



The return of the Asian Century

Might two centuries of Western dominance of the global economy turn out to be little more than a blip when seen in the grand sweep of economic history?

Back in the early 1990s, East Asia's economic outperformance meant that predictions about an impending 'Asian Century' were commonplace, at least until the arrival of the economic devastation caused by the 1997-98 regional financial crisis appeared to render such claims hollow. Almost overnight, proclamations of the triumph of the Asian model were abruptly replaced by denunciations of crony capitalism and speculation that Asia's growth miracle was more a matter of mundane perspiration than inspiration.¹ The transformation of Japanese economic success into what seemed to be a series of lost decades further compounded this new sense of Asia pessimism.

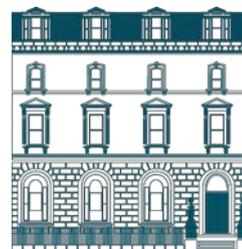
Now, in the aftermath of a another financial crisis – this time one that is typically described as global, but which could perhaps more accurately be described as a Western or North Atlantic crisis – predictions of an Asian Century are making a comeback.² While much of the developed world has struggled to bring economic output back to pre-crisis levels, growth in developing Asia, led by China and India, has been extremely robust. Asia optimism is back in fashion.

World's economic center of gravity: 1980 – 2049



Source: Image from Danny Quah's web site, http://econ.lse.ac.uk/staff/dquah/index_own.html

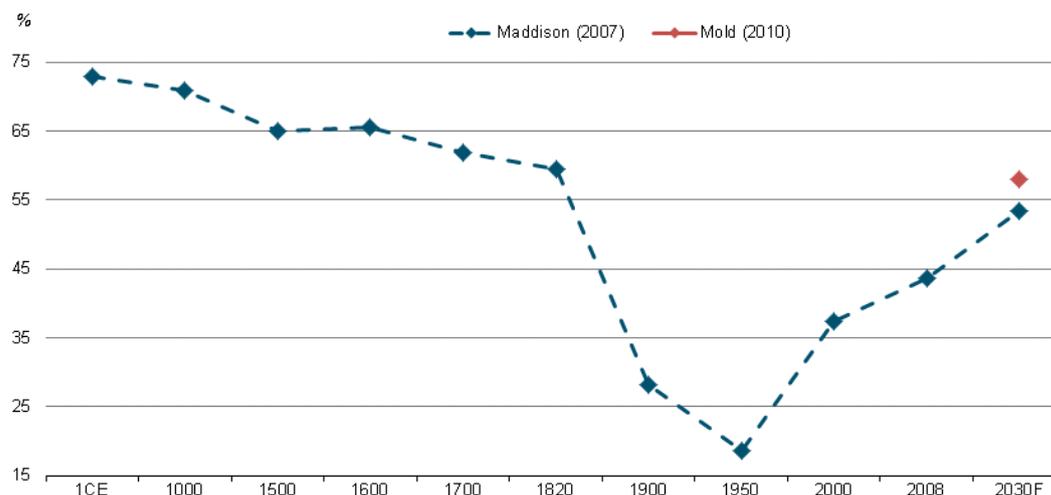
The growing economic importance of Asia is a trend that is visible across both space and time. Starting with space (or geography), the LSE's Danny Quah has tried to estimate the location of the world's centre of economic gravity, or WCEG.³ By



looking at almost 700 urban and rural locations across the surface of the planet, he calculates that, as of 1980, the WCEG was located roughly in the middle of the Atlantic Ocean, somewhere between the economic powerhouses of North America and Western Europe. By 2008, the growing economic heft of Asia in general, and of East Asia in particular, had pulled that location some 4,800 km eastwards across the earth's surface to lie on the same longitude as Izmir and Minsk, to the east of Helsinki and Bucharest. When Quah projects activity forwards across the same set of locations, he reckons that by the middle of this century the WCEG will have tracked further east again, moving some 9,300 km from its 1980 location to lie between China and India, the world's new economic powerhouses.

