ASIA'S ROLE IN THE GLOBAL ECONOMY IN HISTORICAL PERSPECTIVE

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Asia’s Role in the Global Economy in Historical Perspective

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Abstract

A long-term assessment of Asia’s share of global GDP suggests that Asia has now almost reclaimed the role in the global economy it occupied in 1820. By focusing on the experience of key economies in Asia, this paper assesses why the continent’s role weakened between 1820 and 1950 and strengthened between 1950 and 2010. It compares Asia’s role in the global economy in recent decades with that of Europe and North America in the past, to conclude that the resurgence of intra-Asian trade and investment in recent decades sets Asia apart. It concludes that up to 2030 Asia’s role in the global economy will crucially depend on how it participates in international governance initiatives. This will shape Asia’s future interaction within the regional economy and with the rest of the world economy.

Keywords: Long-term economic growth, Asia, global economy
JEL codes: F40, N10, O11
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Asia’s role in the global economy in historical perspective

Angus Madison (†) and Pierre van der Eng

1. Introduction

Accelerated economic growth in China and India during recent decades has reinvigorated the debate about the current and future role of Asia in the global economy. A facile prediction is that Asia will dominate the global economy during the 21st century. There may be some truth in such a prediction: the growth record of some Asian countries in recent decades has been impressive by historical standards, and there still is potential for further growth. Nevertheless, economic growth is likely to slow in the near future. If so, in 2030 the continent may generate 49 percent of global GDP. In that case by 2030 Asia will be close to recovering the 57 percent share of global GDP that it generated in 1820.

It is realistic to assume that Asian countries today, like West European and North American countries in the past, will not be able to take sustained high economic growth for granted. The main reason is that over the past two centuries, no significant episode of national economy growth has taken place in isolation. Instead, higher levels of economic activity have been achieved in the context of increasing economic interdependence through foreign trade and investment, or “globalization.” Although there are clear economic advantages to such exchanges, growing economic interdependence cannot be taken for granted. Periodic economic crises in particular have led to debates about the need to retain or regain a degree of national sovereignty. In the past, the world has experienced episodes of economic isolation that were detrimental to the growth of both world trade and national economies, so there are reasons to fear that disengagement from international business in the face of periodic crises may reduce the chances for sustained economic growth.

This paper traces the broad changes in Asia’s role in the global economy since 1820 in order to provide a historical perspective beyond the mere indicator of Asia’s share in global GDP. In doing so, it will set the stage for the other papers. The main argument presented in this paper is that Asia’s recovery of its 1820 share in the global economy will be highly dependent on the sustained growth of intra-Asian and inter-continental trade and investment. In that respect, Asia will not simply regain its lost

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1 To be published in: Peter Drysdale; Hal Hill and Ligang Song (eds.) The Theory and Practice of Globalization in Asia. (Melbourne: Cambridge UP). Angus Maddison delivered a first tentative draft of this paper in March 2010, but was unable to complete it before he succumbed to illness on 24 April 2010. His draft paper has been re-written with due reference to the substantial number of academic studies and the extensive collection of macroeconomic data that Maddison has left the economics profession with. This revised version also offers a greater focus on Asia in order to meet the remit of setting the broader context for other papers in the book in which it will be published.
position in the global economy, because its role in the global economy will be very different from what it was in the early 19th century. Unlike the early 19th century, the current situation requires Asian countries to take an active role in the international governance of the process of globalization.

To substantiate this view, this paper offers a bird’s-eye perspective on Asia’s role in the global economy since the early 19th century. It will do this on the basis of Angus Maddison’s research into quantifying and explaining trends in the global economy over the past two millennia. Past trends may give a clue about the role of Asia in the global economy in the near future.

The next section charts Asia’s changing role in the global economy since the 19th century based on Maddison’s data collection. Section 3 will then examine Asia’s growth experience in the context of global and regional growth, focusing on the development of intra-Asian trade. Section 4 assesses Asia’s role in the economy today and its possible role in the future.

2. Historical overview

This section sketches long-term economic change in Asia by drawing on the historical experiences of the economies of key Asian countries. Their experiences are not, in fact, easy to generalize. Identification of the proximate causes of economic growth (such as increased supply of labor and capital, improved quality of labor and physical capital, structural change, and total factor productivity) through growth accounting is hampered by the unavailability of key long-term economic statistics, and/or the inconsistency of such data across Asian countries. More importantly, growth accounting does not consider the ultimate causes of economic growth including policy, changes in the international order, and changes to institutions.\(^2\) A historical narrative may be better suited to capture the key issues.

2.1. The 19th century

By the early 19th century, Asia was already engaged in processes of intra- and inter-continental economic integration.\(^3\) Within Asia, trade contacts that reached from the Middle East to Japan had been established, both overland and particularly by sea. The success of intra-regional trade had lured European chartered trading companies to Asia in the 16th and 17th centuries. These companies engaged in long-distance


\(^3\) Maddison never defined the term “integration” explicitly. He did, however, identify “closer integration of individual national economies through trade in goods and services, investment, intellectual and entrepreneurial interaction” as one of the factors that sustained the acceleration of global economic growth since 1820. See Angus Maddison, “Causal Influences on Productivity Performance 1820–1992: A Global Perspective,” *Journal of Productivity Analysis* 8, no. 4 (1997): 325.
intercontinental trade, especially between Europe and Asia.\(^4\) Participating in long-distance intra-regional trade in Asia proved particularly profitable, and the regions where they traded were deeply and lastingly shaped by these commercial operations.

A case in point is the presence of the chartered English East India Company (EIC) in India since the 17th century, which left many marks on the country’s economy and society. When the Moghul Empire started to disintegrate after 1707, the company became involved in regional power plays, and in 1757 it took part in the governance of Bengal, followed by other parts of the country. This established the foundations for direct British rule, which began in 1857, when the EIC was dissolved. Hence, from 1757 until independence in 1947, the economy and society of the Indian subcontinent were affected by the growing presence of a British system of governance. In many ways this established the preconditions for modest growth of the economy and foreign trade of India.

Nevertheless, the slowness and high cost of sea and land transport meant that only the most valuable goods were traded, such as silk, cotton cloth, tea, spices, sugar, porcelain, and silver. This trade has been studied extensively, but all quantitative indications suggest that on the whole the value of trade in relation to the value of non-traded subsistence goods still remained relatively small during the first half of the 19th century.\(^5\) In contrast, in Western Europe the development of trade contributed significantly to average levels of GDP per capita higher than those in Asia, so that by the early 19th century the conditions for further economic growth were more favorable in Western Europe than in Asia.

