

attention for pension systems in order to avoid poverty issues with older demographic groups.

### What future trends do you see emerging in the Asia of 2020?

There are two broad possibilities for 2020. Based on a simple extrapolation of trends, Asia 2020 will be much richer than today but even more dominated by the economic giants of China and India, while Japan's share in regional output will shrink even further.

### 'Asia 2010 + 10' – Intra-regional trade and free cross-border movement

Within countries, populations and workforces will likely be a lot more urbanised, there will be significant middle class consumer groups in each country and high-end services will account for a larger share of GDP. Depending on the progress of regional integration initiatives – including the ASEAN Economic Community – there will be higher intra-regional trade flows in final goods and services, more harmonisation of regulatory regimes across countries and much freer cross-border movement of people within the region.

### Asia 2020: marginalisation of ASEAN, China pulling away?

Under this vision, Asia 2020 would essentially be 'Asia 2010 + 10', but we know from experience that such extrapolation may be misleading. A less sanguine vision for Asia in 2020 would be a region of much greater inequality, within and across countries, in which much of Southeast Asia and South Asia continue to lag behind China. Indeed, there appears to be a not so small risk of the region's centre of gravity shifting even further away from the Asean countries as they become increasingly marginalised.

With continued upward pressure on commodity prices, the resource-based countries in the region would continue to gain from the terms of trade implied by rapid growth in China and India but some may not welcome the 'back to the farm' implications.


### A shift of emphasis toward geopolitical security

Even less positively, high resource prices could lead to an intensification of territorial disputes in the region, especially in the South China Sea. How things might evolve in such an environment would depend critically on whether the United States remain actively engaged in the region to defuse tensions.

Reflecting on budget and other pressures, a decision by the US to disengage would leave a dangerous vacuum. Ultimately, a peaceful and successful Asia 2020 will depend critically not only on US engagement, but also on constructively managed relations between the United States, India and China.

### Four potential 'wild cards' for the region

Three positive 'wild cards' for the region would be peaceful

reunification on the Korean peninsula, the durable easing of cross-strait tensions between China and Taiwan and the emergence of a strong and credible ASEAN grouping that manages to prevent the marginalisation of Southeast Asia. The significant negative 'wild card' would be mismanagement of China's growing wealth and influence. 

### Wild card events in Asia 2020

Peaceful reunification on the Korean peninsula

Durable easing of tensions between China & Taiwan

Emergence of a strong and credible ASEAN grouping

Mismanagement of wealth and influence by China



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### What are the greatest risks and vulnerabilities to Asia's current growth trajectory? Can they be overcome?

The main challenge facing Asia's current growth trajectory lies within individual states – it is their increasingly unequal wealth distribution. While we have witnessed a significant broadening of the middle-classes in Asia, driven by strong economic growth, poverty in the region remains persistently high. Rural areas, in particular, are falling further behind with the majority of people still earning a living from agriculture or low-skilled manufacturing jobs.

This trend will exacerbate social and economic inequality and could feed serious social unrest which has occasionally erupted in the region in the past. If policymakers do not manage to tackle inequality early enough, the widening income gap will make it more difficult for the poor to escape the vicious poverty cycle as opportunities for empowerment remain scarce.

## Economic and political stability in the region

The next biggest challenge is regional security. The United States is still one of the most significant players acting as a guarantor of security and balance of power in the region. For example, Japan and South Korea still rely on the US military's presence to counter the imminent security threat from China and North Korea, respectively.

Governments in the Asia-Pacific region understand the nature of these challenges and are gradually realising that political stability and security, both domestic and regional, are crucial factors in addition to economic growth. To that end, they have initiated various efforts to help diffuse tensions in the region, especially through multilateral efforts sponsored by ASEAN.

### A more global perspective needed

To achieve a sustainable peace in the region, one big question for the next decade is how far the big players in Asia, namely China, India, Japan and South Korea, are willing to give up parts of their narrow self-interest for the sake of regional interests?

There is optimism in the new generation of Asian leaders who will bring a more global perspective to the table; will not be burdened by their national history; and will push for further regional integration.

### If, by 2020, Asia is to be free of mass poverty, governments in the region will need to ...?

The challenge for Asia's leaders is to overcome the enormous economic disparity within their respective countries. They have to empower poorer and economically underdeveloped areas to catch up with the thriving, mostly coastal, economic zones. If political leaders fail to implement policies that facilitate this transfer of knowledge and resources, the consequences could be dire.

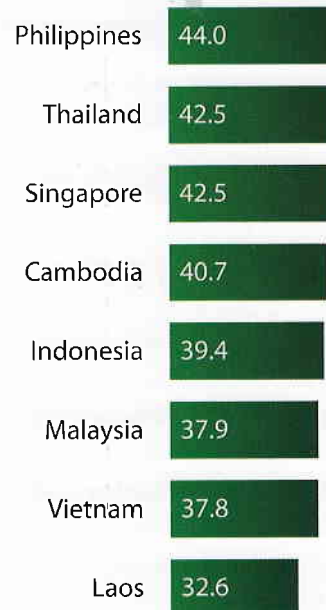
### Better governance – better service provision for the poor

In order for this knowledge and resource transfer to be effective Asian countries need better governance. As shown by a number of countries in the region, such as Singapore, the government can provide public services as efficiently as private companies with clear standard operating procedures along with transparent and accountable performance review systems that provide honest feedback for future service improvements.

