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Developing Asia – Dynamic but fractured[1]

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Abstract: In the past seventy–five years, developing Asia has transformed more rapidly than any other region. What is behind this success? Will Asia go on to lead the world, or will its rise encounter obstacles? Asia is politically diverse, with democracies, hybrid governments and numerous authoritarian regimes. Several are unstable. Paths to prosperity have varied, including the East Asian model, China's "socialist market economy", Indian self–reliance, and economic transition in Central Asia. Regional cooperation is chronically weak, due to the youthfulness, dispersion and diversity of Asia's sovereign states. China's rise threatens to fracture the region further. As the region emerges from the Covid–19 crisis, East Asia is well positioned to lead an economic recovery. However, many challenges remain. Political and governance systems are weak. Territorial disputes could escalate into open conflict, including Taiwan. Human capital is poorly developed, and populations are aging. Finally, the region could be polarized between the United States and China.

Key words: *Asian regionalism, Central Asia, China's rise, Developing Asia, East Asia, South Asia.*

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Asia emergente: dinámica pero fracturada

Resumen: En los últimos setenta y cinco años, la región emergente de Asia se ha transformado más rápidamente que cualquier otra región. ¿A qué se debe este éxito? ¿Seguirá Asia liderando el mundo o tendrá que afrontar obstáculos en su crecimiento? Asia es políticamente diversa, con democracias, gobiernos híbridos y numerosos regímenes autoritarios, varios inestables.

Los caminos hacia la prosperidad han cambiado, incluyendo el modelo de Asia Oriental, la "economía de mercado socialista" de China, la autosuficiencia de la India y la transición económica en Asia Central.

Las deficiencias crónicas de la cooperación regional se deben a la juventud, dispersión y diversidad de los estados soberanos asiáticos. La emergencia de China amenaza con fracturar la región aún más. Aunque Asia Oriental está bien preparada para dirigir la recuperación económica a medida que la región se recupera de la crisis del Covid-19, sigue habiendo muchos retos.

Los sistemas políticos y de gobierno son débiles. Las disputas territoriales, incluida la de Taiwán, podrían acabar convirtiéndose en conflictos abiertos. El capital humano está poco desarrollado y la población está envejeciendo. Por último, la región podría polarizarse entre Estados Unidos y China.

Palabras clave: *Regionalismo asiático, Asia Central, auge de China, Asia emergente, Asia oriental, Asia del Sur.*

L'Asie en développement – dynamique mais fracturée

Résumé: Au cours des soixante-quinze dernières années, l'Asie en développement s'est transformée plus rapidement que toute autre région. Qu'est-ce qui se cache derrière ce succès ? L'Asie va-t-elle devenir un leader mondial ou son ascension se heurtera-t-elle à des obstacles ? L'Asie est politiquement diversifiée, avec des démocraties, des gouvernements hybrides et de nombreux régimes autoritaires. Plusieurs d'entre eux sont instables. Les voies de la prospérité ont varié, notamment le modèle de l'Asie de l'Est, l'économie de «marché socialiste» de la Chine, l'autosuffisance de l'Inde et la transition économique en Asie centrale. La coopération régionale est chroniquement faible, en raison de la jeunesse, de la dispersion et de la diversité des États souverains de l'Asie. La montée en puissance de la Chine menace de fracturer davantage la région. Alors que la région sort de la crise du Covid-19, l'Asie orientale est bien placée pour mener une reprise économique. Cependant, de nombreux défis subsistent. Les systèmes politiques et de gouvernance sont faibles. Les différends territoriaux pourraient dégénérer en conflit ouvert, y compris en Taiwan. Le capital humain est peu développé et les populations vieillissent. Enfin, la région pourrait être polarisée entre les États-Unis et la Chine.

Mots clé: *régionalisme asiatique, Asie Centrale, ascension de la Chine, Asie en développement, Asie de l'Est, Asie du Sud.*

I. Introduction

Seventy–five years ago, developing Asia[3] was an economic backwater, war–ravaged and poor. Its prospects looked so bleak that Myrdal's ground–breaking study *Asian Drama* concluded that much of the region would stagnate economically, remaining impoverished and overpopulated (1968). How wrong Myrdal turned out to be. Little could he have imagined that Asia would become the world's most dynamic region.