During the 19th century significant changes in economic growth and global trade emerged as a consequence of the application of steam-based technologies, which transformed factory production in Europe and North America and improved sea and land transport. New industrial production technologies lowered production costs. Improvements in transport technology lowered shipping costs and facilitated an unprecedented growth of the value of trade. It also facilitated a diversification of global trade to include bulk goods and migrant passengers. This was the main factor behind the first phase of the process of globalization following the demise of the chartered trading companies and the growth of a new generation of private enterprises.\(^6\) This diversified global trade sustained global economic growth during the second half of the long 19th century (1870–1913).\(^7\)


\(^7\) David S. Jacks, Christopher M. Meissner, and Dennis Novy, "Trade costs in the first wave of globalization," *Explorations in Economic History* 47, no. 2 (2010).
Table 1: GDP in Asia and the world, 1820–2030

<table>
<thead>
<tr>
<th>Year</th>
<th>Western Europe</th>
<th>North America</th>
<th>China</th>
<th>India</th>
<th>Japan</th>
<th>Indonesia</th>
<th>South Korea</th>
<th>Thailand</th>
<th>Taiwan</th>
<th>Pakistan</th>
<th>Philippines</th>
<th>Malaysia</th>
<th>Vietnam</th>
<th>Hong Kong</th>
<th>Bangladesh</th>
<th>Burma</th>
<th>Singapore</th>
<th>Sri Lanka</th>
<th>Rest of Asia</th>
<th>Asia total</th>
<th>Rest of the world</th>
<th>World Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1820</td>
<td>158,860</td>
<td>13,286</td>
<td>228,600</td>
<td>1,271</td>
<td>173</td>
<td>3,453</td>
<td>5,637</td>
<td>2,659</td>
<td>1,100</td>
<td>-</td>
<td>-</td>
<td>111,417</td>
<td>20,739</td>
<td>5,891</td>
<td>6,767</td>
<td>3,453</td>
<td>1,767</td>
<td>667</td>
<td>8,379</td>
<td>397,207</td>
<td>403,170</td>
<td>693,502</td>
</tr>
<tr>
<td>1870</td>
<td>366,198</td>
<td>104,781</td>
<td>241,431</td>
<td>3,159</td>
<td>530</td>
<td>14,062</td>
<td>5,891</td>
<td>3,511</td>
<td>1,290</td>
<td>-</td>
<td>-</td>
<td>134,882</td>
<td>25,393</td>
<td>9,206</td>
<td>84</td>
<td>5,321</td>
<td>2,139</td>
<td>2,372</td>
<td>9,872</td>
<td>403,170</td>
<td>640,154</td>
<td>1,109,684</td>
</tr>
<tr>
<td>1913</td>
<td>902,080</td>
<td>552,299</td>
<td>244,985</td>
<td>9,272</td>
<td>2,776</td>
<td>16,681</td>
<td>9,206</td>
<td>7,304</td>
<td>2,545</td>
<td>-</td>
<td>-</td>
<td>204,242</td>
<td>222,222</td>
<td>17,800</td>
<td>623</td>
<td>14,062</td>
<td>8,445</td>
<td>5,938</td>
<td>17,092</td>
<td>640,154</td>
<td>884,561</td>
<td>1,496,932</td>
</tr>
<tr>
<td>1950</td>
<td>1,396,287</td>
<td>1,558,080</td>
<td>739,414</td>
<td>22,616</td>
<td>10,032</td>
<td>38,238</td>
<td>29,931</td>
<td>16,375</td>
<td>6,828</td>
<td>-</td>
<td>-</td>
<td>220,424</td>
<td>494,832</td>
<td>96,231</td>
<td>4,962</td>
<td>14,062</td>
<td>7,711</td>
<td>9,438</td>
<td>25,325</td>
<td>884,561</td>
<td>3,306,201</td>
<td>4,759,119</td>
</tr>
<tr>
<td>2008</td>
<td>8,698,029</td>
<td>10,324,335</td>
<td>25,884,727</td>
<td>228,464</td>
<td>260,126</td>
<td>255,786</td>
<td>222,516</td>
<td>57,073</td>
<td>479,645</td>
<td>-</td>
<td>-</td>
<td>3,848,798</td>
<td>3,415,183</td>
<td>948,906</td>
<td>29,931</td>
<td>14,062</td>
<td>18,352</td>
<td>19,922</td>
<td>81,275</td>
<td>3,306,201</td>
<td>230,120</td>
<td>1,242,932</td>
</tr>
<tr>
<td>2030</td>
<td>12,741,360</td>
<td>18,285,246</td>
<td>25,884,727</td>
<td>228,464</td>
<td>260,126</td>
<td>255,786</td>
<td>222,516</td>
<td>57,073</td>
<td>479,645</td>
<td>-</td>
<td>-</td>
<td>10,324,335</td>
<td>3,415,183</td>
<td>948,906</td>
<td>29,931</td>
<td>14,062</td>
<td>18,352</td>
<td>19,922</td>
<td>81,275</td>
<td>3,306,201</td>
<td>230,120</td>
<td>1,242,932</td>
</tr>
</tbody>
</table>

B. Regional shares in total GDP:

<table>
<thead>
<tr>
<th>Region</th>
<th>1820</th>
<th>1870</th>
<th>1913</th>
<th>1950</th>
<th>1973</th>
<th>2008</th>
<th>2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Europe</td>
<td>23%</td>
<td>33%</td>
<td>33%</td>
<td>26%</td>
<td>26%</td>
<td>17%</td>
<td>12%</td>
</tr>
<tr>
<td>North America</td>
<td>2%</td>
<td>9%</td>
<td>20%</td>
<td>29%</td>
<td>24%</td>
<td>20%</td>
<td>17%</td>
</tr>
<tr>
<td>Asia total</td>
<td>57%</td>
<td>36%</td>
<td>23%</td>
<td>17%</td>
<td>21%</td>
<td>40%</td>
<td>49%</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>18%</td>
<td>21%</td>
<td>23%</td>
<td>28%</td>
<td>30%</td>
<td>23%</td>
<td>21%</td>
</tr>
</tbody>
</table>

Notes: Asia excludes West Asia (that is, the Middle East). The estimates for postwar China show slower growth than those of the official Chinese Statistical Office, and the estimated levels of GDP are lower than those of the World Bank. This is explained in Angus Maddison. "Measuring the Economic Performance of Transition Economies: Some Lessons from Chinese Experience," and "Six Transformations in China: 960–2030." See also Angus Maddison and Harry X. Wu. "Measuring China’s Economic Performance."

