Will the 21st Century Be an Asian Century?:
A Global Perspective

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Abstract: This paper discusses the issue of whether the 21st century will be an “Asian century.” According to a study commissioned by the Asian Development Bank, Asia 2050: Realizing the Asian Century, Asian countries will keep growing and eventually account for more than half of global GDP by 2050. The study, however, cautions that developing Asia may fall into the “middle-income trap” where growth stagnates due to the lack of productivity growth. This paper provides baseline projections for the world economy up to 2050 and argues that the “Asian century” scenario may be interpreted as one of the high growth cases for the model, and Asia may face the risk of stagnation due to the middle-income trap and/or “Asian conflict” resulting from political, security, and military tensions in Asia. The paper argues that in order to realise an “Asian century,” developing Asia needs to focus on technological progress, inclusive growth, environmental sustainability, institutional and governance quality, and regional cooperation and integration. It also points to possible global governance structures which are alternatives to an Asia-centric world, such as those of a “China century,” “American century 2.0,” “G-2,” “G-0,” and a “multi-polar” world. As the two major powers in this region, China and Japan need to cooperate with each other to maintain regional peace and security, and help realise the “Asian century.” The paper concludes that even when the “Asian century” arrives and Asia dominates the world in terms of economic size, it does not necessarily mean that Asia will dominate the world politically, institutionally, militarily, or in soft power. The 21st century will likely be a “multi-polar” world where the traditional powers of the West (the United States and European Union countries), Japan, and new rising powers (China, India, and other major emerging economies) collectively manage global economic and political affairs.

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Key Words: Asian century, Asian stagnation, middle-income trap, multi-polar world, China-Japan cooperation.

JEL Classification: E01, F01, F02, F55, O40

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Will the 21st Century Be an Asian Century?: A Global Perspective

Masahiro KAWAI

1. Introduction

Emerging economies, particularly those in Asia, have grown fast over the past four decades. Because of Asia's high potential for further sustained economic growth, an Asian Development Bank (ADB)-commissioned report (Kohli, Sharma, and Sood, 2011) has predicted the 21st century to be an "Asian century," in which Asia produces 52% of global GDP.

This paper provides an overall assessment of the issues surrounding the 21st century becoming an "Asian century." There are several questions the paper posits. Will the "Asian century" scenario be realised, and what is needed to realise it? What are the factors that can impede the fruition of the "Asian century"? More fundamentally, what is an "Asian century"? Does it mean that Asia will dominate the world economically, politically, and militarily? What are alternative scenarios and how can Japan support the realisation of an Asian century? What is needed to avoid major conflicts between the rising powers in Asia, such as China, and the existing powers, such as the United States (US), and to maintain peaceful relations?

The structure of this paper is as follows. Section two focuses on the re-emergence of Asia and presents a baseline projection for the world economy (measured at PPP in 2011 international prices) up to 2050. Section three explains the optimistic "Asian century" scenario as having high growth projections. Section four provides the pessimistic "Asian stagnation" scenario, which may arise due to the middle-income trap and/or conflict in Asia. This scenario may be viewed as having low growth projections. Section five discusses the challenges and policy priorities for developing Asia in achieving the "Asian century." Section six considers the political implications of the "Asian century" scenario and presents global governance structures that are alternative to an Asia-dominant world. Section seven explores the role of Japan in supporting the realisation of the "Asian century" and how China and Japan can cooperate. Section 8 concludes the paper.

2. Re-emergence of Asia in the World Economy

Many Asian economies have achieved rapid economic growth over the last forty or more years. This strong performance has led to significant increases in real gross domestic product (GDP) in many countries, particularly China, India, and the Association of Southeast Asian Nations (ASEAN) countries. Given that further strong growth is expected for Asia, the 21st century is sometimes called the "Asian century." This section provides growth projections for various countries in Asia and the rest of the world.

2-1. Asia's long-term economic growth

Asian economies have achieved remarkable economic success over the last several decades. Growth has occurred in a sequential manner, one country after another, following the well-known flying geese pattern. In the post-World War II period, Japan was the first country which started to grow successfully out of the destruction caused by the war and this was followed by the newly industrialised economies (NIEs) of Asia (Hong Kong, the Republic of Korea (ROK), Singapore, and Taiwan), China, and ASEAN countries (Indonesia, Malaysia, Thailand, the Philippines, and Vietnam). These countries have pursued outward-oriented industrialisation strategies. More recently, India has joined this group although the country has grown based on its domestic consumption and service sectors. The rapid economic growth of these economies has been accompanied by impressive poverty reduction and overall social and human development.
A World Bank study (World Bank 1993) called the earlier success of Japan, the NIEs, and some ASEAN countries the "East Asian Miracle," and identified several factors behind the miracle: (i) ensuring low inflation and competitive exchange rates to support outward-oriented growth; (ii) building human capital, a critical factor for rapid growth with equity; (iii) creating effective and secure financial systems to mobilise savings and channel them into productive investment; (iv) limiting price distortions to draw resources into labour-intensive production in the early stages of development and then into capital-intensive and knowledge-intensive activities later; (v) absorbing foreign technology via licensing and/or inward foreign direct investment (FDI); and (vi) supporting agriculture to promote food security and reduce rural–urban income differentials.

This World Bank study was completed before fully observing China’s and India’s success stories. China, in particular, has achieved its own economic miracle and India is currently creating one. From these more recent experiences, some additional factors behind Asia’s miracle can be pointed out: (vii) the ability to flexibly expand supply capacity in response to favourable external environments; (viii) pragmatism in learning lessons from successful neighbours; (ix) institutional development and business predictability; (x) good communication and coordination between the public and private sectors; and (xi) use of Official Development Assistance (ODA) to support trade and inward FDI through infrastructure development (transport, power, energy, water, and information and communication technology (ICT)).

Krugman (1994) observed that East Asian economies achieved rapid growth in large part through the mobilisation of resources (factor inputs), as in the former Soviet Union, and concluded that the miracle was based on perspiration, not inspiration, and that the growth contribution of total factor productivity (TFP) was limited. However, one needs to appreciate the fact that in the early stages of economic development, growth tends to be induced by factor accumulation and rapid migration of labour from rural to urban areas, which tends to raise observed TFP growth. Thus the miracle was no myth.

Developing Asia’s clustered sequential development is expected to continue and other relatively large Asian countries in terms of population, such as Pakistan, Bangladesh, and Myanmar, will likely grow fast over the next few decades. Urbanisation and rising middle-class consumers will be the basic drivers of growth in these countries. With the progress of further urbanisation, many more new mega-cities will be created in Asia. According to the projection by the United Nations (2014), Asia will host 23 mega-cities out of 40 globally in 2030.

2-2. Re-emergence of Asia

Maddison (2001, 2005) estimated GDP for various countries and parts of the world from the period before year zero to the early 2000s, and provided GDP projections until 2030. Maddison’s measure was based on 1990 international dollars at purchasing power parity (PPP).

Figure 1, taken from Maddison’s estimates and projections, plots the shares of major countries’ or regions’ GDPs in world GDP from 1 CE to 2030. It shows that Asia used to dominate the world economy from 1 CE until 1700 when Western Europe was less prosperous than Asia. For example, China and India accounted for more than 25% each of the world economy during this period. So the recent emergence of Asia in the world economy is not a new phenomenon, and may instead be called Asia’s re-emergence.

Figure 1: Share of Major Economies in the World (% of world GDP, in 1990 international dollars)
Western Europe which had been smaller economically until 1700 started to grow rapidly due to the Industrial Revolution which occurred in England and spread to other countries in Europe in the 18th century. As a result, Western Europe grew impressively, globalised economic activity, developed other continents such as the Americas, Africa, and Oceania, and colonised many countries including India and parts of China. During much of the 19th century and the early 20th century, Western Europe dominated the world economy, and the share of Asian countries declined sharply for more than 150 years. The US, an offshoot of Western Europe, grew rapidly in the 19th century and the first half of the 20th century, catching up with Western Europe. The 20th century became the "American century" even though the global share of US GDP was at its peak 25% and comparable to that of Western Europe, which was a collection of some 30 countries. By becoming the single dominant economy in the world, the US was able to make the 20th century the "American century."

After having experienced a sharp relative decline in the 19th century and the early 20th century, Asia reached its nadir in the 1950s and began to resume economic growth. Japan led rapid growth, followed by China, and then India. Figure 1 predicts that by 2030 the economic scale of Asia will be larger than the US and Western Europe combined. This indeed signifies the re-emergence of Asia in the world economy.

2-3. Real GDP projections up to 2050

This section provides baseline projections for GDP at PPP in 2011 international dollars up to 2050. The projection methodology is based on the expected evolution of the labour force, capital stock, and TFP, and the notion of convergence based on historical patterns. Convergence means that per capita real GDP of various countries will tend toward a similar level in the long run.¹ That is, a country with low per capita GDP is expected to grow faster than a country with high per capita GDP. Considerable work has been undertaken by the ADB

¹ More precisely, what converges is labour productivity measured by real output per hour worked. Convergence is expected to be achieved because of the spread of technology globally, equalisation of the level of human capital through education and skills formation, and similar social infrastructure and institutions. Of course, per capita GDP and labour productivity may not move in similar directions or to similar levels, as labor participation rates, employment rates, and labor supply (in terms of the number of hours worked) by employees vary across countries due to economic, social, and cultural factors.
on long-term growth projections for the study of ASEAN, China, and India, and this paper utilises methods similar to the ADB-ADBI study (ADB and ADBI, 2014).