It's also interesting to compare this forecast to where the WCEG would be found if world income per head was the same everywhere (or equivalently, if the centre of gravity was weighted by population rather than by economic activity). Quah estimates that in 2009 this demographic centre of gravity was located in Karachi. Seen in this light, it is easy to see how concepts such as the Asian Century map neatly on to the idea of the *Great Convergence*.⁴

Asia's share of world GDP, 1CE to 2030F



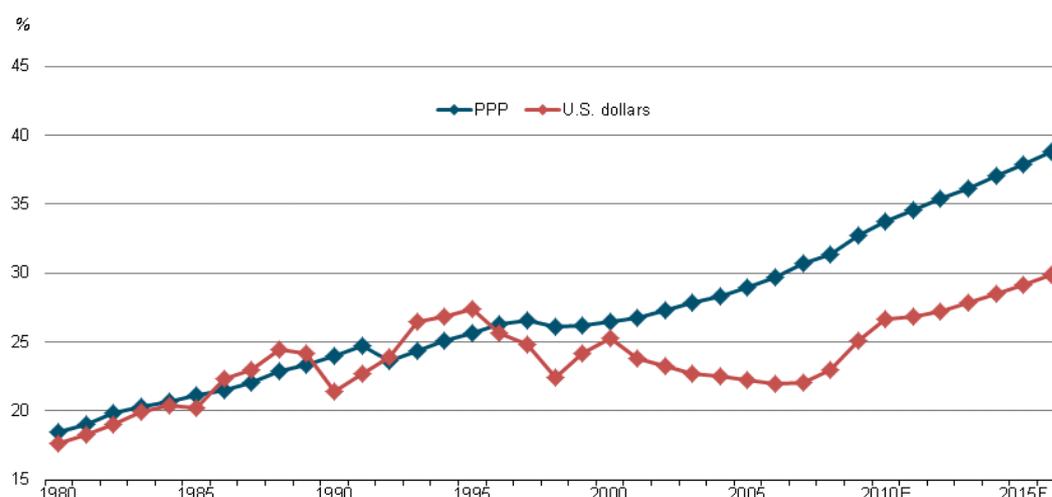
Sources: Maddison historic data are from <http://www.ggd.net/maddison>. Maddison forecast for 2030 is from Maddison, *Contours of the world economy 1 - 2030: Essays in macroeconomic history*. (2007). Mold forecast for 2030 is from Mold, *Maddison's forecasts revisited: What will the world look like in 2030?* (2010)

What about tracking the Asian Century over time? According to the late, great Angus Maddison, Asia has dominated the world economy for most of history. Maddison estimated that Asia accounted for more than 70 per cent of world output in 1CE, and continued to account for at least 60 per cent until as late as the start of the nineteenth century.⁵ The onset of the Industrial Revolution in Britain and the subsequent Great Divergence saw Asia's share of world output decline rapidly to reach a low of less



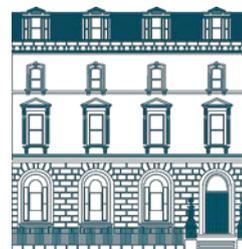
than 19 per cent by 1950. Since then, however, economic take-off first in Japan, followed by the Asian NICs and Tigers, and then in China and India, has seen Asia's share start to climb back up: By 2008, Maddison reckoned that Asia's share of world output would have passed the 40 per cent mark, and by 2030 he expected it to have reached 53 per cent, to once again account for more than half of world output. Since his forecasts were made before the latest (post-2003) surge in emerging market growth, these projections might be viewed as conservative. So, for example, David Mold's 2010 update of Maddison's forecast has Asia's share of the world economy at 58 per cent by 2030.⁶ Note, however, that Maddison's estimates are purchasing power parity (PPP)-based, and while there are sound theoretical reasons for preferring these to estimates based on market exchange rates, there are still plenty of PPP-sceptics out there. One reason for their scepticism is that PPP estimates can be subject to large revisions, and here it's worth noting that the Maddison estimates do not incorporate the 2005 ICP revision, which led to sharp downward revisions of estimated real GDP for many developing countries, especially China.⁷

