



Today, Asia is in the same position as the U.S. at the beginning of the 20th century: an economic giant, but a political dwarf. © Illustration by Eric Chow

THE BIG STORY

This is the Asian Century: Seven reasons to be optimistic about it

From dominance in the US-China tech war to the end of coronavirus, experts weigh in

Nikkei staff writers

SEPTEMBER 30, 2020 06:19 JST

TOKYO -- This is not the first Asian century. According to the late economic historian Angus Maddison, Asia accounted for more than half of world economic output for 18 of the last 20 centuries. The region's growing clout in the world economy is a "restoration," not a revolution, he said.

It took the massive concentration of capital in the West, the result of the Industrial Revolution and colonialism, for Europe to usurp the center of economic power in the 19th century. And it took two world wars for the U.S. to supplant the latter. Today, however, Asia's vast population -- more than half the world's inhabitants live there -- is reaching economic predominance once again.

So, what might that look like? In the 18th and 19th centuries, when economic might began to swing in Europe's favor, political and cultural influence followed. The same happened when the U.S. surged ahead in the 20th century: Political power and cultural influence followed economic production. Today, Asia is in the same position as the U.S. at the beginning of the 20th century: an economic giant, but a political dwarf.

There are plenty of chances to address that gap, however. Global leadership is something of a loose ball at the moment, as the U.S. steadily reneges on many of its expensive commitments to build a "liberal world order." On many issues, from COVID-19 vaccines to trade deals to climate change, a vacuum needs filling as Washington falters. Will Asia step into this political leadership gap? And will Asian culture become as ubiquitous as European art and fashion, and American music and films in the past 200 years?

This is by no means a given. Few Asian countries want to see the most likely local candidate for global influence -- China -- dominate their region. Asia remains fractured politically, and grows more so with the rise of great-power competition. But Europe's disunity in the 19th century did not prevent it being a polestar for the rest of the world.

"One-fifth of the way into the Asian century, many of the predictions that an informed observer might have made in 2000 would be correct"

One-fifth of the way into the Asian century, many of the predictions that an informed observer might have made in 2000 would be correct. China's fast growth has propelled it to become the world's second-largest economy -- and the U.S. has finally woken up to discover an emerging superpower seeking to displace it. A buoyant middle class has emerged in China, and across a rapidly developing Southeast Asia. By 2050, the Asian Development Bank estimates, 3 billion Asians could have living standards similar to those of Europe, and Asia could account for over half of global output.

But there are surprises too -- not least of which is this year's global pandemic, which began in China and has come to paralyze the global economy.

Now, as we refresh our brand -- today, Nikkei Asian Review becomes Nikkei Asia -- we take stock of the challenges and opportunities that lie ahead in the next phase of the Asian century.

Over 20 experts from a range of backgrounds have generously given us their time to discuss seven key issues, from the pandemic to geopolitics to demography. We have let them speak for themselves.



It's hard to imagine how we might return to the way we were before COVID-19. How will the pandemic change the world?

Michihumi Isoda, author of "Japanese History of Infectious Diseases":

My observation is that the pandemic accelerates the speed of changes that would have happened anyway. To go back to the 1918 influenza, for example, it ended World War I sooner.

In terms of our lifestyles, one result of COVID-19 will clearly be increased digitization. Changes in political systems will become apparent more quickly. However, during a pandemic, people expect that much will change -- but the result may not be as significant as they expect. In the case of the 1918 influenza, despite the large number of deaths in cities, urbanization continued because of increased births and movement of people into cities.



Mishal Khan, associate professor at the London School of Hygiene & Tropical Medicine:

One of the aspects that I'm concerned about is growing inequalities. There are inequalities in who gets the infection; but also, when there are control measures such as lockdowns or school closures, the same populations at higher risk are often worse affected. For people who are poor, or migrant workers, their whole life experience becomes worse. We have also seen a gendered impact.

But one of the really interesting things about COVID is that it hasn't been lower-income countries doing worse and high-income countries doing better. For example, if you look at the U.S. or even the U.K., where I'm based, those countries certainly haven't done well in controlling COVID, even though they're higher-income countries.

