



# EMERGING MARKETS FORUM

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## BACKGROUND PAPER

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### THE SESSION ON ASIA: OPENING REMARKS BY HARUHIKO KURODA

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## **Session VI Asian Century Revisited — Can major Asian Economies Avoid the Middle-Income Trap?**

Opening Remarks by Haruhiko Kuroda

In 2011, the ADB commissioned a study by the Centennial Group basically asking the same question which is the topic of our discussion in this session: can Asian economies jointly realize the dream of an Asian Century by continuing their impressive economic and social development in a fast evolving global, regional and domestic environment?

The conclusion of that study was “yes, it can” but it won’t be an easy journey. Some key road bumps were identified in that over a decade old study which could derail the journey. These included, among others : inadequate physical and social infrastructure, poor human development, rising inequality, poor governance and weak institutions, and geopolitical tensions. While countries recognized the benefits of globalization increasing voices of discontent were beginning to be heard. The enthusiasm for greater regional and global cooperation had started to come under attack.

Within this global and regional context, the conclusions of our 2011 study were cautiously optimistic essentially saying that the 21<sup>st</sup> century as an Asian Century is “plausible but not preordained”.

Over the past decade, since that study, Asia has continued to enjoy rapid economic growth, fuelled primarily by China and India alongside those of countries such as Indonesia and Vietnam. Though China has stalled somewhat in recent years, it still plays a major role in global supply chains and exports with increasing presence in high tech. India’s economic growth has been robust. But structural challenges remain. Notwithstanding major reforms already undertaken, China’s financial sector remains subject to considerable state influence and India has yet

to make any significant progress in creating a strong domestic manufacturing base. A rapidly aging population in China and a significant skills gap in India are major concerns going ahead. Southeast Asian nations have benefitted from supply chain diversification but trade tensions between the US and China and increasing anti-globalization sentiments are continuing concerns for all.

Despite these challenges, Asia can be justifiably proud of its dramatic achievements over the past half a century. Asians are today richer, healthier and more literate than they were a generation back.

Overall, while Asia's absolute economic growth rate has moderated a bit compared to what it was a decade ago, the region's share of global GDP today is higher than what that study had anticipated because most other regions have grown even slower than anticipated. This is because most emerging economies in other regions have found it harder to move from lower middle income to middle income and from there to upper income economies.

For Asia's past and recent impressive economic performance to continue depends heavily, though not exclusively, on the fundamental question: Can Asia avoid the Middle-Income Trap?

I am so glad therefore that Dr. Indermit Gill and his colleagues at the World Bank have consented to present the findings of their Flagship Report report on the subject to us today.

Countries getting caught in the middle-income trap is a common phenomenon. It is sobering to reflect that according to their Report, only 34 countries, with a total population equal to that of Pakistan, succeeded in doing so over the last 34 years. South Korea is a particularly striking example whose per capita income rose to about \$33,000 in 2023 from about \$1200 in 1960. It did so through a strategy that initially focussed on investment

(particularly in higher education), technology adoption (infusion) and later through innovation. This same report notes that the pace of progress in middle income countries, including those in Asia, is slowing and facing even stronger headwinds, including aging demographics and climate change. But, they must avoid the middle income trap with all the policy and institutional tools at their disposal since not only the long term well being of billions of Asians is at directly stake but also indirectly it could heavily impact the global economy overall over the coming decades.

It is therefore very timely that we reflect on the prospects of an Asian Century, and I eagerly look forward to this discussion by a very distinguished panel and chaired by my esteemed colleague, Watanabe-san.

Thank you very much.

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The Emerging Markets Forum was created by the Centennial Group as a not-for-profit initiative to bring together high-level government and corporate leaders from around the world to engage in dialogue on the key economic, financial and social issues facing emerging market countries.

The Forum is focused on some 120 market economies in Asia, Eurasia, Latin America and Africa that share prospects of superior economic performance, already have or seek to create a conducive business environment and are of near-term interest to private investors, both domestic and international.

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