Sources: 1820–2008 GDP and 2030 population estimates have been drawn from Angus Maddison’s homepage. The GDP for 2030 was estimated by extrapolating 2008 levels of GDP per capita with growth rates shown in Maddison’s Contours of the World Economy, 337, and subsequent multiplication by population in 2030.

The limited role of Asia in global trade was one of the reasons why the engines of global economic growth were long located elsewhere in the world, particularly in Western Europe and North America, where GDP and GDP per capita increased significantly during the 19th and early 20th centuries. The dominance of Western Europe and North America in global trade also helps to understand why the share of these two regions in the global economy increased, as Table 1 demonstrates. The growth of international trade and investment facilitated countries in those parts of the
world to specialize production according to the comparative advantage of countries to mutual advantage.

Although Asia was involved in this specialization process, its trade with the rest of the world lagged well behind Western Europe and North America. This was a significant reason why Asia could not develop at the same rate as regions more integrated with international trade networks. Consequently, Asia’s share in the global economy decreased from 57 percent in 1820 to a low of 17 percent in 1950. This is not to say that intra-Asian trade and trade between Asian countries and the rest of the world did not grow. It did not grow fast enough to make a significant difference as an engine of growth.

The fragmentation of political authority in much of Asia played into the hands of European powers’ imperial aspirations. Following the demise of the Europe-based chartered trading companies in the early 19th century, governments of European countries took over the interests of these companies in Asia. They established centralized colonial governments, particularly in India, Indonesia, the Philippines and Indochina. At the same time, the success of Atlantic trade bolstered the aspirations of European and North American traders and trading nations in Asia, leading governments in other Asian countries to open up their economies, particularly in China, Japan, and Thailand. Consequently, by 1900 distinct lines on the map of Asia had been drawn and processes of economic integration and development had started in all Asian countries, whether they had maintained a measure of independence, or were colonies.

China was long the world’s leading economy in terms of GDP and GDP per capita, outperforming Europe in terms of technology, the intensity with which it used natural resources, and its capacity to sustain the stable administration of a huge territorial empire. But by 1500 China had been overtaken by Western Europe in terms of GDP per capita and technological and scientific capacity. From the early 19th century to the mid-20th century China’s economy barely grew and its GDP per capita decreased.

Arguably, there were other factors at work that help to explain this outcome. One is that the levels of per capita GDP in most of Asia were significantly lower than in the world’s leading economic centers, as Table 2 shows. These lower levels of GDP indicate the limited development of the physical and commercial infrastructure required to enhance economic exchange within and between Asian countries, as well as with the rest of the world. It also indicates that other factors facilitating economic growth, such as investment capital, were less available in Asia than they were in Western Europe and North America. Most countries in Asia did not yet have integrated economies, but instead consisted largely of regional rural economies strung together by hubs of activity in nascent urban centers.
Table 2: Per capita GDP (1990 International Geary-Khamis dollars)

<table>
<thead>
<tr>
<th>Region</th>
<th>1820</th>
<th>1870</th>
<th>1913</th>
<th>1950</th>
<th>1973</th>
<th>2008</th>
<th>2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Europe</td>
<td>1,194</td>
<td>1,953</td>
<td>3,457</td>
<td>4,569</td>
<td>11,392</td>
<td>21,672</td>
<td>31,402</td>
</tr>
<tr>
<td>North America</td>
<td>1,290</td>
<td>2,334</td>
<td>5,133</td>
<td>9,208</td>
<td>16,258</td>
<td>30,303</td>
<td>44,374</td>
</tr>
<tr>
<td>China</td>
<td>600</td>
<td>530</td>
<td>552</td>
<td>448</td>
<td>838</td>
<td>6,725</td>
<td>17,711</td>
</tr>
<tr>
<td>India</td>
<td>533</td>
<td>533</td>
<td>673</td>
<td>619</td>
<td>853</td>
<td>2,975</td>
<td>7,835</td>
</tr>
<tr>
<td>Japan</td>
<td>669</td>
<td>737</td>
<td>1,387</td>
<td>1,921</td>
<td>11,434</td>
<td>22,816</td>
<td>30,314</td>
</tr>
<tr>
<td>Indonesia</td>
<td>612</td>
<td>578</td>
<td>874</td>
<td>803</td>
<td>1,490</td>
<td>4,428</td>
<td>7,623</td>
</tr>
<tr>
<td>South Korea</td>
<td>600</td>
<td>604</td>
<td>869</td>
<td>854</td>
<td>2,824</td>
<td>19,614</td>
<td>33,767</td>
</tr>
<tr>
<td>Thailand</td>
<td>570</td>
<td>608</td>
<td>841</td>
<td>817</td>
<td>1,874</td>
<td>8,750</td>
<td>15,064</td>
</tr>
<tr>
<td>Taiwan</td>
<td>550</td>
<td>550</td>
<td>732</td>
<td>916</td>
<td>3,448</td>
<td>20,926</td>
<td>36,026</td>
</tr>
<tr>
<td>Pakistan</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>643</td>
<td>954</td>
<td>2,239</td>
<td>3,855</td>
</tr>
<tr>
<td>Philippines</td>
<td>584</td>
<td>624</td>
<td>988</td>
<td>1,070</td>
<td>1,964</td>
<td>2,926</td>
<td>5,038</td>
</tr>
<tr>
<td>Malaysia</td>
<td>603</td>
<td>663</td>
<td>900</td>
<td>1,559</td>
<td>2,560</td>
<td>10,292</td>
<td>17,719</td>
</tr>
<tr>
<td>Vietnam</td>
<td>527</td>
<td>505</td>
<td>727</td>
<td>658</td>
<td>836</td>
<td>2,970</td>
<td>5,113</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>615</td>
<td>683</td>
<td>1,279</td>
<td>2,218</td>
<td>7,105</td>
<td>31,704</td>
<td>54,580</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>540</td>
<td>497</td>
<td>1,146</td>
<td>1,972</td>
</tr>
<tr>
<td>Burma</td>
<td>504</td>
<td>504</td>
<td>685</td>
<td>396</td>
<td>628</td>
<td>3,104</td>
<td>5,343</td>
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<tr>
<td>Singapore</td>
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<td>682</td>
<td>1,279</td>
<td>2,219</td>
<td>5,977</td>
<td>28,107</td>
<td>48,388</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>550</td>
<td>851</td>
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<td>1,253</td>
<td>1,492</td>
<td>4,895</td>
<td>8,427</td>
</tr>
<tr>
<td>Rest of Asia</td>
<td>586</td>
<td>552</td>
<td>689</td>
<td>667</td>
<td>1,552</td>
<td>5,644</td>
<td>11,465</td>
</tr>
<tr>
<td>Asia average</td>
<td>580</td>
<td>546</td>
<td>681</td>
<td>667</td>
<td>1,548</td>
<td>5,512</td>
<td>18,270</td>
</tr>
</tbody>
</table>

Notes: Asia excludes West Asia (that is, the Middle East). The Asia average is an unweighted average. Source: 1820–2008 figures were drawn from Angus Maddison’s homepage. Totals for 2030 were estimated by extrapolating 2008 levels with growth rates shown in Maddison’s *Contours of the World Economy*, 337.

