International Strategic Analysis
Understanding Tomorrow's World, Today

ISA Region Report
East Asia and Pacific

February 2024

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Current Events and Recent Changes Overview

East Asia and Pacific: Recent Political Events and Changes

Key Political Events and Changes:

• During his New Year's Eve address, Chinese President Xi Jinping once again claimed that Taiwan would definitely be reunited with China. This message came just weeks before Taiwan is set to hold its next presidential election.

• Meanwhile, China carried out a series of large-scale military exercises in and around Taiwan, attempting to influence the outcome of this upcoming election.

• Dong Jun was appointed as China's new defense minister, replacing Li Shangfu, who was last seen in public back in August.

• Chinese President Xi Jinping travelled to Vietnam for a state visit. While the two countries have Communist-led governments, they are increasingly at odds over a number of issues, notably their maritime borders in the South China Sea. The United States and China have been competing for closer ties with Vietnam.

• Polls in Indonesia showed that Defense Minister Prabowo Subianto remained the clear favorite to win February 2024's presidential election in that country.

• North Korea tested an intercontinental ballistic missile that is believed to have the range to strike anywhere in the United States.

• North Korea indicated that it intends to launch a number of spy satellites in 2024.

• The Australian government announced that it would not hold a referendum on that country becoming a republic at any time in the near-future.

East Asia and Pacific: Recent Economic Events and Changes

Key Economic Events and Changes:

• China's economy stands at a crossroads as it prepares to enter 2024. Economic growth was disappointing in 2023, as a stronger recovery from the Covid-19 pandemic was expected. Now, with growth forecast to slow to a little more than 4% in 2024, Beijing may need to enact a series of economic stimulus measures, particularly as China's real estate sector faces a massive crisis.

• China's inflation rate fell to just -0.5% year-on-year in November 2023 as the threat of persistent deflation in China continued to worsen. This was due in large part to much weaker consumer spending than had been expected, as well as a sharp decline in pork prices in recent months. In response, the Chinese government vowed to introduce new programs designed to boost consumer spending.

• Vietnam's economy expanded by 6.7% on a year-on-year basis in the fourth quarter of 2023, as it continued to expand at an accelerating pace. Nevertheless, this was a slightly lower rate of growth than had been forecast. Vietnam's service and construction sectors were the drivers of much of this growth in late 2023. For the entire year in 2023, Vietnam's economy expanded by 5.1%.

• Economic growth in Singapore accelerated in the fourth quarter of 2023, rising to 2.8% on a year-on-year basis. Both the manufacturing and the service sectors expanded at a solid pace in the fourth quarter. At the same time, the construction sector recorded strong growth. For the entire year in 2023, Singapore's economy expanded by 1.2%, down from the 3.6% growth recorded in 2022.

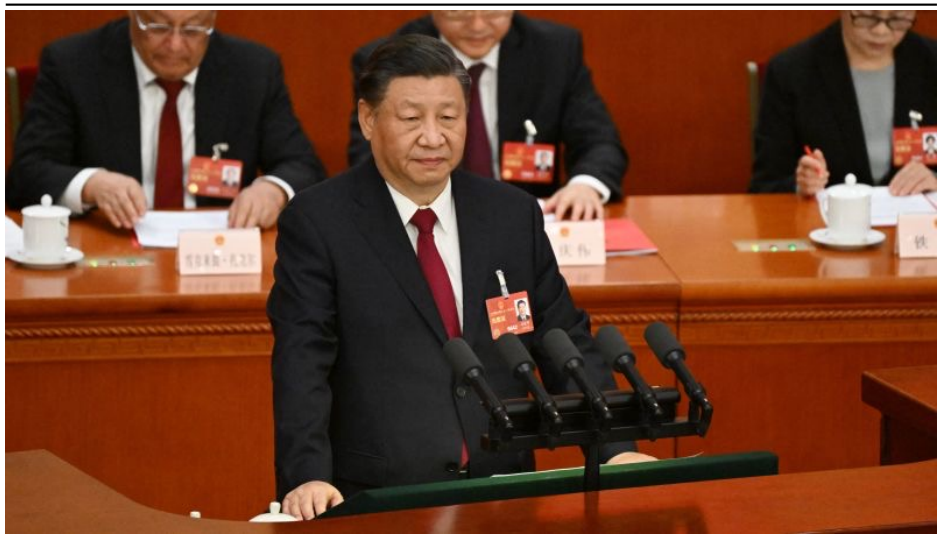
• The economy of New Zealand contracted by 0.6% on a year-on-year basis in the third quarter of 2023, a much worse result than had been expected. This was due to a very poor performance by the country's manufacturing sector. Weaker export demand also weighed down New Zealand's economy.

East Asia and Pacific: Other Recent Events and Changes

Other Key Events and Changes:

• A powerful magnitude 7.6 earthquake struck central Japan, causing extensive damage and claiming at least 161 lives. Some of the impacted towns and villages were in a mountainous area of central Japan, making it difficult for rescue workers to reach these areas. Meanwhile, a coastguard plane that was being used to bring supplies to the impacted area collided with a passenger jet in Tokyo, killing five people.

• A magnitude 6.2 earthquake struck a mountainous region of northwestern China, resulting in at least 127 people losing their lives. The fact that this earthquake occurred at a shallow depth was the reason why it caused so much damage. Rescue efforts were hampered by freezing temperatures in the region. This was the deadliest earthquake to strike China since 2014.



Regional Political Outlook

New Zealand: Most Recent Elections

Parliamentary Elections – October 2023

Summary of the Last Elections:

2023's parliamentary elections resulted in a major shift in political power in New Zealand.

• The Labour Party's strong grip on power had eroded in the months before these elections, which resulted in a massive defeat for that party.

The National Party rolled to victory in 2023's parliamentary elections, winning 48 of the 122 seats in the parliament.

• Meanwhile, two other right-wing political parties won representation in the parliament, allowing for a right-wing coalition government to be formed in the wake of these elections.

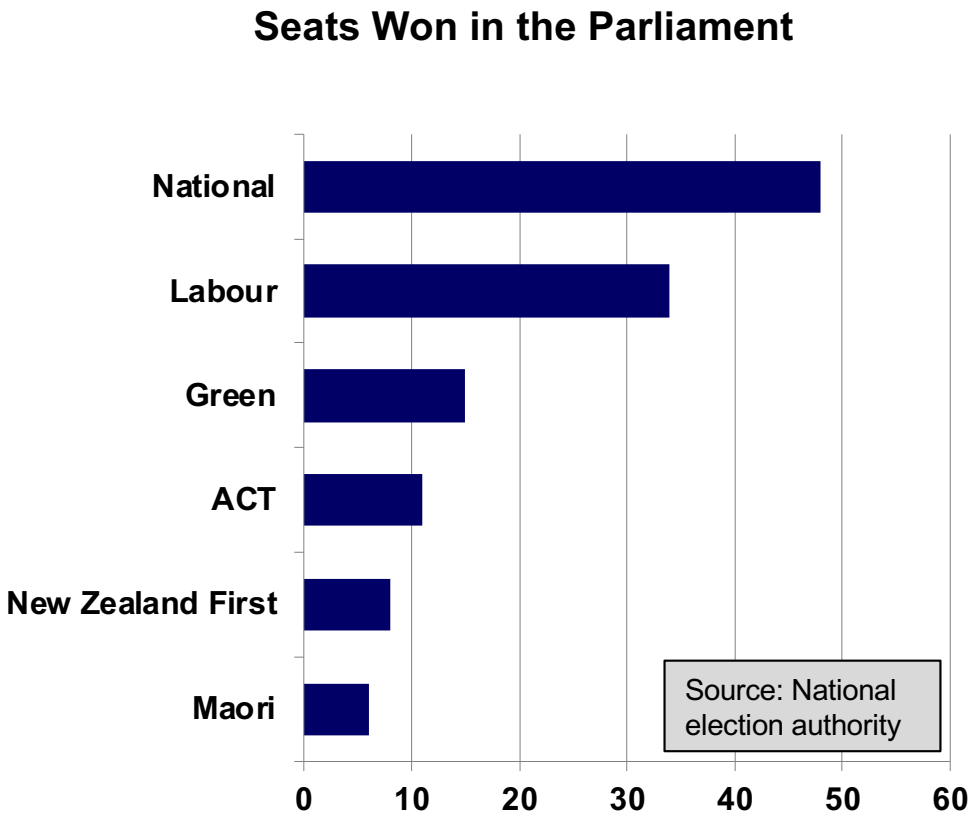
• The ACT New Zealand party won eleven seats in the parliament, while the New Zealand First party won eight seats.

The Labour Party suffered major losses in 2023's parliamentary elections.

• The number of seats held by the Labour Party fell from 65 to just 34.

• In contrast, the Greens increased their number of seats in the parliament from ten to 5.

Results:



Thailand: Most Recent Elections

Parliamentary Elections – May 2023

Summary of the Last Elections:

Pro-democracy parties won a comprehensive victory in May 2023's parliamentary elections in Thailand, despite facing many obstacles put in place by the country's military-led government.

- In fact, political parties linked to the armed forces suffered a humiliating defeat in these elections.

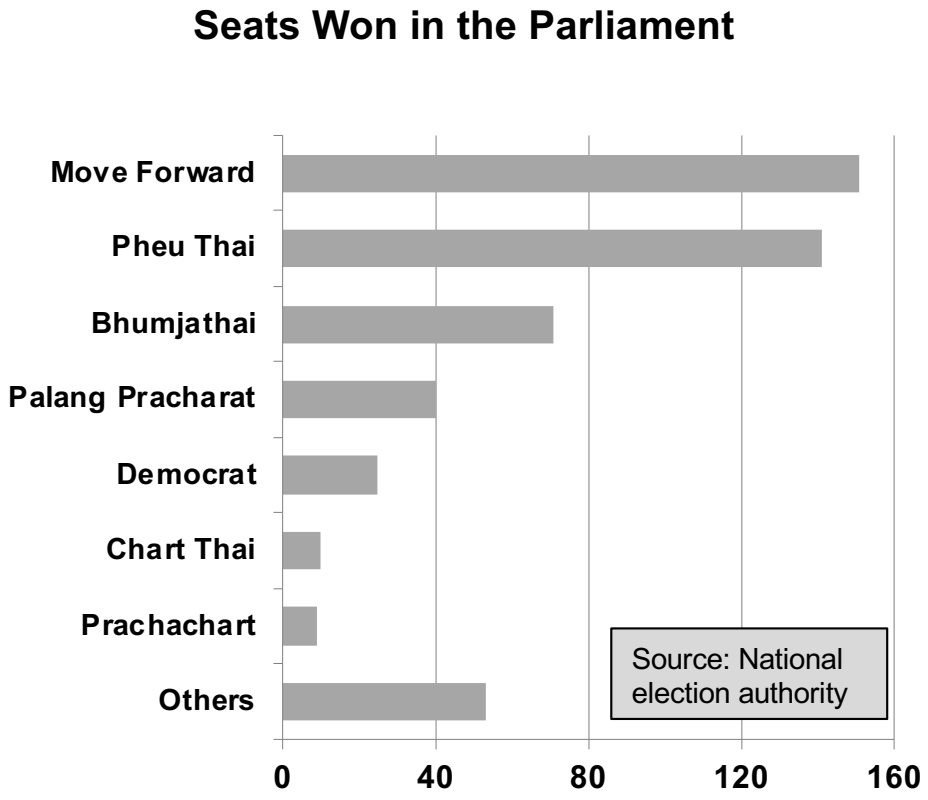
The pro-democracy Move Forward Party won a surprising victory in these elections.

- That party won 151 of the 500 seats in the parliament, many more than they had expected to win in these elections.
- Meanwhile, the pro-democracy Pheu Thai party finished in second place, winning 141 of the seats in the parliament.

Despite these successes, a coalition of pro-democracy political parties faced strong opposition to forming a new government.

- This was due, in part, to the armed forces' control of the Senate, which is not elected by popular vote.

Results:



Malaysia: Most Recent Elections

Parliamentary Elections – November 2022

Summary of the Last Elections:

Malaysia's parliamentary elections in November 2022 took place in the wake of the Covid-19 pandemic and amid a worsening global economic slowdown.

• The election was also noted as the showdown between Prime Minister Ismail Sabri Yaakob, former Prime Minister Mahathir Mohamed and long-time opposition leader Anwar Ibrahim.

