A Perspective on the Future of Asia

Remarks at the Asia Pacific Initiative Forum in Yokohama

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Introduction

Good morning Ladies and Gentlemen. It is my great pleasure to join you today at the inaugural meeting of the Asia Pacific Initiative Forum. I am confident that this forum will develop into a central platform where Asian business leaders and policy makers can gather to share insights, forge new partnerships and develop new innovative ideas to tackle global as well as intraregional challenges.

Today, I would like to touch upon some characteristics and future challenges for Asia from a macro perspective. My speech will be based on my experience serving as Vice Minister for International Affairs at the Ministry of Finance in Japan, President of the Asian Development Bank and Governor of the Bank of Japan.

I. An Asian Century

I would like to begin by first trying to put the word "Asia" into context. Looking into the etymology of "Asia," one explanation is that it comes from the Akkadian word *asu*, which means "to go out, to rise," in reference to the sun, thus "the land of the sunrise."¹ So a couple of thousand years back, all people or cultures originating from the east were collectively classified into a single category of "Asians" or "Asia." However, the actual diversity of ethnicity, religion and culture across Asia is immense compared with other regions of the world. For example, the number of Asian sovereign states that are members of the United Nations is 48, and there are more than 10 different official languages used in multiple sovereign states. There are also vast differences in the stage of development of Asian states, as the largest country in terms of per capita GDP on a purchasing power parity basis is more than 7 times as large as the smallest one in the region.²

While it is difficult to generalize about Asia, the expression "the Asian Century" is used quite frequently. The phrase expresses Asia’s growing global presence, and is used similarly to terms such as the "Pacific" or the "Chinese" century, and also to terms such as the "East Asian miracle" or "Asia's rise."

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At the same time, the term "Asian Century" evokes a historical narrative of shifting centers of world power such as from Great Britain in the 19th century to the United States in the 20th century. Back in 1904, Halford Mackinder, an English geographer, academic and politician wrote "The Geographical Pivot of History," in which he forecast that the 20th century was going to be the Asian Century. His forecast turned out to be incorrect. However, many envision the 21st century as an Asian century, given the expansion of the Asian economy and the growth of its population. Kishore Mahbubani, a Singaporean academic and former diplomat has argued that the last two centuries of Western domination of world history have actually been an anomaly from history. In the period from A.D. 1 to 1820, the two largest economies of the world were those of China and India. More recent data on the economic presence of Asia is shown in Chart 1.

II. Current State of Asia

Before I proceed, let me briefly mention some recent facts regarding Asia. Asia has led global growth for the past several decades, and as of 2018, accounts for more than 40% of global GDP. The region is home to around 60% of the world’s total population. The share of intraregional trade has been increasing and accounts for 58% of the total trade of all the region's countries. Financial interconnectedness is also deepening. These characteristics are shown in Chart 2.

Regional policy cooperation is taking place through various platforms. ASEAN is the center of regional economic integration in South East Asia, and the scope of its cooperation has widened with the involvement of other countries to form ASEAN+3 and ASEAN+6, and even beyond Asia through arrangements such as APEC. Many Asian countries are members of G20 and their contribution to global policy making is increasing. In the area of central bank cooperation, regional forums such as EMEAP and SEACEN are enhancing the active exchange of views and the sharing of knowledge among members.

The movement of people across borders is becoming much more active as regional integration deepens. This is also reflected, for example, in the regionalization of the media and popular

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4 International Monetary Fund, "IMF Data Mapper, World Economic Outlook October 2019 (GDP)."
culture. There is a long-established network of production, distribution and consumption of Chinese-language pop music, opera and films within the Chinese community all around Asia. In the 1990s, Japanese television dramas became a staple of audiences across East Asia. This success encouraged the Korean television industry to actively export its own dramas regionally. These developments have resulted in a loosely integrated regional media and cultural industry in East Asia which has also helped promote intra-Asian tourism and cultural exchange.

III. Asia as Future

With the increasing interconnectedness of the region and its growing economic presence, it is not surprising that there are expectations that Asia can and will lead the world. But simply extrapolating from the strong economic performance of recent decades can be misleading. As we well know, economic size alone is not enough to be accepted as a global leader. Looking back at history after World War II and how the major powers have evolved, it clearly shows that it is not just about brute economic or military power. A combination of vision, moral values and respect toward others are also essential.

What do we have to do in Asia to truly harness the potential of this vast and complex region, so that Asia can play an active role at the global stage? Asian countries will need to work further to deepen intraregional collaboration based on mutual recognition and respect while acknowledging the diverse nature of this region. Specifically, further deepening of economic regional interconnectedness will certainly be necessary. Also, a broader perspective to increase joint engagement in the global community on non-economic issues will be important. I would like to touch upon them separately.