We have obtained estimates and projections of real GDP in terms of PPP in constant international dollars for 192 economies for the period between 1980 and 2050. PPP-based real GDP is used for the purpose of international comparability. This means that real output is measured in terms of goods and services priced at 2011 international dollar prices; that is, every country's output is valued in terms of common prices. We have chosen to use PPP-based real GDP as the International Monetary Fund (IMF) provides not only estimates but also projections for PPP-based real GDP per capita for 192 economies up to 2022.

Our calculation procedure is as follows. First, we have calculated the annual growth rate of PPP-based real GDP per capita from IMF, *World Economic Outlook (WEO) database* between 1980 and 2022, combined it with a revised version of the ADB’s long-term growth projections of real GDP per capita (Zhuang 2012) from 2023 to 2050, and then obtained estimates and projections for PPP-based real GDP per capita up to 2050 for 192 countries. Finally, we computed estimates and projections of PPP-based real GDP using population data from the IMF (for the period 1980–2022) and the United Nations (for the period 2023–2050). These calculations should not be taken too uncritically as small changes to growth assumptions can create large cumulative changes to the 2050 GDP projections. They should be taken as gauging the order of magnitude for Asia’s economic rise.

The computation results are summarised in several ways. First, Table 1 lists the top 20 countries in terms of the size of real GDP from 1980 to 2050. The table demonstrates a notable shift of the major global economies away from developed to developing/emerging countries. The US remained the No. 1 economy until 2010 (more precisely until 2013) but was overtaken by China, and will likely be overtaken by India by 2040 (more precisely, by 2032 according to our projection). More generally, key Group of Seven (G-7) member countries used to occupy the top ranks in 1980 and 1990, but started to lose ground and share rankings with the BRIC countries (Brazil, Russia, India, and China) from 2000 onward. The importance of BRIC countries is projected to rise over time, and in 2050 the six largest economies are expected to include the four BRIC countries. In addition, in 2050 five Asian developing countries, i.e., Indonesia, Pakistan, the Philippines, Bangladesh, and Iran, are projected to be among the top 20. These additional developing countries are also included in the group of Next-11 countries identified by Goldman Sachs (2007) as those which will dynamically grow, following the path of the BRIC countries.

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2 An alternative measure for internationally comparable real GDP would be real output measured at constant market prices. This measure computes real output with goods and services priced at actual market prices in a base year. As the market prices of non-tradeable goods and services tend to be lower in developing countries than in developed countries, PPP-based GDP tends to be higher in developing countries than market price-based GDP. A third measure of GDP, at market exchange rates, accounts for the tendency of the real exchange rates of developing and emerging economies to appreciate and hence provides more rapid growth estimates for these economies than PPP-based measures over time.

3 Similar projections have been made by several institutions. The most notable is that of Goldman Sachs (see O’Neil (2001) and Goldman Sachs (2007)). One of the major differences between our result and theirs is that in our case India is projected to grow much faster. A projection made by JCER (2014) takes an optimistic view about the future growth of the US and a very pessimistic view about the growth potential of China and concludes that the US will remain the No. 1 economy in 2050, measured by gross national income (GNI) at constant market prices.

4 It should be noted that the US is still the No. 1 economy in the world measured at current market prices and exchange rates.

5 According to Goldman Sachs (2007) the Next-11 countries include: Mexico, Indonesia, Nigeria, the ROK, Turkey, Vietnam, the Philippines, Iran, Egypt, Pakistan, and Bangladesh in the order of projected economic size in 2050. If our top-20 list is extended to include 23 countries, all of these 11 countries are included as our projection ranks the ROK, Italy and Vietnam as No. 21, 22 and 23, respectively, for
Table 1: Top 20 Countries by Size of Economy (measured by PPP-based real GDP)

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<td>China</td>
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<td>Japan</td>
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<td>China</td>
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<td>Germany</td>
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<td>Japan</td>
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<td>Russia</td>
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<td>Japan</td>
<td>Brazil</td>
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<tr>
<td>7</td>
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<td>France</td>
<td>Russia</td>
<td>Brazil</td>
<td>Indonesia</td>
<td>Germany</td>
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<tr>
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<td>Italy</td>
<td>France</td>
<td>Brazil</td>
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<td>Germany</td>
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<tr>
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<td>UK</td>
<td>Italy</td>
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<td>UK</td>
<td>Mexico</td>
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<td>Saudi Arabia</td>
<td>India</td>
<td>UK</td>
<td>Italy</td>
<td>France</td>
<td>Mexico</td>
<td>UK</td>
<td>Nigeria</td>
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<tr>
<td>11</td>
<td>China</td>
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<td>Mexico</td>
<td>Indonesia</td>
<td>Mexico</td>
<td>Turkey</td>
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<tr>
<td>12</td>
<td>Spain</td>
<td>Spain</td>
<td>Spain</td>
<td>Mexico</td>
<td>Italy</td>
<td>France</td>
<td>France</td>
<td>Pakistan</td>
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<tr>
<td>13</td>
<td>Canada</td>
<td>Canada</td>
<td>Indonesia</td>
<td>Spain</td>
<td>Turkey</td>
<td>Korea, Rep of</td>
<td>Egypt</td>
<td>UK</td>
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<tr>
<td>14</td>
<td>Iran</td>
<td>Indonesia</td>
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<td>Korea, Rep of</td>
<td>Korea, Rep of</td>
<td>Italy</td>
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<td>Australia</td>
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<td>Saudi Arabia</td>
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<td>Taiwan</td>
<td>Thailand</td>
<td>Spain</td>
<td>Canada</td>
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Note: Real GDP is measured at PPP in 2011 international prices. Yellow highlights refer to G-7 countries and pink to BRIC countries (Brazil, Russia, India, and China).

Source: Compiled by the author from IMF, WEO database and his own projections.

Figure 2 plots the PPP-based real GDP for China, India, the US, the European Union (EU), Indonesia, and Japan, all measured in trillion international dollars (I$). The rise of China and India are particularly marked. China overtook Japan in 1999, the US in 2014, and the EU in 2015 in terms of economic size. India also overtook Japan in 2009 and is projected to overtake the US in 2032 and the EU in 2033. Indonesia is projected to overtake Japan in 2031. China and India are projected to grow to I$54 trillion economies of almost equal size in 2050 in comparison to the US' I$37 trillion and the EU's I$35 trillion. Thus, these currently developing countries, China and India, will become two of the world’s giant economies, followed by the US and the EU.

Figure 2: Real GDP of Major Economies (trillion, in 2011 international dollars)

2050. Unlike our list, Goldman Sachs projects all G-7 countries to be among their top-20, but not Saudi Arabia.
Table 2 provides PPP-based real GDP, population, and real GDP per capita for 2015 as the initial year and until 2050. It is clear that not only economic size but also real GDP per capita will grow substantially in developing Asia over the next 35-year period. Asian and world real GDP per capita in 2050 will become comparable to those of the developed countries in 2015, and will be close to one half of those of the developed countries in 2050. Judging from the average real GDP per capita for Asian countries, typical developing countries will become high-income economies. The share of Asia’s GDP in world GDP will increase from 41% in 2015 to 51% in 2050. Thus, the baseline projection expects a brighter Asia for 2050.

### Table 2: Real GDP, Population, Per Capita GDP in 2015 and 2050

<table>
<thead>
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<th>Initial (2015)</th>
<th>Baseline Projection (2050)</th>
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<tr>
<td></td>
<td>GDP (Billion I$)</td>
<td>Population (Million)</td>
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<tr>
<td>China</td>
<td>18,498</td>
<td>1,375</td>
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<td>India</td>
<td>7,532</td>
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<td>Indonesia</td>
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<td>EU</td>
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<td>LAC</td>
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<td>SSA</td>
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<td>946</td>
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<tr>
<td>MENA</td>
<td>6,016</td>
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<tr>
<td>Other Europe</td>
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<td>326</td>
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<tr>
<td>World</td>
<td>108,052</td>
<td>7,186</td>
</tr>
</tbody>
</table>

ASEAN = Association of Southeast Asian Nations; EU = European Union; I$ = international dollar; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa; US = United States.

**Note:** Real GDP is measured at PPP in 2011 international prices.

**Source:** Compiled by the author from IMF, WEO database for figures in 2015 and his own projections for figures in 2050.
3. The “Asian Century” Scenario

3-1. ADB-commissioned study on the “Asian century”

A report commissioned by the ADB, Asia 2050: Realizing the Asian Century (Kohli, Sharma and Sood 2011), presented a favourable scenario for Asia up to 2050. This scenario expects the Asian economies to sustain economic growth and turn the 21st century into an “Asian century,” in the sense that Asia will be dominant in the world economy in terms of economic size by 2050.