The results of 2022's elections resulted in Malaysia's first-ever hung parliament.

• Anwar Ibrahim's Pakatan Harapan won the largest share of the vote and won 82 of the 222 seats in the parliament.

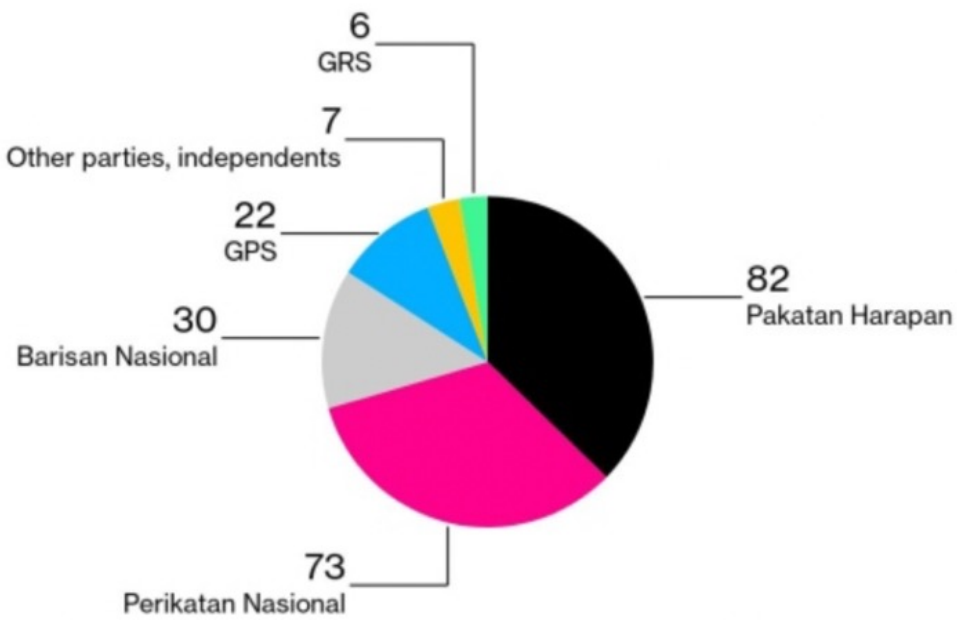
• This gave Mr. Anwar the opportunity to form a new government in the wake of these elections.

Prime Minister Ismail's United Malays National Organization (UMNO) suffered a major defeat in these elections.

• The UMNO won only thirty seats in the parliament, much less than it had expected.

• Meanwhile, former Prime Minister Mahathir Mohamed's new Pejuang party failed to make an impressive having failed to secure any seats in the parliament.

Seats Won in the Parliament



Source: National election authority

Australia: Most Recent Elections

Parliamentary Elections – May 2022

Summary of the Last Elections:

Prime Minister Scott Morrison called for federal elections to be held in May 2022.

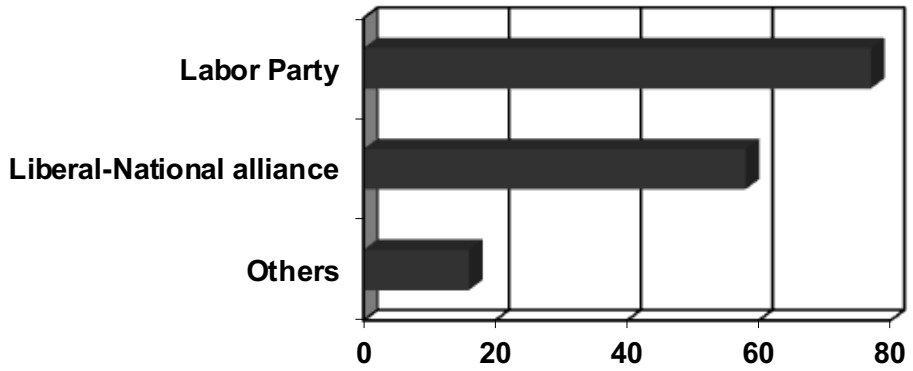
- Polls ahead of the election suggested that the opposition Labor Party would win a clear victory.
- Prime Minister Morrison and his Liberal-National coalition has lost some support due to its handling of the Covid-19 pandemic and the economic downturn during and after the pandemic.

In the end, the Labor Party, under the leadership of Anthony Albanese, won a clear victory in 2022's federal elections.

- The Labor Party was able to win a narrow majority in the House of Representatives, winning 77 of the 151 seats in that body.
- At the same time, the Greens and independent candidates also performed very will in 2022's federal elections.

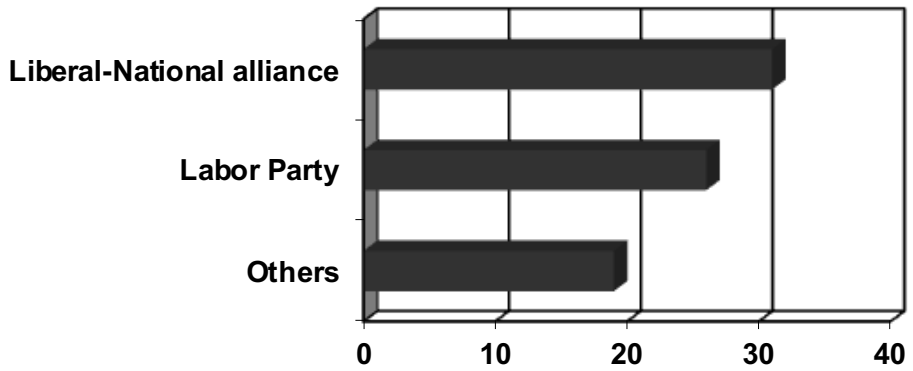
Results:

Seats Won in the House of Representatives



Source: National election authority

Seats Won in the Senate



Philippines: Most Recent Elections

Presidential Elections – May 2022

Summary of the Last Elections:

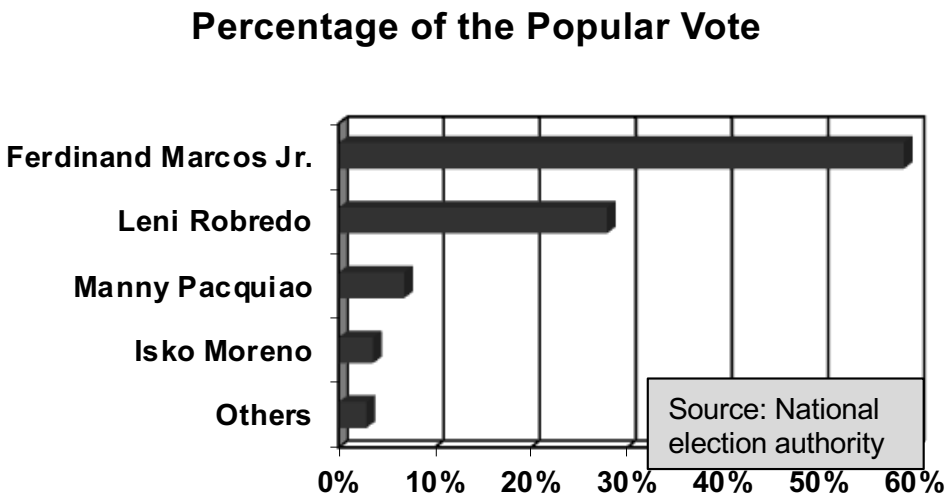
Ferdinand "Bongbong" Marcos Jr., the son of the country's former dictator Ferdinand Marcos, won a clear victory in May 2022's presidential election

- Marcos won 58.8% of the vote in the first round of voting, enabling him to avoid having to contest a second round of voting.
- His margin of victory was the largest in any presidential election in the Philippines since 1969.
- His vice-presidential running mate was Sara Duterte, the daughter of his predecessor, President Rodrigo Duterte.

Vice President Leni Robredo finished a distant second in this presidential election, winning 27.9% of the vote.

- The boxer Manny Pacquiao finished in third place with just 6.8% of the vote.
- No candidate was able to offset the popularity of Ferdinand Marcos Jr. in this election.

Results:



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South Korea: Most Recent Elections

Presidential Election – March 2022

Summary of the Last Elections:

2022's presidential election was noted for the fact that the campaign was one of the most contentious in recent history.

• Furthermore, the leading candidates in this election were both committed to enacting major political and economic reforms.

2022's presidential election was one of the closest in the history of South Korea.

• The conservative candidate, Yoon Suk-yeol, defeated his left-wing rival, Lee Jae-myung, by a margin of just 48.6% to 47.8%, or just 247,000 votes.

• This was a smaller margin of victory for Mr. Yoon than pre-election polls had suggested.

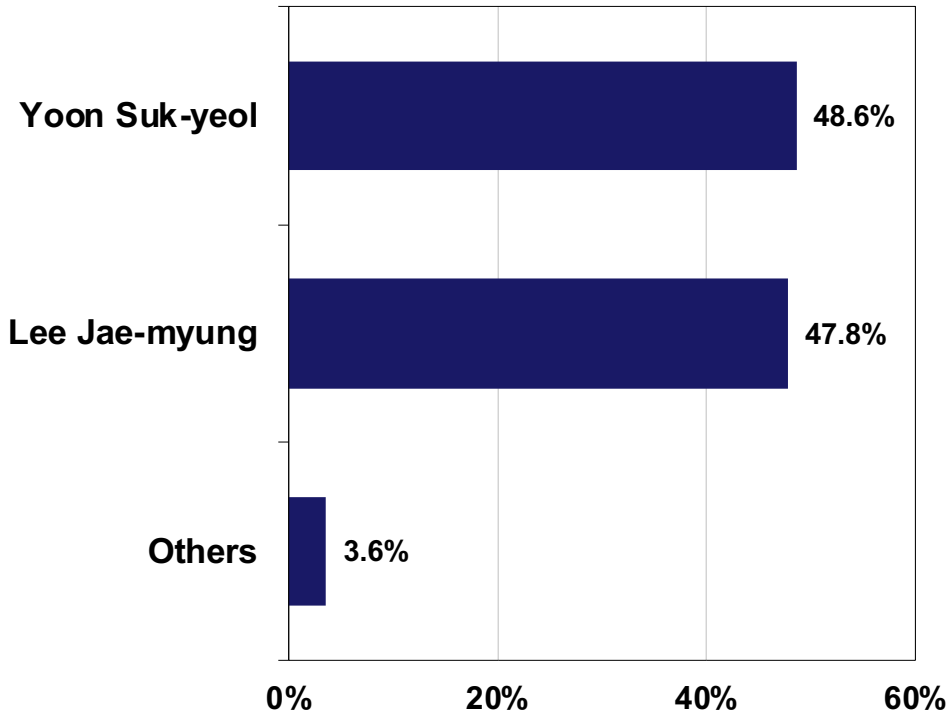
Mr. Yoon was considered the outsider in this election as he only entered political one year before the election.

• During the election campaign, Mr. Yoon made a series of verbal gaffes that led to many voters questioning his ability to lead South Korea.

Results:

South Korean Presidential Election

Percentage of the Popular Vote



Source: National election authority

Southeast Asia: The 21st Century's Leading Flashpoint

Introduction - With a population of 660 million and one of the world's most strategically-important locations, Southeast Asia is one of the most pivotal regions in shaping the global economy and the international security environment in the 21st century. Interestingly, this is a region that has, for nearly all of its history, never been dominated by a single power for a prolonged-period of time. Of course, India and China have had a great deal of influence over the region at various points in history, as did Japan for a few years during the Second World War. However, the region is today comprised of ten very distinct countries, many of which have their own deep internal divisions. Now, Southeast Asia is emerging as one of the leading centers of growth for the global economy and this is resulting in an increased focus on this region by traditional outside powers such as China and India, as well as by newer outside powers such as the United States.

The US in Southeast Asia

In recent years, the United States has played a much greater role in this region after decades of relatively low-level ties between the world's leading power and most of the countries that comprise Southeast Asia. This was due in large part to the fallout from the Vietnam War that saw US aims for the region offset by the spread of communism in Vietnam, Cambodia and Laos. For most Southeast Asian countries, the modern-day US-led trade, investment and maritime security arrangements have provided the environment needed to help the region to develop export-driven industries that drive some of the fastest-growing economies in the world. Furthermore, the United States provides the region with an alternative, and a form of protection, against potential Chinese economic and political domination. This has led to a strengthening of ties between the United States and many of its traditional allies in the region, while helping to promote closer ties with former rivals such as Indonesia, Vietnam and Myanmar. Finally, the US' recent pivot towards Asia is likely to continue as the Pacific region has emerged as the world's most important economic and political region, replacing the North Atlantic in this role.