And there are examples like Vietnam and Pakistan where they've had a lot of social support. So people aren't having to go out and back to work, just because of poverty. So many low-income countries have shown innovation and good responses. It's not [that] simple ... when it comes down to the leadership aspect of it.

Gabriel Leung, dean of medicine at the University of Hong Kong:

I think that the world has shown a heterogeneous response to COVID-19. First, there is the sociological imprint of [Asia's] experience with previous epidemics like SARS. And I think a second reason is also the cultural context -- whether one's culture is an individualistic culture that values individual freedoms, or a communitarian value system where the welfare of the community is valued.

How will the epidemic end?

Gabriel Leung:

Most of the vaccines that have actually demonstrated efficacy so far have actually not been able to stop infection and spread. Rather, they can stop people from getting very ill or dying from COVID-19. So, I think that that's probably the best we can hope for -- at least, in this first generation of vaccines, which we all anticipate will become available, or will start to become available, toward the end of the year and the beginning of next year.

Ken Ishii, professor of vaccine science at the University of Tokyo:

When vaccines are suddenly mass-produced, there will normally be unexpected incidents. Regardless of effectiveness, if issues around side effects gain too much attention, less people would want to be vaccinated and infection rates would not drop. I would say, "haste makes waste."

Vaccines are only one element of public health. It is important to manage public health, hygiene and medicine comprehensively to control the coronavirus pandemic. The disease may not completely disappear, but would definitely be controllable.



Demography is largely responsible for Asia's economic predominance; the region is home to over half the world's population. But many of Asia's largest economies are aging rapidly, due to falling fertility rates and longer life expectancies. Japan's population is already declining, and many, like South Korea and China, are set to follow. This will present a number of dilemmas for these societies, from pensions to immigration. What can we expect?

Paul Cheung, director of the Asia Competitiveness Institute at the National University of Singapore:

Asia's population pyramid is changing, with the top getting heavier and the bottom getting lighter, and this leads to a lot of public health and public finance issues. ... The elderly need long-term medical care support and long-term financial support, which means a significant burden. In a democracy, the government has to take care of it. Countries should not underestimate the amount of effort and resources required to deal with this humanitarian crisis.

Tatsuo Hatta, president of the Asian Growth Research Institute:

While [Asia's] population may be declining, productivity is not. ... The current demographic trends tell us that we should establish a system that keeps the elderly working for as long as they are healthy, as well as a social security system that does not burden the young.

Lauren Johnston, research associate at the SOAS China Institute

Asia will have smaller and older populations. Some countries got rich before they got old and others didn't. But a smaller population does not necessarily mean a worse outcome for the country ... it might mean better health, because there's more of an environmental balance. There needs to be a way for society to adjust, so that the quantity of people is less important to the sense of the standard of living.

What's life like in an aging society?



Masako Wakamiya, 85-year-old app developer in Japan:

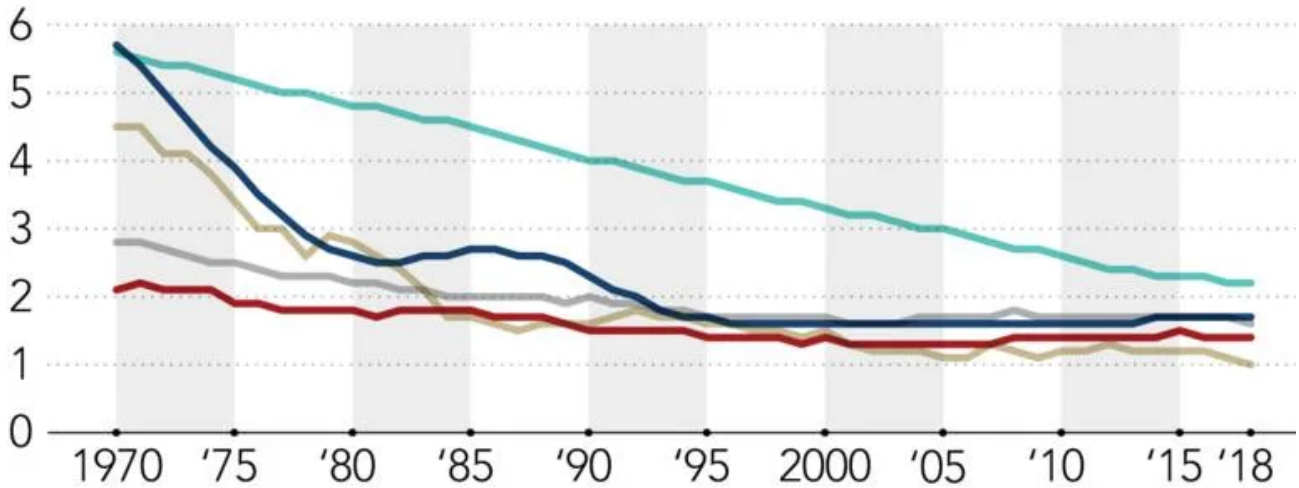
I think people are worried about aging too much. Having a longer life has been our goal, and we made it. It's not a bad thing. When I was younger, people used to believe that their life would last until 50, and now it's 100. Compared with before, we have a longer healthy life expectancy. As long as you stay healthy, you can work until 70, instead of 55. As we have more health-rich time, we still have enough time to do what we want after we retire.