Under this "Asian century" scenario, Asia’s developing countries, including China and India, would continue to experience dynamic economic growth, transforming themselves to high-income countries by 2050. The ADB-commissioned study used several methods to measure real output and concluded that Asia’s GDP would become as large as US$174 trillion (at market exchange rates) in 2050, that its share of the global economy would reach 52%, and Asia’s per capita GDP in PPP terms would grow to $40,800. More specifically it projected China and India to grow substantially and become roughly equal in size, with each exceeding the US and the EU in total GDP. This scenario is considered as one of the best for Asia as it would become a wealthy region equal to North America and Europe today. Some additional three billion people will join the affluent classes by 2050 and their standard of living will dramatically improve.

This scenario is based on the assumption that today’s middle-income countries—such as China, India, and many ASEAN countries—will pursue domestic structural reforms and maintain open trade and investment regimes. Specifically, they are assumed to: (i) achieve technological progress and innovation and thus improve productivity; (ii) avoid major financial and economic crises having long-term impacts on the economy; (iii) adopt “inclusive growth” policies to reduce income disparities and assure equal opportunities for everyone; (iv) use natural resources and energy efficiently and protect the environment; and (v) strengthen policies and institutions to improve public sector governance.

3-2. “Asian century” scenario as a high growth case

To make a comparison with the ADB’s "Asian century" scenario and our baseline projection, we have projected future real GDP by assuming higher growth rates for Asian countries within the same framework for the baseline projection.

We consider two cases, i.e., high growth and very high growth cases. In the high growth case, we assume:
• All currently developing (or middle-income and low-income) countries in Asia will grow faster by an additional 0.6% every year from 2020 to 2050;
• All Asian high-income countries will grow faster by an additional 0.3% every year from 2020 to 2050; and
• All countries in the rest of the world will grow faster by an additional 0.1% every year from 2020 to 2050.

The choice of an additional 0.6% growth rate for Asia's developing countries is arbitrary but is expected to provide useful insight into the scale of the "Asian century," particularly if combined with the very high growth case (in which Asia's developing countries will grow faster by an additional 1.2%). Asian high-income countries are assumed to grow at the baseline rate plus 0.3%, as they have approached closer to the growth frontier relative to developing countries,  

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6 The study also concluded that the GDP shares of other regions would be as follows: Europe, 18%; North America, 13%; Latin America and the Caribbean, 10%; the Middle East and North Africa, 3%; Sub-Sahara Africa, 2%; and others, 2%.
and thus their potential to grow further is less than developing countries. The rest of the world is assumed to grow at the baseline rate plus 0.1% because of the spill-over effects of Asia's higher growth. These assumptions are arbitrary and not based on solid empirical evidence, but are expected to provide some interesting insight.

The case of very high growth for Asian countries is similar, except that in this case Asian developing countries, Asian developed countries and all countries in the rest of the world are assumed to grow faster by an additional 1.2%, 0.6%, and 0.2%, respectively. It is naturally anticipated that the very high case for Asia will lead to larger GDPS for Asian countries and a higher global GDP share for Asia.

The results of these two cases are presented in Figure 3, where the initial situation in 2015 and the baseline projections for 2050 are also depicted for comparative purposes. The figure demonstrates that Asia's economic rise is modest under the high growth case and becomes substantial under the very high growth case. The share of Asian GDP in global GDP in 2050 will be 51% in the baseline case, while it will be 56% in the high growth case, and 60% in the very high growth case. Either case can be called the "Asian century," but the very high growth case generates a scenario that conveys the message that Asia will dominate the world economy in 2050. In addition, China and India's GDPS will reach a substantially higher level. It is noted that the GDP shares of North America and Europe are projected to decline most in the high and very high growth cases for Asia. Thus the rise of Asia occurs at the expense of the relative economic size of the West.

Figure 3: The “Asian Century” Scenario as a High or Very High Growth Case

3-3. What is meant by “Asian century”?  

The ADB-supported study defined the “Asian century” to be the era when Asian countries collectively account for the majority of the world economy in terms of the size of GDP (measured at market exchange rates). Asia will be larger in economic size than the rest of the world as a result of its persistent economic growth, which is higher than in the rest of the world.

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7 See the columns for high and very high growth cases in the Appendix Table for more detail.
This outcome is possible because of Asia’s productivity increases, avoidance of major financial and economic crises, pursuit of inclusive growth, environmental sustainability, institutional and governance reforms, and regional cooperation and integration. Maintenance of peace and security in the region is clearly vital to this end, as is Asia’s globally harmonious development.

Our own projection shows that even in the baseline case, Asia will account for more than 50% of the world economy (measured at PPP in constant international dollars), and in the high growth cases the share of Asia in the world economy will rise to between 56% and 60%. It is also shown that Asia will host two super-giant economies, China and India, whose economic size will be on a par in 2050. This would be a laudable achievement for Asia. It is in the best interests of all countries, including those in the West, to support Asia’s efforts to realise the “Asian century,” and make it a productive one for all countries involved.

4. The “Asian Stagnation” Scenario

Against the optimistic "Asian century" scenario, this section considers two pessimistic scenarios, i.e., the “middle-income trap” scenario and the “Asian conflict” scenario. Under such pessimistic scenarios, Asia will not be a dominant economy in the world in 2050.8 We consider these scenarios by assuming two low growth cases using the same framework as the baseline projection.

4-1. "Middle-income trap" scenario

The ADB-commissioned study (Kohli, Sharma and Sood 2011) presented a pessimistic scenario, i.e., the “middle-income trap” scenario. The "Asian century" scenario will fail to materialise if the Asian countries do not grow sufficiently fast because of the “middle-income trap”.

Under the study's "middle-income trap" scenario, the region’s economic growth will slow down significantly in the next decades, including in China, which has so far achieved dynamic growth. Asia’s GDP in 2050 will be smaller at US$65 trillion (at market exchange rates), its global share will be lower at 31%, and Asia’s per capita GDP will remain low at I$20,800 (at PPP). In this less favourable scenario, the Asian economies will not grow much, despite their high potential, and many of them will not be able to escape the middle-income economy status.

Considering that only a few economies—such as Japan, the ROK, Singapore, and Taiwan—have been able to move from middle to high per-capita income status, overcoming the "middle-income trap" is no easy task. Under the "middle-income trap" scenario, growth in developing countries is hampered due to (i) the declines in cost competitiveness, reflecting rises in wages and environmental costs; (ii) the lack of productivity growth reflecting failure to streamline public policy to encourage innovation and entrepreneurship, and to invest in education, research and development (R&D), and innovation; (iii) possible financial and economic crises that can have a long-term negative impact on the economy; and (iv) political and social instability reflecting inequality, pollution, corruption, and bad governance.

The opportunity cost of being trapped in middle-income status and not realising the “Asian century” is large in both economic and human terms. In economic terms, per capita GDP will be only half of the “Asian century” case and an additional three billion Asians will enjoy the fruits of prosperity one generation later than under the “Asian century” scenario.

8 Auslin (2017) provides cautionary notes on the "Asian century" scenario by discussing five risk areas: the failure of economic reform, demographic pressure, unfinished political revolutions, the lack of regional political community, and the threat of conflict.
4-2. “Asian conflict” scenario

Asia has been able to grow in the absence of major military conflicts and wars in the region. Recently, however, the region has seen an escalation of political and security tensions and territorial disputes. For example, the nuclear and missile threats by the Democratic People’s Republic of Korea (DPRK) have intensified on the Korean Peninsula, tensions between China and Japan over the Senkaku/Diaoyu territorial issues have mounted, the political relationship between China and the ROK has worsened due to the deployment of Terminal High Altitude Area Defense (THAAD) missiles by the US military in the ROK, China and India have encountered major conflicts due to border issues, and China and the US have had tensions over the South China Sea, cyber-attacks, and other issues. The “Asian century” scenario can fail if Asian countries cannot manage geopolitical and security conflicts within Asia and/or with the West, particularly the US, in a peaceful manner, and experience major military confrontation and/or war.

The present geopolitical risks in Northeast Asia indeed suggest that a scenario induced by political and security conflicts can be real. If a serious military conflict in Northeast Asia—on the Korean Peninsula or in waters around the Senkaku/Diaoyu Islands—were to break out, Asia’s economic growth would be seriously hampered. Under this pessimistic scenario, almost all Asian countries would be seriously and adversely affected, leading to lower or negative GDP growth. The Chinese dream of doubling per capita income between 2010 and 2020 may not be realised and the Japanese economic restoration aimed at with Abenomics will meet distinct difficulties. Other developing economies’ efforts to escape middle-income status may fail.

According to computable general equilibrium (CGE) analysis, a major military conflict among China, Japan, and the ROK creates significant costs to these countries and beyond. Table 3 summarises the economic impacts of a military conflict in terms of percentage of GDP, as reported in a study by Kawai and Park (2015). It shows that when China and Japan clash militarily, it reduces the real GDPs of China, Japan, and the ROK by 0.9%, 0.8%, and 1.0%, respectively. In the event of a trilateral conflict among China, Japan, and the ROK, the real GDPs of these countries are reduced by 1.5%, 0.8%, and 3.0%, respectively. That is, the impact on the ROK is the largest, followed by China due to the deeply developed regional supply chain relationships. Interestingly, even when Japan and the ROK do not clash militarily, the impact of China–Japan conflict on the ROK is the most serious.

