

# Political and Economic Perspectives of Asia in the 21<sup>st</sup> Century

Eckhard Rohkamm<sup>1</sup>

In the past years, speculations about a forthcoming Pacific Century have been quite in fashion among Western as well as Asian intellectuals. And the headlines in most major newspapers, announcing when either China or India would overtake the established economic powers in the West, be it in 2030 or in 2050, seem to underline that such assumptions are well-founded. Still these scenarios are based on an extrapolation of current developments both in the Asia Pacific and in the West. To anyone who has thoroughly observed developments in the world economy during the past decades, such a belief in the predictability of future events must seem rather simplistic. The corporate sector has always been well advised to restrict its forecasts to a period of 3 to 5 years – and still quite often even these cautious forecasts have been refuted by the course of economic events.

Awareness of factors outside planning parameters that might defy ongoing economic growth in Asia is well advisable. And it seems that the governments in the Asia Pacific region, above all the Chinese political leaders, are very much conscious about such challenges – which puts them in the best position to proactively include considerations of threats and counter-measures into their policy.

## Race for Energy and Resources

Undoubtedly, the political and economic role of the Asian countries has been growing throughout the past years and will continue to do so. We have seen a reshaping of the political map in Asia with a new division of powers, we have seen a thrive to closer regional co-operation, and we have seen several Asian countries accept responsibility in global policy. A touchstone in this respect will be the race for energy and natural resources.

Especially China and India are confronted with considerable needs for gas and oil in order to feed their booming economies and to satisfy the expanding needs of private consumers. Seen the limited availability of energy resources in local oil and gas supplies and the exploding cost, the race between China and India to secure their energy needs has already begun. Both countries are heavily dependent in this area on

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<sup>1</sup> Prof. Dr. Eckhard Rohkamm, Chairman, OAV – German Asia-Pacific Business Association.

imports and have to find additional suppliers or develop their own exploration projects abroad. China is in a better position, as its economy is already more developed and as contacts to potential suppliers have been established some years ago already. India is a latecomer – and has to bear much higher costs for energy needed to advance its industrial development at a stage that China has already passed a couple of years ago.

It would be naïve to suppose, that this race for energy might take place without considerable political implications. The energy and resources diplomacy China has unfolded especially in Africa and the Middle East and which includes countries with questionable policies, underlines the priority that China – for good reasons – attaches to fulfilling its needs for resources. The western countries' appeal to China's international responsibilities is hypocritical to a certain extent – as despite their own problems with increasing energy cost and scarce resources, they do not risk a massive economic slump and social conflicts as a consequence in their actions vis-à-vis China. They have high efficiency standards in place and at least are not confronted with heavily increasing industrial demand. Seen what is at stake for the rising and heavily competing economic powers in Asia, conflicts within the region and even globally have a certain potential. And both regional conflicts – regarding territorial claims in the South Chinese Sea or other territories with presumed oil or gas occurrences – or any economic crisis caused by a lack of energy will affect global politics and the global economy.

## **Social and Ecological Issues**

So whether we will call the 21<sup>st</sup> century a Pacific one or not, it is evident, that any development in the Asia Pacific region will immediately affect the established powers in the USA and Europe to a much greater extent than ever before – and this interdependency probably will continue to increase in the decades to come.

For that reason other challenges the Asian countries are facing, do as well merit our attention. Despite the positive economic development in the past years, most countries still have to deal with the issue of poverty reduction. While according to a recent study of ADB during the early nineties relatively low growth rates were sufficient to effectively fight poverty, today countries like China and India actually need a GDP growth of about 8% per annum in order to reduce the number of people below the poverty line. This is amongst others due to the fact that agriculture is not included into the growth scenario and rapidly loses importance in its contribution to GDP – while agriculture in many countries still feeds the majority of the population. A tendency of increasing divergence – relative to the increasing general welfare – has already been observed in China and the political leaders try to defuse the situation in the countryside. The task to accomplish in the years to come is huge: to ensure integration of a part of the rural population and of the still numerous young people into the job market and to provide a sufficient number of jobs in production

or services. There is hardly one emerging country in Asia which does not face such an employment problem – even those who like China will have to deal with demographic slow-down in the mid-term. In almost every country in the region, social transformation processes have to be cautiously put into action to ensure that the situation is not affecting national integrity and political stability.

Besides these tasks of social balancing and integration, protection of the environment – or rather minimizing the impact of economic growth on the natural environment – will be a core issue for Asia's future. Drinking water, clean air and sufficient soil to secure at least basic food supply can not be taken for granted. Most probably, water supply will be the most pressing problem in China in the years to come – and it will be ensured only with high technical efforts and at considerable expenditure. While some of the governments in the Asia Pacific have identified these problems and are systematically working on solutions, making proof of management capacities that would be highly welcome in some of the Western countries, most of the least developed countries do not seem to have developed a clear strategy for tackling these challenges.