Also, I would like to tell the younger generations one important lesson. Don't make too many plans for your career and life and so on. The world is constantly changing, and you should just do what you can do at that moment. ... Don't be afraid of failures. They make life flavorful.

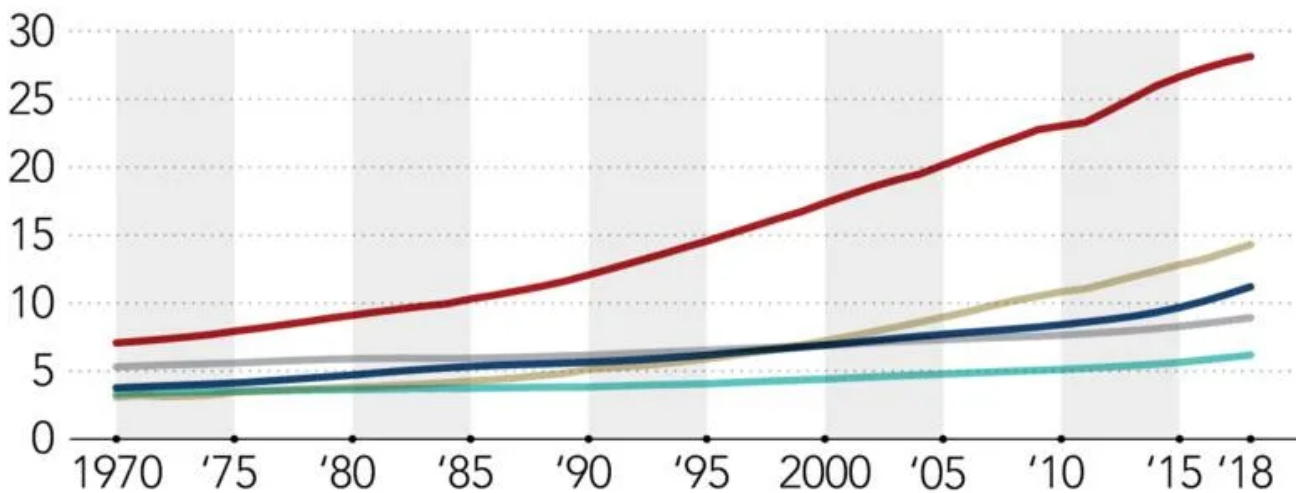
Aging Asia

— China — India — Japan — South Korea
 — OECD average (Fertility rate)
 and World average (Elderly population)

Fertility rate (Total number of births per woman)



Elderly population* (Percentage share of total population)



*Those aged 65 and older

Source: OECD

Another long-term trend that will profoundly affect Asia is climate change. If zero emissions are to be met by the middle of the century, Asia will have to bear the brunt of the cost, and -- crucially -- show leadership. But it also bears the most risk of climate change from heat waves, rising seas, and other extreme weather events.

Naoyuki Yamagishi, director of climate & energy and oceans & fisheries division, World Wildlife Foundation, Japan

Either way, it will be an Asian century. Because if we fail, if Asia fails to cope with climate change impact and also tackle climate issues, that will be Asia's failure, and it will affect the world too.... If you succeed, in terms of coping with the climate crisis, it will be an Asian century in a positive way. Because despite the fact that we have a wide variety of countries in the region, we could manage to cope with those issues in a collaborative and productive manner.