Table 3: Costs of Military Conflict and Benefits of Economic Cooperation among China, Japan, and the Republic of Korea
(deviations from the benchmark case, %)

<table>
<thead>
<tr>
<th></th>
<th>Military Conflict Scenario</th>
<th>Economic Cooperation Scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Conflict between China and Japan</td>
<td>Conflict among CJK</td>
</tr>
<tr>
<td>China</td>
<td>-0.92</td>
<td>-1.46</td>
</tr>
<tr>
<td>Japan</td>
<td>-0.77</td>
<td>-0.76</td>
</tr>
<tr>
<td>Korea, Rep. of</td>
<td>-0.97</td>
<td>-2.97</td>
</tr>
<tr>
<td>East Asia</td>
<td>-0.59</td>
<td>-0.90</td>
</tr>
<tr>
<td>World</td>
<td>-0.07</td>
<td>-0.22</td>
</tr>
</tbody>
</table>

CJK FTA = China–Japan–ROK free trade agreement; RCEP = Regional Comprehensive Economic Partnership.  
Note: Figures represent deviations from benchmark real GDP in %, based on computable general equilibrium (CGE) analysis. East Asia refers to the 16 countries of ASEAN+6. The CGE model assumes capital accumulation.  
Source: Kawai and Park (2015).

Table 3 also reports the likely outcomes of economic cooperation among the three countries.
For example, a trilateral free trade agreement (FTA) among the three countries (CJK FTA) or a Regional Comprehensive Economic Partnership (RCEP) among the ASEAN+6 countries creates large economic benefits for the three countries and beyond. Such benefits are much larger for the ROK than for China and Japan. This strongly suggests that the ROK should be most interested in making an effort to avoid a military conflict between China and Japan, and encouraging trade and investment cooperation among the three countries and the wider East Asia region.

The analysis suggests that Asian economies, including China, Japan and the ROK, must avoid an "Asian conflict" scenario. The three countries need to restrain themselves over island and historical issues, set aside their disputes, and focus on common interests. They should cooperate with all the other members of the Six Party Talks to avert a calamity on the Korean Peninsula and support a peaceful reunification of the two Koreas. They should work with each other to forge a CJK FTA, and with other ASEAN+6 member countries to implement the RCEP. Through these efforts, the three countries can fulfil the responsibility of maintaining peace and stability, and nurturing the golden goose of the "Asian century" for the region’s enduring prosperity.

4-3. "Asian stagnation" scenario as a low growth case

We now project future real GDP by assuming low growth rates for Asia using the same framework as the baseline projection. The methodology is similar to the high growth cases except that we now assume low growth for Asian economies.

We consider two cases, i.e., low growth and very low growth cases. In the low growth case, we assume:

- All currently developing (or middle-income and low-income) countries in Asia will grow less rapidly by 0.6% every year from 2020 to 2050;
- All Asian high-income countries will grow less rapidly by 0.3% every year from 2020 to 2050; and
- All countries in the rest of the world will grow less rapidly by 0.1% every year from 2020 to 2050.

The case of very low growth for Asian countries is similar except that in this case Asian developing countries, Asian developed countries and all countries in the rest of the world are assumed to grow less rapidly at rates given by the baseline less 1.2%, 0.6% and 0.2%, respectively.

The results of these two cases are shown in Figure 4, where the initial situation in 2015 and the baseline projections for 2050 are also depicted for reference purposes. The figure reveals that the relative economic size of Asia becomes smaller than the baseline projection in the low growth case and becomes substantially so in the very low growth case. The share of Asian GDP in global GDP in 2050 will be 46% in the low growth case and 41% in the very low growth case. The world in 2050 seems to return to the initial 2015 situation under the very low growth case and this clearly suggests the possibility of "Asian stagnation." Thus, Asia will not dominate the world economy in 2050. In addition, China and India's GDPs will not reach an alarmingly high level. Nonetheless, emerging economies in Latin America and the

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9 ASEAN+6 includes the ten ASEAN member countries (Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam) plus Australia, China, India, Japan, the ROK, and New Zealand.

10 The Six Party Talks aim to find a peaceful resolution to the security concerns resulting from the nuclear weapons program of the DPRK. The six members are China, Japan, the DPRK, the ROK, the Russian Federation, and the US.

11 See the columns for high and very high growth cases in the Appendix Table for details.
Caribbean, Sub-Sahara Africa, and the Middle East and North Africa will continue to rise. As a result, the GDP shares of North America and Europe are projected to decline modestly under the high or very high growth case for Asia.

Figure 4: The “Asian Stagnation” Scenario as a Low or Very Low Growth Case

Note: Real GDP is measured at PPP in 2011 international prices.
Source: Compiled by the author from IMF, WEO database for figures in 2015 and his own projections for figures in 2050.

5. Economic Challenges and Priorities for Developing Asia

To sustain long-term economic growth and realise an “Asian century,” all developing countries in the region will have to address their domestic economic challenges and priorities while strengthening international cooperation.

5-1. Sustaining long-term growth

To sustain long-term economic growth, the Asian developing countries are advised to nurture new engines of growth and boost productivity in all areas of economic activity. This is particularly the case in countries where workforces are aging. Domestic economic challenges and priorities differ across countries. For example, Table 4 lists the economic challenges and priorities of China, India, and ASEAN as a whole. However, there are several common challenges and priorities across these (and other) countries. They are: technological progress; inclusive growth; resource security and environmental sustainability; and higher quality of institutions and governance.12

Table 4: Economic Challenges and Priorities of China, India and ASEAN

<table>
<thead>
<tr>
<th>China</th>
<th>India</th>
<th>ASEAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Promoting resource security and environmental sustainability</td>
<td>• Reducing economic and social inequality and promoting inclusive growth</td>
<td>• Forging a competitive and innovative region</td>
</tr>
</tbody>
</table>

12 This section draws heavily from ADB and ADBI (2014) and Kawai and Lee (2015). World Bank presents analyses and reform directions for China. Nag (2017) also provides useful discussions, particularly from Indian perspectives.
- Reducing over-reliance on physical investment and corporate debt
- Improving governance, accountability, and institutional effectiveness
- Enhancing productivity, technological level, innovation, and investment efficiency
- Reducing economic and social inequality and promoting inclusive growth
- Reforming the financial sector and enhancing macroeconomic management
- Promoting resource security and environmental sustainability
- Investing in human capital, hard infrastructure, and its connectivity
- Improving governance, accountability, and institutional effectiveness
- Enhancing productivity, technological level, and innovation
- Reforming the financial sector and enhancing macroeconomic management
- Narrowing development gaps among member states through equitable growth
- Developing natural resources while sustaining the environment
- Maintaining macroeconomic and financial stability
- Investing in human capital, hard infrastructure, and its connectivity
- Improving governance, accountability, and institutional effectiveness
- Reforming the financial sector and enhancing macroeconomic management

Source: Revised version of Table 8.1 in ADB and ADBI (2014).

**Technological progress**

Technological progress—whether it comes from the creation of new knowledge, products, and services, or through diffusion or imitation—is the ultimate driver of sustained economic growth. Technological progress takes different forms and addresses different priorities as a country goes through evolving development stages. It is a complex process in which public policy, institutions, and the various players of each country's innovation system interact with one another. For imitator developing countries, FDI, the licensing of foreign technology, and imports of the latest capital goods tend to accelerate the diffusion of technologies. For more advanced developing countries, self-driven innovation and creation of new products and services become new challenges.

Even imitator countries require a certain degree of human capital such as basic science, engineering and technical training. Innovator countries require a high degree of human capital through advanced science and technology education as well as active investment in R&D. Protection of intellectual property rights (IPR) is also critical. While strong IPR systems may deter diffusion, they encourage the growth of innovative entrepreneurs by allowing them to secure high rates of return for innovation.

Only a few countries, such as Japan, the Asian NIEs and a few others, have been successful in achieving rapid technological progress through accumulation of human capital and the development of science and technology fields. Clear policies are needed to encourage innovation, including: establishment of a high-quality education system, particularly secondary and tertiary and in science, engineering, and technology; creation of an environment conducive to innovation and entrepreneurship, such as competitive markets and protection of IPR; and public sector involvement to support R&D activities.

**Inclusive growth**

Asia’s high and rapid economic growth has lifted hundreds of millions of people out of poverty and created a rising middle class. However, it has also been accompanied by rising inequalities in both income and assets. Widening gaps between the rich and poor can pose serious social, economic, and political challenges, and even deter sustained growth.

A number of factors have contributed to rising inequality in Asia, such as technological progress, globalisation, and market-oriented reforms. These are also key factors behind Asia’s economic success and have brought, and will continue to bring, new opportunities to Asian developing countries. However, opportunities have not benefitted people equally. In particular those with more education, those with more capital assets, those living in economic centres, and those with more politically connected networks have benefitted more than those without them.
Thus addressing unequal access to opportunities due to differences in the individual's circumstances is the most important aspect of inclusive growth. Policies are effective if they improve access to productive employment, social services such as basic education and health, and productive assets such as credit, land, and infrastructure services. Zhuang and Ali (2012) proposed an inclusive growth strategy that focuses on both expanding economic opportunity and promoting equal access to it. They specifically recommended: sustained high and efficient economic growth; social inclusion (investing in education and health care, correcting market and institutional failures, etc.); and strengthening social safety nets.