When the United Nations was established in 1945, Asia was on the brink of a massive political transformation. China, the Korean peninsula and Indo–China were in turmoil, pulled by communist and anti–communist forces. Burma, Indonesia and South Asia were moving rapidly toward a post–colonial independence for which they were ill–prepared. And Japan, the loser of the war in the Pacific, was dealing with American occupation, constitutional reform and impending war reparations.

In 1960, developing Asia had a population of 1.5 billion, GDP of $472 billion, and GDP per capita of $330, with 68.1 percent of the region's population living in poverty. Its economies were agrarian–based, with little industry and limited services. As recently as 1970, developing Asia's education and health systems were poorly developed, with primary school enrolments of 72.3 percent and tertiary enrolments of only 2.4 percent (Asian Development Bank, 2020, p. 486–523).

The subsequent transformation has been more rapid and comprehensive than in any other region. By 2018, developing Asia's population had grown to 4.1 billion, its GDP had soared to a breath–taking $19.9 trillion, with GDP per capita of nearly $5,000, and poverty had been slashed to only 6.9 percent. Primary school enrolments stood at 93.3 percent, and tertiary enrolments at 34.3 percent (Asian Development Bank, 2020, p. 486–523), with several of the region's countries exporting high–standard education and health services.

In 1945, there were few indications of the remarkable development story that would unfold in Asia. What are the factors behind this success? How has Asia managed to transform itself in such a brief period of time? Looking ahead, is Asia set to lead the world, as pundits Khanna (2019) and Mahbubani (2020) suggest? Or are sceptics such as Magnus (2018) and West (2018) right to be concerned that Asia's development path faces major obstacles?

[3] For this article, "developing Asia" is defined as including all countries that were developing at some point during the past 75 years, regardless of their current status. Thus, only Australia, Japan and New Zealand are excluded.

2. The political backdrop: Diverse regimes

The literature on Asia's success tends to focus on the region's "miraculous" economic performance, paying less attention to the fundamental political transformations that provided the backdrop for market reforms. Japan's constitutional reform and the United States' determination to make Japan a key geopolitical and economic ally in the region provided the cornerstone. In Japan, South Korea and Taiwan, the presence of occupation forces helped to override the interests of local elites and laid the foundation for political and economic reforms.

Indonesia gained independence from its Dutch colonisers in 1945, but would endure over three decades of authoritarian rule, under presidents Sukarno and Suharto, before embarking on a path of reform and gradual democratization in 1998. India, Pakistan and the future Bangladesh gained independence from the British Raj in 1947. The Chinese Communist Party (CCP) led by Mao Zedong emerged victorious from civil war with Chiang Kai–shek's nationalists and established the People's Republic in 1949.

In Indo–China, the establishment of stable nation states would take longer. A unified Vietnam emerged in 1975, after a lengthy war with the United States, while modern Cambodia went through both genocide and Vietnamese occupation before being established in its present form in 1991. Following a coup in 1962, half a century of military rule drove Burma, which was renamed Myanmar in 1989, deep into poverty. The military opened the political system to limited civilian participation in 2011 only to take control again in early 2021.

The Central Asian soviet republics (CARs), Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, and the Soviet satellite state Mongolia had to wait for the collapse of the Soviet Union in 1991 for political change. Even then, authoritarian leaders continued to rule in all the CARs except the Kyrgyz Republic, which has fluctuated between elections and popular uprisings. In contrast, Mongolia, in dire economic straits once Soviet subsidies were withdrawn, implemented comprehensive reforms and currently has a functioning multi–party system.

As a result of these transformations, Asia's political systems are currently the most diverse of all the world's regions. The Economist Intelligence Unit's (EIU) democracy index helps us to understand the region's political landscape (2021). It ranks countries on a scale of 0–10, grouping them into four categories: authoritarian, hybrid regime, fraught democracy and full democracy. The index takes into consideration electoral processes and pluralism; the functioning of government; political participation;

political culture; and civil liberties. The classification of Asia's developing countries is shown in Table 1.

TABLE 1: **Developing Asian Countries' Democracy Rating on a Scale of 0–10 (2020)**

Score	Country
	Full democracies
8–8.99	South Korea, Taiwan
	Flawed democracies
7–7.99	Malaysia, Timor–Leste
6–6.99	India, Indonesia, Mongolia, Papua New Guinea, Philippines, Singapore, Sri Lanka, Thailand
	Hybrid regimes
5–5.99	Bangladesh, Bhutan, Fiji, Hong Kong, Nepal
4–4.99	Kyrgyz Republic, Pakistan
	Authoritarian regimes
3–3.99	Cambodia, Kazakhstan, Myanmar
2–2.99	Afghanistan, China, Uzbekistan, Vietnam
0–1.99	Laos, North Korea, Tajikistan, Turkmenistan

Source: The Economist Intelligence Unit, 2021.