Yuito Yamada, partner and leader of McKinsey & Company's sustainability practice in Asia:

If we do nothing, Asia has a huge portion of global risk. Out of the \$4 to \$6 trillion in at-risk GDP, \$2.8 to \$4.7 trillion is going to be in Asia, due to decreasing labor productivity. Capital stock and infrastructure that could be damaged from riverine flooding by 2050 equals \$1.6 trillion -- and out of that, \$1.2 trillion will be in Asia. So, 75% of global capital stock infrastructure risk from [that] flooding will be in Asia.

But this is also an opportunity for Asia to lead, by bringing together sufficient ways to adapt and protect assets. Much more resilient infrastructure could potentially be good practice for all the countries around the world. ... The world could learn from Asia.

Preeti Bhandari, director for climate change and disaster risk management, Asian Development Bank:

The Asia-Pacific region is at the forefront of the battle against climate change. The region is highly vulnerable to climate impacts, and home to many who are dependent on climate-sensitive sectors like agriculture for their livelihoods -- as well as many poor people living in urban slums who are likely to be impacted by the heat waves, [and] increased incidence of diseases.

I think we have to be upfront and recognize that the current pledges made by countries to reduce their emissions under the Paris Agreement will not take us to the goal of a [global] average temperature rise below 2 degrees, let alone 1.5 degrees. 2020 was supposed to be the year for ratcheting up climate ambition.

But the momentum may have slowed down, because governments are so preoccupied with the immediate response to COVID pandemic. However, we need to build a narrative that in the next wave of stimulus packages, governments introduce measures for green, resilient and sustainable recovery.



Democracy is increasingly beleaguered across the world. COVID-19 appears to be hastening this trend, as peaceful protests are put down brutally in Hong Kong, Belarus and even the U.S. Meanwhile, some authoritarian governments have done well at controlling the virus, while some democracies have done poorly. Has authoritarianism been vindicated?

Lee Morgenbesser, senior lecturer at the School of Government and International Relations at Griffith University and author of "The Rise of Sophisticated Authoritarianism in Southeast Asia"

Autocracies can evacuate a city quicker. Because civil and political rights are less of a concern, they can move a population quicker. ... The speed at which they locked down Wuhan was amazing -- but weeks later, they opened up and there were dead bodies everywhere. Because there's less value for human life, they can do things at a speed and at a wider extent than democracies can.

I think the difference is in the tools that are legally permissible, that the government can use in response based on how willing those in power are to break the law. [In an autocracy] there's no opposition, so you're never going to lose an election. So if you have no fear of losing power, there is a bigger set of tools at your disposal to deal with a crisis. That's a very important difference.

Tuong Vu, head of the department of political science at the University of Oregon:

In democracies, because the system is more transparent, the public tends to be very informed. The scientists play an important role in informing the public. Less advantaged groups in democracies are not neglected, because they have ways to voice their opinions through the media and their voices are not suppressed.

In autocracies, the situation is less known, the public is less informed, but the decisions -- no matter how self-serving or draconian -- tend to be easier, less subject to public scrutiny or protest, so they tend to be implemented faster. So if they are the correct decisions, that's great.

Has any Asian political model been vindicated? Why has Vietnam, for example, been a success?

Tuong Vu:

For Vietnam, similar to China and South Korea and Taiwan, there is a strong state. It has an effective bureaucratic organization within the state. If the bureaucracy is willing and if it has a unified leadership, it can be very effective in dealing with any challenges.