The importance of social safety nets has been increasingly recognised by policy makers in recent years for several reasons. First, urban migration and lower birth rates in many developing countries have put pressure on traditional family support mechanisms, especially on old age care. Second, population aging has increased the need for old age care through expanded pension and health care systems. Third, economic security through social safety nets is likely to boost economic competitiveness in a globalised world and contribute to higher economic growth.

**Resource security and environmental sustainability**

Asia’s rapid economic growth has been accompanied by the intensive use of natural resources (mineral fuels, water, forests, etc.) and environmental degradation. Emissions of pollutants have risen dramatically, harming the quality of air, water, and soil, and heightening the risks facing both individuals’ health and global warming.

The strong growth projected for Asian economies will make it even more important to protect scarce resources, and human and ecological health in Asia and the world. Mismanagement in these areas will amplify challenges such as energy and water insecurity, environmental degradation, damage to human health, and climate change, which could constrain the future growth of Asian economies. It could also generate international conflicts as nations compete for resources and struggle with externally generated ecological impacts.13

As sustained economic growth must be consistent with environmental constraints, Asian countries need to shift to a new development paradigm that focuses on improving resource efficiency and protecting the environment to achieve a low-carbon, resource-efficient society while pursuing their socioeconomic objectives. This new development paradigm should nurture green growth supported by regional cooperation. Greater investments in clean-energy and resource-efficient technologies together with regional cooperation can foster green growth (see ADB-ADBI 2013).

To achieve such a paradigm shift, a holistic approach is essential: mainstreaming environmental protection and carbon emission reduction in the development strategy, based on the co-benefits approach; adopting market friendly policies (such as reducing fuel subsidies and raising carbon-intensive energy prices) while paying adequate attention to social protection; introducing regulatory standards on emissions of hazardous pollutants; promoting investment in energy-efficient and low-carbon technologies and in renewable energy sources (through such government policies as feed-in-tariffs, tax incentives, direct grants and loan support); and strengthening regional cooperation (to obtain foreign technological and financial support). Such a development strategy would support economic growth, while minimising waste, encouraging more efficient use of natural resources (particularly fossil energy and water), and reducing emissions.

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13 China, as the largest economy projected to continue to grow rapidly, is expected to require increasingly large amounts of natural resources. If China maintains its current resource-intensive growth, its further economic rise will unlikely be harmonious from global perspectives.
Improving the quality of institutions and governance
The quality of institutions and governance is the backbone of economic activity, innovation, social inclusion, and environmental sustainability. While the quality of institutions and governance has been improving in Asia, it is still quite behind those of the US and Western Europe, particularly with regard to the rule of law, regulatory quality, press freedom, political stability, and anti-corruption measures. High-quality institutions and governance are essential in delivering the desired policy outcomes in key areas.

To sustain long-term economic growth, developing Asia is advised to improve its institutions and governance. The lack of public sector capacity to carry out policies, the politically driven misallocation of public resources, and official corruption can impede economic growth. Adherence to the rule of law, including the transparency of decision-making processes and observance of legal procedures, can create an open and fair rules-based environment, which is the basis for vibrant economic activity and will accelerate economic growth and development. Improving the quality of institutions and governance will go a long way toward sustained economic growth by helping to promote technological progress, economic and social inclusion, and environmental sustainability.

5-2. International cooperation
There are several dimensions to international cooperation. One is related to politics and security, and another to economics. As part of international cooperation, we focus on the importance of maintaining peace and security, providing international public goods, and strengthening regional economic cooperation and integration.

Maintaining peace and security
Asia’s economic success over the last several decades has been possible due to the presence of peace and stability in the region. This has been remarkable given the geopolitical and territorial disputes between large and small countries in Asia. For Asia to continue sustained growth up to 2050, major powers in the region need to avoid international military conflicts through peaceful means.

Currently, Asia faces several potentials for military action on the Korean Peninsula due to the DPRK’s development of nuclear and long-range missile weapons, in the East China Sea due to the Senkaku/Diaoyu Islands issue, and in the China–India border areas with territorial disputes. In addition, China’s expansion of military activity in the South China Sea has invited strong reactions from neighbouring countries (such as Vietnam and the Philippines) as well as the US and Japan which have insisted on the importance of the freedom of navigation. These tensions in the region may lead to military confrontation.

Interestingly, in all of these potentials, China is involved. China has become more assertive over the East and South China Sea issues, creating tension with neighbouring countries and the major world power, the US. China rejected the ruling made by an international tribunal in The Hague, which held that there was “no legal basis” for the nine-dash line and that China had unlawfully built an artificial island in Filipino waters. Having emerged as the largest economy in the world (on a PPP basis) and still growing much faster than the US, it may not be surprising to see China beginning to demand revisions to the rules and conventions established by the West.

More fundamentally, China’s rapid economic rise and the relative decline of the US economy can increase the risk that the two countries will eventually go to war as suggested by “Thucydides’s trap” (Allison 2015, 2017). Learning from history, the two countries need to

14 Thucydides was an Athenian general and historian who objectively examined the 27-year war between Sparta and Athens in the 5th century BC. His thesis was that the war was a consequence of
communicate intensively, understand each other's objectives and intentions, and find ways to coexist without embarking on war, especially a nuclear war, as it will make neither country a winner and only end in disaster.

China needs to decide whether it wants to be a global leader committed to international law and institutions, or a super-power willing to take unilateral action against the existing order and write new rules of its own. In contrast, the West, particularly the US, will have to adjust its position to allow emerging powers to have a greater voice and shoulder greater responsibility in global economic and geoeconomic governance.

Providing international public goods
Rising Asia, particularly China and India, will have to provide more international public goods (IPGs) as responsible stakeholders in the global community. These IPGs include: supporting global trade liberalisation, including the progress to be made at the World Trade Organization (WTO) Doha Development Round; supporting economic and social development in developing economies through ODA, infrastructure investment, and other means; conserving use of natural resources (fossil energy, water, land, marine resources, etc.), protecting the environment, and tackling climate change; and contributing to global financial stability.

From this perspective, it is highly welcome that China has taken the lead in establishing the Asian Infrastructure Development Bank (AIIB) and has launched the Belt and Road Initiative (BRI), as long as they function as genuine IPGs. It is also encouraging that China, India, and other major developing countries in Asia continue to support global institutions and agreements, such as the Paris Agreement on Climate Change, even though the US administration under Donald Trump has shown less willingness to support them.

Regional economic cooperation and integration
To sustain economic growth, Asian developing countries are advised to work together and integrate themselves with one another. Achieving close Pan-Asian economic cooperation and integration has been a challenge for historical and geopolitical reasons. Nonetheless, Asian countries have established the UN Economic and Social Commission for the Asia-Pacific (ESCAP), the ADB, and the AIIB (although Japan is not yet a member). These institutions have allowed Asian countries to work together on various issues of common interest (economic and social development, infrastructure development and connectivity, disaster risk management, cross-border environmental management, etc.), under their respective rules.

Markets have revealed powerful forces for integration. East Asian economies have developed supply chains through trade and FDI and have become increasingly interdependent on one another. Intra-regional trade and FDI can be further enhanced by more systematically aligning liberalisation and reform efforts region-wide. Market integration through mega-FTAs, such as the RCEP, would bring enormous benefits and become one of the driving forces of sustained economic growth in the region. The free movement of goods, services, capital, information, and people under common regulations would enable firms to enjoy access to a large-scale market and make them more efficient and competitive. Consumer benefits will also be large because of the availability of diverse goods and services at competitive prices.

Asian countries need to further strengthen infrastructure development and connectivity, particularly in transport, energy, and ICT. Infrastructure enhances competitiveness and productivity through the services it offers, helps to increase income by connecting isolated places and people with major economic centres, and promotes environmental sustainability if

the rise of a new power (Athens) and the anxiety this caused in an established power (Sparta): it was "the rise of Athens and the fear that this instilled in Sparta that made war inevitable."

The AIIB and the BRI are considered as part of China's geoeconomic strategy, which allows the country to increase its economic influence in Asia.
designed properly. Cross-border infrastructure connectivity is a basic condition for expanding trade and investment, and benefits are larger when more countries (areas) are connected due to network externality. There is large room for the ADB and AIIB to work together to realise a seamless Asia.

Asia's financial integration also supports long-term economic growth by helping to channel the region's high savings into investment in worthy projects in the region. Deeper and more integrated capital markets can provide a "spare tyre" to guard against the withdrawal of bank loans from abroad and a domestic credit crunch at times of banking sector turbulence. To maintain financial stability and respond to external shocks or capital outflows in a timely manner, regional financial safety nets need to be further bolstered. For this purpose, the East Asian economies are advised to enhance the functions of the Chiang Mai Initiative Multilateralisation (CMIM) and the ASEAN+3 Macroeconomic Research Office (AMRO), and even possibly transform them into an Asian monetary fund (AMF). Countries in other parts of Asia may consider developing similar arrangements and institutions or eventually joining the AMF, once it is established, together with the East Asian countries.