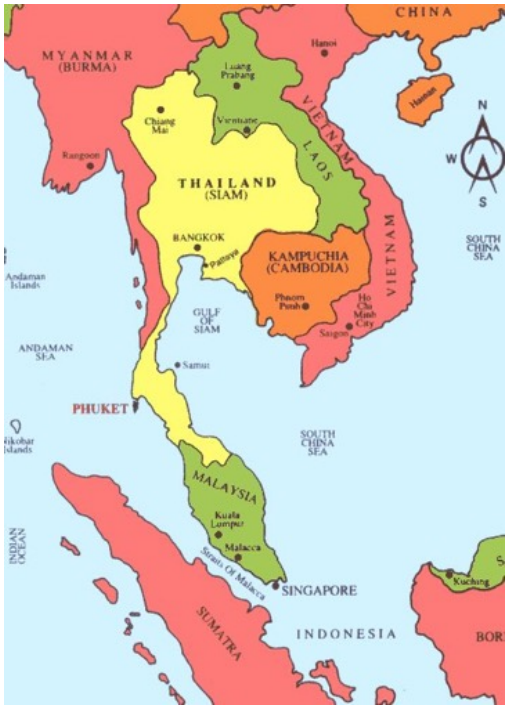
Southeast Asia: The 21st Century's Leading Flashpoint

China's Backyard

For China, Southeast Asia is often viewed as a region that is entirely within China's sphere of influence and many Chinese leaders believe that this entitles their country to play the leading role in this region. However, this assumption has led China to take a hard line towards defending and reinforcing its claims to the vast majority of the South China Sea, a body of water in which five Southeast Asian countries also have maritime claims. This Chinese assertiveness, together with China's rising economic power, has led many Southeast Asian countries to determine that it is not in their best interest to allow China to dominate the region. Thus, many countries in the region are looking to outside powers such as the US, India or Japan to play a greater role in Southeast Asia. This is a key reason why Myanmar has moved quickly to expand its political and security ties with these outside powers at the expense of its once close ties with China. On the other hand, China is finding new potential allies in the region, especially two countries that once had very close ties with the United States. First, Thailand's military-led government has been criticized by the US and others for not restoring that country's democracy, and this has led Bangkok to cultivate closer ties with China. Meanwhile, the Philippines' controversial new President Rodrigo Duterte has called for a major shift in his country's foreign policy, aiming to improve ties with Beijing even if this further damages his country's long-standing ties with the United States.

A New Great Power Front Line?

Southeast Asia appears set to be a key battleground in the struggle for influence between the 21st century's two leading powers, the United States and China. Furthermore, the country with the greatest potential to one day become a third leading global power, India, could also play a major role in Southeast Asia's political and economic future, further enhancing the region's role as the center of the struggle for power and influence between this century's leading powers. In fact, Southeast Asia may find itself playing a role similar to that of Europe during the Cold War. That is, Southeast Asia could find itself as a key center of the global economy, but one that it squeezed between two great powers. For Europe, this led to greater economic and political integration as that region's leading powers found themselves powerless on their own when confronted with the might of the United States or the Soviet Union. Likewise, Southeast Asian countries might find themselves forced to take a similar path in order to avoid being dominated by the larger powers around them. Regardless, there is no doubt that many of the most important flashpoints in the 21st century are found in Southeast Asia and this will focus more of the world's attention on this vital region for the foreseeable future.



Key Political Issue (part one): The Four Most Dangerous Flashpoints in East Asia

Summary - Over the past 70 years, East Asia has emerged as a region that once accounted for just 10% of global economic output to one that today accounts for more than 35% of the world's economic output. As a result, any unrest or conflict that occurs in East Asia will have global repercussions. Unfortunately, there are numerous unresolved flashpoints across East Asia, some of which have the potential to spark a major conflict in the region. What is particularly concerning is the fact that nearly all of these flashpoints involve the region's rising giant, China. Moreover, a number of these flashpoints have the potential to also involve the world's leading power, the United States, in any conflict there. As the United States and China contest economic and military supremacy in this region and around the world in the coming years and decades, some of these flashpoints could prove to be the spark that ignites the next world war. At present, some of the flashpoints are very hot, while others are cold. Here are four flashpoints that could result in a major conflict in East Asia at some point in the future.

The Korean Peninsula

Today, no flashpoint in East Asia, and perhaps the world, is more dangerous than the one found on the Korean Peninsula. This is due to the fact that North Korea's young leader, Kim Jong-un, has proven himself to be an aggressive risk-taker who has so far refused to bow to international pressure. Even after North Korea's recent missile and nuclear tests attracted international condemnation (even from China), North Korea has shown little sign of scaling back its missile and nuclear programs. Its missile program is clearly designed to develop missiles capable of carrying nuclear weapons to the United States and other distant targets, while its other military programs are designed to win a full-scale war on the Korean Peninsula. For China, North Korea's recent actions have been quite upsetting, as Beijing wants stability on the Korean Peninsula and does want a North Korean collapse, or military defeat, that will result in millions of North Koreans flowing into China, or a US military presence on the banks of the Yalu River. Meanwhile, to the surprise of many, United States President Donald Trump has taken a keen interest in North Korea, and has even offered to meet with Kim Jong-un. What is certain is that these are dangerous times on the Korean Peninsula, and they involve major powers such as the US, China and Japan.

The South China Sea

Another flashpoint in East Asia that poses an immediate threat to the region's stability is the South China Sea. This is due largely to the fact that China is seeking to enforce its claim to more than 90% of the waters of this strategic body of water. In recent years, China has stepped up its efforts to build up tiny islands and reefs across the South China Sea, while constructing a series of military bases at key locations across the sea. Meanwhile, a number of countries (including Vietnam, Indonesia and the Philippines) are opposing China's claims there and have their own claims to parts of the sea. There have already been clashes between Chinese and Vietnamese vessels in the South China Sea in recent years, clashes that have severely damaged bilateral relations between those two neighbors. Meanwhile, the United States Navy has had a long and extensive presence in the South China Sea and, as China has moved to enforce its claims in the sea, the US has called on China to guarantee the freedom of travel along the sea's vital shipping lanes. As such, it is this flashpoint where a potential clash between US and Chinese forces is most likely, and it is unlikely that the tensions in this vital body of water will ease in the coming years.

Key Political Issue (part two): The Four Most Dangerous Flashpoints in East Asia

The East China Sea

One potentially dangerous flashpoint in East Asia that has quieted in recent years has been the East China Sea. Here, China and Japan have overlapping maritime claims that have damaged relations between the countries with the world's second- and third-largest economies. The main dispute between China and Japan is over the uninhabited Senkaku/Diaoyu Islands that are located between Taiwan and Okinawa, with tensions rising after gas reserves were found in the waters around these Japanese-occupied islands. In fact, it is here that there is a greater chance of a clash between China and Japan than anywhere else. Moreover, as China grows more assertive and as Japan restores some of its lost military capabilities, the threat of a conflict over the East China Sea is likely to rise. Moreover, such as clash would almost certainly draw in the United States (and possibly Taiwan), making this one of the world's most important flashpoints in the 21st century. Unless relations improve between China and Japan, tensions in the East China Sea appear certain to rise again in the future.

Taiwan

The dispute over the status of Taiwan may have been relatively quiet in recent years, but this flashpoint is potentially the greatest threat to longer-term stability in East Asia. While China continues to insist that Taiwan remains an integral part of its territory, there is widespread support for official independence from China within segments of the Taiwanese population. For China, the return of Taiwan to its control is both a point of national pride and an attempt to improve China's strategic position in the Pacific region. Not only would Taiwan's return restore China's control over nearly all of what it considers its historic territory, but it would also dramatically improve the access of Chinese shipping, and the Chinese navy, to the open waters of the Pacific Ocean. This latter point is very important as China's current access is restricted by a line of islands stretching from Japan in the north to Indonesia in the south. Meanwhile, the imbalance between the economic and military power of China and Taiwan continues to widen at a pace that must be disconcerting for the latter. However, as long as the United States continues to protect Taiwan, it is unlikely that China will move to annex Taiwan by force. However, China will not give up its claim to Taiwan, and over the longer-term, should Taiwan force the issue of independence, the threat of a full-scale war will rise to very dangerous levels.

Potential Flashpoint: North Korea

Flashpoint Summary

Tensions between North and South Korea have remained high since the end of the Korean War in 1953. Since the war, both North and South Korea have faced one another with huge military forces along the demilitarized zone (DMZ) that separates them.

In recent years, North Korea's push to develop nuclear weapons has raised these tensions while increasing this dispute's implications for regional powers. Meanwhile, North Korea's economic collapse and questions about the health of North Korean leader Kim Jong-Il have raised the prospect of a North Korean collapse or a potential conflict on the Korean Peninsula.

Main Actors

North Korea

• North Korea's huge military expenditures have been aimed at securing the Communist government's power, but have led to an economic collapse and a shift in power in favor of the country's armed forces.

South Korea

• South Korea's economic rise has given the country great confidence in its dealings with North Korea and the rest of East Asia.

China

• China backs North Korea, but fears that its collapse would lead to a flood of refugees into China.

United States and Japan

• North Korea's missile program is designed to target these allies.

Global Implications

The US Role in East Asia

• The US military presence in South Korea and Japan has deterred North Korean aggression against South Korea, but the US' attention is turning to a rising China.

Korean Unification

• The unification of the Korean Peninsula would be far more difficult than the reunion of Germany, but an eventual unified Korea would be a mid-sized power in East Asia.

China's Rising Power

• A unified Korea would likely be influenced heavily by a strong China, as China currently sees North Korea as a buffer against US forces in East Asia.

Maps

Potential Outcomes

• As generations pass, North Korea's armed forces gain more influence in North Korea, turning the ruling family into their puppets and resisting efforts at establishing closer ties with South Korea.

• North Korea's economy collapses, leading to a collapse of the government. As refugees flood into South Korea and China, these two countries reach an agreement on the occupation of North Korea, leading to the eventual reunification of the Korean Peninsula that is greatly influenced by China.

Potential Conflict: China and Taiwan

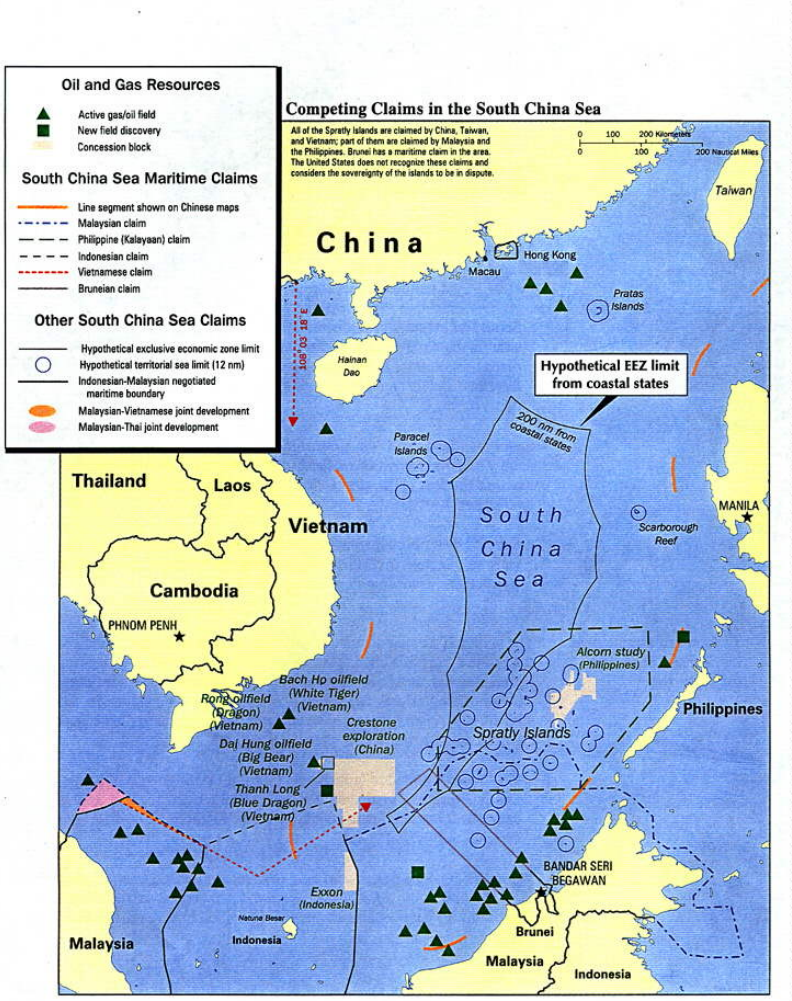
Main Disputes:

- China opposes any attempt by Taiwan to assert its independence or abandonment of the One China policy.
- Taiwan is protected from Chinese aggression by military support from the United States.
- China has pressured countries and international organizations into not recognizing Taiwan as a state.