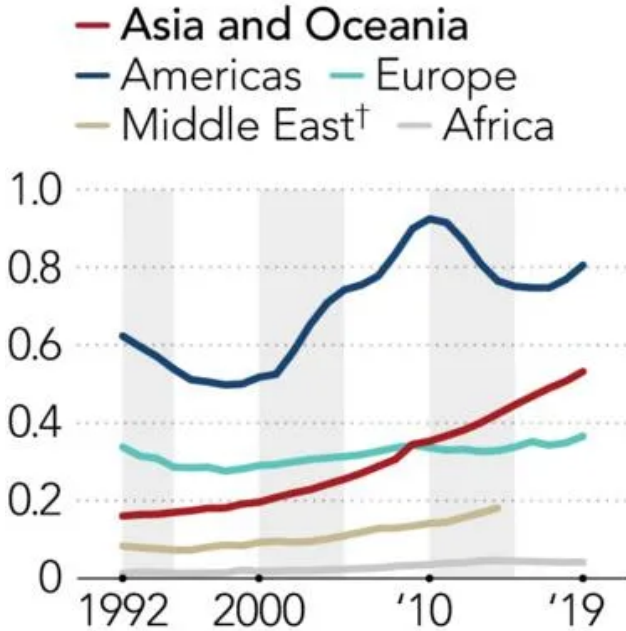
And then the state is assisted by an authoritarian political culture. You see that people tend to defer to the state more -- except for the case of South Korea, where you've seen some protests. But in China, Vietnam, Singapore, you haven't seen that.

Hard power

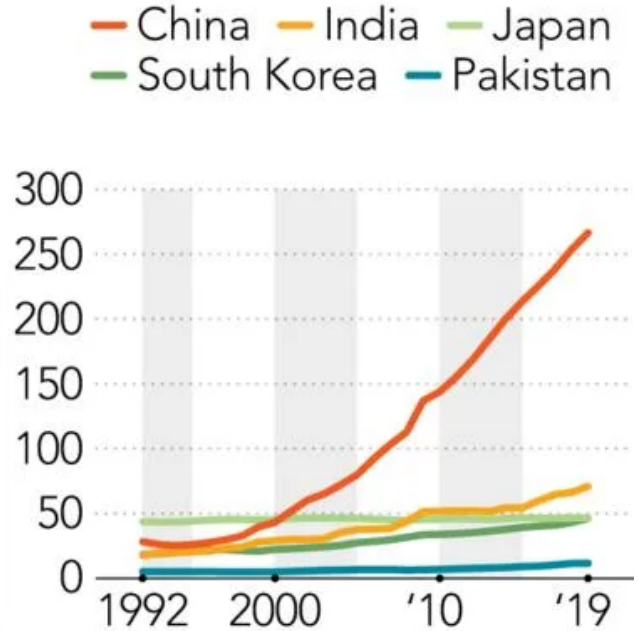
Asia has been in an arms race since the mid-1990s, as great power competition returns to the region.

(Military expenditure, in dollars)*

By region *(In trillions)*



In Asia *(In billions)*



*Figures are at constant 2018 prices and exchange rates, except for 2019 data, which is at 2019 prices and exchange rates

†Excludes Iraq; data from 2015 is unavailable or considered too uncertain to be reliable

Source: Stockholm International Peace Research Institute

What is missing in the Philippines, a country with an authoritarian leader?

Tuong Vu: The leader isn't sufficient. You need the whole bureaucratic, coercive apparatus, and that's what's missing in the Philippines. The civil service is quite disorganized, so they tend to be a lot less effective than the bureaucracies in the other places.

What about Japan, a democracy?

Tuong Vu: I don't think Japan has done poorly -- and I don't think China has been a success either, given the early phase of the pandemic. If China had been a democracy, then things would have turned out differently. The doctors would not have been silenced, the medical professionals would have followed the virus more closely. There would not have been a crisis. What happened in China in January spread the pandemic to the world.

Many challenges facing Asia, from vaccines to climate change, require collective action. But rather than joining together, the region is fracturing into rival political, economic and security blocs. Is a nationwide arms race and great-power politics inevitable?

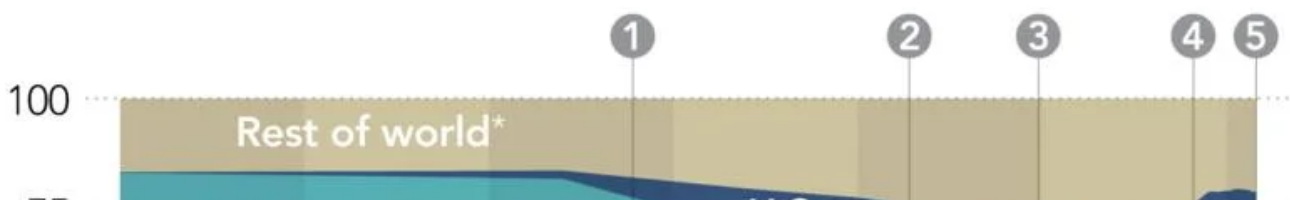
Yu (Tony) Pan, research fellow at Anbound Research Center:

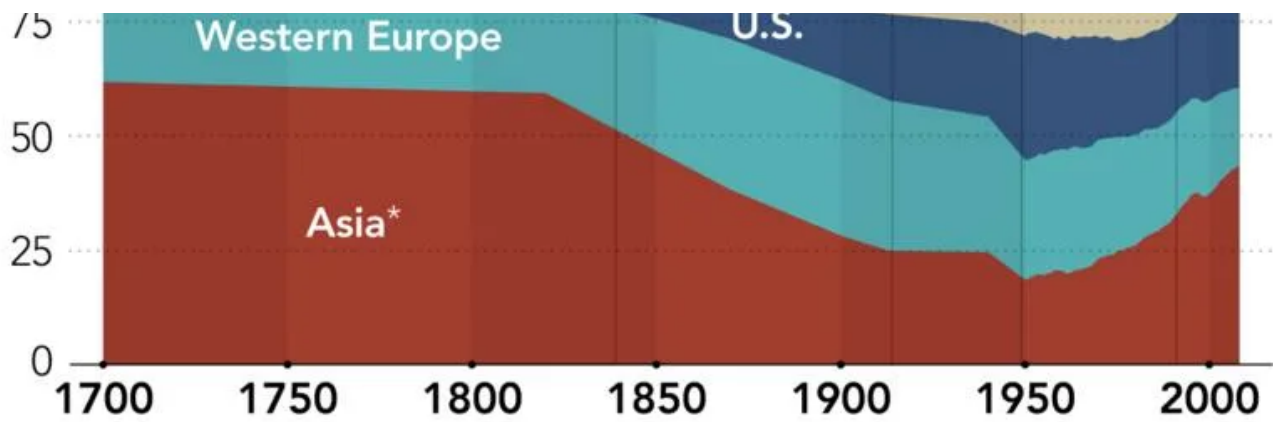
Power politics is becoming more prominent in today's global affairs. The question is, why? Our argument for this is that we believe we are stepping into a "de-globalization" period, which happened during the 1930s as well. As the direct consequence of the current direction is instability, conflict management may be the biggest issue of our time.

The U.S.-China confrontation is not only a matter of geopolitics, but clearly involves identity and ideology issues, the clash between authoritarian and democratic regimes. Beijing clearly is not the majority, which means most Asian countries will tend to incline toward the U.S. -- and that is bad news for Beijing.

Asian centuries past and present

Before the Industrial Revolution, economic production was determined mostly by population size. Asia, the world's most populous region, was also its economic powerhouse. But after the mid-19th century, new technology and colonial expansion in the West concentrated the world's production there. Only recently, in the second half of the 20th century, has Asia begun to achieve equilibrium again. The 21st century is the culmination of this trend. *(Share of global GDP, in percent)*





1 1839-1842, 1856-1860: Opium Wars

China was crippled as Western powers sought to prop up and profit from opium trade through the country.

2 1914-1918, 1939-1945: World Wars I and II

Atomic bombs over Hiroshima and Nagasaki marked the end of Japanese expansionism, and the birth of America as a superpower.



Kyodo

3 1949: Mao Zedong seizes power

The Communist victory decisively ended Western influence in China. However, the first three decades under Mao Zedong were disastrous.



AP

4 1991: Fall of the USSR

End of the Cold War arms race, and the ushering in of a period of unrivaled U.S. political and economic dominance.



AFP/Jiji

5 2008, 2009: Global financial crisis

Marked a turning point in U.S. economic leadership, as a crisis



economic leadership, as a result
in American securities markets
spread all over the world. Only China
emerged relatively unscathed.



**1870 data do not include Eastern Europe and data before 1950
do not include Africa and Western Asia
Source: Angus Maddison (global GDP), Nikkei Asia research*

With the rise of great-power competition between the U.S. and China, many countries that depend on the U.S. for security and China for trade are having to choose a side. How is the rest of Asia reacting to a new era of geopolitical confrontation?