6. Implications for Global Governance of the “Asian Century” and Alternatives

6-1. Implications of the “Asian century”

Even though the realisation of the “Asian century” is desirable economically for Asia and the rest of the world, a major question is whether it will mean Asia's dominance not only in economic affairs, but also in political and military areas. The 20th century was called the “American century” because the US was the single global hegemon and dominated the world economically, technologically, politically, militarily, and through soft power. Being a group of countries, Asia has not shown its ability to cohesively put together a dynamic toward the type of closely coordinated collective action that the EU member states have been able to achieve. Even though Asian countries might be united economically through a region-wide FTA, possibly the RCEP, fragmented political and social institutions would make it difficult for Asia to realise an “Asian century” comparable to the “American century” that the US enjoyed in the previous century.

Therefore this paper argues that even if the “Asian century” arrives and Asia dominates the world economy, this does not imply that Asia will dominate the world politically and/or militarily. The West will continue to play important roles in the global management of political and military affairs, although Asia's emerging countries (such as China and India) will have greater voices in economic and other areas. Asia will continue to be a fragmented group of countries whose national interests are often divided and will not be able to take deeply coordinated collective action in many areas. It is unlikely that Asia will see the emergence of a dominant regional hegemon whose national interests match those of other regional members and thus will be able to act as a united player in political and security areas.

6-2. Alternative global governance structures

One may argue that a successful "Asian century" scenario means China's continued success in growth and development, and thus a “China century." Or even when Asia continues to grow and realises an "Asian century" from the economic perspective, the region may not dominate the world politically, militarily, institutionally, or through soft power. The reason is that Asia will remain fragmented and the US and Western Europe will show continued dominance in key areas, such as the ability to innovate, set global rules and standards, govern global institutions, manage military conflicts in various parts of the world, and coordinate on the provision of international public goods.

“China century” world
In the baseline projection, China is expected to be 50% larger in economic size than the US by 2050. In the high or very high growth case of the “Asian century” scenario, China will be about twice or more than twice as large as the US. This suggests that if the “Asian century” is to be realised, it is indeed a "China century" as China will likely dominate Asia and the world economically.

However, it is not only China, which will grow fast, but also other countries like India. Indeed in our projections, India will be as large as China in 2050, so China will not dominate Asia in terms of economic size. In addition, the Chinese economy may possibly stagnate and may not become the most dominant economy in the world.

Of course, China may continue to grow strongly while India may lose growth momentum. In this case, China may dominate the world economy. The question remains whether China can lead the world not only in economic areas but also in political and security areas, technological levels and innovation, provision of international public goods, global agenda setting and resolution, and institutional and governance standard-setting.

We argue that it is not realistic for China to create its own century. First, China’s growth model has been heavily dependent on the state sector as evidenced by the still large presence of state-owned enterprises (SOEs) and state-owned commercial banks, and on heavy investment in physical assets and heavy use of resources and energy, which may not be harmonious with the global economy and eventually encounter negative responses abroad. Under the Xi Jinping regime, SOE reform seems to be going backward and state-driven capitalism will likely be promoted further. Second, China’s political system is not compatible with the political mainstream of the international system unless China achieves serious political reform and introduces an effective multi-party democratic system. In addition, China’s soft power remains much weaker than that of the US when the latter created its own century. Third, despite China’s repeated claims of its peaceful rise and its pursuit of a harmonious world, both the West and China’s Asian neighbours still have deep suspicions about China’s intentions. Indeed, since the tenure of the Xi Jinping administration, the word “harmonious” seems to have disappeared from political statements and news media. China’s economic rise is seen as a threat to its East Asian neighbours and the West, as well as the global political order.

"American century 2.0” world
The 20th century was the “American century” because the US as the hegemonic leader dominated the world in terms of economic, technological, political, military, and soft power (see Box 1). The US supported the principles of democracy, human rights, and the market economy, and was a multi-ethnic society with international openness. The country realised material success through home ownership, availability of electric appliances, telephones, and automobiles; the creation of mass culture (Hollywood movies, jazz, amusement parks, shopping malls, and all sorts of sport events); and an American way of life, which was open and liberal and became a dream for the rest of the world.

### Box 1: The 20th Century as the American Century

- Dominance of the US in global economic, technological, political, and military areas as the hegemonic leader;
- Protection of the principle of democracy, freedom, human rights, and the market economy;
- Maintenance of a multi-ethnic society with international openness;
- Achievement of material success (home ownership, electric appliances, telephones, automobiles, etc.), mass culture (Hollywood movies, jazz, amusement parks, shopping malls, sports, etc.), and the American way of life (openness and a liberal approach); and
- Acceptance by the rest of the world of American leadership.
Although US economic and political power has been declining relatively speaking, the US may regain its global presence as a dynamic economic centre, a political leader, and a soft power leader by restoring sustained economic growth, its fiscal and military capabilities, and by continuing to provide some international public goods. This is the “American century 2.0” scenario, where other countries respect American global leadership and work with it. This scenario is likely to emerge if “Asian stagnation” is a real possibility.

However, the revival of the “American century” will be difficult because its relative economic size will continue to decline, and the US will not be the economic hegemon because of the relative lack of economic growth and the limited ability to continue to provide international public goods. The election of Donald Trump as the US President suggests that the US is tending to be inward-looking and less willing to be the dominant global leader. Thus, it is difficult to realise “American century 2.0” even when Asian economies cease to grow rapidly.

“G-2” world
Even when the US or China alone cannot assume the dominant hegemonic leadership role, the two countries may work together to jointly manage global economic, political, and security affairs. This is the “G-2” scenario, focused upon the two great-power relationship.

This concept suggests that the US and China cooperate with each other on wide-ranging issues, such as trade, investment, climate change, energy, terrorism, and cyber security threats, while mutually acknowledging each other’s core interests. President Xi Jinping seems to favour this approach, while former-President Barack Obama was cautious in accepting this notion as it might allow China to divide the Pacific Ocean into east and west and take charge of its western part, including the East and South China Seas.

The “G-2” scenario may appear appropriate in managing possible conflicts between the US, as the leading status-quo country, and China, as the rising power which potentially challenges the former. It may also appear effective in resolving East Asian hot spot areas, such as the DPRK’s nuclear and missile threats, territorial issues in the East and South China Seas, and trade and investment disputes. However, the “G-2” arrangement is unlikely to address all the key global issues, such as the economic, political, and security issues of Europe, Africa, the Middle East, and Latin America. Other major Asian countries, such as Japan, India, the ROK, the Philippines, and Vietnam, most likely would also want to join in the discussions on Asia’s key issues to ensure that their national interests are adequately protected.

In addition, if the US and China face serious conflict on critical issues, such as US military support for Taiwan, freedom of navigation in the South China Sea, and the Senkaku/Diaoyu Islands in the East China Sea, the two powers may not be able to maintain a cooperative “G-2” relationship.

“G-0 (G-Zero)” world
If no country or region assumes a leadership role in the global management of economic, political, and security affairs, the 21st century may become what Bremmer (2012) calls the “G-0 (G-Zero)” world. The “G-0” century is characterised by the absence of a dominant hegemon playing a global leadership role or by the lack of international cooperation guiding the world toward a collectively optimal outcome.

The Brexit decision by the United Kingdom (UK) and the election of Trump as the US President suggest that the US and the UK, staunch promoters of globalisation over the last several decades, are beginning to under-emphasise the value of multilateralism, liberal trade and investment regimes, and international cooperation. As is evident with Brexit, Western Europe seems to be heading toward populism politically, protectionism economically, and
fragmentation in terms of decision-making. President Trump has focused on reviving manufacturing jobs and reducing bilateral trade deficits under the “America First” slogan; he has attempted to limit the inflow of foreign immigrants, withdrawn from the Trans-Pacific Partnership (TPP) and the Paris Agreement on Climate Change, launched the renegotiation of the North American Free Trade Agreement (NAFTA), agreed with the ROK government to revise the ROK–US FTA (KORUS), and suggested high tariffs on Chinese products. Thus President Trump may not follow the established rules of the game in many areas.

On the other hand, China appears unready to take on the global leadership role. Even though President Xi Jinping supported free trade in Davos in January 2017, implicitly criticising the US retreat from the liberal trading system, China still protects its major domestic industries, such as automobiles, telecommunications, and financial services, with relatively high tariffs, in addition to non-tariff barriers to trade and restrictions on inward FDI. The role of SOEs in economic activity has even increased despite earlier decisions to reform and reduce their roles.

Thus a possible alternative world to the “Asian century” is the “G-0” structure, where there is no dominant country willing to assume global leadership, and major countries and regions are unwilling to collaborate internationally. But the world that appears to be “G-0” will be temporary as economic interdependence has deepened so much that major countries in the world find it necessary to maintain various types of international cooperation in order to manage global economic, political, and security affairs and create better outcomes.

