

Eye-opening account of Asian powers' economic awakening

BOOK REVIEW

BILL EMMOTT RIVALS

HOW THE POWER
STRUGGLE BETWEEN
CHINA, INDIA
AND JAPAN WILL
SHAPE OUR NEXT DECADE

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Rivals: How the power struggle between China, India and Japan will shape our next decade

by Bill Emmott;
Allen Lane; £20 (£26)

Let China sleep for when she awakes, she will shake the world," Napoleon said. Today Bonaparte would include India and Japan, as Asia is now home to three competing economic powerhouses. Two have just begun to flex their muscles. China is on track to overtake the United States as the world's biggest economy by the late 2020s, with India following by 2050, according to forecasters at Goldman Sachs. Their colleagues at the World Bank largely agree, saying both countries can continue to grow GDP at 8-10 per cent a year for the next decade or more.

And just as Nixon reached out to China, as a counterbalance to the USSR, George W Bush befriended India, ignoring its non-adherence to the nuclear non-proliferation treaty. Japan, too, is investing heavily in India as a counterweight to China. Asia is criss-crossed with internal and external allegiances – and overlapping interests.

As Japan, India and China build alliances and military capacity, the British notion that trade follows the flag is turned on its head. Now the flag follows trade. An important new book by former *Economist* editor Bill Emmott shows that the global marketplace is going to be dominated by the battle between these three Asian economic giants. "As Asia is being created before our eyes, so is the 21st-century world," he says.

Emmott points out the continuing importance of Japan, the second-biggest economy in the world. This is the first time in

world history that three Asian powers are rising together. "If that process of integration and economic growth continues, as it should, it will form the single biggest and most beneficial economic development in the 21st century, providing dynamism, trade, technological innovation and growth that will help us all. In the second half of the 20th century the world's most advanced country and biggest economy, the United States, benefited hugely from the growth and development of both Western Europe and Japan. Now, in these early decades of the new century, the rich countries can expect to enjoy a similar boost from the growth and extra trade that will be provided by Asia."

Unlike the world wars of the 20th century, Emmott sees the conflict in Asia as primarily economic rather than military. China's domestic approach – rich country first – with its low-profile foreign policy described as "smile diplomacy" – sees to that, but the continent is studded with flashpoints, the India-Pakistan border and the India-China border being just two. North Korea's nuclear weapons programme and regime is another.

No country of China's size and complexity has experienced such growth. An increase in GDP of 11 per cent in 2007, a huge surplus of capital looking for investment opportunities, foreign exchange reserves of \$1.4 trillion, and an undervalued currency, are all underpinned by high domestic and business saving. Though official figures are treated with caution by observers, they may conceal an even greater "leap forward", as the baselines of the past were almost certainly massaged upwards to conceal how badly the economy was then performing.

Figures dazzle and confuse, but today more than one-fifth of the world population has Chinese nationality. As the banking system is

state-owned, the cost of money – for investment – is not set by a complex of supply, demand and risk. The current rate of 7 per cent for a one-year loan may not be what it seems. If interest is not paid, capital is free. During the downturn in the 1990s, companies stopped paying interest on loans, and eventually the government made up the shortfall. The result is an asset bubble and roller-coaster economic development.

The pressure on government to manage and society to absorb so much change so quickly is an open question. Will China eventually become some kind of democracy? Emmott cites a Canadian academic, Bruce Gilley. "Like Budapest in 1956, Prague in 1968 and Warsaw in 1981, Tiananmen in 1989 was a failure that foretold later success."

He might have included Easter 1916 in Dublin. Gilley notes that the Tiananmen Square protests in Beijing spread to 340 cities throughout China, and involved 100 million, including many ordinary workers who were hitherto loyal communist supporters, and the party had to take note. Others are less optimistic. Susan Shirk, a Clinton appointee dealing with China, sees the country as a "fragile superpower" due to its internal political volatility.

India has two advantages over China. English, the language of international commerce, is widely spoken and it has been a democracy since 1947. The overriding impression visitors get is of muddle, but in recent years Indian foreign policy has become more outward-looking, and economic growth and private investment are rising. "In the four fiscal years 2003-4 to 2006-7, the average real GDP growth reached 8.6 per cent. In 2005-6 it was 9 per cent; in 2006-7 it was 9.4 per cent."

Emmott notes that Indian elites may not have managed the economy particularly well

in the first 30 years of independence, but they were not predatory, in contrast with emerging countries in Africa. And the demographics are moving in India's favour. Its population is increasing while China's is decreasing. Unlike China, where the one child policy cuts into the workforce, an increasing proportion of India's population is in the 15 to 64 age group. Indian workers will have fewer young and old people to look after and will be able to save more, and thus fund investment. Up to now India has not been competitive – trade barriers and poor roads, railways and airports have choked growth. The electricity supply has been unreliable, forcing companies into running costly generators. India has a long way to go to match China. Shanghai port handled 21 million 20-ft container units in 2006, while the whole of India managed just 5 million. But India is on the move and by 2025 will have the fifth biggest consumer market in the world.

Japan is at a different stage. The population has been in decline for some time and with it the labour force. The birth rate is down to 1.3 per woman (the replacement rate is 2.1) and the 8 million postwar baby boomers are beginning to retire, and will live longer than previous generations. The fall in the number of children is most dramatic. Children accounted for 35 per cent of the population in 1950, 18.2 per cent in 1990 and are 13.5 per cent now. The postwar burst of economic growth stopped in the 1990s. And relationships with the big neighbour are not good. "China and Japan have hated each other for a thousand years," former foreign minister Taro Aso told Bill Emmott. "Why should they be any different now?"

To compete with its two rising neighbours Japan is investing heavily in them and slowly rationalising its economic and political structure.

Twenty years ago, the "threat" from Japan's economic development was felt worldwide, especially the US. An asset bubble eliminated that nonsense. China is now generating the same fears and unreasoning apprehension. One reason, not covered in detail by Emmott, why that threat is unlikely to manifest itself (Innovation, October 2007, "China's Age Old Problem") is because Chinese demographics are so bad. The combination of a rapidly ageing population, a declining workforce, and the imbalance in the numbers of males and females means that China will move into a "slow-motion humanitarian tragedy" within the next decade.

Emmott concludes with suggestions for Western responses to the rise of the three Asian giants. These start with the need to address the failures in the nuclear non-proliferation treaty and how to handle climate change. He also recommends reorganising the membership of the UN and related world organisations to bring Japan, China and India fully "in", and offers suggestions to reduce the fear of China by its neighbours, and to help India finally sort out its own backyard.

Asia is the new world. Napoleon said that England was a nation of shopkeepers. He would see Asia as the new economic superpower. What happens there affects us all – our jobs, our livelihoods our prospects. It is doubtful if there will be a livelier and more thought-provoking assessment than this one. And unlike many books using economics and statistics, this one can be read with ease and enjoyment.

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