

# Newsletter



Institute for International Monetary Affairs

(財)国際通貨研究所

## Our Global Challenges in 2025<sup>1</sup>

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As a Japanese member of the Asia-Pacific Economic Cooperation's (APEC) Business Advisory Council (ABAC), I am responsible for making recommendations to the APEC leaders for promoting economic development in the region through open trade and investment activities.

In considering the theme of this conference, "Our Globe in 2025", we must take into account the forecasts predicting major changes in East Asia, ASEAN, and India as centers of world growth. By responding to these changes appropriately and utilizing the sustainable economies of the region to drive growth forward, the Asia-Pacific region, including Latin America, should be able to attain an affluent society. The Asia-Pacific region has the potential, and a mission, to contribute to the world economy by reducing poverty in the region through growth, acting as the world's factory, and expanding regional domestic demand.

In order to achieve sustainable growth in the course of this process, it is essential to promote further regional economic integration by eliminating biased domestic movements and protectionism. Regional economic integration will serve as an important and practical building block in bringing about global economic integration.

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<sup>1</sup> This paper is the extended script of a comment delivered at the 6th World Chambers Congress Plenary Session 1 on Jun 3rd 2009 in Kuala Lumpur.

It is desirable that a global, sustainable growth model be discussed at the G20 summit and adjusted, if possible, based on the developmental stage and the role of the regions, including East Asia as well as regions with developed countries.

Social structural changes, which will function as a basis for economic growth in Asia, are predicted to be broad and profound. What might the future shape of society be? While demographic changes and economic growth are relatively easy to predict, changes in politics and in non-continuous developments in technology are difficult to predict.

Many institutions forecast that, in the year 2025, the total population of China, India and ASEAN will reach almost 3.5 billion. This population increase, particularly the increase in the middle-class population, will cause the economy of China to rival or even surpass that of the United States, while India's economy will be one-half that of the United States, and that of ASEAN will be double on a purchasing power parity basis.

### **What are the challenges associated with economic expansion and population increase?**

Population growth in Asia is not a simple pyramid-shaped increase since along with it comes a rapidly aging population. Japan has already been undergoing a population decrease for some time. It is predicted that Hong Kong, Korea, Singapore, China, and Thailand will also face an aging society. Before GDP per capita reaches US\$10,000, some Asian economies could begin to experience an aging society. In order to prepare well for this imminent situation, economic growth and enhancement of the social safety net are imperative.

A shift to an economic structure which does not rely excessively on exports bound for destinations outside the Asian region, in particular to developed countries, has become more of a challenge since the outbreak of the current economic crisis. In Asia, the development of globalization relies significantly on trade, finance, capital flow, information, and the movement of people. To maintain the growth of the region, procurement of resources, energy and food globally is indispensable. While the growth rate of the region itself shows divergence from that of the developed countries, the rates are strongly correlated, indicating a strong link between Asia and the other parts of the world.

In general, I identify two major tasks for Asia, considering the expected state of the world in 2025. They are:

- 1) To establish a growth strategy in Asia, and in particular, to place emphasis on domestic demand in the region and the enhancement of the social safety net to stabilize the society;
- 2) To ensure sustainability, particularly by obtaining security for the environment, energy resources, food, and water as global issues.

Regarding the first point, I would like to discuss the growth strategy, focusing on measures for stimulation of investment and domestic demand in the region. Japanese Prime Minister Aso has stated that infrastructure and logistics connectivity should be enhanced by constructing industrial corridors between South Asia and Southeast Asia, which could trigger a doubling of the economic size of the region by 2020. Japan expressed its willingness to cooperate with other countries and bodies in the region in the creation of a grand design as well as fund raising and technological support. Economic expansion is expected to create employment and increase domestic demand in the Asian region.

There exist large financial challenges to achieving this initiative. Culturally and historically, Asian people tend to value diligence, thriftiness and savings. Although I think the opinion that excessive savings in Asia have caused today's global imbalances as well as the financial and economic crisis is too rough, we still need to establish a framework and to enhance its functions most urgently to utilize Asian domestic savings for regional investments and consumption.

For this purpose, it is necessary to secure economic integration in Asia, particularly the integration of financial and capital markets, and a stable currency market by promoting further regional financial cooperation and by eliminating the impediments to regional capital flows. Enhancement of the social safety net in the Asian region will also improve components of basic infrastructure such as health insurance and pensions and will develop long-term capital markets. These long-term funds should be utilized for the growth of Asia. The ASEAN community should be the core of this regional integration and should be expanded into an East Asia-ASEAN community. Efforts have been made to establish such a vision of the East Asian community and to develop action plans.

Stable monetary and financial systems in the East Asian community are required for the introduction of the Asian Currency Unit, which will enable an Asian common currency to become one of the key currencies, together with the euro and US dollars. A stable and developing “Open Asia” is important for the Western markets.

Turning to the second point, I would like to discuss sustainability. Given the explosive growth in Asia, we face challenges with both regional and global impact, including how to overcome the problems associated with the constraints of natural resources and the environment as well as the prevention of pandemics caused by the extension of global connectivity, etc. To meet these challenges, we first need to improve the efficiency with which we use resources and to reduce the impact on the environment by deploying existing technologies, and in the long term, we need a technological breakthrough. It is important to promote a global framework to develop these technologies, including the protection of intellectual property rights (IPR). The role of finance is also important in spreading these technologies and in supporting developments.

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