To a degree, Japan was an exception. During the Togukawa shogunate, which lasted from the late-16th century until the restoration of the rule of Emperor Meiji in 1865, Japan occupied only a very marginal role in global trade. On the order of the shogun, only Chinese and Dutch traders were allowed to maintain Japan’s foreign trade contacts. Consequently, Japan’s foreign trade was marginal until the arrival of the U.S. Commodore Perry, who in 1853 forced the Japanese government to accept the opening of ports to foreign trade. While economic development in Tokugawa Japan was limited, by 1820 the country had a GDP per capita that was somewhat higher than other Asian countries. Arguably, this was the result of a long and peaceful era during which the development of an import-replacing manufacturing industry could take place. The economy continued to be largely based on employment and income opportunities in agriculture, but technological change in terms of irrigation, fertilizer use, and improved seeds increased agricultural productivity. By the mid-19th century there was a relatively high degree of urbanization. Urban centers created significant markets for agricultural produce. Manufactures also produced rural industrial by-employment and services. Nevertheless, there were limits to the degree of development that the economic structure of the Tokugawa era could sustain.
2.2. The early 20th century

Table 3 shows that by 1820 all Asian countries had a broadly comparable average GDP per capita that was half the level of Western Europe and North America. By 1913, average GDP per capita in Asia exceeded the level of 1820, but had decreased in relative terms to just 17 to 26 percent of the level in Western Europe and North America. Perhaps more significantly, by 1913 the development experiences of Asian countries had started to diversify. Particularly Japan, Hong Kong, Singapore, and Sri Lanka had moved well ahead of other Asian countries. Nevertheless, the levels of GDP per capita of all Asian countries were still well behind Western Europe and North America, an indication that there remained significant opportunities for catch-up growth in all of Asia.

A significant change in the global development experience was the fact that, from the second half of the 19th century until the 1930s many countries – with the notable exception of the United States, which had a burgeoning domestic market – increasingly switched to lowering tariffs and embracing free trade. Most of this development enhanced trade relations between Europe and the new settler areas in the Americas, and to a lesser extent between Europe and Australasia.

Asia was not unaffected by this. Yet intercontinental trade involving Asia was less significant than either the value of trade between Europe and the settler economies in North and South America, or between Europe and Australasia. Exports by Asian countries comprised just 10 percent of global trade, as Table 3 shows, and this share remained relatively unchanged until it increased significantly after 1973. In per capita terms, the value of exports from Asian countries was generally well behind that of Western Europe, the Americas, and Australasia. For example, in 1913 the per capita average value of exports was US$37 in Western Europe, US$27 in North America and just US$5 in Asia, while exports from Asia were on average just 3 percent of GDP in 1913, compared to 14 percent in Western Europe.

An example of the limited role of trade in the development experience of Asian countries is Indonesia. From 1870 until the arrival of Japanese forces in 1942, the development of export production in Indonesia was in the hands of foreign enterprise, mainly Dutch-owned. Private entrepreneurs were allowed to invest in sugar factories, rubber and oil palm plantations, tin mining, and oil ventures. Smallholder production of export crops like copra, rubber, and cassava developed as well. As in India, increasing exports were facilitated by public and private investment in transport infrastructure. Public investment in irrigation in Java was an important cause of the growth of food production. Both are key explanations for the significant economic growth shown in Tables 1 and 2. Nevertheless, structural change in the economy was modest, as income and employment in agriculture continued to dominate.
Table 3: Value of exports in Asia and the world, 1870–2008

<table>
<thead>
<tr>
<th></th>
<th>1870</th>
<th>1913</th>
<th>1950</th>
<th>1973</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Value (million US dollars)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Western Europe</td>
<td>2,946</td>
<td>9,596</td>
<td>20,307</td>
<td>258,362</td>
<td>6,337,068</td>
</tr>
<tr>
<td>North America</td>
<td>461</td>
<td>2,801</td>
<td>13,302</td>
<td>97,841</td>
<td>1,743,906</td>
</tr>
<tr>
<td>China</td>
<td>102</td>
<td>299</td>
<td>550</td>
<td>5,876</td>
<td>1,430,693</td>
</tr>
<tr>
<td>Japan</td>
<td>15</td>
<td>315</td>
<td>825</td>
<td>37,017</td>
<td>782,047</td>
</tr>
<tr>
<td>South Korea</td>
<td>0</td>
<td>15</td>
<td>23</td>
<td>3,225</td>
<td>422,007</td>
</tr>
<tr>
<td>Taiwan</td>
<td>-</td>
<td>26</td>
<td>73</td>
<td>4,483</td>
<td>255,629</td>
</tr>
<tr>
<td>Malaya/Malaysia</td>
<td>12</td>
<td>151</td>
<td>852</td>
<td>2,960</td>
<td>199,516</td>
</tr>
<tr>
<td>India</td>
<td>233</td>
<td>651</td>
<td>1,145</td>
<td>2,917</td>
<td>194,827</td>
</tr>
<tr>
<td>Thailand</td>
<td>7</td>
<td>43</td>
<td>304</td>
<td>1,564</td>
<td>177,778</td>
</tr>
<tr>
<td>Indonesia</td>
<td>31</td>
<td>270</td>
<td>800</td>
<td>3,211</td>
<td>139,606</td>
</tr>
<tr>
<td>Indochina/Vietnam</td>
<td>4</td>
<td>59</td>
<td>71</td>
<td>53</td>
<td>62,685</td>
</tr>
<tr>
<td>Philippines</td>
<td>29</td>
<td>48</td>
<td>331</td>
<td>1,885</td>
<td>49,025</td>
</tr>
<tr>
<td>Pakistan</td>
<td>-</td>
<td>-</td>
<td>330</td>
<td>955</td>
<td>20,323</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>-</td>
<td>-</td>
<td>303</td>
<td>358</td>
<td>15,370</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>18</td>
<td>76</td>
<td>326</td>
<td>411</td>
<td>8,452</td>
</tr>
<tr>
<td>Burma</td>
<td>22</td>
<td>135</td>
<td>139</td>
<td>140</td>
<td>6,937</td>
</tr>
<tr>
<td>East and South Asia</td>
<td>473</td>
<td>2,088</td>
<td>6,072</td>
<td>65,055</td>
<td>3,764,894</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>1,286</td>
<td>4,202</td>
<td>22,940</td>
<td>160,864</td>
<td>3,562,715</td>
</tr>
<tr>
<td>World total</td>
<td>5,166</td>
<td>18,687</td>
<td>62,621</td>
<td>582,122</td>
<td>15,408,582</td>
</tr>
</tbody>
</table>