More importantly, governments in the region have to put into place a welfare system that provides a minimum of healthcare and education services for the poor. There are still hundreds of millions of poor in Asia that struggle desperately to cover their basic needs, missing out on basic access to health, education and other essential services.

Policymakers need to ensure that the poor gain access to education and other fundamental public services if the depth of

## GINI Index of Income Inequality 2008



Source for GINI Index: Human Development Report 2009. <http://hdrstats.undp.org/en/indicators/161.html>. No data for Brunei and Myanmar.

social capital in the region is to be broadened and Asia's development sustained. Failing this, the large number of poor people in Asia will become a liability and create disruptions in the social and economic order of the societies in which they live.

### What future trends do you see emerging in the Asia of 2020?

Corruption is still one of the main impediments for economic development and a barrier to combating poverty. In many developing countries in the Asian-Pacific (such as Indonesia, Thailand or the Philippines) corruption occurs mainly due to dysfunctional legal systems and poor law enforcement.

Governments in the region should step up their efforts to build impartial and credible judicial systems as part of their capacity development and institution building to provide a transparent and predictable framework for policy making. A well-functioning judicial system also works to uphold the laws that protect the poor and disenfranchised from arbitrary injustice or exploitation.

### Creating value beyond 2020

The Asia of 2020 will have a broad, technology savvy, globally oriented middle class that will transform the region into a center of world trade and investment growth. China and India will constitute the main driving force for this growth, followed closely by the Southeast Asian countries.

But in order to reach levels similar to societies in Western Europe or Northern America, governments will need to focus on developing competitive high-tech industries and knowledge

economies that substantially add value. In turn, this transition will allow governments to move from export-led to consumer-led growth models.

### Building equitable societies

Despite the likely continued growth trajectory of Asia's economies, Asia will also continue to suffer from growing inequalities. A major challenge for the Asia-Pacific region in 2020 will be vast economic and social inequalities, with Asia producing a cohort of super-rich Asian individuals that are able to benefit disproportionately from Asia's new-found growth, innovation and technological progress. Equally, Asia will need to innovate its domestic institutions and improve its systems of protection if poor and marginal populations are to be protected and if emerging and growing practices like human trafficking, prostitution, drug trafficking and other illicit business practices are to be mitigated.

### Fostering a climate of entrepreneurship & leadership

Again, the ultimate task for the leaders of this decade is to engineer governmental systems that provide incentives for high-tech and knowledge-based entrepreneurs as well as facilitate the education of a new generation of professional bureaucrats and policymakers.

The creation of merit-based systems for public administration will ensure that the majority of Asian countries will be able to deliver efficient public services to the poor and create conducive business environments that allow them to compete in an increasingly global market place.

With the focus of the current leadership on this path, the majority of Asian countries will overcome these challenges and make the transition to advanced economies by 2020. ☐☐☐



### AMBASSADOR ONG KENG YONG

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### What are the greatest risks and vulnerabilities to Asia's current growth trajectory? Can they be overcome?

Asia consists of diverse countries with different economic structures and natural resource endowments. Broadly speaking, there are three centres of economic dynamism in Asia. The biggest is China. Next would be India and last but not least, Southeast Asia. In all these centres, growth projections will be undermined if there is political instability and domestic socio-economic troubles such as widening income gaps and rising inflation.

- **Perceptions matter:** In essence, everything depends on public perception of the prospects for a good future. If there is a negative feeling or a disturbance which shakes the confidence of the market, the consequence could be a range of negative events adversely affecting the whole region;
- **Loss of confidence could trigger monetary pullout:** All three centres of economic dynamism are open to international

trade and the flow of Foreign Direct Investment. This means significant movements of capital and liquidity. A run on public confidence arising from political problems or security risks will certainly result in a quick pullout of huge amounts of money;

- **Export-led growth bears significant risks:** The economic conditions in the USA and Europe, which are the destinations of most exports from Asian economies, are still uncertain. Similarly, Japan has not overcome its anaemic economic growth; and
- **Korean Peninsula, the greatest risk to continuation of growth trajectory:** North Korea will remain the key uncertainty. The use of the nuclear option by the government of the Democratic People's Republic of Korea (DPRK) and the paranoid perceptions of DPRK actions in Japan and South Korea will result in constant pressure on the perception of peace and security in the region. The Korean Peninsula will remain the greatest risk to Asia's growth trajectory.

### If, by 2020, Asia is to be free of mass poverty, governments in the region will need to ...?

- **It is unlikely that by 2020, Asia would be free of mass poverty.** Even if China and India grow 8%–10% annually, there are other heavily populated countries in Asia such as Bangladesh, the Philippines, Indonesia, Myanmar and Vietnam, which are unlikely to turn the corner within the next ten years in their fight against poverty;