On the one hand, Asia is home to the world's most populous democracy, India, and numerous recently emerged democracies. These include South Korea and Taiwan, which are considered full democracies, and countries as different as Malaysia, Mongolia, Papua New Guinea (PNG), the Philippines, Singapore, Sri Lanka and Timor–Leste.

At the same time Asia is home to the world's most populous authoritarian regime, China, which increasingly strives to demonstrate the superiority of its own political and economic model over democratic systems of governance. The authoritarian end of the spectrum includes Laos, North Korea and Vietnam, which all have one–party systems to varying degrees aligned with China, and Cambodia, which while having multiple parties in name has had the same prime minister since 1985. It also includes four of the CARs, which have maintained many aspects of their Soviet–era authoritarianism.

In addition, several countries are in the hybrid category, including Bangladesh, Nepal and Pakistan. Significantly, a few are on the cusp of further change. Following the recent military power grab, Myanmar remains unstable, Thailand's military–linked regime and monarchy face continuing public unrest, and Afghanistan remains fragile and volatile.

3. Economic development: Divergent paths to prosperity

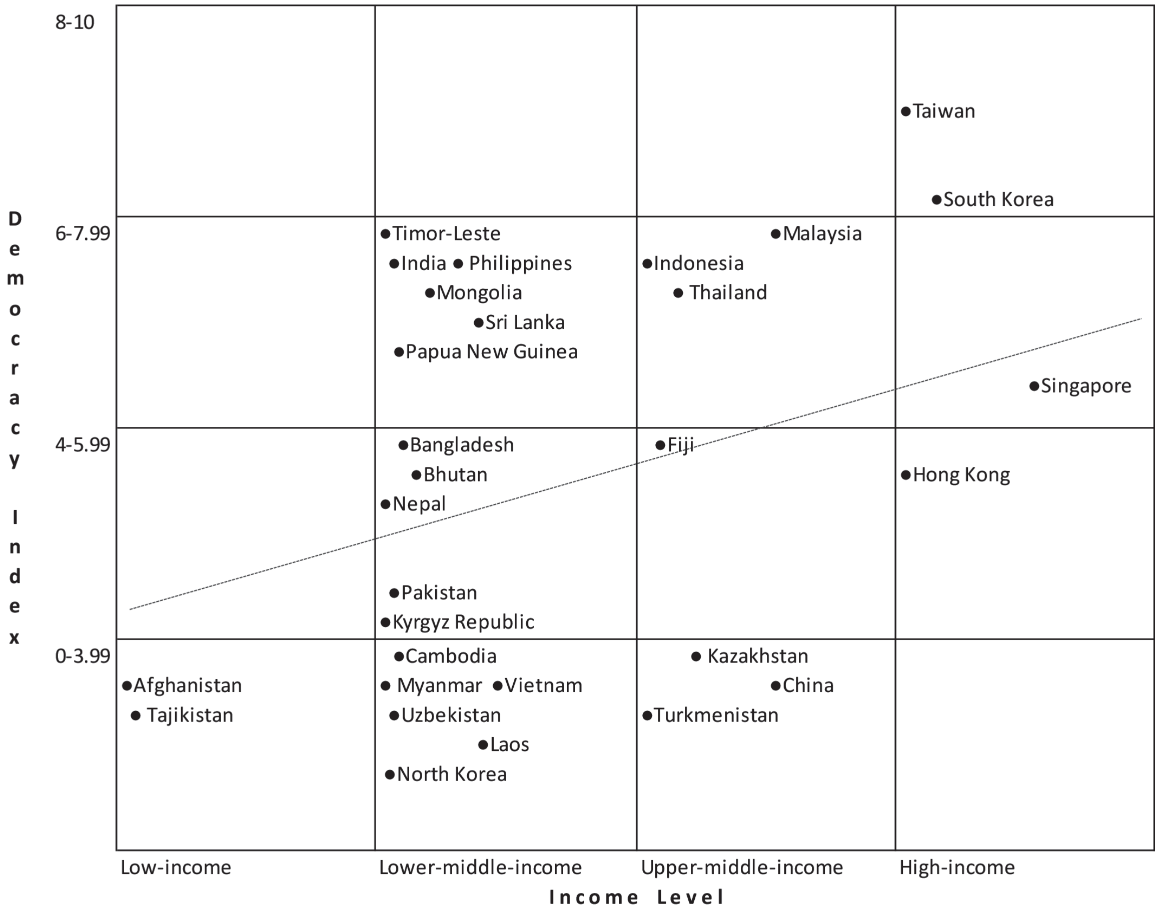
The region's economic development has been no less diverse. In 1945, Australia, Japan and New Zealand were Asia's only industrialized economies, while most other countries in the region were low–income and in various degrees of poverty.