Best- and Worse-Case Scenarios:

- Best Case Scenario
  - Taiwan and China reach an agreement for the eventual integration of Taiwan into China.
- Worst-Case Scenario
  - China attempts to re-take Taiwan by force, prompting a full-scale war that could involve the United States.

Potential Conflict: The South China Sea



Main Disputes:

- China has asserted its “right” to control the entire South China Sea.
- China and Vietnam dispute control of the Paracel Islands in the northwest section of the South China Sea.
- China, Vietnam, Taiwan, Brunei, Malaysia and the Philippines are claim control over parts of the Spratly Islands.
- Many Southeast Asian countries have complained of Chinese fishing boats operating within their waters.

Best- and Worse-Case Scenarios:

- Best Case Scenario
  - An agreement is reached between all countries involved over the maritime borders and natural resources in the South China Sea.
- Worst-Case Scenario
  - China asserts its authority over most of the South China Sea and this is resisted by some of the other countries in the region.

Key Political Issue (part one): China and its Neighbors

Introduction - During the periods of history when China was strong and united, it was the unchallenged dominant power in Asia. As part of this dominance, it sought to exert a great deal of direct and indirect control over its neighbors in the region, for when China is united, its economic and military power far outweighed that of any of its neighbors. However, when China was weak and divided, it often found itself being preyed upon by many of these same neighbors, not to mention the great powers from further abroad that sought to take advantage of China's weakness, often using their positions in China's neighbors to make inroads into China. Now, China is once again on the rise, a development that is stoking fears of Chinese domination among many of its neighboring countries. Unlike the United States, whose rise to superpower status occurred while its faced almost no threats along its borders, China faces a myriad of challenges and threats caused by disputes along many of its borders. Of course, the US only shares a land border with two countries, whereas China has land borders with 14 countries and many of these borders are ill-defined. As such, as China's power continues to grow, some of these borders are becoming the most important, and most dangerous, flashpoints in the world.

Rising China

As China rises to superpower status, it seeks to establish a degree of harmony and prosperity that will enable China to maintain higher levels of stability and security. However, it seeks to establish this harmony and prosperity on its terms, with its neighbors acquiescing to Chinese economic and political demands. China's first priority is to establish control over all of the territories and seas that Beijing views as belonging to China, most notably Taiwan and the South China Sea. Afterwards, China hopes to secure control of the sea lanes that connect China to the Pacific and Indian Oceans, putting it into dispute with maritime neighbors such as Japan, Indonesia and the Philippines. Control of these sea lanes would, in Beijing's eyes, greatly enhance China's ability to maintain its economic expansion, while giving it the opportunity to project power further abroad. While these sea disputes have garnered a great deal of attention in recent years, it is China's relations with its land neighbors that could determine whether or not China's rise to superpower status remains a peaceful one. Should China further expand its influence over its neighbors, this would give China the dominant position in Asia that it seeks, for it is Asia that will be the engine of global economic growth in the coming decades. However, many of China's neighbors are wary of falling into its orbit and are seeking to maintain their strategic and economic independence from Beijing.

Key Political Issue (part two): China and its Neighbors

China's Wary Neighbors
As a country that shares a land border with 14 countries, it is no surprise that China is engaged in a large number of disputes with its neighboring countries. Clockwise from the north, here is a summary of China's relations with its 14 neighbors:

• **Russia**: While Beijing and Moscow have worked together in recent years to offset the United States' global power, China and Russia have a long history of territorial disputes. Meanwhile, as the Russian population in Siberia and the Russian Far East declines, Moscow is fearful that China will gradually become the dominant power in those regions and may one day make a land grab there.

• **North Korea**: China has backed North Korea in its disputes with South Korea, Japan and the United States, as it fears that a collapse of North Korea would lead to a flood of refugees into northeastern China and would result in US military forces being stationed along the Yalu River.

• **Vietnam**: China and Vietnam fought a short, but bloody, war in 1979 and relations between the two Communist neighbors have remained tense ever since. Now, the focus of the dispute between these two countries is found in the South China Sea, with China occupying strategic islands in waters claimed by Vietnam.

• **Laos**: China has enjoyed relatively good relations with Laos, although there are growing concerns within that country of the potential for Chinese domination of its economy.

• **Myanmar**: China enjoyed strong relations with Myanmar's previous military government, but these relations have been weakened as Myanmar's armed forces relinquished some of their power. Now, ethnic unrest in northern Myanmar has once again spilled across the border into China, threatening to destabilize that region.

• **India**: Relations between China and India will go a long way towards determining the stability of Asia in the 21st century. Unfortunately, these two giants have a number of border disputes that resulted in a major war in 1962 and have continued to spark clashes along this border in recent years. Furthermore, India is concerned about China's military and economic expansion into the Indian Ocean.

• **Bhutan**: A standoff between Chinese and Indian troops last year along the point of the border where these two countries meet Bhutan highlights the strategic position held by this small Himalayan state. Traditionally aligned with India, Bhutan has seen an expansion of China's economic presence in recent years.

• **Nepal**: Nepal has traditionally held close economic and political ties with India, but in recent years, some segments of Nepalese society have called for a strategic realignment towards China. This has made Nepal a center of the battle for influence between China and India in the Himalayan region.

Key Political Issue (part three): China and its Neighbors

China's Wary Neighbors (cont.)

• **Pakistan**: China and Pakistan enjoy very strong relations, with China having dramatically increased its investment in Pakistan in recent years. Moreover, China has become a major backer for Pakistan's armed forces, a development that has greatly alarmed India.

• **Afghanistan**: China's smallest land border is with Afghanistan (76km, 47 miles) and the difference in times zones along this border is an incredible 3.5 hours. Most of this border is nearly inaccessible and the rough terrain has thus far kept border issues to a minimum.

• **Tajikistan**: Chinese influence in Tajikistan, once quite small, has expanded dramatically in recent years as trade and defense ties between the two countries continue to grow. In fact, China's influence over the Tajik economy is now substantial, as China accounts for nearly 60% of all foreign investment into that country.

• **Kyrgyzstan**: The ethnic and religious unrest that continues in the northwestern Chinese region of Xinjiang continues to dominate China's relationship with Kyrgyzstan, as it seeks to prevent militant groups from using that country as a base for their activities in China.

• **Kazakhstan**: As with Kyrgyzstan, China's interest in Kazakhstan is framed by the situation in Xinjiang. However, China also sees Kazakhstan as the key to its economic expansion into Central Asia, while Kazakhstan views China as a counterbalance to Russian influence in the region.

• **Mongolia**: China and Mongolia have a long and tense relationship, with Mongolia fearful that China has designs on its vast, but under-populated, territory. In recent years, Chinese investment in Mongolia has soared, leaving that country's economy tied more closely to China.

A Peaceful Rise?

For China's neighbors, its rise is viewed as both an economic opportunity and a political and security risk. Given the vast scale of Chinese economic and military power, China's neighbors will have to cooperate more closely in order to balance power in Asia in the coming years. Furthermore, they will also need outside help to balance economic and military power in the region. This help can only come from the United States, which maintains a very large economic and military presence in Asia. So far, the United States appears determined to work to maintain the balance of power in Asia and has increased its presence in the region in recent years. This places the US in a position similar to that which the United Kingdom filled in Europe in the 19th and early 20th centuries, where Britain sought to prevent any single power from dominating the region that was then the center of the world's economy. Now, the US is attempting to do the same in Asia by working more closely with many of the countries that surround China. Hopefully for Asia, these attempts at balancing China's rising power will end better than they did for the UK in Europe, as the end result there was two world wars that devastated the region and left it at the mercy of outsiders. This is certainly not the result China envisions when its seeks a harmonious and prosperous future as a major world power and the leading power in Asia.

Key Political Issue (part one): The Future of Chinese-Indian Relations

Summary - The bilateral relationship between the world's two most populous countries, China and India, has the potential to be one of the relationships that defines the remainder of the 21st century. Unfortunately, the relationship between these two Asian giants has not always been easy, with a great deal of mistrust for one another sowing discord between them. The leading example of the difficulties of this relationship in the 1962 war that they fought with one another, a war in which China inflicted a humiliating defeat on India. In recent years, a number of issues and disputes have arisen that are once again threatening to derail efforts to improve ties between China and India. For example, India is fearful of China's rising economic and military power, particularly in areas that it considers within the Indian sphere of influence, such as the Indian Ocean and South Asia. Moreover, while both countries are high-growth emerging markets, the fact that China's re-emergence precedes that of India means that China's economic power far outstrips that of India at present. How India responds to China's rising power will go a long way towards determining the future of this very important bi-lateral relationship.

Common Ground

Despite their strained relations, China and India do share common interests in a number of areas. For example, both countries are leading efforts to rebalance the global economy by lessening the dominant position of developed economies in terms of trade, investment and the establishment of global economic standards. Furthermore, both countries largely support multilateralism, despite long histories of distrust of international organizations in both countries. Both China and India share the goal of preventing the spread of radical religious ideology from Central Asia, while both countries are engaged in efforts to reduce support of separatist movements within their borders, in areas such as Xinjiang and Kashmir. Finally, both countries view Asia as the center of the global economy and it is the interest of both China and India for the entire region to enjoy high rates of economic growth and to maintain a degree of stability. Thanks to these shared goals, China and India have been able to find common ground on many issues in recent years. However, many issues still divide these two giants.

Economic Relations

A key issue that both brings together and divides China and India at the same time is the trade and investment relationship they share. On one hand, trade and investment ties between China and India have soared in recent years, and both governments have made major efforts to promote these bilateral economic ties. However, the relationship thus far has been anything but equal. For example, the fact that China's economic modernization began more than a decade before that of India, and the fact that China developed a massive manufacturing sector well before India, has resulted in China now enjoying a massive lead over India in terms of the scale of their economies and their relative wealth levels. In fact, while China averaged economic growth rates of 10% for three full decades between the 1980s and the early part of this decade, India has, thus far, been unable to match this impressive record. As a result, India views its trade and investment relationship with China from a position of inferiority, with China enjoying most of the benefits of this relationship. Likewise, both countries are competing with one another for natural resources, most notably energy, to fuel their expanding economies. This has put them at odds in many areas of the world. As a result, while economic ties between China and India are likely to continue to grow, so too is their economic rivalry, and this could stoke political and security tensions between the two countries in the coming years.

Key Political Issue (part two): The Future of Chinese-Indian Relations

Common Ground

In addition to their economic rivalry, China and India find themselves on opposite sides of a number of political and geographical disputes that have resulted in tensions between the two countries remaining relatively high in recent years. Many of these issues stem from disputes involving the border between the two countries. In fact, there disputed areas along almost the entire border between China and India, from Kashmir in the west to the very end of their shared border in the east. At times, including the present, one or more of these disputed areas of the border has resulted in both sides sending additional armed forces to the border region, raising the potential for a clash between the two countries. Away from the border, a number of other issues are straining relations between these two giants. For example, China is expanding its presence around the Indian Ocean in order to secure shipping lanes for energy and other resources from the Middle East and Africa, but India considers much of this ocean to be within its sphere of influence. Likewise, China's strengthening economic and defense relationship with India's long-time rival, Pakistan, is worrying New Delhi, which accuses Pakistan of attempting to destabilize India. On the other hand, Beijing is concerned about India's closer economic and defense ties with the United States, fearing that the US sees India as a counterweight to rising Chinese power in Asia. Overall, it is clear that there are many issues that could provoke a major deterioration of this vital bi-lateral relationship.

