

# China's and India's High Growth and the Struggle for Leadership in Asia

KAZUHISA MATSUI

**L**ooking at Asia overall in 2005, the political and social conditions in most countries were further stabilized after the various elections that took place in 2004, and activity in the economic sphere became striking.

## *East Asia Summit*

As symbolized by the first East Asia Summit held in Kuala Lumpur, Malaysia, on December 14, the trend toward regional integration is gaining speed. The summit was an important event that contributed to the future formation of an East Asian Community. At the summit, ASEAN member countries acted as chairs, and the participants were ASEAN Plus Three (Japan, China, and South Korea) and the three countries of India, Australia, and New Zealand.

Following the industrial networking rapidly created by the private sector, there was even more activity than in 2004 among major countries in Asia in the signing of free trade agreements (FTAs), economic partnership agreements (EPAs), strategic partnership agreements, and comprehensive economic partnership agreements which aim at economic deregulation in the region. Each country is being forced to adapt its economic policy to economic globalization. Malaysia, for example, switched from a fixed exchange rate system to a controlled floating exchange rate system and is adjusting its automobile industry protection policy.

## *Economic Growth Led by China and India*

Amidst the movement toward regional integration, the presence of China and India has grown. China achieved the highest growth rate in the

region, at 9.9 percent, and due to its enormous supply capacity which exceeds its expansion of demand, posted a trade surplus that intensified trade friction with the United States and Europe. Seeking to secure energy resources and markets for its products, Chinese capital is actively making inroads not only in Southeast and Southern Asia but also in Central Asia (as Kazakhstan) and Russia. China is displaying energetic movement in diplomacy in the Asian region as well, and backed by its rapidly growing economic power, China is becoming an economic cooperation partner with Asian countries on par with Japan. India also posted high growth, at 8.1 percent, displaying particular strength in the manufacturing and service sectors. Together with more full-scale efforts for investment enticement, including easing of domestic regulations on foreign investment and actualization of large-scale direct investment projects, India is undertaking proactive diplomacy to expand trade and investment with East and Southeast Asian countries including China as well as Middle Eastern countries.

Viet Nam and Pakistan, which border on China, also both posted high growth of 8.4 percent. Viet Nam, together with promoting system reforms in its domestic corporate law and investment law, etc., possesses latent growth potential that is highly regarded internationally, as evidenced when it issued dollar-basis government bonds for the first time in New York in October and the bonds quickly sold out. Laos and Cambodia also displayed high growth of 6 percent to 7 percent. However, other ASEAN members generally achieved relatively stable growth rates around 5 percent to 6 percent, slightly lackluster compared to 2004. In South Asia, Sri Lanka and Bangladesh experienced growth in the 5 percent range. Slack exports of fiber products to the United States were feared due to the expiration of the Multi-Fiber Agreement (MFA), but exports from all countries performed satisfactorily. Kazakhstan, which is strengthening its relationship with China, was prosperous economically and expanded the economic gap between it and other Central Asian countries. Even though Russia's economy revived overall, economies in the Far East were left behind.

In 2005, international oil prices skyrocketed, and there was concern over the effect of this on Asian economies. However, the effects turned out to be only temporary due to high growth in the densely populated countries of China and India. Yet, on an individual basis, there were countries where higher prices in ASEAN resulted in slower economic growth, such as in Indonesia, which became a net importer of oil and where it was decided to implement large fuel price hikes.

### ***Stable Political and Social Conditions in Asia Overall***

Compared to 2004 when 12 countries held elections at the local and national levels, political and social conditions appeared to be trending in a stable direction overall in 2005. Presidential elections were held in Mongolia, Sri Lanka, and Kazakhstan without any major disorder. In the former two countries, the challengers won, and in Kazakhstan, the incumbent was reelected. In elections of national assemblies, in Afghanistan where Hamid Karzai became the first publicly elected president in 2004, the first elections in 32 years were held for members of the lower house and state assemblies. In Pakistan, the president's power base was reinforced as the result of elections of local assemblies' members. Meanwhile in South Korea and Taiwan, the party in power faced a tough fight in national assembly elections.

The countries where political instability was seen were the Philippines and Thailand. In the Philippines, suspicion of wrongdoings by Gloria Macapagal Arroyo arose in relation to the 2004 presidential election, and amidst growing demands for the president's resignation, 10 Cabinet members resigned in July. President Arroyo declared a state of emergency in February 2006 on the grounds that the military had plans for a coup d'état. In Thailand, following a Lower House general election held in February 2005, the Thaksin administration's second term was launched as the first single-party government in Thailand, but demands for the prime minister's retirement, which began with criticism of corruption in the prime minister's family, strengthened starting in November. In response, Prime Minister Thaksin dissolved the Lower House in February 2006 and quickly held general elections in April.

Although political and social conditions headed toward stability overall, the fear of terrorist bombings was not entirely swept away. Terrorist bombings occurred in Bangladesh (January and August), the Philippines (February), Myanmar (May), Afghanistan (May and September), Indonesia (October), and India (October and December). Many were suicide bombings and simultaneous bombings, but it was not concluded that they were necessarily acts by international terrorist organizations such as Al Qaeda. Public security deteriorated in three provinces in southern Thailand which border Malaysia, making it difficult to improve relations between security authorities and Muslim residents.

Even so, some movement toward reconciliation and peace was visible in 2005. In Indonesia, the government and the Free Aceh Movement (GAM) formally signed a peace agreement in August with Finland acting

as the mediator, and behind this progress was the dwindling of GAM's power following the Indian Ocean earthquake and tsunami. In Sri Lanka after the tsunami disaster, there was a trend toward peace negotiations between the government and the Liberation Tigers of Tamil Eelam (LTTE), but the negotiations suffered setbacks. In Kashmir, bus service began between Srinagar and Muzaffarabad, crossing the Line of Control between India and Pakistan. In Cambodia, the Khmer Rouge (KR) trials prepared to start with international assistance. East Timor set up the Commission of Truth and Friendship (KPP) together with Indonesia to investigate human rights' infringements under Indonesian rule.

### *Struggle for Leadership in Asia*

The struggle for leadership within the Asian region reached new heights, shrouded in the ulterior motives of various countries including the United States, China, India, and Russia. As stated above, in addition to steadily increasing its presence in Asia by signing FTAs and its overseas expansion of trade and investment, China is strategically advancing economic cooperation not only with Asian countries but also with African countries. The United States, which feels a latent sense of alarm over the sudden rise of China, is attempting to curb China by making overtures to India as well as Japan, while at the same time increasingly making its China policy into its key policy in Asia. India aims to strengthen relations with Middle Eastern and African countries and Southeast Asian countries in addition to South Asian countries. While developing a closer relationship with China, India is working to be an important player in the integration of the Asian region. At the base of the struggle for leadership by each country including Russia is energy strategy for oil and gas, etc. Japan, which pursues diplomacy influenced by the United States, is being forced by these conditions to adopt more strategic measures.

Meanwhile, as part of the movement that espouses antiglobalization, a new increase in nationalistic sentiments is becoming visible in Asia, in addition to the Islamic renaissance. Moreover, with deregulation of trade and investment and regional integration progressing at the national level, there is conspicuous expansion of economic gaps between regions and classes within countries as well as changes in the competitiveness of each industry. Although these phenomena do not often surface in the mass media, they deserve continued close attention.