Enhancing Regional Integration

If Asia is to take on a global leadership role, this would require the promotion and maintenance of open and flexible economies and markets. The strengthening of Asian supply chains would also be essential for enhancement of economic interconnectedness. Much has already been achieved on economic integration. For example, in ASEAN, there has been progress in eliminating tariffs, advancing services liberalization, liberalizing and facilitating investment and facilitating skilled labor mobility. However, as shown in Chart 3, compared to Europe, Asia has a lower participation rate in global supply chains. Promoting trade
liberalization through frameworks such as TPP11 and RCEP would be the way forward, especially in an environment where global trade tensions are high. It is important to promote trade not only in goods but also in services. The region is steadily transitioning from being mainly a production area of the world to the biggest corporate and consumer market in the world. This naturally increases the demand for services in the region as well.

Equally important is coordination on cross-border regulatory and institutional elements within the region. Discussions in ASEAN's Economic Community Blueprint 2025 could provide hints on how to address such cross-border issues. For example, the business community has in the past raised issues regarding the differing requirements and regulations among ASEAN countries with incomplete mutual recognition agreements, and the burdensome processes and inadequate transparency in some member countries. Although substantial progress has been made, differences among members remain in terms of ease of doing business and trading across borders. These challenges are noted in other Asian countries as well. While the EU has been aiming for economic integration through the establishment of a single market, Asian countries, such as the members of ASEAN, have preferred to preserve each country's sovereignty. This is certainly appropriate, reflecting the region's diversity. Having said that, as regional economies become more dependent on each other, more work is necessary to reduce barriers to free trade of goods and services and for direct investment. This would boost intraregional demand as a source of growth. It is also essential to work jointly in developing deep and liquid financial markets to enhance the effective use of regional savings and to invite long-term capital inflows.

As a basis for further strengthening such economic ties, it is also important to patiently strive to deepen fundamental mutual understanding among countries and people in the region. As I mentioned earlier, Asian countries are highly diverse not only in economic aspects such as income, industrial structure and technological progress, but also in many other fields such as religion and culture. For this reason, it is important to foster a stronger sense of trust while respecting each other's unique characteristics.

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5 ASEAN's Economic Community (AEC) Blueprint 2025 enlists concrete actions to be taken by 2025 in order to realize the AEC envisaged in ASEAN's Community Vision 2025.
Engaging with the Global Community

Asia must also actively engage in global discussions beyond pure economic issues. For example, according to research by a consulting firm comparing the soft power of different countries, only four countries from Asia are in the top 30,\(^6\) as shown in Chart 4. With around 60% of the global population, Asia has a responsibility to play a constructive role in global issues such as climate change and inequality. Through effective dialogue, ideas and values originating in Asia could provide a positive impetus to the global debate. From this perspective, it is important to continue to actively participate in international discussions and to raise Asian voices through frameworks such as the G20.

As I mentioned, climate change is an area that requires Asia's active contribution. Addressing climate change risk requires a global effort. But, as a region that would be greatly affected by increases in natural disasters, rising sea levels, and damage to agricultural and fishery industry, this is a much more urgent issue for Asia. At the same time, in step with economic growth, carbon dioxide emissions in Asia have increased rapidly, and counted for more than half of total global emissions in 2017.\(^7\) It is important to collaborate within the region and with the global community, by for example actively encouraging the introduction and sharing of environment-friendly technologies.

How to take advantage of digital transformation is another area that Asia could play a leading role in the global discussion. Many Asian countries including China, India and Japan are key innovators and manufacturers of digital technology. If countries in the region can coordinate their digital supply chains, the synergies would be significant. From another perspective, most Asian countries face intractable demographic dilemmas. In much of East Asia, fertility has dropped below replacement rates, populations are aging, and workforces declining. Labor-saving technology can help mitigate this demographic challenge and should improve the productivity of East Asian countries.

Conclusion

Let me conclude. The globalization that led the development of the global economy after

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\(^7\) Global Carbon Project, "Global Carbon Budget 2018."
World War II has slowed recently. Countries have become more inward oriented, and this change has become a major headwind for cross-border financial and economic activities. On the other hand, multilateral efforts are indispensable in tackling many issues ranging from trade to climate change.

Asia is one of the regions that has benefited most from post-war financial and economic globalization. In this age of uncertainty, the search for a new "global order" continues. This brings both challenges and opportunities for the Asian region, and expectations for the region to contribute to the global debate are high. To that end, it is important for Asia to promote further intraregional collaboration based on mutual understanding and respect. Strengthening the bond within Asia will enable the region to contribute to solving global issues. Based on my many years of working with colleagues in Asia, I am confident that the Asian Century will certainly come.

Thank you for your kind attention.