Global Ramifications

Given the size and the potential power of both countries, it can be argued that the second-most important bi-lateral relationship in the world today is the one between China and India, due mostly to the scale of the two countries. For example, China and India are home to 2.7 billion people today, or 35% of the world's population, with India's population alone set to soar to an estimated 1.7 billion people by the middle of this century. In terms of economics, China is already either the first or the second largest economy in the world, and India has begun its climb up the rankings as its economy grows by around 7% per year. While their scale is massive, so too is the potential for a conflict between these two countries, either along their disputed border or in regions where both countries are seeking to exert their power and influence. Moreover, both countries could find themselves on opposite sides of an alliance system designed to offset China's growing power in the region. Should this relationship worsen dramatically, the future stability and prosperity of all of Asia will be jeopardized and the gains that both countries have made in recent years could be reversed. It is therefore easy to see why this relationship is so important for both countries, as well as for the rest of the world.

The Quad

A Four-Member Counter-Balance to China

Summary

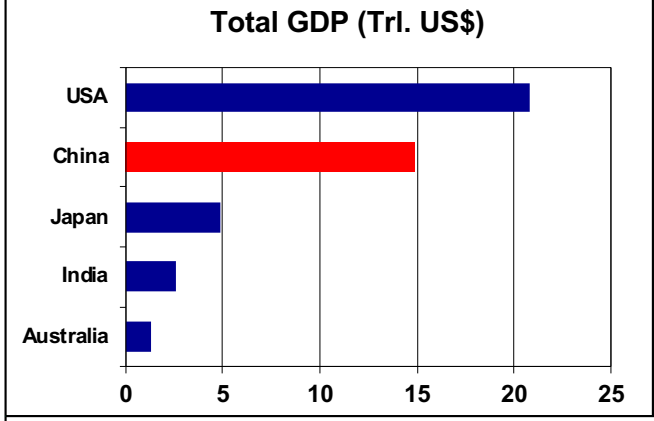
The Quadrilateral Security Dialogue (”the Quad”) is an informal dialogue between the United States, India, Japan and Australia that was founded in 2007 at the behest of the Japanese government.

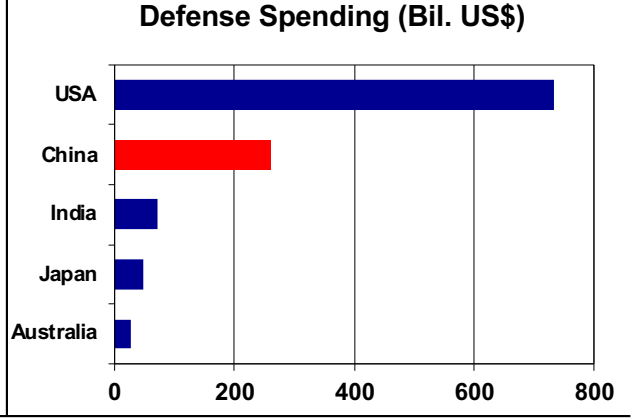
In subsequent years, the Quad lost some momentum, and even came to a temporary end when former Australian President Kevin Rudd withdrew Australia from the group in 2010 as part of his efforts to strengthen his country’s ties with China.

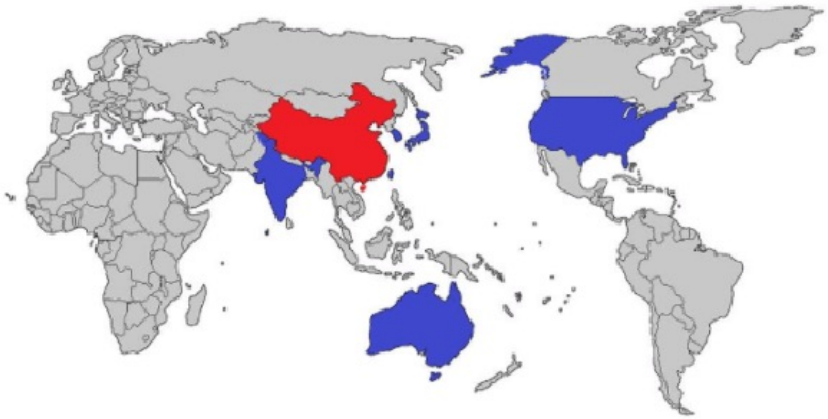
In 2017, the Quad was revived as all four members had conservative governments that were concerned about China’s rising economic and military power in the Indo-Pacific region. In 2021, the four leaders of the Quad group of countries held their first-ever official summit (virtually, due to the Covid-19 pandemic).

The United States, Japan and Australia have long had strong economic and defense ties, but India has traditionally been leery of forming tighter economic and defense ties with the US. However, clashes between Chinese and Indian armed forces along the two countries’ shared border have pushed India closer to the United States and its allies in the region.

The size and scale of the Quad has the potential to make the group one of the most influential groupings in the world. The four countries of the Quad account for 35% of global economic output and 46% of global defense spending.



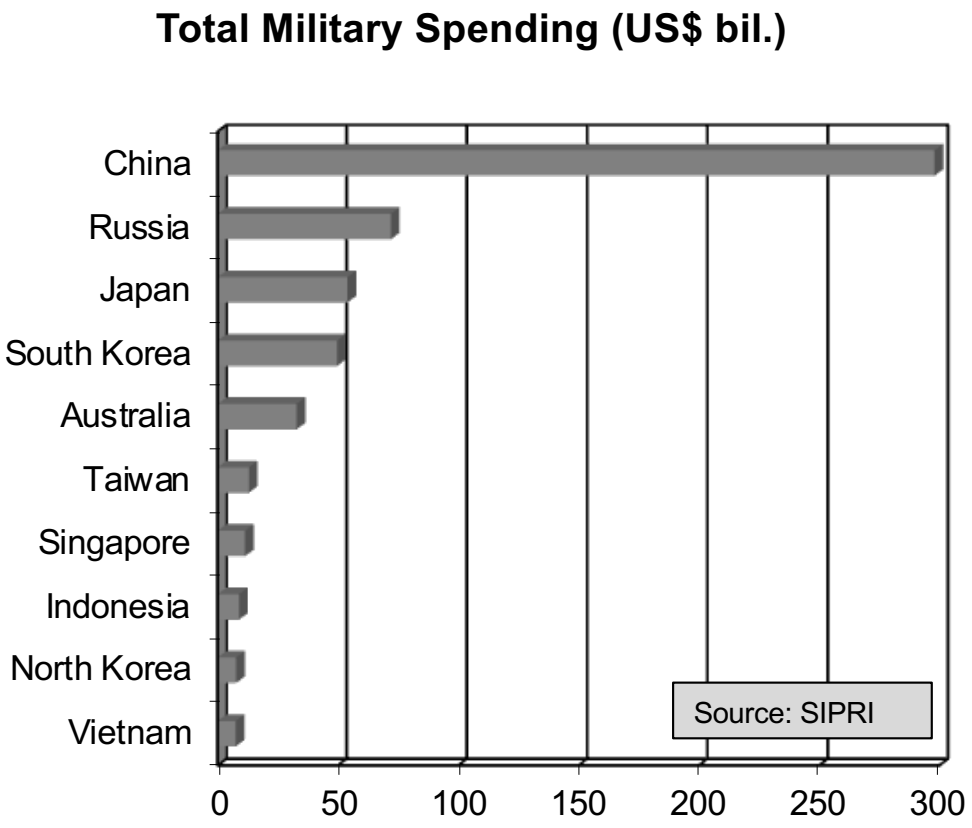




Outlook for the Quad

As China’s economic and military power continues to grow in the coming years, India is likely to push for a further strengthening of the Quad. Furthermore, other regional powers may consider efforts to join the Quad due to fear of China’s rising power and influence.

Regional Military Outlook



Balance of Power in the Region

China's growing military capabilities are creating more alarm throughout the region.

- At present, China's power projection abilities are minimal and easily contained by the United States' large military presence in the region.
- However, China has the world's second-largest military budget and it is growing at a rapid pace.
- As a result, countries from Japan to Southeast Asia are all increasing their military spending, leading to fears of an all-out arms race in Asia.

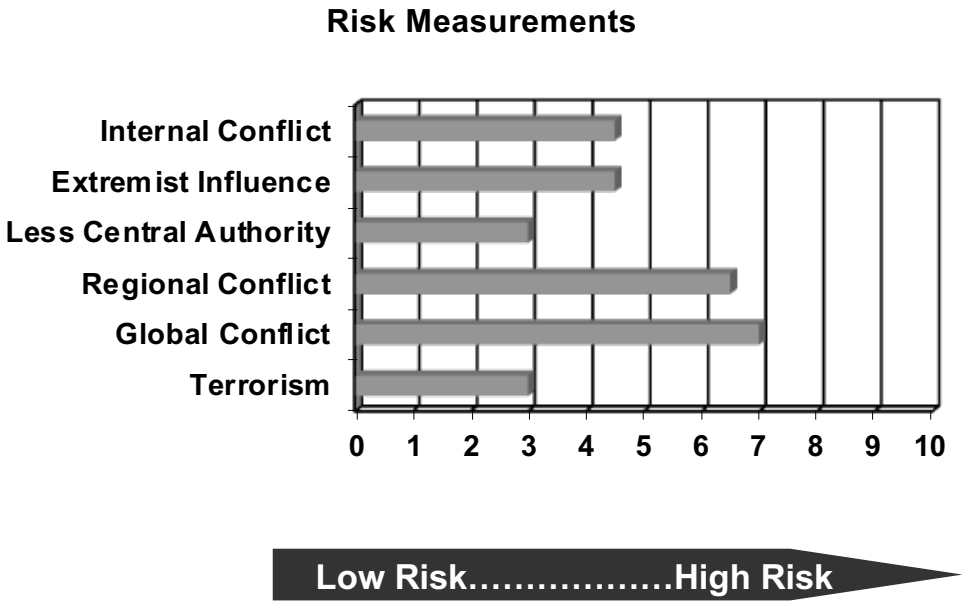
Outlook

As long as the United States keeps a substantial military presence in the Asia-Pacific region, China's military ambitions will be contained.

- Furthermore, Japan, South Korea and some Southeast Asian countries may develop closer defensive arrangements to counter the growing threat from China.
- Meanwhile, the Korean Peninsula could be the flashpoint that triggers a wider Asian conflict that could draw in the US, China and Japan.

East Asia and Pacific: Political Risk Outlook

Current Political Risk Ratings:



- ISA Risk Ratings
  - 0.0 to 1.9 = Low Risk
  - 2.0 to 3.9 = Low to Moderate Risk
  - 4.0 to 5.9 = Moderate Risk
  - 6.0 to 7.9 = Moderate to High Risk
  - 8.0 to 10 = High Risk

Political Risk Outlook:

- Much of the region benefits from relatively low levels of political risk.

- Nevertheless, the rising tensions between China and many of its neighbors is leading to an arms race in East Asia that could draw in outside powers, most notably, the United States.

- Larger Southeast Asian countries such as Indonesia and the Philippines have a number of internal factors that raise political risk levels in those countries.

