Suppliers Group that polices the worldwide trade in uranium.

This increased American support for India has brought Japan – America's closest ally in the Pacific – along on its coat-tails. Since 2000, Japanese prime ministers have suddenly 'discovered'

01 Beam production for construction and engineering industries at the ArcelorMittal site in Germany. ArcelorMittal, owned by India's Mittal family, is the world's largest steel producer

02 Yukio Hatoyama, Japanese prime minister and leader of the Democratic Party, places a flower on the name of a seat-winning party member during the 2009 election, which ended a long period of political paralysis

India, making annual visits and redirecting Japan's overseas aid budget to focus on the sub-continent. Now a quarter of that budget goes to India, mainly supporting infrastructure development. In addition, military-to-military exchanges have begun between Japan and India, albeit cramped by Japan's post-war anti-military constitution.

Added up, this produces the fourth consequence: Japan, China, India and the United States are all now treating Asia as a single, coherent region from the point of view of military strategy, diplomacy and institution-building, rather than dividing it up into sub-regions as before. The potential is there for the Asian powers,

02



“The potential is there for the Asian powers to build integrating institutions to manage their relationships. So far, this process has not got very far. Mainly the reason is a mixture of political and commercial competition and suspicion.”

supported by America, to build integrating institutions to manage their relationships, along something like European Union lines.

So far, however, this process has not got very far. The reason is partly that it requires a big switch to pan-Asian thinking; in other words, treating India and Japan as part of the same continental space. But mainly the reason is a mixture of political and commercial competition and suspicion.

Doubts and expectations

History – the legacy of the Sino-Japanese wars of the 1930s and the Sino-Indian war of 1962 – is a big barrier to trust. So too is contemporary politics, with democracies in two of the big powers, India and Japan, and an authoritarian, nominally communist system in China.

A third barrier is commercial sentiment. Despite the huge volume of two-way trade between China and Japan, and the growing volume of trade between China and India, companies in all three countries see each other as natural rivals, both now and, particularly, in the future. Japanese firms expect Chinese ones to climb the technology ladder; Chinese firms expect Indian ones to start competing hard with them in low-cost manufacturing; Indian firms already see cheap Chinese imports as a threat, which is why India has in the past two years been the world's leading user of anti-dumping measures, chiefly against China.

Despite all that, the three countries have shared interests too. For all the attention given to competition for resources between China and India especially, the two share a powerful interest in keeping sea lanes open and markets for resources

03

Claro Cortes IV/Reuters/Corbis



03 A bullet train bound for Tianjin in Beijing. China is planning a significant investment in railway infrastructure in a bid to spur growth in the face of the global economic crisis

04 Japanese vehicles for the export market await shipping from a wharf near Tokyo

05 A new road is constructed in Tamil Nadu in India. In contrast to China, India has lagged behind in constructing new infrastructure, but is set to address this by investing some \$500 billion in the sector over the next three years



04

Franck Robichon/epa/Corbis



05

V Muthuraman

functioning freely. For the most part, the competition is a benign one for investment opportunities, in the building of new mines and oilfields. The resulting resources then add to global trade in those materials, as long as markets and shipping routes remain open. Moreover, all three would suffer if their nascent rivalry were to turn into a costly arms race or competition to set up regional alliances against each other.

In principle, therefore, as long as all three countries recognise that a balance of power is emerging in which none of them can dominate, the case is strong for the development of regional

co-operative institutions. Such recognition has been slow to arise, both because of Chinese doubts about whether Indian growth was really sustainable, and of Japan's long political deadlock and economic stagnation.

That is why the next few years could be a time of great promise. Japan's August election has destroyed its political paralysis and offers hope for recovery. India looks strong and resolute enough for its growth to be sustained. China is confident of its own potential, but not yet over-confident. The time for these powers to talk is now. ①