# ASIA 2050:

# THE SUSTAINABLE ROUTE TO PROSPERITY

## Report of the Round Table

*Vienna, 13 September 2012*

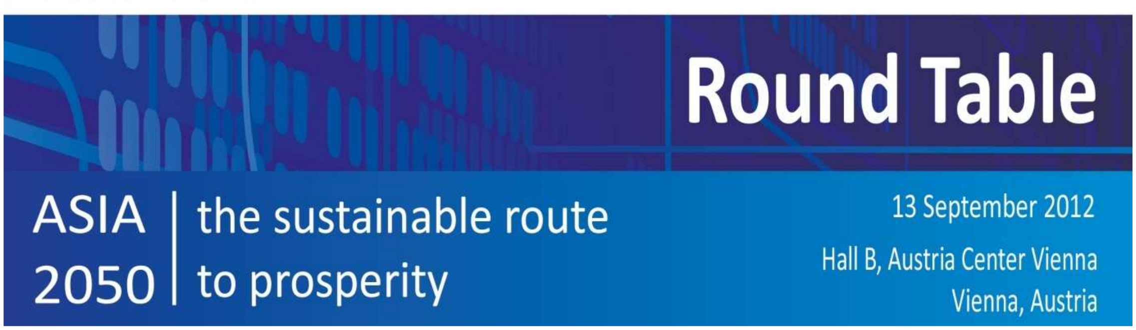

Table of Contents

The round table was convened by UNIDO in cooperation with the Asian Development Bank (ADB), the Austrian Federal Economic Chamber (WKO) and the Austrian Research Foundation for International Development (ÖFSE), with the support of UNIDO Member States of the Asia-Pacific Group.

The main objective of the round table was to provide a platform to discuss the issues raised in the study of the Asian Development Bank "Asia 2050: Realizing the Asian Century". With the historic transformation and high economic growth of the Asian region as background, the meeting was designed to provide answers to challenges and seek direction on opportunities regarding the realization of the immense potential of the Asian economies.

Other objectives of the Round Table were to:

- Provide a platform for policymakers and practitioners to exchange views and experiences on sustainable development, long-term visions and operational strategies for Asia;

- Provide strategic insights for policymakers and practitioners on potential paths to environmentally sustainable and socially inclusive industrial development in Asia;

- Explore and exchange views on how policies and strategies can be adapted to the shifting [comparative and] competitive advantages of Asian countries, while avoiding the middle-income trap;

- Examine possible global economic and commercial implications of Asia's industrial expansion; and

- Help strengthen the role of UNIDO in enhancing the prosperity of the region through industrial development.

## Introduction

Participants were welcomed by **Ms. Amita Misra**, Director of UNIDO's Bureau for Regional Programmes, who thanked the hosts and sponsors of the meeting: the Asian Development Bank, UNIDO Member States of the Asia-Pacific Group, the Austrian Federal Economic Chamber and the Austrian Research Foundation for International Development. She outlined the structure of the meeting (Annex 1).

The Director General of UNIDO, **Dr. Kandeh K. Yumkella** also welcomed participants to the meeting and explained that UNIDO was promoting a series of economic policy discussions designed to provide answers of critical importance to the global community: how to foster growth; how to create 600 million new jobs over the next 15 years and address unemployment; how to achieve sustainable development. Within the UN system, discussions on the development agenda after 2015, the terminal date for the Millennium Development Goals (MDGs), were already underway. These discussions should look at structural change going beyond the narrow focus of the MDGs on the social sectors. In addition to job creation, energy should receive more attention. Energy was the source of up to 70 per cent of global greenhouse gas emissions; yet energy was required to power industrialization.

The deliberate focus on long-term growth and structural change by international development organizations such as UNIDO raised challenges of its own: donors wanted to see quick results, but unlike humanitarian aid, it took time to build institutions, train people, promote technology transfer and create markets.