Regional Economic Outlook

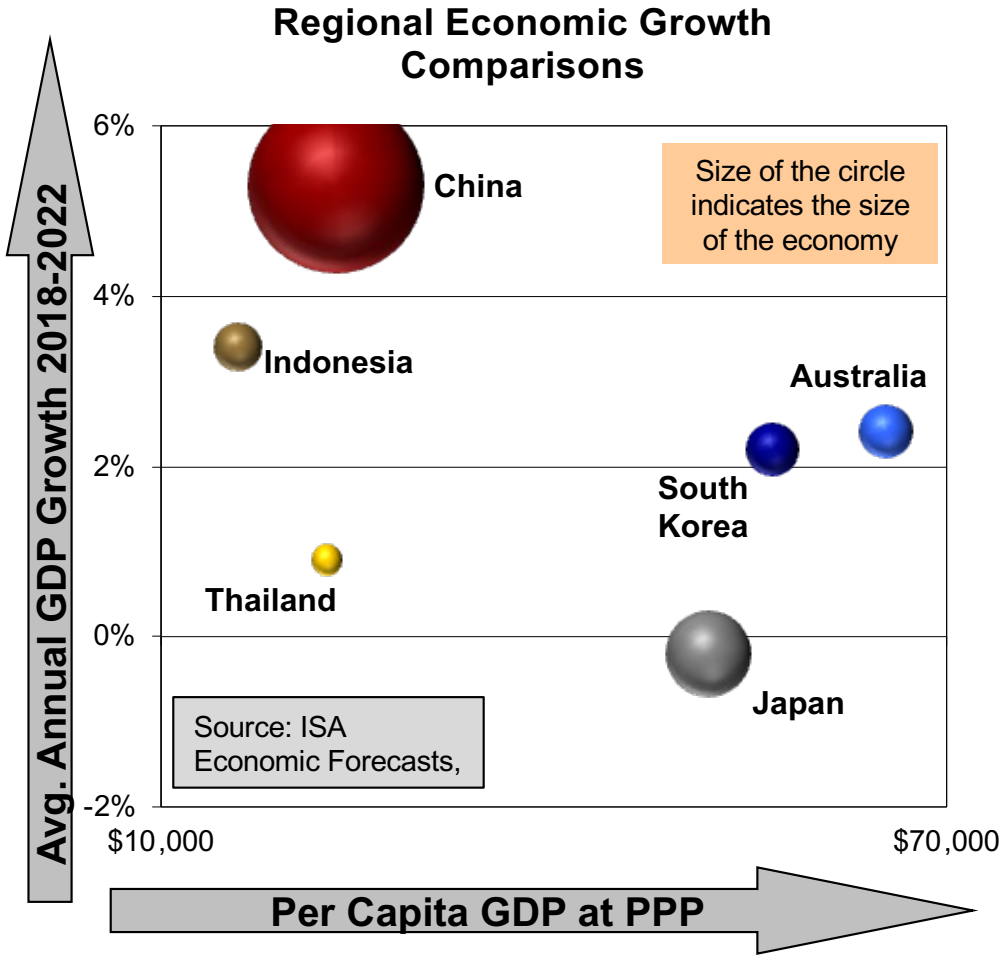
East Asia and Pacific Economic Overview

East Asia has emerged as the world's largest economic region.

- China alone is accounting for a large share of the world's economic growth and is now the world's second largest economy.
- Meanwhile, Southeast Asia's economies combine to account for nearly 700 million people and one of the world's largest economic regions.
- Japan's economy is the world's third largest, despite the struggles of the past 25 years.

Manufactured exports have been the key to the region's economic expansion.

- East Asia accounts for nearly 50% of the world's total manufactured exports.
- However, expanding domestic markets are becoming a major source of growth as well as will be the key driver over growth in the coming decades.



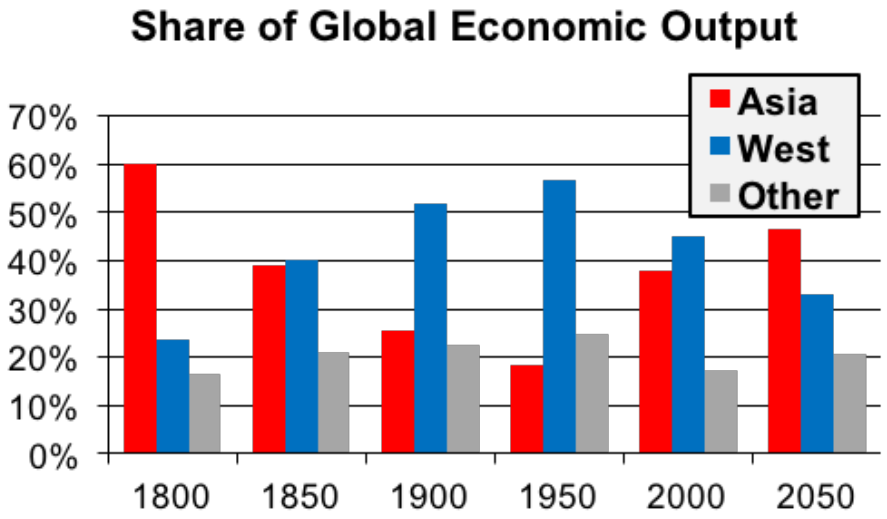
China's emergence as a major economic power for the first time in two hundred years is having a massive impact upon the region's and the world's economies. Its massive size and potential overshadows the rest of the region's substantial potential and threatens to divert most foreign investment away from the rest of the region.

Key Economic Issue (part one): Asia vs. the World

Summary - Since the Industrial Revolution, the West, defined here as western and central Europe and the four main offshoots of Europe (the United States, Canada, Australia and New Zealand) has dominated the global economy to an extent never seen in human history. However, even in the period where Western economic power was at its greatest, Western leaders were aware of the vast economic potential of Asia. After a period of economic decline that coincided with the rise of the West, Asia's economic recovery began in Japan, where the Industrial Revolution first took hold in Asia. After the Second World War, a number of Asian countries developed export-oriented manufacturing economies that allowed these countries to quickly approach the wealth levels achieved in the West. However, it was the reconnection of China and India to the world economy that has led to the dramatic shift in economic power that we see today. Simply, a combination of the world's largest regional population and the fastest growing regional economy is making Asia the center of growth for the global economy. The question now is, will this trend continue and, if so, will the coming decades belong to Asia.

The Western Era

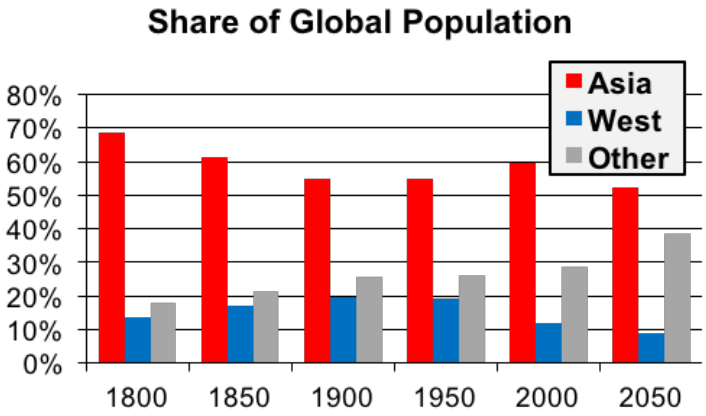
Without question, we are in the midst of the greatest shift in the global economic balance of power since the Industrial Revolution. Prior to the Industrial Revolution, the vast populations of China and India meant that their economic scale was far greater than anyone else's as humans and animals provided for most of the energy of that period. After the Industrial Revolution began in Britain in the 18th century, it was the West that quickly overtook Asia in terms of economic output and wealth levels. In the 19th century, it was Europe's largest countries that dominated the global economy, led by Britain. In the 20th century, it was the largest of Europe's offshoots, the United States, that became the dominant power in the global economy. Today, the West remains the leading economic power by many measures, including in terms of output and wealth levels. However, as growth has slowed significantly in most countries in the West in recent decades, it is faced with a rising Asia that threatens the West's domination of the global economy that it has enjoyed for more than two centuries.



Key Economic Issue (part two): Asia vs. the World

The World's Manufacturing Hub

Interestingly, Asia's economic expansion was launched by developing export industries catered to serve the vast markets of the West. This allowed for manufacturing industries to flourish across the region, many of which have overtaken their Western rivals. Now, as wealth levels have risen, Asia's vast internal market is rapidly becoming another key driver of growth in the region. As home to nearly 60% of the world's population, Asia's market potential dwarfs that of any other region. Moreover, Asia now accounts for 40% of total global economic output and has recently surpassed the West in terms of economic output for the first time since the early 19th century. Examples of this are everywhere. For example, two-thirds of all of the steel produced in the world comes from Asia. Meanwhile, more than half of all of the automobiles produced in the world today are produced in Asia, with China growing from a small automotive producer 25 years ago to a country that produces more than twice as many vehicles as the next largest producer. Moreover, production levels in Asia continue to rise in most manufacturing industries, even as growth levels slow in many of the region's leading economic centers.

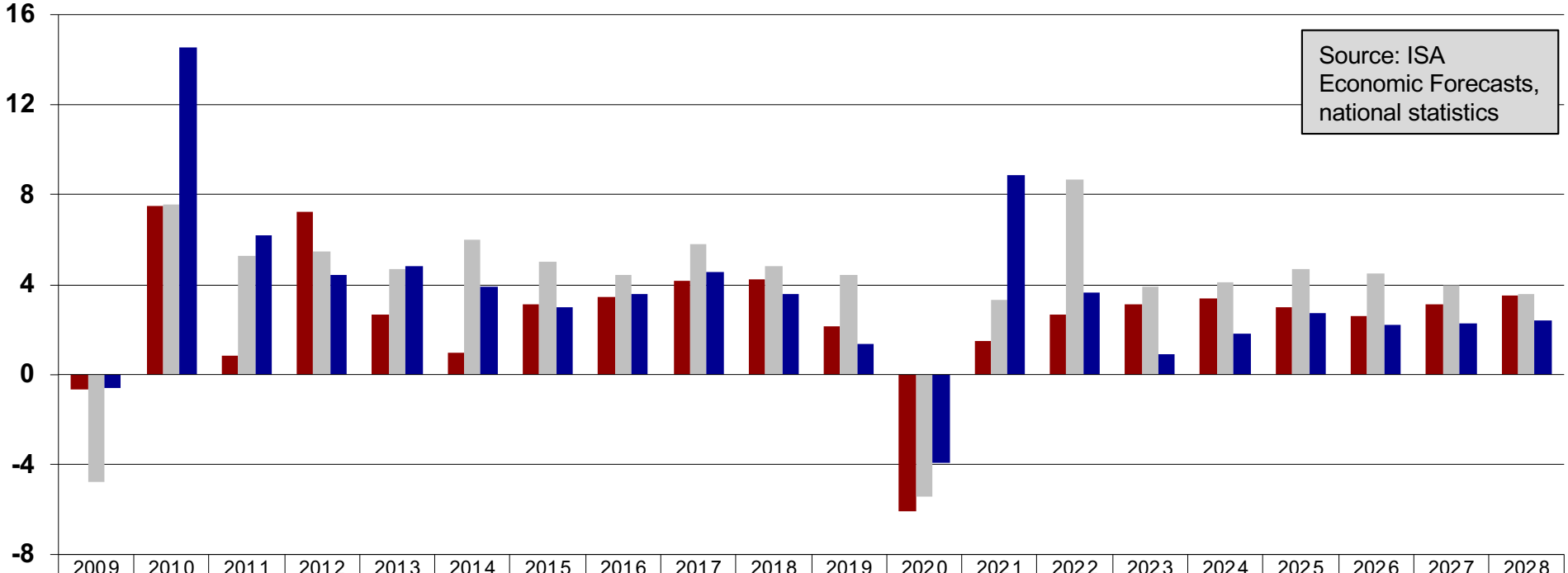


An Asian Century?

As long as economic growth rates in Asia continue to exceed the global average, as they currently do by a wide margin, Asia's impact on the global economy will continue to rise and economic power will continue to shift to Asia. This growth continues to be led by the region's two giant emerging markets, China and India, who despite recent economic troubles and questionable economic data are the two economies with the largest growth potential in the coming decades thanks to their massive populations and expanding middle classes. Likewise, other large emerging markets in Southeast and South Asia will also play a key role in Asia's rising economic power. Of course, the region will also face a number of challenges as it once again becomes the center of the global economy. Demographically, many of the region's most powerful economies face the prospect of aging populations and declining workforces, both of which will strain the economies of China, Japan and a number of other countries. Resource depletion and environmental degradation are two other problems that the region is facing, in part due to the region's rapid economic expansion in recent decades. Meanwhile, the potential for political unrest and outright conflict remains high in many areas of Asia and this could also derail the region's economic progress in the coming years. Nevertheless, if Asia can successfully deal with these threats, there is little doubt that Asia's role in the global economy will continue to grow in the coming years and decades as the region emerges as the unquestioned center of the global economy.