Asia's share of world GDP, 1980-2016F



Source: IMF World Economic Outlook database, April 2011

An alternative perspective, therefore, is provided by the latest IMF estimates, which do take the 2005 ICP into account, and which as a result award Asia a significantly lower share of global output. Even so, the *trend* is still very much in line with the Asian Century story. According to the Fund's numbers, on a PPP basis Asia's share of world output has roughly doubled since 1980, rising from 18 per cent then to about 35 per cent this year, and is en route to almost 40 per cent by 2016. Moreover, even on a US dollar basis, Asia's share of global output still rises from less than 18 per cent of world GDP in 1980 to 27 per cent this year, and is forecast to reach 30 per cent by 2016.



Since economists typically struggle to deliver accurate forecasts of *next year's* GDP, projections for 2016, let alone 2030 or 2050, need to come with major health warnings. Still, while keeping in mind that these kinds of exercises are subject to a wide range of uncertainties and fragilities, Asia's share of world output over time looks like it will trace out a great big U-shaped pattern. Indeed, viewed against the grand sweep of history, that pattern might even look like a 'V'. For example, in his book *Millennium*, written as a survey of the past thousand years as the last millennium approached, the historian Felipe Fernandez-Armesto reflected on what he described as the 'imperfect, precarious and short-lived' state of Western supremacy. Back in the 1990s, he saw the likely challengers to the 'Atlantic civilisation' that had dominated the previous couple of centuries as the communities of the Pacific seaboard, as typified by California and Japan. Today, a different one of his speculations has more resonance: towards the end of the book he wonders whether, if viewed from the perspective of some future 'galactic museum-keepers' it will make sense to 'see our millennium as continuous with the last and the next – characterized, say, by brief challenges from Islam and the west to an otherwise almost continuous history of Chinese preponderance.'⁸ So, if you are an Asia optimist, perhaps the key question is return of the Asian Century, or of the Asian Millennium?

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¹ Perhaps the most famous report on East Asia's economic success is: World Bank, *The East Asian Miracle: Economic growth and public policy*. World Bank Policy Research Report. Washington DC, Oxford University Press / World Bank, 1993. Important sceptical views include Alwyn Young, The tyranny of numbers: Confronting the statistical realities of the East Asian growth experience. *Quarterly Journal of Economics* 110 (3) 1995 and Paul Krugman, The myth of Asia's miracle. *Foreign Affairs* 73 (6) 1994. On crony capitalism, see for example Michael Backman, *Asian Eclipse: Exposing the dark side of business in Asia*. Singapore, John Wiley & Sons (Asia), 1999.

² Recent examples include John Llewellyn and Lavinia Santovetti, *The Ascent of Asia*. Nomura Global Economics, February, 2010 and Asian Development Bank, *Asia 2050: Realizing the Asian Century*. Manila, Asian Development Bank, 2011.

³ Danny Quah, The global economy's shifting centre of gravity. *Global Policy* 2 (1) 2011. See also Jean-Marie Grether and Nicole A Mathys, Is the world's economic centre of gravity already in Asia? *Area* 42 (1) 2010.

⁴ The Great Convergence was the subject of IEC#4.

⁵ Angus Maddison, *Contours of the world economy 1 - 2030: Essays in macroeconomic history*. Oxford, Oxford University Press, 2007.

⁶ Andrew Mold, *Maddison's forecasts revisited: What will the world look like in 2030?*, VoxEU.org, 24 October, 2010.

⁷ See Martin Ravallion, *Why have developing country data on real incomes been revised so much?*, VoxEU.org, 26 March, 2010. See also endnote 5 in IEC#9.

⁸ Felipe Fernandez-Armesto, *Millennium: A history of the last thousand years*. New York, Simon & Schuster, 1995. The first quotes are from page 18, the last from page 735.