Asia was the world's most dynamic region and provided valuable lessons for other developing countries. One of the key lessons was in industrial policy. The 2008 Commission on Growth and Development had studied the growth patterns of 13 countries, nine of them in Asia, which had grown at an average rate of 7 per cent annually over 25 years. [1] It had found that one of the common features of their experience was far-sighted industrial policies. Governments had chosen particular sectors and provided them with sustained support over more than two decades. This experience was still relevant today. Creating jobs and

[1] Commission on Growth and Development, *The Growth Report: Strategies for Sustained Growth and Inclusive Development* (Washington DC: World Bank, 2008) http://siteresources.worldbank.org/EXTPREMNET/Resources/489960-1338997241035/Growth_Commission_Final_Report.pdf

livelihoods required transformation, not in the traditional model of “pollute now, clean later”, but following sustainable paths to industrialization. This was a task for UNIDO.

A wise man had once said that without long-term vision, there would be short-term problems. The need to plan for structural change applies both to regions and to individual countries.

Following these introductory remarks, the **Minister Counsellor of the Permanent Mission of Indonesia, Mr. Aris Munandar**, noted that Asia currently accounted for 56 per cent of the world’s population. It had achieved collective growth of 9 per cent per year over the previous decade and had succeeded in bringing over 400 million people out of poverty. More than 90 per cent of those in the world who had left poverty were in Asia. By 2050, three billion people in Asia could be enjoying the living standards of Europeans today. However, prosperity had been unevenly spread and income distribution had widened between urban and rural areas. Through trade and cooperation, Asia needed to be conscious of its place in and its responsibility towards the rest of the world.

The representative of the **Austrian Federal Economic Chamber, Ms. Christine Schösser,** underlined the key role which trade had played in Asia’s economic success. Austria was an example of a European country which had seen a major expansion in trade with Asia. While Asia provided a growing market, Austria was also a source of modern technologies and know-how for Asian countries. It was important that all countries of that region and all the people within them shared the benefits of modernisation, industrialisation and improved living standards.

According to the Director of the **Austrian Research Foundation for International Development (ÖFSE), Dr. Werner Raza**, Asia provided a development model which had run contrary to conventional wisdom. Countries had extensively employed active industrial policies, state intervention and strict regulation of their financial sectors. International development organizations and academics needed to take account of the lessons of what had been termed ”development economics 3.0”. Asian countries such as China and India had managed to isolate themselves from the worst of the global financial crisis that started in 2007. However, their continuing success would require a greater dependence on their domestic markets in the future.

## 1. Visions of Asia 2050

The ADB report presented at the meeting outlined the powerful consequences of economic growth, as demonstrated by history.[2] Asia had re-emerged rather than emerged. In the mid-18th Century, prior to Europe's industrial revolution, India and China had accounted for about 60 per cent of the world economy in real (purchasing power parity) terms, largely reflecting the size of their populations at the time. Then, up until the 1950s, the Western economies had grown much faster, reducing the share of Asia to below 15 per cent. Starting with Japan, undergoing reconstruction after World War II, the region had begun to grow faster. Japan doubled the size of its GDP per capita between 1956 and 1965. It had been followed by the newly-industrialized countries and territories – Taiwan, Province of China, Hong Kong, the Republic of Korea and Singapore – and in the 1970s by Malaysia. In the 1980s, China had begun its own dynamic expansion, followed by India, Indonesia and Viet Nam. As a result of this dynamic period of growth, Asia's share of the global economy had risen to 28 per cent today.

The projections in the report were long-term forecasts based on models. It was acknowledged that there were difficulties with modelling the future. In the more optimistic "Asian Century" scenario, the total GDP of the region could reach $174 trillion by 2050, equivalent to 52 per cent of the global economy, and with per capita income levels of $40,000. In the alternative scenario, assuming that Asia's leaders did not fully meet the looming challenges, the GDP of the region might be no higher than 32 per cent of the global economy (compared with 27 to 28 per cent currently) and per capita income would be $20,000. The difference was appreciable and was the "opportunity cost" of failure.

The objective of the ADB study was to sketch a general scenario and focus more on the issues than the precise numbers. Because growth was hard to project, it was suggested that other more predictable variables than GDP – such as population size – might be used.