More-Developed ASEAN Economic Growth Outlook

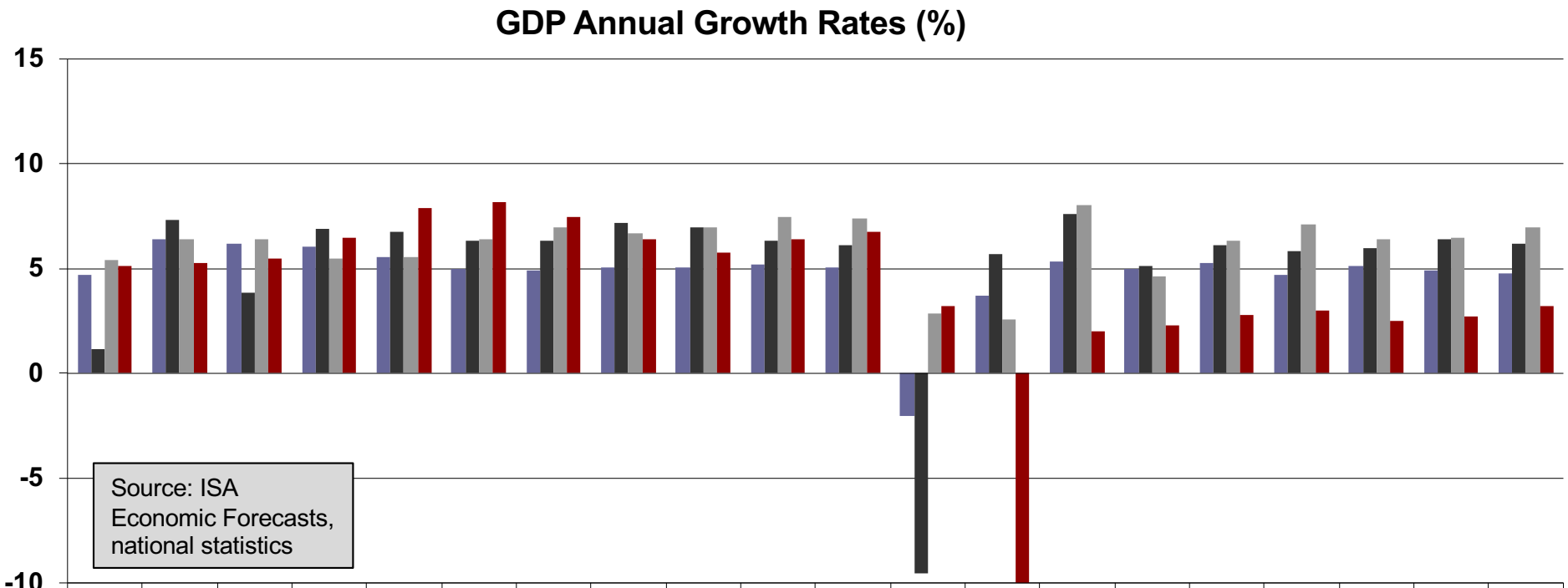
GDP Annual Growth Rates (%)



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Thailand	-0.7	7.5	0.8	7.2	2.7	1.0	3.1	3.4	4.2	4.2	2.1	-6.1	1.5	2.6	3.1	3.4	3.0	2.6	3.1	3.5
Malaysia	-4.8	7.5	5.3	5.5	4.7	6.0	5.0	4.5	5.8	4.8	4.4	-5.5	3.3	8.7	3.9	4.1	4.7	4.5	4.0	3.6
Singapore	-0.6	14.5	6.2	4.4	4.8	3.9	3.0	3.6	4.5	3.6	1.3	-3.9	8.9	3.6	0.9	1.8	2.7	2.2	2.3	2.4

Economic growth among the more-developed countries of ASEAN have fluctuated in recent years due to the region's continued dependence upon exports for much of its growth. Looking ahead, Southeast Asia will see growth rates slow over the near-term, dragged down by weaker demand in many key export markets.

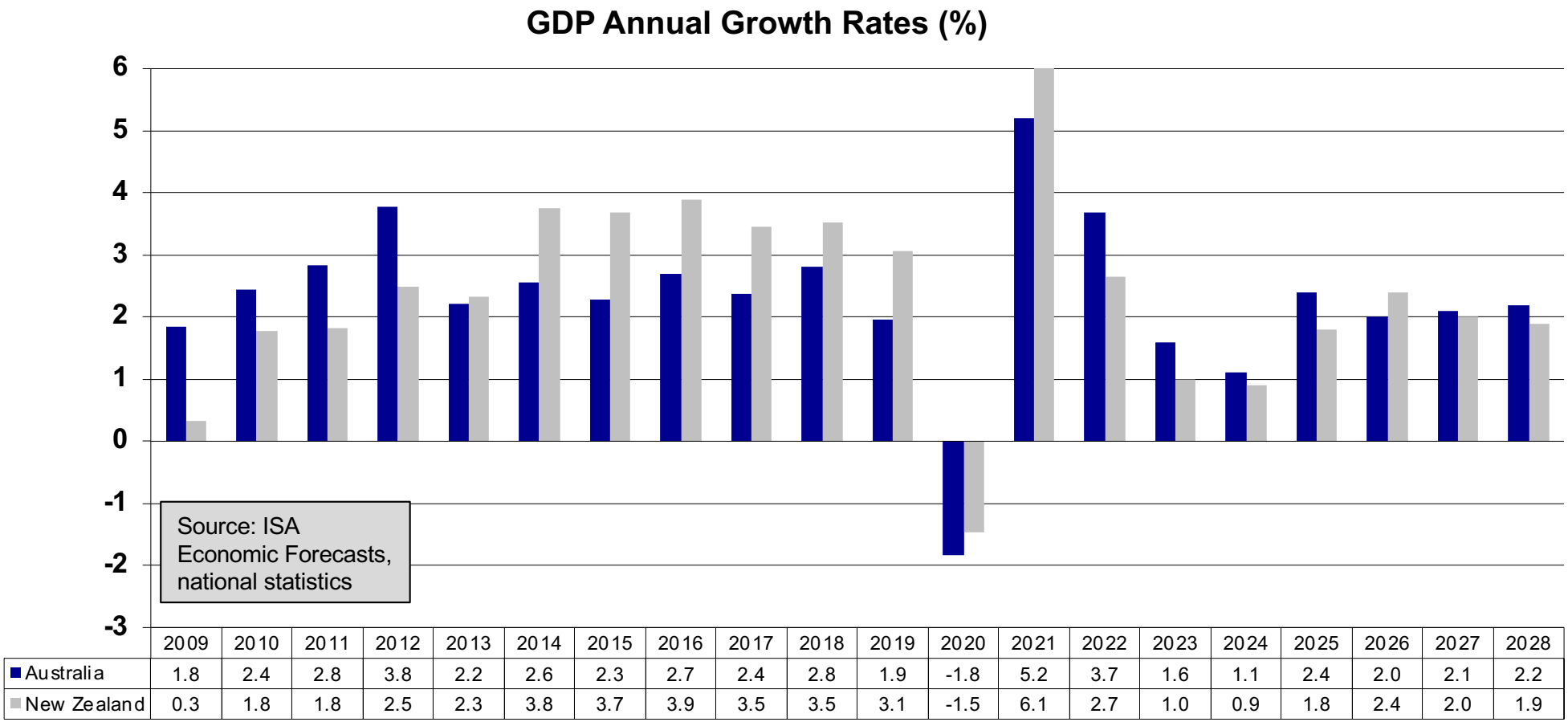
Less-Developed ASEAN Economic Growth Outlook



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Indonesia	4.7	6.4	6.2	6.0	5.6	5.0	4.9	5.0	5.1	5.2	5.0	-2.1	3.7	5.3	5.0	5.3	4.7	5.1	4.9	4.8
Philippines	1.1	7.3	3.9	6.9	6.8	6.3	6.3	7.1	6.9	6.3	6.1	-9.5	5.7	7.6	5.1	6.1	5.8	6.0	6.4	6.2
Vietnam	5.4	6.4	6.4	5.5	5.6	6.4	7.0	6.7	6.9	7.5	7.4	2.9	2.6	8.0	4.6	6.3	7.1	6.4	6.5	7.0
Myanmar	5.1	5.2	5.5	6.5	7.9	8.2	7.5	6.4	5.8	6.4	6.8	3.2	-17.9	2.0	2.3	2.8	3.0	2.5	2.7	3.2

The less-developed ASEAN economies were all negatively impacted by the Covid-19 pandemic, but growth returned in the following years. Indonesia's economic growth remain strong in the coming years. Meanwhile, Vietnamese growth will experience high rates of economic growth over the next few years years on the back of manufactured exports.

Pacific Economic Growth Outlook

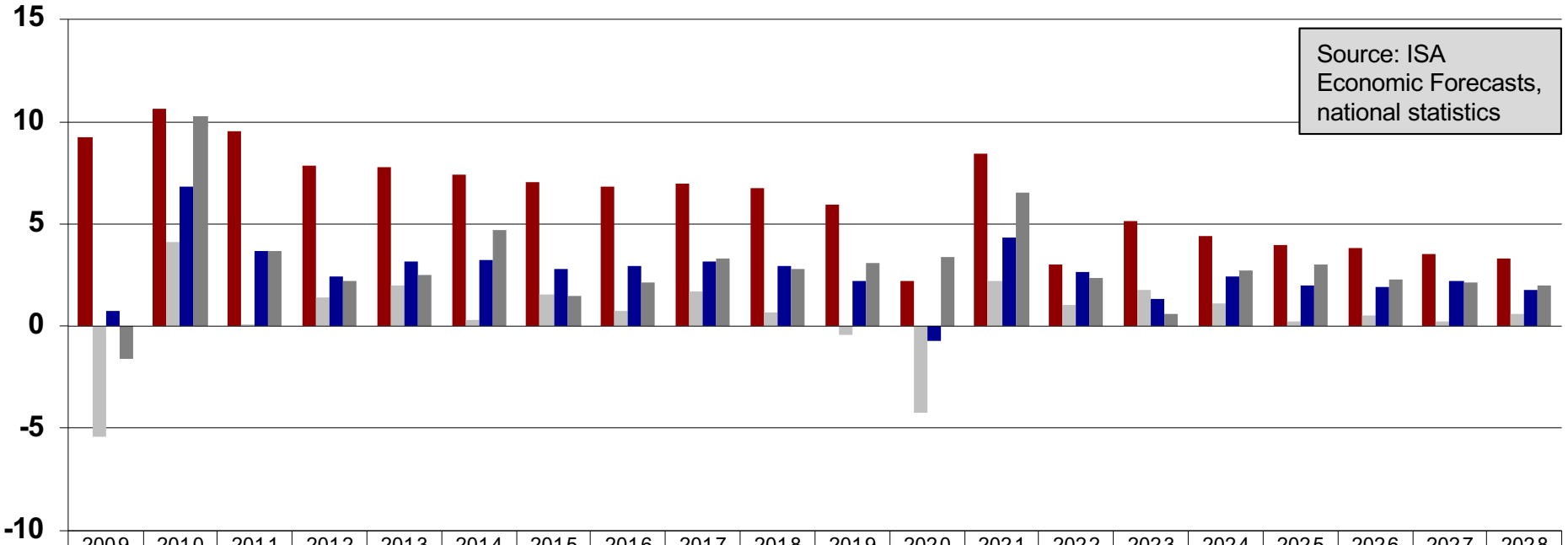


	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Australia	1.8	2.4	2.8	3.8	2.2	2.6	2.3	2.7	2.4	2.8	1.9	-1.8	5.2	3.7	1.6	1.1	2.4	2.0	2.1	2.2
New Zealand	0.3	1.8	1.8	2.5	2.3	3.8	3.7	3.9	3.5	3.5	3.1	-1.5	6.1	2.7	1.0	0.9	1.8	2.4	2.0	1.9

Australia had been one of the best performing developing economies in the world, but trade disputes and the Covid-19 pandemic led to a major slowdown in 2020, before a relatively strong bounce back in recent years. New Zealand's economic growth had also been relatively strong in recent years, but it too has been impacted by these external factors.

Northeast Asia Economic Growth Outlook

GDP Annual Growth Rates (%)



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
China	9.2	10.6	9.6	7.8	7.8	7.4	7.0	6.9	6.9	6.8	6.0	2.2	8.5	3.0	5.1	4.4	4.0	3.8	3.5	3.3
Japan	-5.4	4.1	0.0	1.4	2.0	0.3	1.6	0.8	1.7	0.6	-0.4	-4.2	2.2	1.0	1.8	1.1	0.2	0.5	0.2	0.6
South Korea	0.7	6.8	3.7	2.4	3.2	3.2	2.8	2.9	3.2	2.9	2.2	-0.7	4.3	2.6	1.3	2.4	2.0	1.9	2.2	1.8
Taiwan	-1.6	10.2	3.7	2.2	2.5	4.7	1.5	2.2	3.3	2.8	3.1	3.4	6.5	2.4	0.6	2.7	3.0	2.3	2.1	2.0

China's economy rebounded faster from the Covid-19 pandemic than nearly any other economy in the world, but ran into more headwinds in 2022 thanks to its zero-Covid policy. Japan's economy was also hit hard by this crisis. Looking further ahead, economic growth will moderate in China in the coming years, while demographic factors will hold down growth across this region.

