

Asia in the New Decade

Author: [Mohammad Shahidul Islam](#)

April 12th, 2010

There is a growing consensus amongst economists and geo-political analysts that the global economic power is in the process of shifting from the Atlantic to the Pacific. This is largely due to the rise of two Asian heavyweight economies – China and India. A number of economists project that China will overtake the United States (US), and India will become the third largest economy in the next few decades. Jim O’Neill of Goldman Sachs forecast that China is likely to overtake the US by 2027, while PriceWaterhouseCoopers, projected that this could happen as early as 2020.

Nobel Prize winning economist Robert Fogel calculated that the Chinese economy could reach \$123 trillion in 2040. This, according to Fogel, is due to, among other factors, the increased productivity of the 700 million rural Chinese thanks to the enormous investment Beijing is making in education.

These diverge projections on economic catch-up, or more precisely, the future structure of the global economy, are hardly surprising owing to the limits of forecasting beyond the immediate future. Not to mention, John Maynard Keynes dismissal that “we are all dead in the long run.

High-impact, hard-to-predict, and rare events could prove many long-term projections wrong. No economist could foresee the unprecedented surge in productivity in the US in the 1990s thanks to the rise of the Internet that gave the nation a huge edge over Europe and Japan. Thus, as far as economic catch-up is concerned, it is more sensible to look at what could happen in a decade ahead rather than a few to come.

Asia enters the new decade of 2010-2019 amid ample optimism. The region has largely recovered from the great recession due to a strong rebound in China and India. Although recovery is in sight, the economic outlook for the most advanced economies remains hazy largely owing to their debt. This said, the post-crisis economic recovery is perhaps best captured in Sir Martin Sorrell’s new ideogram “LUV” – an L-shaped recovery for Western Europe, a U-shaped one for North America and a V-shaped one for the BRICs and Next 11.

With this, many Asian economies led by China are expected to catch up fast with their forerunners. This will begin with China overtaking Japan as the world’s second largest economy sometime in 2010, a event some conclude has already happened. With strong rebound in its exports, China has overtaken Germany as the

world's largest exporter, and it has also ended the US reign as the world's largest automobile market. Both happened at the dawn of the new decade.

Asian companies led by China are increasingly competing with the US and Europe for spots on the Global Fortune 500 companies, which remain a mark of corporate might. Chinese corporate giants – Petro China, ICBC and China Mobile – have already taken three of the top five positions of the Financial Times 500 Companies. The latest Bloomberg data indicate that Chinese banks replaced US banks as the most highly valued financial institutions, taking four of the top five slots in a ranking of bank share prices as a multiple of their book values. This signals that Asia Inc could end the dominance of Western corporates by this decade.

With nearly 5 trillion dollars in foreign exchange reserves, Asia now has tremendous influence on global finance and investment. The East Asian central banks and sovereign wealth funds – along with the Middle East's – have become the new power brokers in the global finance.

The region's biggest asset is, however, its demography. While China and India are increasingly investing in their future, Europe and America are allocating more budgets to their past – the elderly.

With rapid industrialisation, more and more people will march towards the cities around Asia. According to McKinsey & Company, China will have 219 cities more than one million strong – compared with 35 in Europe today by 2025.

With this, Asia is likely to sharply augment its share in global output in the coming years. The combined size of the Asian economies could reach 22 to 24 trillion dollars by the end of this decade. Despite this seismic change, Asia's catch-up with Europe and America in terms of per capita income in 2020 will remain wide; the average Chinese is likely to earn less than one-sixth of an American's salary. It is not merely the absorption of labour but in fact productivity gain that narrows the income gap between rich and poor.

Nonetheless, Asia's transition will depend on both internal and external factors. The internal challenge is how fast it can reinvent its growth model. The region, particularly East Asia, may have reached the limit to growth with its current export-led model. Asia is waiting for a marked structural change in its production and consumption structure in this decade. The most notable change would be a rebalancing of growth in many Asian economies.

Asia's rise also depends on whether the continent has got the right policies to exploit its demographic window, notwithstanding that within Asia, there is a huge diversity as far as human capital formation is concerned. Intra-regional and racial inequalities are key concerns for both Beijing and New Delhi. Then there is the set of Muslim countries that have a large young population with low levels of human development.

Externally, the advanced economies' deleveraging could adversely affect Asia's growth given the economic interdependence of these two regions. According to the International Monetary Fund, sovereign debt in advanced G-20 economies is set to reach or exceed 100 percent of their GDP in the next few years.

Although "decoupling theory" gained some currency in recent years, the economic interdependence between advanced economies and developing Asia has not lessened; in fact, it may have increased. There has been an increasing correlation between the G-7 and developing Asia's growth, particularly post-2000. There are strong linkages between their bond markets, portfolio investments, and FDI flows, among others. The G-7 economies still consume over two-third of developing Asia's exports, while the central bank of China alone holds nearly a quarter of the US' Treasury Securities.

Moreover, the energy shortage and the challenge to transform low-carbon economies given the looming climate crisis are other notable economic hurdles the region will face in the coming years.

There is a geo-political risk too. The possible failure of some states in South Asia and in the Korean peninsula would elevate the concomitant increase of political problems in Asia. While the increasing Sino-America mutual economic dependence could reduce the risk of political confrontation between these two powers, China's increasing radius in its neighbourhood and beyond is unlikely to be unchecked by America and its allies.

The past decade perhaps marked the beginning of the end of 500 years of 'western ascendancy'. It could take at least a few more decades, if not a century, to make the Asian century, if not Chinese ascendancy, a cliché. Yet it is very likely that the current decade could well belong to Asia.

The writer is a research associate at Institute of South Asian Studies, National University of Singapore. He can be reached at imonsg@gmail.com