



What Next for the Asian Century?

In this book, we have argued that Asia is suffering from stunted economic development, despite the rapid growth in recent decades. No major Asian economy has managed to achieve full catch-up to world leaders like the US and Germany in terms of GDP per capita, or economic, business and technological sophistication.

Asia is also suffering from stunted social development. Half of Asia's population is stranded between poverty and the middle class, living in a zone of vulnerability and precarity. Middle-class Asia remains a myth, even if Asian lives have improved immeasurably in tandem with rapid economic development. And the middle class is receding in advanced countries like Japan and Korea along with rising inequality and poverty.

Asia may have become a powerful force in the global economy and politics. But this is mainly thanks to the enormous populations of countries like China, India and Indonesia, not because of economic, business and technological sophistication. Large populations have given these countries economic, market and financial weight, which has been transformed into economic, political and military power. These countries remain, however, fragile superpowers.

To some extent, Asia's current predicament of stunted economic and social development is not surprising. As countries like even Bangladesh have demonstrated, you only have to get a few things right to break out of low-income status and to reduce extreme poverty. But to realize a nation's full economic and social potential, and become a high-income economy

with a middle-class society, requires addressing a more complex set of challenges.

CAN ASIA RISE TO THE CHALLENGE?

The prospects for an Asian Century will depend on how Asia responds to the seven challenges identified in this book: (1) getting better value out of global value chains, (2) making the most of urbanization's potential, (3) giving all Asians a chance, (4) solving Asia's demographic dilemmas, (5) fixing Asia's flawed politics, (6) combating Asia's economic crime and (7) living together in peace and harmony.

If Asia were able to successfully tackle our seven challenges for an Asian Century, over time it would be able to achieve advanced economies and middle-class societies. Indeed, many have projected massive benefits from such a "Goldilocks scenario". For example, the Asian Development Bank once projected that an additional 3 billion Asians could enjoy living standards similar to those in Europe today, and the region could account for over half of global output by the middle of this century.¹ But in the six years since the ADB painted this rosy picture, very few of the policy reforms necessary for realizing an Asian Century have been implemented. And as Asia's economy and politics have become more fragile and uncertain, there is little prospect of dramatic reforms being implemented.

Indeed, our overall assessment is that Asian governments are unlikely to have either the political courage or wisdom to tackle the above seven challenges with great vigor. The case of Japan, which has postponed necessary reforms for over two decades, is salutary. Its latest reform program, dubbed Abenomics, has left the whole international community underwhelmed. Even the polite and diplomatic IMF called for Abenomics to be "reloaded", some four years after it was launched.²

In a similar context, Korean big business has a stranglehold over the nation's politics, and is resisting a crucial opening of the economy to more market forces. Shamefully, Korea's corporate governance lags behind countries like Thailand, Malaysia and India, countries which are much less advanced, as well as Singapore, Hong Kong, Japan and Taiwan. And corruption in business and politics is deep and endemic, as evident in the corruption scandal that engulfed the now-impeached President Park Geun-hye and Samsung in 2016–2017.

China, which proudly aspires to Asian leadership, seems afraid of the possible disruptive effects of reform, and has postponed its promise of allowing market forces to play a "decisive role" in the economy. Instead,

for some time now, China has resorted to unsustainable debt-financing to intoxicate the economy. This will not drive China's productivity and innovation capacities up the development ladder.

THE DONALD TRUMP COLLISION

Colliding with our seven challenges for an Asian Century is the arrival of Donald Trump to the leadership of the US. Trump's America will also shape the contours of a possible Asian Century. We are now seeing a deterioration in some key factors that have driven Asia development—an open US market, a relatively benign security environment, and a stable global economic system.

Many observers speculate that Trump will not survive a year or two or beyond his first term. This is far from certain. His rise to the presidency was equally improbable. But even post-Trump, we should not assume a return to the US as a promoter of open markets and globalization, and a friend of democratic partners and the liberal international system. America has been struck by a wave of populism, and in particular nationalism (make America great again), nativism (secure our borders) and protectionism (protect American workers),³ which is unlikely to go away anytime soon.

American society has become polarized by inequality, a product of globalization and rapid technological change. And support for multilateral free trade is now withering on the vine. There is very little chance that the US would sign up again to the TPP in the foreseeable future. Further, nationalism and military fatigue from more than 15 years of war mean that US has much less enthusiasm for maintaining his system of alliances and partnerships. And the US government seems more distracted than ever by the Middle East and Vladimir Putin's designs on Europe, and is paralyzed by Washington's shenanigans.

The US' influence in Asia is declining, in the context of the great power struggle between China and the US, and this decline will likely accelerate under Trump's administration. The US is losing ground to China, especially in Southeast Asia which is increasingly becoming a Chinese sphere of influence. And China is increasingly asserting its military power in the East and South China Seas, and the Indian Ocean, and through initiatives like the Belt and Road Initiative, and the Asian Infrastructure Investment Bank. But China is not a promoter of open markets, good governance and international rule of law, key elements that are necessary for realizing an Asian Century. Rather, state capitalism, authoritarian governance and Sinocentric bilateralism are China's currency.