Obviously there is potential for internal conflicts and for contention between the Asian countries. Conflicts of interest between the US and China would heavily affect the region as a whole. Apart from aspirations for political hegemony, economic interests are at stake. We will see the shift of production capacities continuing in the years to come – with effects on the labour market in Western countries. And with this, American complaints about an undervalued RMB and an unfair trade advantage for Chinese companies will not fall silent. As much as China depends on a cheap RMB to sell its exports, as much depends the US on China to finance its deficit by buying US treasury bonds. The massive and increasing US trade deficit with China is not only a bilateral problem, but has wider implications for the global economy. After all, America's trade balance was negative with almost all countries in the region in 2005 – though the deficit (in US figures) with China accounted for more than half the deficit with the region. Further more, a rising RMB Yuan would reduce the ability of American consumers to spend and would therefore especially affect Southeast Asian countries that are highly dependent on the US market.

## Regional Strengths

Seen the manifold interdependencies in global economy and the increasing weight of the Asian countries, the Western countries will have a strong interest in stabilizing the political and economic developments in Asia. Any crisis or economic slow-down would affect the global economy to an extent that had been inconceivable some ten years ago. This counterbalances the apprehensions caused by rising competition from the Asia Pacific countries.

Competition has proven to be one of the driving factors for economic growth within the region as well. The economic rise in China and its attraction for foreign investors

at first had stoked fears in South East Asia, but most of the countries have developed strategies on how to benefit from the Chinese growth by supplying raw material and preliminary products. A more consequent strategy of regional co-operation within ASEAN has been put into action in order to increase competitiveness. In South Asia, India has decided to take on the economic challenge caused by China instead of focussing on political rivalry.

Regional competition has proven to increase the performance of the Asian economies, it has intensified the development out of new economic strategies and has instigated regional co-operation.

The Asian countries have adopted a clear strategy of integration within the global economy, while emphasizing on regional co-operation. Initiatives like ASEAN+3 or the East Asian Summit highlight the political and economic interest in intensifying the linkage within the region, with South East Asia as the center of a network and China giving momentum to the regional process. This entails increasing regional trade and investment and lessens the relative importance of the international markets. This process of regional integration is far from having reached the status of market unification we see in Europe and seen the heterogeneity of the Asian countries, this target will hardly be more than an orientation guide. Still the tendency to further cohesion within the Asia Pacific is obvious and it has proven successful both in economic and in political respect.

This implies an endeavour to decrease dependency on the West, also in terms of technological development. While know-how and technology for years have been massively imported from the developed economies, today we witness a focussed research and development policy in most of the Asian countries. Research, technology and a high level of education are keys to global success and indispensable to solve internal labour market problems. This is true not only for government policies but plays on the individual level: the hunger for education, the value attached to personal professional promotion and the readiness for financial investment into the future are major assets for the Asian countries. What matters even more as a growth engine – especially when compared to the situation in some of the western industrialized countries – is the absolutely positive value attributed to innovation. In the Asia Pacific, the new is something to be welcomed not to be scared of – and this spirit of discovery probably is the most acute competitive edge of the Asian economies. One might wish to see this attitude reimported to Germany.

Despite this confidence in the positive impact of development and technological change, one should be realistic as regards the current status of the Asian economies. As mentioned above, there are several social and economic factors that might at least occasionally inhibit dynamic growth, even if they will not bring it to a stop. And despite growing regional linkages, energy cost and especially the oil prize display the dependency of the markets on international developments.

## Closing the Gap

When considering the development in the Asia Pacific, one runs the risk to focus too exclusively on the huge markets and dynamically growing economies which have proven to benefit from globalization at a degree we would hardly have thought of some years ago. Still the prospects are not comparably bright for all of the Asian countries. The Least Developed Countries get a relatively small share of overall growth induced by the rise of their successful neighbours. Both the economic and the political influence that major powers in the region exert on their smaller neighbours are not always beneficial to the latter and their long term development. Interestingly enough, a process of relocation of low cost production can be observed – a phenomenon that was considered as exclusive to the industrialized nations. The requirements for efficiency and the international cost competition have become that sharp and the rise of social standards and personal income have become that quick, that the caravan of textile production is moving faster and faster towards the countries offering even lower wages.

The Least Developed Countries participate to a certain degree in the overall economic development in the region but in most cases this does not lead to sustainable and self-supporting growth. Despite the highly visible economic progress in the Asia Pacific, one huge task remains to be accomplished in the 21<sup>st</sup> century – and whether this has been identified as such remains to be seen: in the long run, sustainable growth and political stability can be ensured only through an assimilation of the level of economic welfare. The economic gap between the countries has to shrink instead of further opening up. It will not be easy to develop strategies towards this end in the region. This is even more so, because – seeing the current level of economic development – such a reallocation of wealth has to be achieved by means of trade and investment policies and not by massive equalisation payments, as this has been successfully done in Europe.