

Watch out for the three behemoths

In competition with China, India's key strength is its practice of democracy, comments *David Watts*

For the first time, it is possible to speak realistically of the Asian Area as a single entity, according to Bill Emmott, former editor of *The Economist*, after centuries of misuse of the term by westerners who took no heed of the enormous diversity of the area. Emmott finds similarity with Europe in the contest for power and influence now underway between China, India and Japan, and analyses the likely outcome of this Titanic but understated struggle in his new book, titled *Rivals*.

'What Asia is, is changing', he says. 'Till the middle of the 1990s Asia did not exist. India and China were inward looking while North Asia and South-East Asia did not relate to Asia as a whole. They are now becoming more integrated economically and there is a big increase in intra-Asian trade. They are more coherent politically and strategically and the thinking extends from Tehran to Tokyo', says Emmott.

In the early years of the twentieth century, Rabindranath Tagore and others believed that Asians were inspired by spiritual values that informed their thinking across the whole geographic spread. While the religious inheritance of Buddhism is a powerful force in many Asian countries, it is the more modern and western material influences that now bring the region together. Tagore outlined his vision for the region in a lecture at Tokyo Imperial University in 1916, titled 'The Message of India to Japan'. But he did not receive the positive reception he had hoped for.

Instead, he was dubbed 'a beautiful flower from a ruined country'. Tagore might not have jibed with Japan's modernising vision of itself, but the region – with its problems of abuse of nature and pollution – would be a much better place today if some of his values had been retained.

Economic and political forces are welding Asia into an integrated economic and political space but Emmott warns that it is not a happy place, and deep-seated historical and modern tensions combine to create serious areas of tension throughout the region, the removal of which would dramatically improve intra-national relationships and boost trade, particularly between India and its neighbours.

For Emmott the big news is India's emergence over the past ten years and its integration into the world economy despite the shock and awe of the recent performance of Chinese companies. The annual Indian growth rates have been accompanied by the new association with the United States, which has tempted Delhi out of isolation and into a new world where access to nuclear technology beckons along with the ability to purchase the latest American military hardware.

Though the new relationship remains controversial with many Indians, its usefulness in providing a counter-balance to China may well turn out to be one of the few sensible things that President George W. Bush has done.

In the short term, it has made hay of one of the few international agreements helping to keep a lid on tensions through the Nuclear Non-Proliferation Treaty (NPT) but it has allowed the Americans into the Asian drama in a way that gives them the opportunity to play a balancing role at the heart of the land mass rather than at the periphery in North-East Asia, keeping an eye on Kim Il Sung of North Korea and aggressive Chinese intentions towards Taiwan.

The American intervention helps seal what the Japanese call the 'arc of freedom and prosperity', which describes a crescent from Delhi through South-East Asia to Japan, a none-too-subtle way of differentiating the democracies of Asia from the authoritarians in Beijing and Pyongyang. The Delhi metro and up to \$90 billion worth of forthcoming industrial parks and concerns, at least partly funded with Japanese money, attest to the importance of this relationship.

But if Japan can be relied upon to play the 'good guy' role in terms of geo-strategic planning it is far from clear that it will end up the top dog in the trio of rivals, on which Emmott's book is based. Japan still has a hangover from the years of stagnation in its economy which followed the bubble years of the late 1980s and early '90s. It suffers from severe competition from China which is able to undercut it on costs; it has an ageing population and seems to be suffering from at least a temporary loss of its technological edge.

The current snapshot appears to indicate that there can be only one winner as China powers ahead, its productive capacity stunning world markets with a tidal wave of cheap products that, for the most part, no longer suffer chronic quality issues, a savings rate equivalent to some 50 per cent of gross national product (GNP) and investment of 40–45 per cent of GNP to match. That investment rate closely matches the levels reached by Japan in the 1970s, and many aspects of China's rise mirror Japan's meteoric development success story, which proved to a shocked world that an Asian country could beat the West at its own game. China has also taken a leaf out of the Japanese book with its phenomenal foreign exchange reserves, which now stand at the highest the world has ever

known, at \$1.4 trillion. Japan is in second place with \$916 billion, but even at their 1970s peak Japan's reserves did not give Tokyo the sort of power that Beijing's now do. The relative economy power of the United States and the rest of the world has changed dramatically in the meantime, and not in favour of Washington.

India, for its part, runs a current account deficit of about 2 per cent of gross domestic product (GDP) while its reserves stand at some \$220 billion, a fraction of what its two rivals can claim, but still a comfortable cushion against hard times, and a dramatic turn-around from recent history.

China's pre-eminence on the economic front could easily be blunted by changes in the world economic climate, particularly if the slow-down in the US turns out to be prolonged. China currently enjoys a very advantageous exchange rate for its currency, just as Japan did in its heyday. But the scenario would change rapidly were the exchange rate to be readjusted, as Japan's was under the Plaza Accord in the 1980s. With both cheap capital and labour, China at the moment appears to hold the key cards for supremacy in Asia. But lacking democracy, the tensions in Chinese society could easily result in startling and far-reaching instability as wrenching economic change continues.

One central indicator is the fact that the era of low-cost, low-price is coming to an end, with current inflation running at 8.7 per cent. The authorities are only too well aware that it was dissatisfaction with the economic as much as the political outlook that gave rise to the Tiananmen Square protests and, more recently, the upheavals in Tibet which have caused such damage to China's international image.

So China's scenario, though dramatic at present, is decidedly mixed.

India's key strength, and the factor that might just make it an Asian winner ultimately, is its democracy and its combined high rate of savings and investment, now running at some 34 per cent of GDP. As has been the case for so long in India, much will depend on the government's willingness and capability to fully unleash its potential.

But the Indian 'miracle' and the upsurge in manufacturing, which could

well start to fill the gaps left by China as costs rise there, is not happening fast enough to absorb all the labour available and likely to come on stream as the country massively expands its higher education and technical colleges. From the international activities such as the purchase of foreign steel-makers and car-makers such as Corus, Jaguar and Land Rover, and the innovative approach to economy car-making seen with Tata's Nano, India is clearly on a roll; but its bureaucracy, local planning authorities and even its foreign policy need to operate to the best advantage to promote its trade. And that means better relations with Pakistan, Bangladesh and Nepal.

As for the ultimate winner the favourite would appear to be China based on pure size a senior Indian official put it this way to Emmott: 'The thing you have to understand is that both of us think the future belongs to us. We can't both be right.'

But will tensions between the contenders cloud the picture as all three move to expand and modernise their military machines?

There is still plenty of latent distrust between India and China following the border war of 1962 and the continued and strengthening Maoist influence in Nepal. The millennial distrust between China and Japan remains just as volatile as ever, with disputes over national boundaries often based on mid-ocean access to oil. As a former Japanese foreign minister pithily noted: 'China and Japan have hated each other for the past one thousand years. Why should it be any different now?'

All three have the requisite national space programmes to prove they are worthy of superpowerdom. But the positive side of such modern macho contests is that economic interdependence tends to blunt swords.

And what should the rest of the world do to ensure that these three behemoths make the planet a better and safer place to share with them? Ensure that China and India become members of the G8; and that Japan and India are given equal ranking with China in the United Nations.

Rivals, by Bill Emmott, is published by Allen Lane, at £20.