“Multi-polar” world
Even if the “Asian century” arrives and Asia dominates the world economy, Asia will not dominate the world politically, militarily, or in soft power. Under the most likely scenario of a “multi-polar” world, global economic, political, and security affairs are likely to be managed multilaterally by the US, the EU, Asian countries (particularly China, India, and Japan), and other major emerging economies. The reason is that there will be no single hegemonic leader but there is a need to manage world affairs in an effective way. This means major countries will be working together to maintain the international economic, political, and security order.

Even when Asia becomes the largest region in terms of economic size, it may not be able to provide political and military leadership for the rest of the world, because the major Asian countries will likely remain divided on appropriate political and security arrangements in Asia and the world. Although the US and the EU will become relatively small in economic size, they will still maintain sufficient capabilities to present a model for political and security arrangements. In addition, the West is likely to maintain technological and innovation capabilities, high-quality institutions and governance, and soft power that attracts many followers in the global community.

The Group of Twenty (G-20) thus becomes a global governance model for the “multi-polar” world. As a premier forum for international economic cooperation, the G-20 is expected to play increasingly important roles on economic issues. The Bretton Woods institutions (the IMF, the World Bank, and the WTO) and other major international organisations, such as the Organisation for Economic Co-operation and Development (OECD) and the Bank of International Settlements (BIS), will be supporting the functioning of the multipolar world economically. The UN Security Council will continue to play a decisive role in the global security arena.

7. Role of Japan

This section explores the role of Japan in supporting the realisation of the “Asian century.” Looking forward, Japan can play a role in three ways; by restoring sustained economic growth; cooperating with China; and bridging the West and Asia.
7-1. Restoring sustained economic growth

One of the most important contributions Japan can make in helping to realise the “Asian century” is to permanently escape the long period of economic stagnation and restore sustained economic growth. This would require the continued pursuit of Abenomics, particularly structural reform, while supporting and benefiting from the growth dynamism of developing Asia.

Structural reforms

Sustained economic growth is indispensable in Japan because of the need to keep a high standard of living and employment, restore fiscal sustainability, and maintain the current level of social sector protection to cope with an aging population. Without growth, fiscal debt sustainability would likely be damaged, sending Japan into a sovereign debt crisis.

The basic growth strategy since the beginning of 2013 has been the use of the three arrows within Abenomics, which are aggressive monetary policy easing, flexible fiscal policy, and structural reforms to raise productivity. Aggressive monetary policy easing has been adopted to overcome price deflation and achieve a stable inflation rate of 2%. Flexible fiscal policy has been mobilised to ease the negative consequences of structural reforms. Structural reforms are the core part of Abenomics in order to raise labour productivity in a country characterised by a decline in working-age population and a rise in the elderly population.

Structural reforms have included labour market reform (to ensure that labour is employed in a productive manner), sectorial reforms (energy, health and medical, and agriculture), creation of a business environment conducive to the development of science and technology (Internet of Things (IoT), artificial intelligence (AI), nanotech, and biotech), tax and social security reform (to ensure the sustainability of public debt and the social security system), and further internationalisation of the economy (forging economic partnership agreements).

Benefiting from the dynamism of developing Asia

Given that the domestic market is mature and unlikely to grow rapidly, Japan has been working with developing Asia in various ways to benefit from its economic dynamism. These include the capture of inbound demand, expansion of goods and services including infrastructure construction services, advancement of Japanese firms abroad to have direct access to foreign markets, and accepting young and productive Asian talent from abroad.

Inbound visitors contribute to the consumption of goods and services in Japan as they spend money for hotel accommodation, local transport, restaurants, shopping, and various types of entertainment. Inbound tourism also promotes foreign visitors’ understanding of Japan. The number of inbound visitors has risen remarkably over the last few years, particularly from China and the ROK, and stood at 24 million people in 2016 due to a rise in per capita income abroad, Japan’s more open policies toward inbound visitors, such as the loosening of visa restrictions, and the promotion of tourism at local levels. Inbound visitors’ spending in Japan reached 0.6% of GDP in 2015, which is relatively low and hence has the potential for a further increase.

Developing Asia’s rising middle class provides predictably expanding demand for various goods and services from Japan, including infrastructure business services. Japan can benefit from such exports by developing business opportunities abroad. Given the expanding demand for infrastructure investment in high-speed trains, eco-friendly urban development, water resource management, power generation, etc., Japanese infrastructure firms can benefit from business abroad.

As an alternative to exporting from Japan, firms have been expanding FDI in developing Asia in order to have direct access to expanding local markets. This is particularly important for
services, as most services are non-tradable. Locating production sites close to foreign markets is a reasonable strategy, as this would allow firms to better respond to changing market sentiments.

The Japanese economy can also benefit by facilitating the entrance of young and productive Asian talent given the shrinking population of working age. Various local regions in Japan can particularly benefit from this as they encounter more rapid population declines and more serious labour shortages than the main economic centres.

**Supporting developing Asia’s growth**

Japan has also supported developing Asia in several ways. The most notable has been the provision of ODA for infrastructure development (highways, ports, power generation, etc.), social sector development (health and education), and human capital development (technical and capacity building). This strategy makes sense as developing Asia’s sound economic growth benefits Japan.

Japan has also supported developing Asia, including China, in attempts to lift a range of countries out of the “middle-income trap” through various types of efforts. Japan has accumulated valuable experience and knowledge over the course of its post-war economic development in advancing technological capabilities, combating pollution (air, water, and soil), managing urbanisation, achieving equitable growth, strengthening social security systems, and improving institutions and governance. Transferring such experience and knowledge has been, and remains, useful to developing Asia in tackling their challenges.

Supporting China in growing into a high-income country should not be viewed as a threat to Japan, as this entails a major economic and social transformation for China toward an affluent society from a long-term perspective. Such a society is likely dominated by a large and stable middle class and characterised by a more mature, open society that provides ordinary people with a greater voice and respects the rule of law. A gradual political transition toward a more transparent, accountable, and democratic system can be expected, which will be good for not only China, but also for neighbouring countries, such as Japan, India and the ROK, and for the rest of the world.

**7-2. China–Japan cooperation**

Economic cooperation between China and Japan in forward-looking areas can nurture trust between the two, which could help reduce the relative importance of territorial and historical issues, and re-direct bilateral relations toward win-win cooperation. This would in fact encourage further cooperation between the two nations and the wider East Asia region. By building common regional institutions in East Asia, China and Japan could be more strongly locked into cooperation.

**Trade and investment cooperation (CJK FTA and RCEP)**

The first area is trade and investment cooperation, particularly the formation of a CJK FTA and the RCEP. A CJK FTA could accelerate industrial cooperation and upgrading in the three countries. Market opening in the services sector can benefit China as the country attempts to rebalance the economy by developing competitive services industries. Japan can benefit by seeing a more open China and accepting more FDI from China and the ROK. A CJK FTA is the missing link in the RCEP, and thus highly needed for the successful conclusion of ASEAN+6 negotiations.

As a mega-FTA among 16 countries in East and South Asia and Oceania, the RCEP is one of the most important initiatives in Asia. China and Japan are in the position to help ASEAN in narrowing the development gap within ASEAN. The formation of a regionally integrated market in East Asia provides excellent growth opportunities for all countries involved.
However, RCEP negotiations have taken a long time and the gaps in the positions between the developed and developing country members have been wide, which has resulted in them missing several deadlines. For example, Japan wants to achieve a high degree of trade and investment liberalisation, and include a wide range of trade and investment rules (e-commerce, intellectual property rights, competition policy, government procurement, investor-state dispute settlement, etc.). On the other hand, China wants to achieve a moderate degree of trade and investment liberalisation, and relatively shallow trade and investment rules. India is reluctant to accept even a moderate degree of trade liberalisation, due to fear of being exposed to highly competitive Chinese products.

Following the US withdrawal from the TPP, the remaining 11 members have been negotiating the TPP, now known as the TPP11, without the US. Once TPP11 negotiations are concluded, RCEP negotiations will likely be accelerated. The reason is that, with TPP11 agreed upon, both Japan and China will have greater incentives to reach an RCEP agreement. Japan regards the TPP as setting the benchmark that the RCEP can reach in the long run, and thus likely accepts a less ambitious RCEP for now, while the agreement on TPP11 will likely press China to make significant progress on the RCEP. Considering the level of per capita income, India could be treated like the underdeveloped ASEAN members (i.e., Cambodia, Laos, Myanmar, and Vietnam) and given a longer time to achieve liberalisation. In addition, once the US returns to the TPP and it is put in place fully, Japan can help China in making preparations to join the TPP in the next ten years or so.

**Infrastructure cooperation (the ADB, AIIB, and the Belt and Road Initiative)**

Infrastructure investment and connectivity are vital to economic development for developing Asia. Channelling massive savings and financial assets into Asia’s infrastructure investment is critical. China has established the AIIB and launched the Belt and Road Initiative (BRI). These initiatives are highly welcome as long as China uses them for the purpose of providing genuine IPGs in the form of infrastructure and connectivity, not for expanding China’s geopolitical and military influence.

