

June 19, 2007

What the Economic Rise of China, India Means for Japan

By SHIRAIISHI Takashi

The economic rise of China and India is a given, but what changes will it bring about in the international balance of power when viewed from a long-range perspective? And how should Japan deal with these changes?

Intriguing projections on the topic can be seen in the latest long-term global economic forecasts by the Japan Center for Economic Research (JCER), a private think tank. According to the projections, Japan's gross domestic product, as measured on the basis of purchasing-power parity as of 2000, will stand at 4.2 trillion dollars in 2020. The figure will increase to 4.7 trillion dollars in 2030, and rise to around the 5 trillion dollars level in 2040 and 2050.

China's GDP based on the purchasing-power parity measurement will be 17.3 trillion dollars in 2020, expanding to 25.2 trillion dollars in 2030, 30.4 trillion dollars in 2040 and eventually to 33.4 trillion dollars in 2050, JCER said. This means that the size of the Chinese economy will be four times as large as Japan's in 2020, five times that of Japan in 2030, six times in 2040 and almost seven times in 2050.

Meanwhile, the GDP of the United States is projected to stand at 16.8 trillion dollars in 2020, 21.4 trillion dollars in 2030, 27.2 trillion dollars in 2040 and 34 trillion dollars in 2050. In other words, the size of the Chinese economy is forecast to surpass that of the United States during the 2020-2040 period. However, the U.S. economy, in terms of 2000 PPP-based GDP, will be more than that of China by 2050, due mainly to differences in population growth ratios of the two countries, according to the estimates.

As for India's GDP, the figure in 2020 will be 7.1 trillion dollars, and will leap to 19.1 trillion dollars by 2050, the forecasts said. The scale of the European Union economy, on the other hand, is estimated to expand to 14.5 trillion dollars by 2020 and climb to 19.9 trillion dollars by 2050. This means the scale of the EU economy may be similar to India's in 2050.

The size of the economy of the 10-member Association of Southeast Asian Nations will keep swelling to 3.9 trillion dollars in 2020, 5.5 trillion dollars in 2030 and 9.2 trillion dollars in 2050. This signifies that the ASEAN economy will stand above Japan's in 2030 and will be 1.8 times that of this country in 2050, according to the think tank's long-term forecasts.

To avoid misunderstanding, it should be stated that the size of a country's economy based on purchasing-power parity is not exactly the best yardstick for measuring that country's power. Military might, technological clout and political leadership matter a great deal.

<Interdependence a certainty>

Nevertheless, when the scale of the Chinese economy--gauged on a purchasing-power parity basis--exceeds that of the United States and grows to a level five to six times larger than Japan's, while India's economy evolves to be on a par with the EU in terms of GDP, the global order, as well as that in Asia, will almost certainly undergo a major transformation. The presence of China and India will surely become a far more important factor in international relations than at present.

Another noteworthy point is the certainty that international economic interdependence will continue to expand and deepen in the future. In an age of globalization and regionalization, economies of individual countries, as a matter of course, can never be considered self-sufficient. This is demonstrated by the fact that East Asian economies--comprising Japan, the newly industrializing economies of South Korea, Taiwan, Hong Kong and Singapore, plus ASEAN and China--are being brought together more closely than ever because of ever-increasing and interdependent regional business networks. As a result, China's economic development has been heavily reliant on direct investment from overseas. A glance at the latest statistics shows that China's foreign trade dependency ratio, or the ratio of the sum of exports and imports to GDP, soared to 70 percent in 2004 compared with 51 percent in 2002. To put it another way, because of the expansion and deepening of economic interdependence among nations, China and other countries are taking an increasingly significant interest in the stable development of the existing world political and economic order.

What changes will occur in the global order, and that of Asia, in the wake of China's and India's emergence as economic powerhouses? How the changes will ultimately manifest themselves in the global and Asian order is immaterial. There is no way to know. It is clear, however, that for Japan, as well as many other countries, revolutionary changes in the world order would be undesirable. Many countries want to see the existing order change gradually, in an evolutionary way.

A fundamentally significant problem is what Japan should do to assist this process. Two relevant points are worth noting: First, efforts should be made to enhance long-range predictability in world and regional affairs. As already mentioned, the scale of the Chinese economy will exceed that of the United States, in purchasing-power parity terms, from 2020 to 2040, while the Japanese economy will be dwarfed to a size one-seventh that of the United States and China and one-fourth that of the EU and India by 2050.

<Long-term predictions a must>

Consequently, Japan will find it difficult to act as a major power in global politics, as potent as the United States, the EU, China and India. As the American and Chinese national power become competitive, however, Japan will play a decisive role in determining the regional balance of power in East Asia. In the 2020-2040 period, for example, when the scale of China's economy will top that of the United States, the size strength of the Japanese and U.S. economies combined will still be greater than China's.

What should Japan do, then? Suppose a major transformation of the balance of power in international relations takes place. If all players believe in and act upon the mind-set that the process would lead to revolutionary changes in the global order, the situation could become extremely volatile. To preempt this possibility, it will be imperative to increase the long-term predictability regarding changes in the global and regional order.

The role Japan can play will not be to focus its diplomatic efforts on formulating a balance of power between the United States and China. Instead, Japan should maintain the Japan-U.S. alliance, while forging ahead with strategic dialogues with China, thus encouraging a gradual transformation of the order.

<Japan should pursue India partnership>

It is of great importance for Japan to explore ways of forming a strategic partnership with India, which is projected to become a rising economic power on a par with the EU over the long term. But any attempt to have India involved in balance-of-power politics in East Asia should be avoided. In any case, India is not likely to play this game.

Second, the East Asian network of economic partnerships should be given added momentum. The deeper the interdependence among regional economies, the more it will be in China's interest to endorse evolutionary changes to regional order. This, too, applies to many other countries in the region. In other words, the more isolated from the network of interdependence of nations a country may be--as is the case with Myanmar--the stronger its disposition for dependency on China.

Another point worth noting is that many Southeast Asian countries whose industries are competitive rather than complementary with China's perform a balancing act that engages both Japan and China. Thailand, for instance, has three strategic industries: the automobile industry, which relies on Japanese automakers, and tourism and agribusiness, which have their eye on the China market. Indonesia, for its part, already has a strategic partnership with China and is now seeking another with Japan. All these cases show that Japan's commitment to help facilitate future development of East Asian economies will be certain to promote regional economic partnerships, bringing about a stable evolution of regional order.

The government's Council for the Asian Gateway Initiative, chaired by Prime Minister Shinzo Abe, recently issued a set of policy recommendations. Among major initiatives envisioned by the council are calls for revamping policies concerning the nation's civil aviation policy, foreign students studying in Japan as well as measures to make Japan's financial market truly attractive in the eyes of the rest of Asia. The council's blueprint envisions Japan opening ever more widely to Asia and the rest of the world, and tapping Asian economic growth potential and vigor for the benefit of the Japanese economy, so that this country can play a responsible role in promoting the development of Asia and the evolutionary transformation of the regional order.

Enhancing the long-term predictability of the changing regional order, while deepening economic integration in the region, is the way to go for Japan.

(This is the text of an article by Prof. SHIRAISHI Takashi, Vice President of the National Graduate Institute for Policy Studies and the Member of the Council on East Asian Community, which originally appeared in the “Insights into the World” column of the “Daily Yomiuri” on June 17, 2007)