Yu (Tony) Pan:

Because most Asian countries want to keep the current level of stability, provided by the U.S. after the Cold War, if the U.S.-China confrontation goes too far and gives actual risk of a conflict, Asian countries will begin to act independently.

Japan is the anchor-point of the U.S. alliance system, but when the U.S. and China relationship began to free fall in around 2017 and 2018, then-Prime Minister Shinzo Abe of Japan began to try to rebuild the Sino-Japanese relationship. Japan doesn't want to be a battleground of the U.S.-China conflict. What Abe was trying to do was to make a balance between China and the U.S., and pursue Japan's own interests.

The dispute between China and India is mainly an ideology or identity issue, as the relationship was previously in a good trend, and the border area does not represent any material interest. If you gain massive support from nationalist groups like Prime Minister Narendra Modi, you certainly cannot concede in a territory dispute, which makes India unwilling to back down from border clashes. The same thing is happening in China right now. The confrontation on the India-China border could last quite a long time.

Parag Khanna, founder and managing partner of FutureMap, a strategic advisory consultancy, and author of "The Future is Asian":



Chinese expansionism is not like a British model -- it's not conquering India, it's not sending Chinese people to run foreign countries. And it's not like an American model, because China does not have formal alliance relationships.

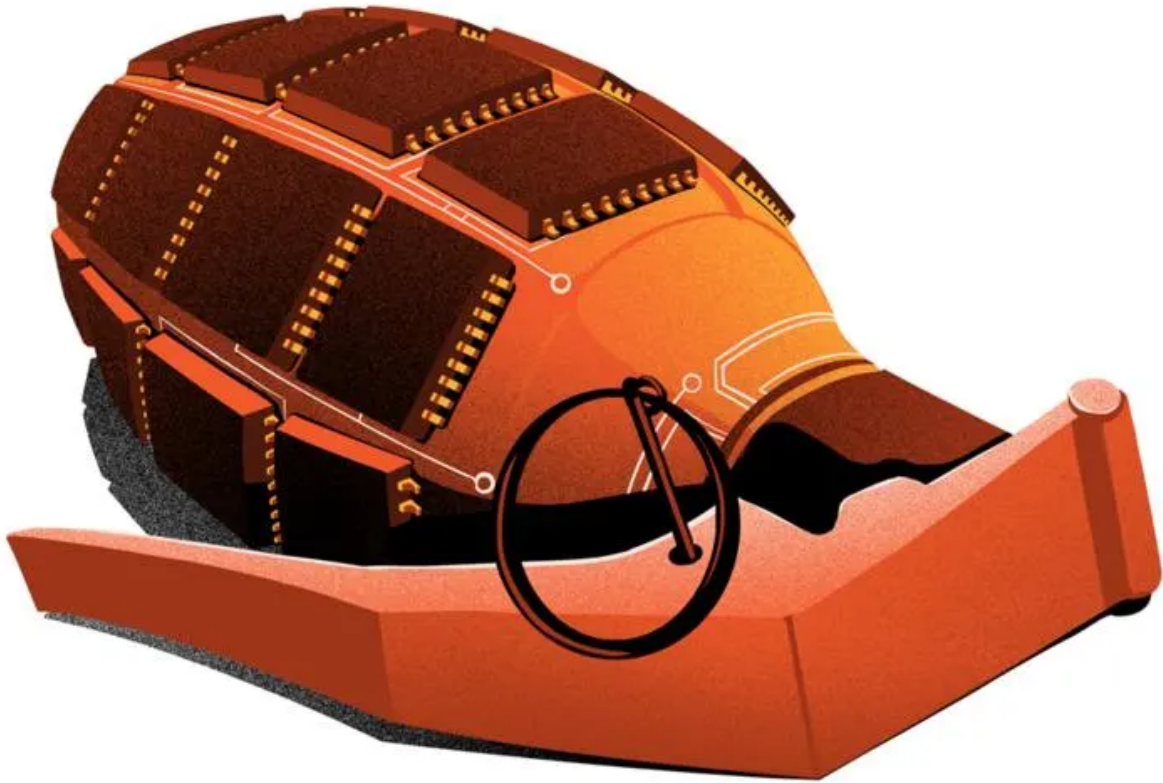
It is built on economic bonds and assumption of economic leverage. ... Chinese expansionism is really about supply chains and securing its own supply chains.

