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## POLITICAL RISK ANALYSIS: FOUR ASIAN FLASHPOINTS

Asia will be at the centre of world affairs in the 21st century. Here are four potential flashpoints to monitor. The “Asian era” will not be plain sailing.



### “The Chinese Century”

Are we coming to the end of the “American Century”? 60 years ago American publisher Henry Luce, the owner of “Time” magazine, noted Britain’s decline and predicted that it would be bankrupted by World War II. Now it was going to be the US’s turn to dominate world affairs. He was correct. But there is now speculation that the US era of dominance is declining.

Are we heading for the “Chinese Century”? There is recognition that socialism has failed and a greater reliance on the market. This has resulted in the biggest rise in income for the biggest number of people in world history. It is currently the world’s second largest economy (after the US) on the World Bank’s purchasing power formula.

Could it become the economic super power around 2050? It has low production costs. It is now a member of the World Trade Organization. This will be useful both to drive the pace of domestic economic reform as well as gaining access to western markets. Meanwhile, consumers in other countries have become “de-nationalized” and so they are not fussy about where the products come from; logos are important but not the place of origin. They are eager to buy Chinese goods.

China is making luxury goods. It is following Japan’s example albeit at a faster pace. Japan after World War II got a reputation for making cheap plastic items and then moved up the scale to high quality items. China is doing both simultaneously. This is part of its profile as the “workshop of the world” (a title previously given to Britain in the 19th century when it began its own pioneering industrial revolution).

But how will the US cope with such an economic competitor? Traditionally the US’s main economic allies have also been its military ones. But this is not the case with China. How will Australia (given its troubled racial history) make the psychological adjustment to a world dominated by Chinese?

## ✓ The China Implosion

But will China be able to dominate world affairs? Nothing is ever certain in politics. Most assumptions are that China's stunning economic progress will continue. But that is not necessarily the case.

China could turn its back on wealth. It has done so before. On September 14 1793, Lord Macartney the emissary from King George III was rebuffed in China. The British king was seeking access to what he assumed would be the world's largest market. But China said that it needed nothing from British factories. A Chinese gentleman in those days specialized in painting and poetry and not acquiring consumer goods. Most of the king's presents to the emperor were never opened and just rotted away.

One risk, then, is that China will rediscover its spiritual heritage. Centuries before the European invented gunpowder and the steam engine the Chinese did so. But they did not use the inventions for military or production purposes but for fireworks and toys. The ascetic Falun Gung movement is resonating with traditional Chinese culture – which is partly why the Government sees it as a threat.

A second risk is political instability. When the belly is full the brain starts to think. A dictatorship can run a poor peasant society, where people are worrying about where their next meal is coming from. But a modern industrial state requires the free flow of ideas. Once people have acquired a basic level of security (food, shelter, clothing) so they want a say in how they are being governed.

There are more democracies in the world than ever before. But they have not been imposed from the outside (a poor omen for the US's operation in Iraq). Instead they have all grown up as the society has developed, such as Taiwan and South Korea. Will China be able to manage the transition to democracy?

Third, Chinese wealth is not trickling down to the western provinces. The eastern seaboard is booming but there are many millions of sullen, resentful people who are not getting much from China's economic boom. Some of them are Tibetans and Muslims who do not like Han Chinese imperialism. Will China break up? This has been a constant risk in its 5,000 years of history.

Finally, China's booming economy is coming at an environmental cost. For example, some of China's topsoil now gets carried in the wind across the north Pacific to the US and Canada. China's wheat harvest peaked at 123 million tons in 1997 and the annual harvests have since tended to fall. Can the environment cope with all the economic growth?

## ✓ China-Taiwan

China in early 2005 reaffirmed its right to invade Taiwan if it declares independence.

Why would China, with so much wealth to enjoy, want to squander it over a territorial dispute? Even more oddly is that one of the largest investors in China is Taiwan.

Mainland China and Taiwan have had a difficult relationship for about 2,000 years. Chinese rulers centuries ago regarded Taiwan as a base for pirates. It was controlled in some centuries by China and in other centuries it was independent or under the control of other countries. On other occasions, Chinese from the coastal provinces fled to Taiwan because of unrest in their own areas.

In 1895 Japan took Taiwan from China following the war between the decaying Chinese imperial regime and the newly aggressive Japan. It was acquiring great power status and this was one of its first conquests. Tokyo developed the colony and put this backwater on a firm economic footing. It lost the colony after its defeat in World War II.

The US agreed that Taiwan should be handed over to China. But China was wracked by its civil war. The US backed Chiang Kai-shek's Kuomintang (KMT) Government against Mao Zedong's Communist insurgents.

But eventually, in 1949, the Communists won. Chiang and the remnants of his KMT regime fled to Taiwan. Even though only a minority of the population (about 14 per cent), they took over the island and ran it as a dictatorship.

The KMT expected the Communists to fall from power quickly and so saw their retreat to Taiwan as only a temporary measure. It continued to call itself the "Republic of China" (the Communist Government calls its country the "People's Republic of China"). The Communists and KMT agreed on one thing – there was only one "China". The question was who ran it. Since the early 1970s, the US has improved its relations with China and downgraded its relations with Taiwan.

Meanwhile Taiwan became a "newly industrialized country" with large foreign exchange reserves. Gradually the emerging middle class wanted more say in how the country should be governed. In the early 1990s, the KMT Government permitted the rise of a democracy.

In 2000 the KMT lost power. Chen Shui-bian of the Democratic Progressive Party was elected president and re-elected in March 2004. President Chen – for the first time in presidential history – questioned the “one China” policy faithfully followed by both the Communists on the mainland and KMT on Taiwan. Chen suggested that Taiwan could go it alone. Taiwan could become an independent country, with no claims on controlling mainland China. He argued that China’s 1.2 billion people are not now going to overthrow the Communists and invite the KMT to resume power. Meanwhile, the 23 million people on Taiwan have one of the world’s best standards of living. They could exist without having to think about regaining control of China.

The US is in a dilemma. Conservatives want to stand by Taiwan and oppose the Communist threats. But American business interests argue that Taiwan is a saturated market, while China is a vast untapped market for American goods.

There is also division within the Australian Government as to whether Australia’s defence alliance with the US should include Australia’s lining up with the US against China.

## ✓ North Korea

Korea was a Japanese colony that was liberated after World War II. It was divided temporarily between the communist regime in the north and the pro-American dictatorship in the South. The North invaded the South in 1950 and the three-year war was one of the 20th century’s most brutal. An armistice was arranged in 1953 (which is still in force).

South Korea has been an economic success. In only half a century it has gone from being ravaged by war (and at one point almost totally overrun by the North) to now having a gross national product about the size of Australia’s. It is now a flourishing democracy.

North Korea remains an economic disaster. It has one of the world’s lowest standards of living. One of the government’s revenue raising activities is to sell drugs overseas. President Bush has called it part of the “Axis of Evil”.

Of particular concern is whether it has acquired nuclear weapons. The US has over 30,000 troops based in the South and they would be killed within the opening hours of a new war.

China used to be a firm supporter of North Korea. But now it sees it as a poor advertisement for the region. Violence on the Korean peninsula would deter foreign investment in China. It is therefore encouraging North Korea to take part in international negotiations to ease the tensions. But there is always the risk of the erratic hermit kingdom miscalculating and starting a war.



Meanwhile, many South Koreans would like to be united with the North. But the experience of West Germany's absorption of East Germany shows that such a reunification can lead to economic indigestion. North Korea is even poorer than East Germany was and so would represent an even bigger burden on the South Korean economy.

To conclude, there are four major areas of political risk to our north that need to be monitored.

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