Japanese Prime Minister Shinzo Abe sent an official delegation to the BRI Forum for International Cooperation held in Beijing in May 2017. Then in his speech in June, PM Abe gave conditional support for the BRI. The condition is that the BRI should be harmonious with a free and fair Trans-Pacific economic zone, make infrastructure facilities open to everyone, have transparent and fair procurement rules, and finance only economically and financially viable projects so that the borrower country can repay the debt. PM Abe’s positive attitude toward the BRI is expected to encourage private Japanese firms to actively participate in some of the BRI projects. However, this does not mean that Japan will have a joint BRI project with China or that Japan will join the AIIB in the near future.

The AIIB has been quite successful since its launch in January 2016. By the end of September 2017, it had approved 21 projects for 11 countries with a total amount of US$3.5 billion and attracted 80 member economies (including 23 prospective ones). The AIIB seems to have adopted good environmental and social safeguards by working with the World Bank, the ADB, and other multilateral development banks, and has obtained the highest credit rating from three global rating agencies, i.e., Standard and Poor’s, Moody’s, and Fitch.

Whether Japan will join the AIIB depends on whether China and Japan can restore a certain degree of mutual trust. As China has an overwhelming voice over the AIIB’s decision-making and operations, for Japan to join the AIIB it must have confidence that China will run the AIIB in a way so as not to damage Japan’s national interest. In this sense the political relationship between the two countries must improve significantly before this were to happen. Meanwhile, Japan will continue to encourage the ADB to work closely with the AIIB.
In addition, China and Japan can foster an environment to induce the DPRK to join the international community. They can encourage the DPRK to embark on reforming and opening its economy so that it can develop and prosper through outward-oriented industrialisation, much like China and Vietnam have done successfully over the past decades. Infrastructure investment in transport, electric power, water and sanitation, and ICT is essential to the DPRK’s industrialisation. Once the DPRK understands that this option is available to them, the country could be more easily persuaded to work with the international community, thus reducing military tension on the peninsula.

**Macroeconomic and financial cooperation (CMIM and AMRO)**

China and Japan can also cooperate in the macroeconomic and financial area. They can encourage the use of their currencies for trade and investment invoicing, direct transactions of their currencies in foreign exchange markets, and increase holdings of mutual currencies (sovereign debt) as foreign exchange reserves. In this way, China can further accelerate renminbi internationalisation, and Japan can promote the role of the yen as an international currency and Tokyo as a truly international financial centre.

China and Japan can also make concerted efforts to bolster East Asia’s regional macroeconomic and financial cooperation. This is particularly important as the US Federal Reserve is on its way to fully normalising monetary policy, which could potentially affect Asia’s emerging economies by inducing capital outflows, interest rate rises, stock price declines, and currency depreciation. China and Japan can take joint leadership in strengthening both the regional surveillance functions and capabilities of AMRO and the liquidity provision capacities and modalities of the CMIM.

One of the noteworthy attributes of both AMRO and CMIM is that China and Japan have continued to work together within these institutions and arrangements even in the midst of the worst bilateral political relations in 2012–13. Following the Japanese government’s nationalisation of the Senkaku/Diaoyu Islands and the outbreak of anti-Japan demonstrations in China, governmental contacts were significantly severed. However, China and Japan continued to work together to ensure that AMRO and CMIM would effectively function. Such institutions locked the two countries into cooperation.16

Through such regional cooperative mechanisms, China and Japan can work with each other and with other East Asian countries on issues pertaining to the region’s collective interests. This can help minimise the relative importance of territorial and historical issues for the common benefits of these and the wider Asia. These efforts could help China realise that it cannot rise peacefully or harmoniously as a major global power without international cooperation and respect for international rules.

**7-3. Japan as a bridge between the West and Asia**

Japan is in the position to be a natural bridge between the West and Asia. As a member of the G-7, Japan shares the fundamental values of democracy, rule of law, and market economy with the US, the EU and other democracies. At the same time, Japan has been working with developing Asia in many ways. Within Asian supply chains, Japan has provided capital and technology to its trade partners, as well as markets for final goods produced in developing Asia. As a source of knowledge based on its own past experience in environmental management, energy saving, eco-city building, and social sector protection with an aging

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16 Nonetheless, the views of China and Japan are divided over whether the IMF-delinked portion of CMIM, which is currently 30%, should be raised to 40%. Japan and potential recipient countries argue for 40%, while China favors sticking to 30%, perhaps reflecting its rapid loss of foreign exchange reserves during 2015–16. This difference in views does not imply that China and Japan cannot cooperate.
population, Japan has provided support for developing Asia in overcoming relevant challenges. As a promoter of democracy, rule of law, and the market economy, and a development partner in Asia, Japan can be an effective bridge between the West and Asia.

From this perspective, it is useful to point out that Prime Minister Abe launched the “Free and Open Indo-Pacific Strategy” in August 2016, which has become an important driver of Japanese foreign policy. This strategy envisions a broad region which encompasses the Pacific and Indian Oceans and aims to integrate Asia and Africa. With this strategy, Japan helps expand infrastructure development and connectivity, trade and investment, and better business environments and human development from East Asia to the Middle East and then to Africa. The objective is to create a free and open Indo-Pacific, going beyond Asia-Pacific, in order to promote the stability and prosperity of the region as a whole.

The underlying idea behind this strategy is not new. In 2007, Japan introduced the concept of the “Arc of Freedom and Prosperity” which then symbolized a new direction of Japanese diplomacy and aimed to strengthen cooperation with countries which shared Japan’s fundamental values. This Arc was intended to include Europe, the Caucasus, Central Asia, the Middle East, the Indian subcontinent, Southeast and Northeast Asia, while strengthening relationships with the US, Australia, and the EU. Japan would forge economic partnerships through trade and investment with countries within the Arc and use ODA to provide financial and technical support for developing countries’ social and economic progress.

Although the word “Arc” is not used in this new strategy, PM Abe has been enhancing strategic cooperation with democratic countries, such as the US, Australia and India, in order to help realize a stable and prosperous Indo-Pacific region. For this purpose, he considers it essential to take advantage of the economic dynamism created by the synergy between the “two continents,” i.e., Asia which has demonstrated remarkable growth and Africa which is full of potential, and “two oceans,” i.e., the Pacific and the Indian Oceans.

PM Abe has been focusing particularly on cooperation with India, which has a historical relationship with East Africa and is located at a geographically and strategically key position in the Indo-Pacific region. Indeed he and Prime Minister Narendra Modi of India have agreed to take various initiatives, including the “Asia–Africa Growth Corridor” initiative, for the stability and prosperity of the Indo-Pacific region by enhancing the synergy between Japan’s “Free and Open Indo-Pacific Strategy” and India’s “Act East Policy.” They have agreed that assuring maritime security (through the rule of law, peaceful resolution of disputes without use or threat of use of force, freedom of navigation and overflight, and unimpeded lawful commerce in international waters) is a prerequisite to economic prosperity in the region.

8. Conclusion

The prospect of an “Asian century” is based on the assumption that developing Asia can manage the major economic and political challenges it faces, i.e., by avoiding the middle-income trap as well as military conflicts in Asia and the wider world.

To avoid the middle-income trap, developing countries in Asia need to focus on technological progress, inclusive growth and reducing inequality, environmental sustainability, institutional and governance quality, and regional cooperation and integration. To avoid military conflicts and maintain peace and security in East and South Asia, countries in the region must work...

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17 Japan’s foreign policy has three pillars: strengthening the Japan–U.S. Alliance, enhancing relations with neighboring countries (China, the ROK, Russia, Australia, India, ASEAN, etc.), and strengthening economic diplomacy as a means of driving the growth of the Japanese economy (see Ministry of Foreign Affairs, Government of Japan (2017)).
with each other and with the West to resolve major differences through dialogue and diplomatic means, and continue to grow harmoniously with the rest of the world.

One of the most important ingredients of an “Asian century” is for China and Japan to cooperate even though they may continue to compete for leadership in Asia as productive rivals. For this purpose the two countries can make efforts to forge the RCEP through trade and investment cooperation, advance collaboration and linkages between the ADB, AIIB, and the BRI for infrastructure development, work together to improve the environment and climate change mitigation, and provide financial and technical resources for regional financial stability through the CMIM and AMRO.

The West needs to adjust to the rise of developing Asia, and in so doing allow it to have a greater voice and responsibility in global economic and geoeconomic management. Even when Asia dominates the world economy in scale and in this sense achieves an “Asian century,” this does not imply that Asia will dominate the world politically, militarily, or institutionally. The 21st century will likely be one of a multi-polar world, and global economic and political affairs are likely to be managed collectively by the existing powers and new rising powers. In the absence of a dominant hegemonic leader, this multi-polar world will require a significant degree of cooperation among nations for its successful functioning.
### Appendix Table: Real GDP, Population and Per Capita Real GDP under Different Cases

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**ASEAN** = Association of Southeast Asian Nations; **EU** = European Union; **I$** = international dollar; **LAC** = Latin America and the Caribbean; **MENA** = Middle East and North Africa; **US** = United States.

**Note:** Real GDP is measured at PPP in 2011 international prices.

**Source:** Compiled by the author from IMF, *WEO database* for figures in 2015 and his own projections for figures in 2050.
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