The mistake many people made in 2015 or 2016 was to complain that China was on a linear pathway toward dominance. But now the pushback has begun. And that is what we see with the trade war, with Europe being very strict about investments, with the Quad alliance, and the military maneuverings, the efforts to pull supply chains out of China, and so forth.

So, remember -- just because China was dominating certain industries, it does not mean that China has to dominate certain industries. China was [doing so] because the world let [it] ... because it was cheap. But once China began to act in a hegemonic or unipolar or monopolistic way, the world countered that. And we see it with rare earth minerals, with manufacturing, with telecommunications, with medical devices and equipment, and that is where we stand right now.

The end result, I can predict with confidence, is that you really have a continuation of entropy. Entropy means the diffusion, or the dissipation of power, in more places, more distributed production, more democratization of power, because that is the nature of the world.

So, the question will depend on whether or not China is able to adapt to a new equilibrium and accept that it cannot dominate Asia alone. It has to accept certain limitations and settle certain disputes that it cannot win.



One of the most acute areas of U.S.-China confrontation is technology, which once promised to erase national divisions. Today, however, we see that it exacerbates them. Are we heading toward a tech Cold War between the U.S. and China?



Wang Huiyao, president of the Center for China and Globalization, a Beijing think tank

It is a possibility that we are now heading toward a "one world, two systems" future. What the U.S. has done is basically forcing other countries to pick sides. I think developing countries, including those in the Association of Southeast Asian Nations, Central Asia, Latin America, and Africa, will likely embrace the China-led system because Chinese companies can offer them high-tech at an affordable price. The U.S. has made a lot of noise, but at the end of the day, will the U.S. be able to deliver cost-effective solutions to those emerging economies?

Kay Mok Ku, managing partner for Southeast Asia at Gobi Partners, a Chinese venture fund:

The U.S. does not have fifth-generation technology. The technical know-how is in the hands of two European companies and two Chinese companies, namely Huawei Technologies, ZTE, Nokia, and Ericsson. Do I care if the technology comes from a European supplier or a Chinese supplier? A more important consideration is that I need to get there first.

5G is the entry point to the robotic age. Whoever implements 5G first will go into the robotic age first, and they will have an edge over other countries in the game of productivity.

The question for Southeast Asian countries is: Should their choice be driven by politics, or by economics?

Asia's bounding economic growth has attracted attention to an "Asian model" of capitalism. In many countries corporations have to pay more heed to social priorities and government targets, regardless of the political system. Has this approach been vindicated?

Rajiv Biswas, chief economist for Asia-Pacific, IHS Markit:

The more laissez-faire model of the U.S. -- or, to some extent, Europe -- is not going to be the future. In Asia, the future will see the government playing a significant role in strategic policy direction for industrial development, and the role of state capital in supporting that development will remain strong. Having said all that, the world is changing. The biggest change we've seen this year, more than ever, is the role of technology. Although the state model will be very important for strategic industrial development, I also think that of great importance is private capital and private equity, especially for startups.

The quantitative easing of the global financial crisis of 2008, combined with the massive deficit spending by many governments during the pandemic, has created a revolution in monetary policy. Foreign Affairs called this "The Age of Magic Money." In Asia, Japan has already shown it can borrow and spend more than predicted given its high levels of public debt. Many other countries seem set to follow. How has the age of massive deficits transformed economics?

Peter Kim, global investment strategist & managing director at KB Financial Group, Seoul:

I don't believe Japan will be an outlier for much longer. I think in a lot of other countries, the debt situation will be a lot like Japan's over the next 5-10 years. The surprising outbreak of COVID has accelerated that timeline for many countries. ... Japan has shown a precedent of rising government debt without a systemic crisis, which I think is dangerous, because not every country can do the same thing.

Rajiv Biswas:

In general, many countries in Asia have entered the pandemic with a better fiscal setting [than Japan or Europe]. Even when they have to spend significantly due to the pandemic, their positions after the pandemic ... will be better.

Reporting by Charles Clover, Rurika Imahashi, Mitsuru Obe, Akane Okutsu, Francesca Regalado, Nana Shibata and Eri Sugiura in Tokyo and Coco Liu in Hong Kong.

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