B. Shares (%)

<table>
<thead>
<tr>
<th></th>
<th>1870</th>
<th>1913</th>
<th>1950</th>
<th>1973</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Western Europe</td>
<td>57%</td>
<td>51%</td>
<td>32%</td>
<td>44%</td>
<td>41%</td>
</tr>
<tr>
<td>North America</td>
<td>9%</td>
<td>15%</td>
<td>21%</td>
<td>17%</td>
<td>11%</td>
</tr>
<tr>
<td>East and South Asia</td>
<td>9%</td>
<td>11%</td>
<td>10%</td>
<td>11%</td>
<td>24%</td>
</tr>
<tr>
<td>Rest of the world</td>
<td>25%</td>
<td>22%</td>
<td>37%</td>
<td>28%</td>
<td>23%</td>
</tr>
<tr>
<td>World total</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Notes: Singapore and Hong Kong are excluded because of their high number of transshipments. Pakistan and Bangladesh are included in India for 1870 and 1913; Taiwan 1870 is included in China. All converted with current exchange rates.


Unlike India, the 1929 crisis hit the Indonesian economy hard because its trade partners used trade protection to lock out Indonesian export commodities. To combat the crisis, the country pursued relatively successful import-replacing trade and industry policies until the beginning of Japanese rule in 1942. The 1942–45 period of Japanese rule was devastating and resulted in many deaths from hunger, particularly in densely populated Java.
The interwar years and the Second World War were a period of reduced growth of the international economy. Figure 1 shows that this coincided with stagnation in the growth of world trade between 1913 and 1950. During these years GDP per capita stagnated or even declined in most Asian countries, and in 1950 average per capita GDP in Asia was just 11 to 22 percent of that in Western Europe and North America. The reasons for this differed from country to country, but a key factor stands out: as exporters of primary commodities, most Asian countries experienced significant short-term fluctuations in their terms of trade. These fluctuations negatively affected real exchange rates and deterred capital investment that could have encouraged industrial development and the diversification of economies. In addition, the downward long-term trend in the terms of trade of commodity exports also limited GDP gains, increased dependence on primary exports, and contributed to countries embracing import-replacing trade policies in the wake of the 1929 global crisis.

Figure 1: Volume of world merchandise exports, 1870–2010 (2000 = 1000)

Sources: 1950–2010: WTO International Trade Statistics 2012, extrapolated back with indices from Maddison’s Phases of Capitalist Development, 119–123 for Australia, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Netherlands, Norway, Sweden, Switzerland, United Kingdom, and United States.

2.3. The postwar years

Gains in GDP per capita were also generally limited in Asia between 1950 and 1973, when average GDP per capita was still just 17 to 24 percent of that in Western Europe and North America. In some countries growth was limited due to devastating wars of independence. Post-independence conflict also inhibited economic recovery, as was the case in Indonesia and Indochina. In most countries limited growth was related to the continuation of economic policies that sought to insulate national economies from the vagaries of foreign markets and the influence of foreign investors, in favor of planned and controlled economic development with restrictions on private enterprise and a greater degree of national economic autonomy. In addition, almost all Asian countries experienced accelerating population growth, as mortality rates started to decrease due to improvements in basic health care and hygiene, well before birth rates started to decrease.

In China, for example, the Kuomintang government and its military lost its battle against the Communists and fled the Chinese mainland for Taiwan in 1949. The establishment of the People’s Republic of China that year marked a sharp change in China’s political elite and mode of governance. The degree of central control under the Communists was much greater than either under the Chi’ing Dynasty or the Kuomintang government. Consequently the new government was able to make drastic changes by eliminating landlords and private ownership of production facilities, expelling foreigners, imposing a command economy, and again closing the country from the outside world. As the United States and the Soviet Union imposed embargoes on trade, travel and finance during 1952–73, China was largely economically isolated. Its version of Communism involved disastrous economic and social experimentation on a grand scale (an example of which was collective agriculture), together with long years of almost complete autarky. Economic performance had improved relative to the past, but relative to the Western world, China lagged further behind than ever.

British colonial rule of India ended in 1947. In spite of partition and the splitting off of Pakistan, the transition was relatively smooth and amicable. India entered a period of relative political stability as nationalist fervor overrode overt political disunity. However, for a long time economic growth was dampened by several factors: a socialist-inspired planned economy in which state-owned firms were given a prominent role in fostering import-replacing manufacturing industry, an indigenist hankering for self-sufficiency, and accelerating population growth.

Compared with India, the transition to independence in Indonesia was much less smooth and had significant adverse economic consequences. The 1945–49 war of independence against the Dutch inflicted further damage. During the 1950s, economic recovery on the basis of resumed commodity exports was swift, but accelerating population growth eroded gains in GDP per capita. Indonesia stepped up its pursuit of
import-replacing trade and industry policies at a time when strong nationalist sentiments contributed to the nationalization of Dutch-owned enterprises in 1957. Except in petroleum production, these developments scared off foreign investment. In addition, Indonesia’s President Sukarno swept the country’s parliamentary democracy aside in 1959 in favor of a semi-socialist “guided democracy” system that privileged central planning and a prime role for state-owned enterprises. The economic consequences were disastrous. Inflation spiraled due to mounting public debt, economic growth slowed drastically, and the country became impoverished.

Japan was the only Asian country that experienced a period of unprecedentedly rapid economic growth between 1950 and 1973. Its experience depended on a few key factors that will be discussed briefly in section 3.

But limited economic growth in Asia between 1950 and 1973, and the remarkable Japanese experience during the same period were very important catalysts for change. One after the other, countries shifted to more outward-looking, export-oriented trade and investment policies. Some had already been outward-looking (Singapore and Hong Kong), but experienced restrictions on their development aspirations due to the dependence on neighboring economies. Others shifted sooner to outward-looking policies aimed at increasing manufactured exports (Malaysia and South Korea, for instance), and some did so rather later (Indonesia and Vietnam). But by the 1990s almost all had made the change and experienced accelerating economic growth combined with increased exports. And so Asia’s share in the global economy increased significantly from 21 percent in 1973 to 40 percent in 2008.