Seventy–five years later, Asia is home to four new high–income economies (Hong Kong, Singapore, South Korea and Taiwan), while China, the leading Southeast Asian economies and the hydrocarbon–rich Kazakhstan and Turkmenistan are classified as upper–middle–income countries (UMICs).

South Asia, the other Southeast and Central Asian countries and North Korea are considered lower–middle–income countries (LMICs). However, several (Nepal, North Korea, the Kyrgyz Republic and Pakistan) are close to the low–income line, and there are still several hundred million poor people in Asia. In 2018, the poverty rate in Bangladesh, India, Laos and PNG exceeded 50 percent (Asian Development Bank, 2020, p. 516–517). Figures for North Korea are not available, but poverty likely exceeds 50 percent. Based on the World Bank's (2020b) country classification system, in 2020 only Tajikistan and the conflict–ravaged Afghanistan were low–income.

The scatter plot graph in Figure 1 shows developing Asia's countries ranked by their position on the EIU democracy index and the World Bank's classification by income level. Asia's high–income countries all rank high on the democracy index. However, at lower levels the linear relationship is weak, challenging the assumption that economic growth and democratization reinforce one another.

Figure 1: Developing Asian Countries by Democracy Index and Income Level, 2020



Low-income = <$1,036, Lower-middle-income = $1,036–$4,045, Upper-middle-income = $4,046–$12,535, High-income = >$12,535
Sources: Directorate-General for Budget, Accounting and Statistics, 2021, World Bank 2020a and 2020b, and Koen & Beom, 2020.

Asia's road to prosperity has been far from uniform. Broadly, the region's economies have followed four different paths.

3.1. The East Asian model

The best known is the "East Asian miracle", which received wide recognition due to a World Bank study of the same name (1993). The roots of the study lay in the observation that in 1965–1990, eight East Asian economies – Japan, the four "tigers" (Hong Kong, Singapore, South Korea and Taiwan), and three newly industrializing countries (Indonesia, Malaysia and Thailand) – significantly outperformed economies in other parts of the world.

In a remarkably short period of time, the East Asian countries were able to achieve strong growth accompanied by declining income inequality. Setting differences aside, the World Bank attributed this performance to a relatively strong human resource base; high levels of investment in human and physical infrastructure; an ability to adopt new technologies; and a preparedness to export. In addition, the World Bank drew attention to the East Asian countries' well–developed bureaucracies and willingness to support the private sector with an appropriate mix of public policies (1993, p. 1–26).

The four tigers have progressed to high–income status and remain widely recognized as economic success stories. Subsequently, other Southeast Asian countries have emulated this export– and investment–driven model, with varying degrees of success. The tiger economies have continued to mature, with South Korea and Taiwan developing strong manufacturing sectors and Hong Kong and Singapore focusing on services, mainly in transport, communication and finance. Singapore has also become a significant provider of health and education services. At the same time, the tigers are encountering "advanced economy" problems, in particular population aging and the related labor market and social protection challenges.

By 2010, most countries in the region had successfully transitioned from low–income to LMIC or UMIC status. However, the transition from UMIC to high–income status has proved more elusive. Many countries that benefitted from low–cost labor encountered difficulty competing in areas that require higher technical knowledge and skills. As living standards and wages rose, education and skill levels were left behind, reducing companies' competitive edge. Indonesia, Malaysia and Thailand, despite early promise, are often cited as being caught in the "middle–income trap" (Lee & Narjoko, 2015).

3.2. The socialist market economy

China and Vietnam have adopted a different but economically equally successfully state–led market model, in China referred to as the "socialist market economy" and in Vietnam as *doi moi* ("restoration").

Under Mao Zedong, China went through three decades of mainly repressive economic policies, including failed reforms during the Great Leap Forward and a decade of turmoil during the Cultural Revolution. Following Mao's death, in late 1978 Deng Xiaoping initiated an era of "reform and opening up" that would usher in dramatic changes and four decades of extraordinary economic growth.