This power shift is epochal. Following the end of World War 2, the US became Asia's leading power as it provided assistance to rebuild war-torn countries, open markets that enabled export-oriented growth, an international system that facilitated development and a security blanket to its allies. The US also remade Japan from an expansionist, militaristic nation into a pacifist democracy, encouraged successful democratization in Korea and Taiwan and promoted open market economics, human rights and the rule of law. The waning of America's positive influence will have profound effects on Asia.

A WORLD WITH INCREASINGLY DIVERGENT INTERESTS

Even if Asia continues to muddle through, in some decades time, the region could account for around half the world economy, far outstripping the West in total economic weight, thanks mainly to its enormous population, as organizations like the Asian Development Bank, OECD and PWC have projected. After all, Asia accounts for some 55% of the world's population, while the West (as represented by members of the OECD) only accounts for 18%. Three of the world's four biggest economies could be Asian—China, India and Indonesia—with the West only represented by the US at third place.

Even in these circumstances, no major Asian economy would have approached world leaders like the US and Germany in terms of GDP per capita, or economic, business and technological sophistication. For example, in one report PWC projects that in 2050 US GDP per capita would still be double that of China (compared with four times in 2016) and would be triple that of India (compared with nine times in 2016).⁴ Moreover, Asia could remain a democratic desert, with not one full democracy, and with continuing widespread human rights abuses and restrictions on personal freedoms. In other words, Asia would have the world's greatest economic weight and be a leading economic and political power, but would remain a pygmy in terms of economic, social and political development.

Needless to say, the incongruities of such a scenario could generate even greater geopolitical tensions than we see today.

These incongruities would test the capacity of the international community to cooperate on issues like open trade and investment, democracy and human rights, climate change, protection of intellectual property rights, economic crime, international rule of law, law of the sea and natural disasters. Why? Because forging consensus and working together requires shared interest and values, and a culture of cooperation and trust. As the

UN Security Council has proved time and again, when great powers have fundamentally divergent interests, it is very difficult to achieve anything. In fact, a world with even larger emerging economies, together with relatively smaller highly developed countries, could be a recipe for international instability.

RISKS OF CONFLICT AND CRISIS

Beyond these incongruities, there are endless possibilities of economic, social, political and military crises in Asia—mostly due to the likely failure to deal with our seven challenges for an Asian Century.

We have argued that the US and China are unlikely to engage in a traditional military conflict, although the naval collisions involving the US Navy in 2017 show how easily accidents can occur, and possibly spiral out of control. They seem destined to remain “frenemies”, that is both friends and rivals, with conflicts taking place in the areas of trade, intellectual property, international rule of law, and cyber, rather than on the battlefield.

As China progressively displaces the US as Asia’s hegemon, it will become ever more necessary for Asian countries to cooperate better together. However, Asia is bristling with tensions involving China on the one hand, and Japan, Taiwan, Hong Kong, North Korea, the South China Sea, ASEAN and India on the other. The most likely source of conflict in Asia could be between China and India or Japan.

While Asian Century hype has focused substantially on the rise of China, India’s population will surpass China’s as early as 2022, and could be some 50% higher than China’s by 2100. And if current trends continue, India’s economic size could overtake China’s sometime in the second half of this century. Such a power shift could foster political instability in Asia, especially since India has more friends in Asia than does China. And avoiding conflict for Japan will ultimately require political reconciliation with former adversaries, China and South Korea, something which is not on the cards any time soon.

Any such conflicts between Asian countries could do much to derail the prospects for an Asian Century. And the great risk for the US is being dragged into these conflicts between Asian countries, more than a straight head-on conflict with China.

Economic crisis is also stalking several Asian countries, most notably Japan and China with their massive debt problems. And anti-globalization populism could break the most important driver of Asia’s rapid development, open trade and investment. Social crisis could happen in India, Indonesia and the Philippines with their bulging youth populations, if they

are unable to find decent jobs. Multi-ethnic countries like India and Indonesia could easily descend into violence as groups suffering from discrimination, prejudice and persecution mobilize themselves against dominant elites. And as natural disasters and environmental problems increasingly hit Asia's overcrowded and badly planned cities, social crises will also accelerate.

Continued authoritarian politics and social repression in China, North Korea and Vietnam could provoke political crises as citizens demand cleaner and democratic government. Social unrest is already rampant in China, and North Korea has thousands of regime opponents locked away in secret gulags. Further, the corruption crisis that engulfed former South Korean President Park Geun-hye shows how fragile even Asia's most advanced countries can be.

Today, Asia is sitting on a knife edge. The potential of the region to generate good and happy lives for its citizens is enormous. But the requirements of success and the risks of failure are equally enormous. We cannot be sure of "what's next for the Asian Century". Indeed, anything could happen, and complacency of the region's elites could be the Asian Century's greatest enemy.

NOTES

1. Asian Development Bank (2011). *Asia 2050: Realising the Asian Century*.
2. IMF. *How to Reload Abenomics*, August 2, 2016.
3. McGann, James G. 2016 *Global Go to Think Tank Index Report*.
4. PWC. *The Long View: How will the global economic order change by 2050?*, February 2017.

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