2.4. The 1970s and 1980s

By 1973 per capita GDP in much of Asia (with the exception of Bangladesh) had increased, but only Japan had achieved per capita levels of economic activity comparable with Western Europe. For all other countries, the gap with Western Europe and North America had increased and was still significant. Only because of Japan’s superior development experience did Asia’s share in global GDP increase from 17 percent in 1950 to 21 percent in 1973.

In Indonesia, Soekarno was deposed by the Army in 1967, and was succeeded by General Soeharto. His government stabilized the Indonesian economy by balancing the budget, reducing inflation, and promoting private enterprise and foreign investment. Despite limitations imposed on political freedom, this was the start of a thirty-year period of rapid economic growth, almost quadrupling GDP per capita. The inflows of foreign investment fostered the development of labor-intensive export-oriented manufacturing industry, which facilitated the process of structural change that led to a decrease in the role of agriculture.

After 1978, China began a major political shift that was accompanied by pragmatic reforms that relaxed central political control and profoundly modified the economic
system. These changes set a more stable path of development and accelerated economic growth greatly, as Tables 1 and 2 show. This rapid economic development was largely based on the accelerating growth of investment, the mobilization of underemployed rural workers, and the increased efficiency of resource allocation.

More specifically, collective agriculture was abandoned and decisions about agricultural production handed back to farm households. Small-scale industrial and service activities were freed from government control, and their performance greatly outpaced that of the state-owned sector. The rigid state monopoly of foreign trade and the policy of autarkic self-reliance were abandoned. The currency was devalued, free trade areas were created, and China’s exports became increasingly competitive. Exposures to foreign trade and investment were greatly enhanced after the 1980s. China’s accession to the World Trade Organization (WTO) in 2001 underlined that its economy had become dependent on open markets and good global trade relations. On the other hand, China was prudent in retaining control over the more volatile types of international capital movement. Consequently, China’s exposure to the Global Financial Crisis (GFC) of 2008–09 was largely indirect, as a consequence of economic slumps in importing countries. But China had also become a major investor in government bonds, particularly those of the United States, and therefore had to take an interest in multilateral initiatives to help resolve the GFC.

These economic reforms and China’s greater exposure to foreign trade and investment took place in the historically unique context of much-reduced international tensions due to the U.S. rapprochement to China in 1973, and the later demise of Communism in the Soviet Union. China took back Hong Kong and Macao peacefully and inaugurated a “two systems” policy designed to attract Taiwan back into the national fold. Nevertheless, and despite recent years of sustained high economic growth, China is facing some major difficulties that need to be resolved, such as the high degree of regional inequality, relatively weak property rights, the continued existence of large state-owned industrial enterprises that are kept alive with government subsidies, the large volume of non-performing loans in the mainly state-controlled banking sector, and problems caused by significant environmental degradation.

In the late 1980s, there emerged agreement in India that the previous policies that stressed self-sufficiency, high levels of public investment in heavy industry, and detailed restrictions on the private sector, had limited success. The subsequent liberalization of the economy since the mid-1980s, particularly since 1991, accelerated exports, investment, economic growth, and structural change. These factors helped make India one of the most dynamic economies in Asia, hardly affected by the GFC and its aftermath.
3. Asian growth in global and regional contexts

There are several common features to Asia’s development experience, with specific implications for the region’s role in the global economy, and for the process of regional economic integration.

Firstly, it has to be concluded that long-term economic growth in Asia has been a slow process. In the long-term, the relatively high growth rates that China, India, and Indonesia achieved in recent decades, and the high rates Japan accomplished between 1950 and 1990, are the exception rather than the rule. Economic growth during most of the 19th and 20th centuries was slow because it started from very low levels of per capita GDP. Table 2 shows that in 1820, per capita GDP in Asia was half that of Western Europe and North America. The persistently low level of GDP in many Asian countries indicates that many of the prerequisites for sustained growth – an important part of the gradual process of development – still had to be put in place. An additional obstacle to growth of per capita GDP was that in several countries during the 1950s–70s, including India and Indonesia, economic growth was constrained by accelerating population growth.

Secondly, on the demand side, the increase in domestic private consumption was a function of the new employment and income opportunities generated by the process of gradual economic growth. The increasing exposure to foreign demand for export products was an important factor, but economic growth was to a large extent dependent on the development of domestic markets. As for public expenditure, it was long modest in Asia. For example, on average it was only about US$2–4 per capita during the 1910s. Consequently, in early 20th century Indonesia, for example, investment in education was for that reason necessarily modest at best. And by 1930, just 6 percent of Indonesia’s indigenous population was literate. Such low levels of per capita government expenditure suggest that the public finance governments in Asia could muster were for a long time very limited, compared their Western European and North American counterparts. Limitations in both the revenue base and the mechanisms to raise public revenue through taxation severely restricted the ambitions of Asian governments. Public expenditure only appears to have had a significant impact on economic growth through investment in physical infrastructure. Improved domestic transportation facilities together with the development of commercial infrastructure (in other words, the development of market-enhancing institutions) fostered the gradual formation and expansion of markets as well as market integration across wider geographic areas.

During the 19th century Asia’s exposure to foreign trade was still relatively small, as mentioned above. It increased after 1870 due to significant decreases in the cost of long-distance transport by sea and land. Trade treaties with China and Japan increased European investment in Asia, and reduced tariffs in Europe also fostered the growth
of foreign trade, enabling Asia to maintain its share in global trade. Trade was an important vehicle for Asian countries to import and further develop new technologies. Hence, when China, India, Indonesia, and other Asian countries pursued import-replacing and autarkic development strategies in the 1950s–70s, they missed out on growth opportunities. By contrast, Japan embraced export-oriented policies, absorbed and modified foreign technologies, and surged ahead in terms of GDP per capita.

Arguably, Japan had since the 1850s been more open to foreign trade than other Asian countries. In the 1850s it signed several treaties with Western powers to open up its ports for trade and to maintain low tariffs. This undermined the social structure of Tokugawa Japan, and eventually led to the restoration of the rule of the Emperor, starting with Emperor Meiji in 1868. He became the focus of a new kind of Japanese nationalism that insisted that Japan had to catch up in economic development or run the risk of facing further threats to its sovereignty from Western powers. The new government put in place significant administrative changes that abolished the rights of former rulers and their retainers. Agricultural land was distributed and came under private ownership, and money taxes were introduced. In several ways the government took the lead in creating economic and social change. It invested in education, a modern army and navy, a legal system, a public health system, police and administration, and public infrastructure. It also sought to modernize agriculture and industry through selective imports, financial policy, and support for selected enterprises that soon became the hubs of burgeoning business groups.