Deng's initial reforms focused on agriculture, industry, national defence and science and technology. China benefitted from the experience of the four tigers, and adopted a carefully phased approach often referred to as "crossing the river by feeling the stones" (Hofman, 2018). New concepts were initially piloted in a few selected localities. Once successful, or once sufficient experience had been gained, the innovations were adopted in other parts of the country.

Deng's reforms included opening markets in rural areas to allow farmers to benefit from their own work; introducing a "dual–track" system, which allowed state–owned industries to sell products exceeding their planning targets, paving the way for a market track; establishing special economic zones in key coastal cities, to boost foreign direct investment (FDI) and exports; and initial liberalization of the financial sector (Wu, 2015, p. 64–68 and 111–114).

The violent suppression of demonstrations in Tiananmen Square in 1989 slowed reforms, which picked up again in the 1990s. Party leader Jiang Zemin and premier Zhu Rongji revamped the tax system, trimmed the state sector, streamlined and privatized many state–owned enterprises (SOEs), introduced private housing, and promoted private enterprise. The reforms culminated in China's accession to the World Trade Organization in 2001, a milestone in China's growing integration into the global economy.

Under Hu Jintao, general secretary of the CCP in 2002–2012, reforms stagnated and economic growth started to slow, trends that have continued since 2012 under Xi Jinping. In contrast with the reformist 1990s, Xi has shown a strong preference for party and state control and SOEs, reining in successful enterprises such as the retail giant Alibaba and Ant Group, a fintech innovator, and requiring the direct representation of the CCP on the boards of private corporations.

Critics consider the constraints being placed on the private sector a risk to China's long–term economic success (Magnus, 2018, p. 192–206). Other significant problems include rapid population aging and low education and skill levels, in particular in the poorer provinces (Magnus, 2018, p. 112–154). A recent study (Rozelle & Hell, 2020) highlights the deep divide between rural and urban China, and the fact that China's human capital is at a lower level than most other middle–income countries. By 2050, one third of China's population is expected to be over 60, making China the world's oldest country (Asian Development Bank, 2014).

Vietnam has followed a similar path, implementing market reforms while strictly maintaining its one–party system. Following the country's unification, by the 1980s it was clear that its Soviet–style development model was not working, which, together with the dramatic decline in Soviet assistance, forced the country's leaders to reform and open the economy.

Promulgated in 1986, *doi moi* included liberalizing domestic markets, encouraging FDI, strengthening the private sector, and reducing subsidies to SOEs (Tuan, 2009). The policies brought quick results, transforming Vietnam into a major rice exporter, building up its manufacturing sector, raising incomes, and, with labor costs significantly lower than several of its neighbors, turning it into one of the region's most competitive economies.

3.3. Indian self–reliance

India started from a much lower baseline than East Asia, with widespread poverty, enormous ethnic and economic diversity, and a deeply–entrenched caste system that constrained social and economic mobility. For the first four decades of its independence, India's state–driven and inward–looking policies drew significantly from the centrally planned model of the Soviet Union, and the economy grew at a modest average of 3.5 percent (West, 2018, p. 41–45). While East Asia was building its capacity to export, India focused on import–substitution.

A financial crisis in the early 1990s triggered a period of reform under Prime Minister Narasimha Rao and finance minister Manmohan Singh, who deregulated markets, reduced import tariffs and encouraged FDI. During the following decades economic growth nearly doubled to 6.5 percent, household incomes tripled, and India's information technology sector expanded rapidly. In the 2014 national elections, the deeply entrenched National Congress Party was ousted by the Bharatiya Janata Party, whose leader Narendra Modi ushered in a new wave of business–friendly reforms, keeping economic growth in the 6–7 percent range (West, 2018, p. 41–45).

Despite these developments, India continues to face enormous challenges. It remains a predominantly agrarian society, with manufacturing accounting for only 15 percent of GDP, and weak education and healthcare systems. Recent rapid growth in industry and technology has left rural areas behind, exacerbating inequalities. Social and ethnic discrimination remain rife. India has significant further potential that needs to be unleashed.

3.4. Economic transition

In the CARs, the breakdown of the Soviet Union in 1991 triggered a twofold transition, the political shift from being Soviet republics to sovereign statehood and the economic transition to a market–driven economy. For Mongolia the transition from being a Soviet satellite was no less traumatic, as the severed umbilical cord entailed revamping both the political system and the economy.