Projections were also imperilled by what had been termed "volatile transitions", when long-established assumptions were forcibly altered. The best-laid plans could be diverted by unforeseen changes to economic variables, such as the price of oil. More fundamentally, and as had been witnessed recently in many countries, society itself could change with widespread protest movements bringing new priorities to the fore.

[2] Asian Development Bank, *Asia 2050 – Realizing the Asian Century?* (Manila: ADB, May 2012). See also Annex.

It was also necessary to define what was meant by Asia. The definition used by the ADB was not the same as the UN's. For the purpose of the study, Asia referred to the three sub-regions of East, South and Central Asia, comprising 49 countries (out of a total ADB membership of 67). They encompassed great diversity of history, culture and language. But a common feature was a strong emphasis on education and the work ethic. The importance of including West Asia in the definition was also mentioned; it was a sub-region with a large market, where a lot of research on renewable energy had been conducted.

The study provided an optimistic scenario of growth led by the seven large economies of India, Indonesia, Japan, Malaysia, China, Republic of Korea and Thailand. In that scenario, they would account for almost 90 per cent of the region's GDP, and 91 per cent of its growth. There were also seven Least Developed Countries (LDCs) in the Asia region – Afghanistan, Bangladesh, Bhutan, Cambodia, Laos, Myanmar and Nepal. Some of them were also growing fast and were aiming to graduate from LDC status by 2020. However, within the region as a whole, there were growing disparities among countries, which it was important to reduce.

According to the ADB, continued rapid growth was contingent on five assumptions: continued improvement in total factor productivity; a continuing demographic dividend; further capital accumulation reaching 75 per cent of the global total by 2050; a growing affluent middle-class becoming the world's largest; and further opening of governance institutions through the communications revolution.

But there were several major challenges. The *first challenge* was inequality. Poverty had been reduced globally, with the number of those living on less than $1.25 per day falling from 1.5 billion in 1990 to 947 million people in 2008. But while much of the decrease had been in Asia, there was still high income inequality in the region and within individual countries. Asian countries would need to ensure more inclusive and equitable development if growth was to be sustained in the long-term. Moreover, growth could not be confined to economies only. It should be concerned with political and social transitions also. It was important to take account of the very poorest and their social mobility. Evidence from contemporary Asia revealed that the prospects for the poor to improve their lot through educational attainment were limited. Fortunately, as recent Brazilian experience had shown, higher growth did not inevitably lead to higher inequality. But appropriate policies of social inclusion needed to be pursued (see further below).

The experience of China was instructive. Much of the optimism of the report drew from the experience of China and its impressive 30-year record of growing GDP and incomes. However, the dynamism had been accompanied by popular discontent and even cynicism. Society was not harmonious and the country's leadership had perceived that social development was lagging behind economic growth, and that income inequality was widening.

A *second challenge* was the "middle-income trap" into which some Asian countries had fallen in the past. After advancing to middle-income levels, their economies had stagnated. In the 1950s, for example, countries like Myanmar, the Philippines and Sri Lanka had been considered future star performers with good growth prospects. But today they occupied much lower rankings in the league tables, even if countries such as the Philippines had shown signs of greater dynamism in recent years. Countries aspiring to middle-income status needed to avoid the trap, and those which had already attained the status needed to find a way out.

Demographic trends presented a *third challenge*. There was a demographic dividend for growth where the size of the working population was increasing. But some Asian countries were aging, leading to impending adverse dependency ratios. For example, the number of Chinese over the age of 60 was estimated at 200 million, giving China the world's fastest growing aging population. China's total population was expected to peak in 2027. Other countries – such as the Republic of Korea (in 2030) and Thailand (in 2033) – would reach their maximum population levels at about the same time. Demographically, therefore, the decade of the 2030s would be a transition period for Asia.

Demography was not only about overall numbers and proportions, however. It was also necessary to consider the quality of human resources. One of the great successes of Asia had been the investment made in the 1950s by countries such as the Republic of Korea and