Japan’s exports increased, but it was not until the First World War that Japanese producers had an opportunity to significantly increase production of industrial import substitutes for markets in Japan, and to produce for export to other Asian markets. Particularly exports of textiles increased significantly. This, plus further development of domestic markets, resulted in an increase of economic growth, to the extent that by 1941 economic development in Japan was well ahead of most other Asian countries, although still well behind Western countries.

Japan’s growing demand for primary commodities, and its need to secure markets for its produce in Asia, were important factors behind the country’s entry into the Second World War in 1941. The war had devastating consequences for Japan, as its major cities and key production facilities were largely destroyed.

Postwar Japan had a relatively high degree of social and political stability. Complete demilitarization allowed the country to avoid having to invest in defense during the Cold War era. Other factors that contributed to Japanese growth included an extensive, underemployed but well-educated work force, frugal traditions and a high propensity to save for the purpose of financing investment, and very favorable opportunities to enter global markets – particularly the U.S. market – because Japan joined GATT at an early stage.
When the Japanese economy, wages and productivity started to catch up with the Western world, economic growth started to slow. Around 1990, expectations for further Japanese growth and profit expansion were exaggerated, which fueled a stock market bubble, as well as an unsustainable boom in property prices. The subsequent collapse of the bubble economy during 1991–92, and the massive problems in the financial sector heralded the start of a period of low to very moderate economic growth that continues today. As a consequence, public debt as a percentage of GDP has risen to enormous proportions. But most of this debt is held domestically and Japan’s exchange rate is favorably shielded from adverse perceptions about Japanese indebtedness. Consequently, the GFC had limited consequences for Japan, which had also become one of the world’s largest creditors and was therefore required to participate in multilateral initiatives to help resolve the GFC.

A third common feature to Asia’s development experience was that, on the output side, economic growth was on the whole a gradual process by which capital and underutilized labor were mobilized for the purpose of increasing output in the agricultural sector, which long dominated Asian economies. It was only in recent decades that resource mobilization for increased production in non-agricultural pursuits occurred to a significant degree in Asian countries, with the exception of Japan. Technological change may have played a role in particular sectors, such as transport and communications, through the expansion of domestic networks of railways and steam shipping. However, at an economy-wide level the contribution of technological change is likely to have been limited and economic growth was most likely highly dependent on the process by which savings and underutilized labor were mobilized. For example, total factor productivity growth in Indonesia contributed only 6 to 12 percent to economic growth during 1880–2008; the growth of capital stock and education-adjusted employment explained almost all economic growth.9

Fourthly, government policies had an important but limited effect. An important limitation was the availability of public funds, as discussed earlier. During most of the 19th and 20th centuries, key policies involved public infrastructure development in the form of transport facilities and/or irrigation structures to benefit agricultural production. In the case of Japan, public expenditure on the development of education was also important. Under international agreements, it was difficult for Asian countries to use trade policies to foster the development of domestic manufacturing production until the 1930s, when trade protection became the norm. Protectionist, inward-looking trade and industry policies remained the norm after the Second World War, until the 1970s.

Since the 1970s the governments of most Asian countries have sought to implement lessons from Japan’s successful development experience and used catch

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phrases like “Follow Japan” and “Look East.” In many Asian countries, policies in support of trade protection, state-owned enterprises, regulated markets, and control over foreign exchange flows were gradually dismantled in favor of policies that fostered the development of markets and market-facilitating institutions. As the transition toward such economic policy regimes generally took place from relatively low levels of GDP per capita and in countries with sizable populations, the effects took time to crystallize. But in countries that made successful transitions, the exposure to foreign trade and investment increased significantly and economic growth and structural change accelerated. A major World Bank report described this in 1993 as the “East Asian Miracle.”

Fifthly, there are three reasons why this re-engagement of Asian countries in international trade and investment in recent decades was a major factor in the rapid economic growth that engulfed much of Asia. Table 3 already indicated that the value of trade increased enormously. Between 1973 and 2008, it increased in Asia by an average factor of 58, compared with 25 in Western Europe, 18 in North America, and 22 in the rest of the world. This lifted Asia’s share in global exports to 24 percent in 2008.

The first reason is that the increase of Asian exports was sustained by a significant shift away from primary commodity exports to manufactured products. Initially manufactured exports were mainly simple, labor-intensive manufactures, but at more advanced stages of development, economies began producing more elaborately manufactured products.

A second important aspect of the development of foreign trade was the significant increase in intra-Asian trade. Asia had gone through a similar phase of export expansion from 1870 to 1929. Much of that growth was related to the expansion of Asia’s trade with Europe and North America, with a correlative increase of intra-Asian trade. This phenomenon returned to a much greater degree since the 1970s, when Asian countries resumed their interest in export-oriented industrialization and increased exports.

Unlike Japan, which had depended on the accumulation of domestic savings for this purpose, other Asian countries opened up to foreign investment to a degree that Japan had never done. Initial levels of foreign investment were modest, and most of it was investment for market-seeking purposes. But after 1985 foreign investment swelled considerably when Japanese manufacturing companies were required to respond to the massive Plaza Accord appreciation of the yen relative to the U.S. dollar, as Figure 2.2 shows. This forced them to offset increased production costs in Japan by

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relocating their labor-intensive operations, such as final product assembly, to Asian countries with lower labor costs. However, they kept the high value added production of high-tech parts and components in Japan.

Figure 2: Japanese foreign direct investment to Asia, 1975–2010 (billion US$)

Many of these companies initially established subsidiaries in the ASEAN 4 countries (Indonesia, Malaysia, Thailand, and to a lesser extent the Philippines), which had opened up to foreign investment. In the course of the 1990s many were also attracted to mainland China, which also started to open up to foreign investment.

This was the start of an expanding intra-regional division of labor that Krugman described as the slicing of the value chain across East and Southeast Asia, and that Athukorala and Yamashita labeled international production sharing. It is the main reason for the rapid growth of intra-Asian trade in the parts and components that are used to produce final products for export to the rest of the world. Intra-Asian trade increased from 25 percent of Asia’s exports in 1985, to 53 percent in 2010. This may appear to be an exclusively intra-Asian phenomenon, but it actually depends

crucially on Asia’s trade relations with Western Europe and North America, where the biggest markets for Asia’s final manufactured products are located.