Since then, the CARs have taken different paths. Kazakhstan implemented broad market reforms and was granted "market economy" status by the EU and the US in the early 2000s. The Kyrgyz Republic has also reformed its economy, while Tajikistan, Turkmenistan and Uzbekistan have implemented only modest reforms. Kazakhstan and Turkmenistan, with abundant hydrocarbon resources, are considered UMICs, while the other CARs have remained predominantly agrarian, with the Kyrgyz Republic close to the low–income line and Tajikistan below it. In contrast, Mongolia, with strong support from Japan and the United States, underwent a painful political and economic transition and has emerged relatively robust, although still an LMIC.

4. Regionalism: A modest patchwork

Compared with Asia's strong economic performance, its regional cooperation and integration has been weak. Partly this can be attributed to the relative youthfulness of most Asian countries as sovereign states, and partly to their geographical dispersion and wide political, economic and social differences. As a result, regional cooperation is patchwork and takes place mainly within subregional groupings. There are no genuinely pan–Asian organizations.

In 1945, there was little regional cooperation in Asia. Regional institutions evolved gradually, and were at first globally and Western driven. Reconstruction, decolonization and the deep ideological divides of the emerging Cold War between the West and the Soviet bloc provided the backdrop for initial regional cooperation.

The first Asian regional organization was the UN Economic Commission for Asia and the Far East (ECAFE) which was established in Bangkok, Thailand in 1947. ECAFE was one of five regional economic commissions established under the UN, to encourage economic cooperation among its member states. Initially ECAFE focused on research and study, but gradually it expanded into a forum to discuss ways for Asian countries to boost their growth and reduce their economic reliance on Europe and North America (McCawley, 2017, p. 26). Reflecting the broadening of its responsibilities and membership, in 1974 it was renamed the Economic and Social Commission for Asia and the Pacific.

The second regional organization to be established was the Colombo Plan for Cooperative and Economic and Social Development in South and Southeast Asia. The Plan was conceived at a Commonwealth conference in 1950. Starting with seven members (Australia, Canada, Ceylon, India, New Zealand, Pakistan and the UK), it served as a conduit for capital and technical assistance. The Colombo Plan gradually expanded to include the US, Japan, most of Southeast Asia and the Pacific countries. Although not stated explicitly, it was also intended to counterbalance the growing influence of the Soviet Union (Oakman, 2004, p. 61–67). As multilateral financing expanded in the 1970s, the role of the Colombo Plan declined.

Regional cooperation driven by the Asian countries themselves only took off in the 1960s, once reconstruction and decolonization had been largely completed. Following several years of negotiations, in 1967 Indonesia, Malaysia, the Philippines, Singapore and Thailand established the Association of Southeast Asian Nations (ASEAN), to "contribute towards peace, progress and prosperity in the region" (Association of Southeast Asian Nations, 1967). However, ASEAN would have to wait for the political situation to stabilize after the Vietnam war to hold an inaugural summit in 1976 that acknowledged the importance of export–oriented growth and easing barriers to FDI. The following year, the five countries established a preferential trade agreement, which reduced tariffs between members.

At the same time, the Asian countries set about addressing the financial needs of their capital–short economies. In 1966, Japan, the US, other Western donors and the region's developing countries established the Asian Development Bank (ADB), to mobilize capital for the region's needs. ADB started operations in 1968. From initial modest lending for transport and irrigation infrastructure, its lending operations have expanded to encompass all sectors of the economy. ADB is currently the region's leading development financier, with 68 members and annual lending of over $30 billion.

Rapid economic growth throughout the 1980s was accompanied by an expansion of exports and provided the ASEAN countries with scope to deepen their economic interdependence. In 1992, they signed the ASEAN free trade agreement, followed in the late 1990s by an agreement on services and the creation of the ASEAN investment area. Membership expanded to include Brunei, Cambodia, Laos, Myanmar and Vietnam. As ASEAN's significance grew, so did the role of its annual summit meetings. For the past two decades, these have also included meetings of the ASEAN+3 (including China, Japan and South Korea), and with Australia, New Zealand and other non–members.

In 1989, Australian prime minister Bob Hawke initiated a further broadening of cooperation. Twelve Asia–Pacific countries met in Canberra, Australia to establish the Asia–Pacific Economic Cooperation (APEC), an economic and trade forum intended to advance the goal of "supporting sustainable economic growth and prosperity in the Asia–Pacific region" through meetings and dialogue (Asia–Pacific Economic Cooperation). Supported by a modest secretariat, APEC currently includes 21 Pacific rim countries. Its annual summit statements have gained significance as a means of building consensus on major policy issues.

The Asian financial crisis in 1997–1998 led to massive currency devaluations in Indonesia, the Philippines, South Korea and Thailand, and highlighted the region's economic vulnerability. The crisis prompted the region to deepen its economic and financial cooperation. In 2000, the ASEAN+3 countries established the Chiang Mai Initiative (CMI), which strengthened macroeconomic surveillance and built a network of swap agreements between the central banks of the ASEAN countries and the plus 3 countries, to support their currencies in times of crisis.

In 2007, the ASEAN countries signed a Charter, which provided for security cooperation and paved the way for setting up an economic community (Shimizu, 2011). This was followed in 2010 by a merging of the CMI swap agreements under one multilateral reserve pool, increasing its size, and amending its name to the CMI Multilateralization. This has significantly strengthened the region's economic resilience.

Political issues, however, remain a challenge. Myanmar's 2021 military coup is a case in point. Strict adherence to the principle of non–interference in the domestic affairs of its members has prevented ASEAN from agreeing on a joint response to Myanmar's junta (Pongsudhirak).

5. China's rise: A fractured region?

China's rise, in particular since Xi Jinping became party secretary in 2012, has marked another turning point in Asian regionalism. China has become more assertive toward its Asian neighbors, increasing its military capacity, ratcheting up pressure in territorial disputes, and making massive infrastructure investments under the Belt and Road Initiative (BRI). The investments are helping to address the region's infrastructure deficit, but have also raised concerns that China is expanding its regional dominance and raising indebtedness (Hillman, 2020).

On the multilateral front, China has piloted several initiatives. In 2001, it led the establishment of the Shanghai Cooperation Organization, which currently includes India, Pakistan, Russia and four CARs, as a forum for security, trade and cultural issues. More significantly, in 2015 China spearheaded the establishment of the Asian Infrastructure Investment Bank, which is based in Beijing and was intended as an alternative to the World Bank and ADB. The bank has already managed to attract over 100 members, and is led by China, which holds 26.5 percent of votes and has an effective veto on major decisions. Japan and the US have not joined.

In 2017, the Trump administration withdrew the United States from the Trans–Pacific Partnership (TPP), a trade agreement including 12 Asian and Pacific rim countries and excluding China. This provided China with an opportunity to advance rapidly with an alternative initiative, which culminated in the signature in 2020 of the Regional Comprehensive Economic Partnership, encompassing the ASEAN+3 countries, Australia and New Zealand. In the meantime, Japan has led eleven Pacific rim countries in negotiations for a revised TPP (renamed the Comprehensive and Progressive Agreement for TPP), which the UK has also expressed interest in joining. Currently, the future of the CPTPP is unclear, but it seems unlikely that either China or the US would join.

In the region and beyond, China's assertiveness is causing unease. In a recent survey of opinion–makers, policy–makers, and thought–leaders in the ASEAN countries, 62.4 percent considered China's militarization and assertive action in the South–China Sea the top concern for the region, and 55.2 percent were worried about China's growing economic influence. Trust in China has declined significantly. If forced to choose for ASEAN to align itself with either the US or China, this year 61.5 percent of respondents would opt for the US, up from 53.6 percent last year (Institute of Southeast Asian Studies, 2021, p. 15–38.)

China's increasing assertiveness has led to a backlash from the US and other Western countries that threatens to polarize the region. In response to the BRI, which spans countries in East, South and Central Asia as well as other continents, Western countries, Japan and India have expanded their cooperation. In 2020, the Quadrilateral Security Dialogue, which includes Australia, India, Japan and the US, expanded its naval exercises into the Indian ocean. In March 2021, concluding the first "Quad" summit, the leaders defined their vision for the Indo–Pacific as "a region that is free, open, inclusive, healthy, anchored in democratic values, and unrestrained by coercion" (Quadrilateral Security Dialogue, 2021).

The intelligence agencies of the "Five eyes" (Australia, Canada, New Zealand, the UK and the US), who worked closely together to contain the Soviet Union during the Cold War, have recently stepped up their cooperation in the region, with Japan considering joining the group (Akita, 2020). The UK recently also floated the idea of establishing a D–10 group of the leading democracies, which would include the G–7 countries (Canada, France, Germany, Italy, Japan, the UK and the US) as well as Australia, India and South Korea, as a forum for discussing strategic issues (Niblett, 2020). The existence of such a grouping would highlight the fault lines between Asia's democratic and authoritarian regimes.