The third reason why trade development in Asia was so significant in a long-term perspective can be found in the institutional sphere. The development of intra-Asian trade and Asian regionalism since the 1970s was largely market-driven. It was a consequence of decisions by private enterprises in the context of unilateral decisions by Asian countries to lower barriers to trade and investment. But by the 1990s it became clear that its momentum could only be sustained by a concerted regional effort toward institution-led regionalization. This regionalism aimed to lower the remaining barriers to trade and investment through plurilateral initiatives toward cooperation and regional governance to mutual advantage.

Since APEC was established in 1989 attention has shifted to plurilateral and bilateral agreements. Within Asia, the creation of the ASEAN Free Trade Area (AFTA) in 1992 was a significant step forward. After AFTA became fully operational in 2003, ASEAN countries shifted their attention toward deepening AFTA to achieve the ASEAN Economic Community by 2015. By stealth, AFTA has since become the hub for further discussions that may head in the direction of an Asian Free Trade Agreement (FTA) comprising countries that participate in the East Asian Summit (EAS), whose annual meetings coincide with those of ASEAN.

Countries that were ready to deepen processes of trade liberalization on a preferential basis have sought refuge in bilateral FTAs. For the most part these agreements are of the “new generation” of FTAs in the sense that they aim to be “WTO plus,” not only in terms of satisfying the tariff liberalization requirements of GATT article XXIV on free trade areas and customs unions, but also in going beyond the Uruguay Round commitments in the new WTO areas of services trade liberalization and intellectual property protection. They also achieve new, more liberal commitments in domestic regulatory policies that have an impact on trade and investment flows, such as product standards, domestic services regulations, public procurement policies, investment restrictions, and protection and business visas. Thus, FTAs allow countries to facilitate the intensification of trade and investment relations on a bilateral basis, without having to wait for the painstaking process of multilateral consensus building to conclude. In some cases there emerged semi-multilateral FTAs, such as the China–ASEAN Free Trade Agreement and the ASEAN–Korea Free Trade Agreement.

As these FTAs involve a limited number of countries, it is much easier to reach agreement on details among participants. Together with the ongoing lack of success of the WTO Doha Round, this is a major reason why interest in actual multilateral FTAs has reignited very recently. This interest has been articulated in different ways, including initial discussions about a Trans-Pacific Partnership (TPP) agreement and
recent plans to revive discussions toward a three-way Japan–South Korea–China agreement. Several Asian countries participate in these current discussions.

To conclude, the growth of intra-Asian trade and the increased dependence on international markets has increased the awareness in Asian countries of the fact that current and future advances in economic growth take place in a situation of growing mutual economic dependence. This has led to several initiatives to foster this dependence through inter-governmental cooperation, of which AFTA and several bilateral agreements have been the result. Nevertheless, the limitations of these forms of cooperation now require Asian countries to pursue multilateral options toward regional governance.

4. What of the near future?

It is tempting to assume that Asia’s high economic growth will continue in the decades leading up to 2030. However, a more realistic projection is less optimistic, considering that several obstacles to further growth need to be overcome. Overcoming these obstacles may come at the cost of lower economic growth, as was the case in Western Europe, North America, and Japan. It is also realistic to assume that further growth will depend crucially on whether Asian countries maintain the momentum of intra-Asian trade with new initiatives, and are able to develop new initiatives that increase their participation in the global economy. This cannot be taken for granted.

Maddison has offered cautious predictions of global economic growth up to 2030, based on expected trends in population development and GDP per capita. Life expectancy is likely to rise and mortality and birth rates are expected to continue to fall in most of Asia. Population growth is expected to slow further, in some countries to a greater degree than in others. But in most Asian countries, there are still opportunities to raise the activity rate and mobilize underemployed labor. There is also still a significant backlog in the adoption of productivity enhancing technological change, indicated by the gap between GDP per capita between most Asian countries and the United States. In addition, the average educational level of the labor force can still increase. For those reasons, GDP per capita is likely to continue to grow significantly in most of Asia.

Nevertheless, the rate of GDP growth is likely to slow, as there is less and less low-hanging fruit to pick for economic growth due to resource mobilization. Growth in the region will become increasingly dependent on advances in productivity. For example, countries will have to devote greater resources to mitigate the damage caused by environmental deterioration. Wages and labor costs will rise, and will erode the advantage of low-cost production in international trade. Most importantly, countries will face the increasing cost of having to invest in R&D in order to spur

innovation and productivity when average technological levels get closer to the frontier in advanced countries. Countries will also need to increase public spending on infrastructure development, social security, health care, education, and eventually the problems caused by aging populations. In the short term, countries like China and India will also have to dodge the possibilities of asset bubbles. In all, there are good reasons to expect economic growth to slow.

Maddison’s projections suggest that Asia’s share in global GDP will increase to 49 percent in 2030. This is very much dependent on the assumption that GDP per capita in China will slow to an average of 4.5 percent per year. If China’s GDP per capita continues unabated at a high 6 percent per year, Asia’s share will increase to 54 percent by 2030. Either way, by then Asia will have re-captured most of the share of the global economy that it had in 1820. Yet this simple number does not take account of the much increased economic dependence of Asia on the world, and vice versa.

To sustain this dependence on international trade and investment to mutual advantage, Asian countries will have to continue to actively participate in the international fora and agreements that foster international trade and investment. Until now, Asian countries have had limited experience in these, although they have been gaining experience with bilateral and multilateral FTAs. Participating in such discussions requires Asian countries to take initiatives to advance negotiations and solve crises, and to be prepared to compromise. It is likely that the differences between Asian countries will come into play in these processes, unless they agree on a mechanism to determine and express a common voice. There are currently few fora that facilitate the process of intra-Asian economic integration. ASEAN and AFTA may function as a possible hub for such an organization, which may involve all countries currently engaged in the annual EAS.

To conclude, it is clear that Asia will occupy a more prominent role in the global economy in 2030, and that by then it will have recuperated much of the share in global GDP that it had in 1820. However, the role that Asia will play in the global economy in 2030 is very different from that played in 1820, simply because by 2030 countries both in Asia and across the globe will be far more economically interdependent than they were in 1820. This increased interdependence requires that nation states participate actively and constructively in building the multilateral institutions that shape the processes of economic interaction to mutual advantage around the world and within regions such as the Asia Pacific. For that reason there is an urgent need for key Asian countries to exert leadership and share in coordinating the governance in regional and global economy. If national economies expect to continue to experience the benefits that further globalization may yield while minimizing the possible disadvantages, it is important that Asian countries participate in global governance.
References