6. Prospects and challenges

Assessments of Asia's prospects and challenges vary greatly. Mahbubani (2018) reminds us that China and India dominated the world economy for nearly two millennia before the rise of the West in the 1800s, and has long predicted that Asia would regain its "natural" leadership of world affairs. He sees East Asia's efficient handling of the Covid–19 crisis as reaffirming this trend (2020). Sceptics, again, highlight the numerous political, economic and social challenges facing the region (Magnus, 2018, Rozelle & Hell, 2020, West, 2018).

As the world emerges from the Covid–19 crisis, Asia has several competitive advantages over other regions. China and the East Asian tiger economies are well managed and stand poised to lead a regional economic recovery. In the wake of the Asian Financial Crisis, the ASEAN+3 countries significantly strengthened the region's economic resilience. Following the global financial crisis in 2008–2009, China demonstrated its ability to facilitate a regional economic recovery, and its efficient handling of Covid–19 indicates that it is now ready to do the same.

Several decades of strong economic performance have allowed the region to invest in physical and social infrastructure that will facilitate continued strong growth performance. Many countries, particularly in East and Southeast Asia, now have well–developed telecommunications systems and transport infrastructure, including highways, ports, airports and high–speed railways. Education and healthcare systems have also been significantly strengthened.

However, Asia's social and physical infrastructure is far from complete. The region also faces major challenges that will need to be carefully managed for its economic and social development to remain sustainable.

First, ***weak political and governance systems*** in several countries pose a threat to regional stability. Myanmar's military coup in February 2021 exemplifies the risk. Thailand's administration also has strong military links and faces persistent protests from youth groups. Nearly seven decades after the Korean War, which ended in an armistice rather than a peace treaty, the peninsula remains divided. North Korea's nuclear weapons program threatens security and stability in Northeast Asia and beyond. Persistent authoritarianism and related underlying social tensions in the former Soviet republics of Central Asia pose a long–term challenge to political stability, and Afghanistan remains volatile.

Second, ***unresolved territorial disputes*** could easily escalate into open conflicts. These include conflicting territorial claims between India and Pakistan in Kashmir; unresolved Chinese and Indian disputes along their Himalayan border; overlapping claims by China and several Southeast Asian countries to shoals and reefs in the South China Sea that have recently been fortified and in some cases militarized by China; and Japanese and Chinese claims to the Senkaku (known in China as the Diaoyu) islands. Most significantly, under Xi Jinping, China has stepped up its demands for the "reunification" of Taiwan with the mainland.

Third, as Asian economies move up the income ladder, they are increasingly confronting ***shortcomings in their human resources and technological capabilities***. To remain competitive and continue to participate effectively in global value chains, Asian economies need to address the middle–income trap. This will require significant investment in basic, technical and higher education, as well as lifelong learning. The region needs to strengthen its capacity for research and development, including a major shift in corporate culture and economies' ability to innovate (Zhuang et al., 2015).

Fourth, several Asian countries have ***aging populations*** and face an escalating demographic challenge. Japan has the world's oldest population, but China, Singapore, South Korea, Taiwan and Thailand are catching up quickly. As a result, their labor forces are aging and becoming less mobile, labor productivity is threatened, and their pension and healthcare systems are under pressure. For example, China's labor force has been in decline since 2011, and its pension and healthcare systems are struggling to meet the needs of its rapidly aging population (Asian Development Bank, 2014).

Finally, ***regional institutions remain chronically weak***. Advanced integration ensures that Europe and North America are politically stable, economically competitive and have institutions that help countries to work together to address common challenges. In contrast, despite recent progress, Asian institutions are weak and limited in mandate and geographical coverage. Due to the region's diversity, regional institutions tend to be split into subregions. Some, in particular APEC and the "Quad", are linked with the Pacific rim and the West, while others such as the Shanghai Cooperation Organization mainly comprise authoritarian regimes.

This division limits the ability of regional organizations to address common problems. Looking ahead, it will be important for Asia to strengthen its regional cooperation and capacity to tackle future crises, including natural disasters, financial crises and further pandemics. Asia will also need to build up its social safety nets to deal with future shocks. The principal risk is that cooperation, reflecting the current tightening competition between the world's two leading powers, will polarize around initiatives led by either the United States or China.

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