Issue in Focus (part one): Four Possibilities for China's Economic Future

Introduction - The re-emergence of China as a major global economic power over the past 50 years is one of the greatest economic developments in history. In the span of just half a century, China went from being one of poorest and most isolated countries in the world to a country that is expected to become the largest economy in the world in the near-future. In the process, hundreds of millions of people have been lifted out of abject poverty as China has risen to become a middle-income country in just a few decades. When China's modern economic journey began in the early 1980s, its economic output was less than half of that of the United Kingdom and France, and was even much smaller than that of Italy. Today, China is the world's second-largest economy, with output that is now almost double of that of the UK, France and Italy combined. With such a large economy, it is inevitable that China will exert a massive influence on the global economy. However, the future direction of China's economy remains uncertain, no matter how smooth official government economic figures for China may appear. In fact, there are four possibilities for the direction of China's economy in the coming years.

Scenario #1: China Becomes a Developed Economy by 2050:
This is the best-case scenario for the Chinese economy. According to this scenario, the Chinese economy will avoid major economic dislocations in the coming decades and, while growth rates will trend downwards, they will remain well above average global economic growth rates until at least the middle of this century. Moreover, this would allow China to overtake the United States to become the world's largest economy (on a nominal basis) within the next 15 years. With growth rates remaining well above the global average for the next couple of decades, by the middle of the century, China's level of per capita GDP would exceed that of some countries that are today considered developed economies (such as Italy and Spain), allowing China to make the claim that it was a fully-developed economy. This may seem far-fetched, but one should remember that, as late as the 1960s, South Korea was considered to be a very poor country, but today, has an economy that is consider fully developed and wealthy. For this scenario to come to fruition in China, the country will have to maintain its export competitiveness, while at the same time, consumer spending levels will have to continue to grow at a strong pace for decades to come. This is clearly the scenario that Beijing hopes will become reality, as its economic policies are clearly designed to maintain export and domestic growth for the Chinese economy for the foreseeable future.

Scenario #2: Volatility Increases, But China's Upward Path Continues:
This scenario envisions a future in which China's economy generally continues to generate rates of growth well in excess of the global average, but also experiences a series of crises that temporarily result in sharp declines in growth. In many ways, this scenario is akin to the one experienced by the United States in the final decades of the 19th century and the first decades of the 20th century, as the US economy generally grew at a rapid pace, despite a series of major recessions. Of course, the US was already a wealthy country by the late 19th century, while China is now just a middle-income economy, but many of the comparisons are valid. Under this scenario, China would overtake the US to become the world's largest economy sometime around the year 2035, but it would likely fall a little short of being classified as a fully-developed economy by the middle of the century. Given the multitude of risks facing the Chinese economy, this is likely to be a much more realistic scenario that the first one. Moreover, it remains to be seen how China would be impacted by such economic crises, both politically and socially, factors that could have a significant impact on China's economic future.

Issue in Focus (part two): Four Possibilities for China's Economic Future

Scenario #3: China Avoids a Hard Landing, But Growth Slows Significantly
Like the first scenario, this one suggests that China will avoid major economic crises in the coming decades. However, this scenario also envisions much lower rates of economic growth in the future for China. If these lower rates of growth occur in the near future, this would delay China's ascension to the position of the world's largest economy for some time, particularly if the United States is able to record relatively healthy rates of growth at the same time. Caught in such a "middle-income trap", China could find itself stuck as a middle-income economy well into the latter part of this century. Among the factors that make this scenario a realistic possibility for China are the country's demographic situation, as China faces the prospects of an aging population and a rapidly-declining working-age population. Overall lower rates of growth for the global economy could also contribute to much lower rates of growth in China in the future, as export demand weakens. This is a scenario that Beijing is also considering, as the Chinese government will likely focus on avoiding crises, while preparing the population for a slower-growth future.

Scenario #4: China Succumbs to Multiple Threats and Growth Comes to a Halt
Many economists believe that the Chinese economy is on the verge of a major downturn as multiple risk factors threaten to derail what has been the world's most successful economy in recent decades. Externally, the threat of a global trade war could bring an end to China's rise as the center of global manufacturing, as it was manufactured exports that allowed China to experience its economic miracle in recent decades. Domestically, soaring debt levels and dangerous asset bubbles could slow consumer and business spending inside China, damaging its ability to rebalance the economy away from its dependence upon exports for growth. Should these risks become reality, China would certainly experience at least one major economic downturn and could even enter a prolonged period of lower growth and increased instability. Were this to occur, China's economic output might not pass that of the United States at any time in the foreseeable future, especially if the US economy were to continue to generate growth as China floundered. While this scenario is unlikely, it is nevertheless Beijing's greatest fear, and the one scenario that it will do everything to prevent.

Will China's Rise Continue?
While the level of volatility has increased in recent years and a number of risks have been allowed to fester, China's economy continues to record healthy rates of growth. Nevertheless, it is inevitable that more threats to China's economic success will emerge in the years ahead. Moreover, it is a sure bet that the real performance of China's economy will not be accurately measured by the official economic statistics provided by the Chinese government. Nevertheless, there are many reasons to believe that, despite these growing threats and the make-believe data coming from Beijing, the Chinese economy will continue to generate growth, even if that growth is significantly lower than what was generated in the past. As such, there is no reason to expect that China's economy will come off the rails, or that China will not eventually become the world's largest economy at some point in the coming decades. Moreover, as economic growth will exceed population growth, China will become an ever-wealthier country, a development that will certainly play a major role in generating growth for the rest of the global economy in the years ahead.

East Asia and Pacific Economic Growth Summary

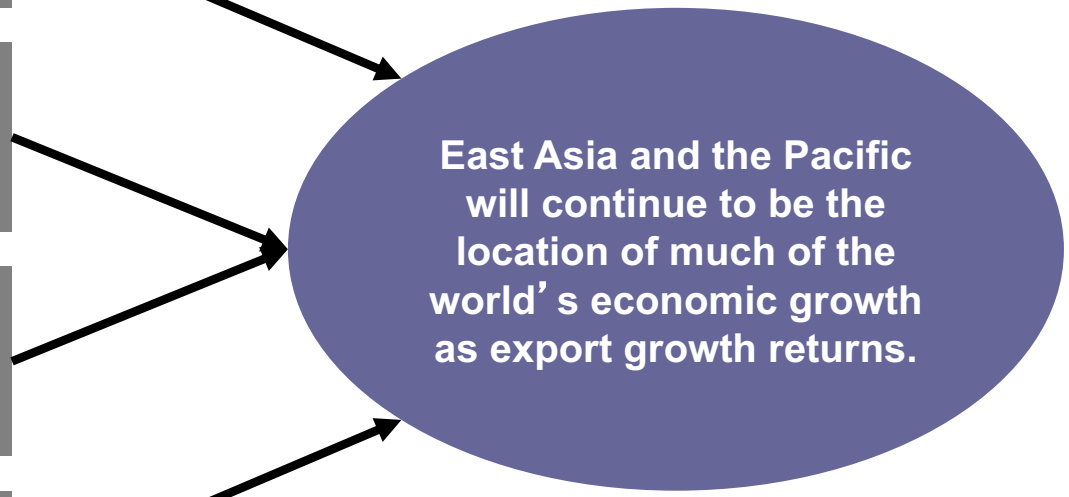
Key Factors

China is increasingly the engine of economic growth for much of the region, even as growth rates in China fall.

China is also the greatest threat to the economies of the region as it attracts most foreign investment the region.

Southeast Asia and Japan have economies that remain reliant upon exports.

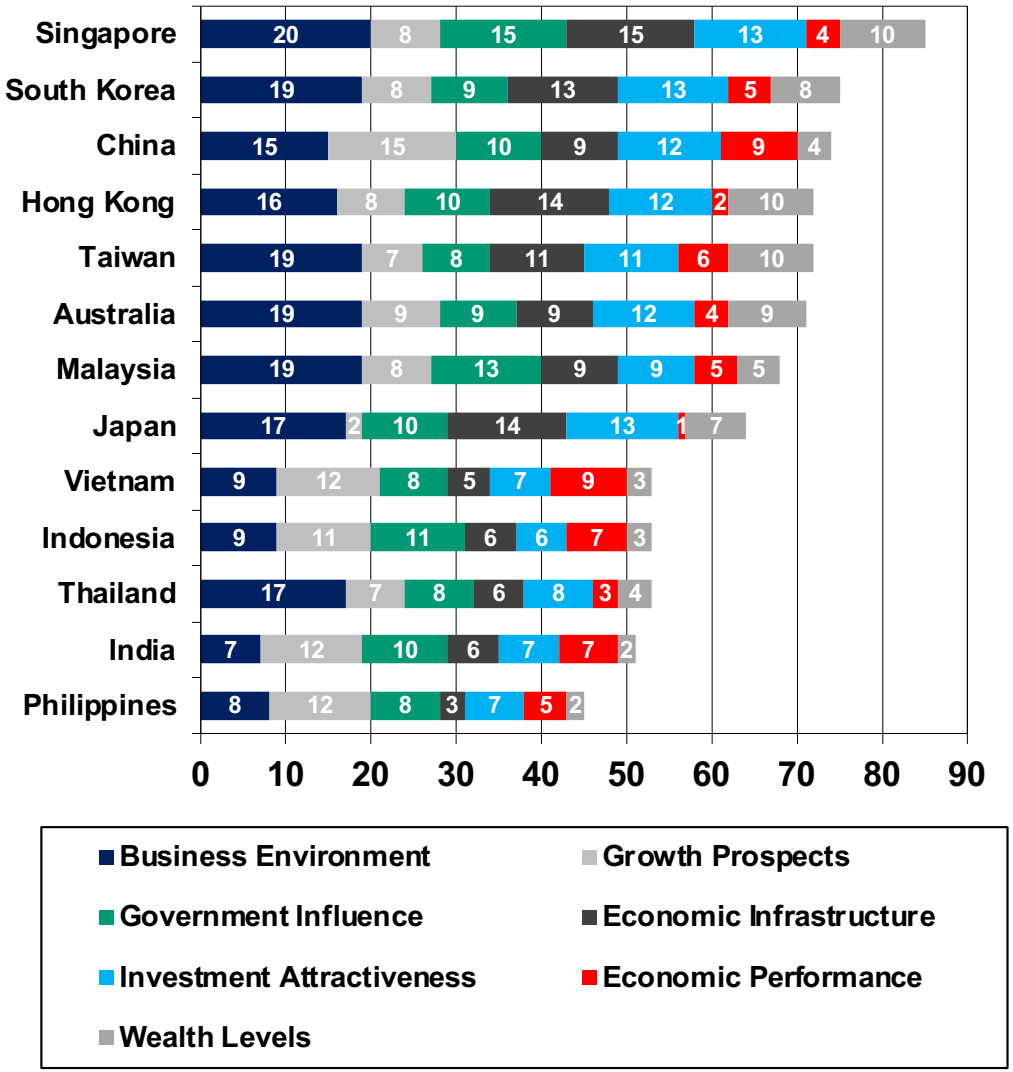
Australia and New Zealand continue to achieve solid economic growth rates.



East Asia's role in the world economy continues to play an increasingly important role in the world and will one day overtake North America as the center of the world economy.

ISA Economic Competitiveness Rankings: Asia-Pacific

ISA Economic Competitiveness Scores
Asia-Pacific



Summary

The high level of economic competitiveness for many of the leading economies of the Asia-Pacific region is reflected in the strong performance of the region's economy in recent decades and its ability to attract such a large share of foreign investment from around the world.

China's economy remains one of the most competitive in the world, despite recent hiccups. In contrast, Japan's economic competitiveness has waned in recent decades, while India still has much ground to make up in terms of its competitiveness, as do many large Southeast Asian emerging markets.

Some of the region's smaller economies have focused their efforts on improving their economic competitiveness. As a result, Singapore now ranks as the world's most competitive economy. Hong Kong's is also quite competitive but has lost some ground due to the political uncertainty in that territory.

Takeaways

- Improvements in competitiveness have been a key reason for the Asia-Pacific region's strong economic growth.
- Many emerging markets in this region still have room to improve their level of economic competitiveness.

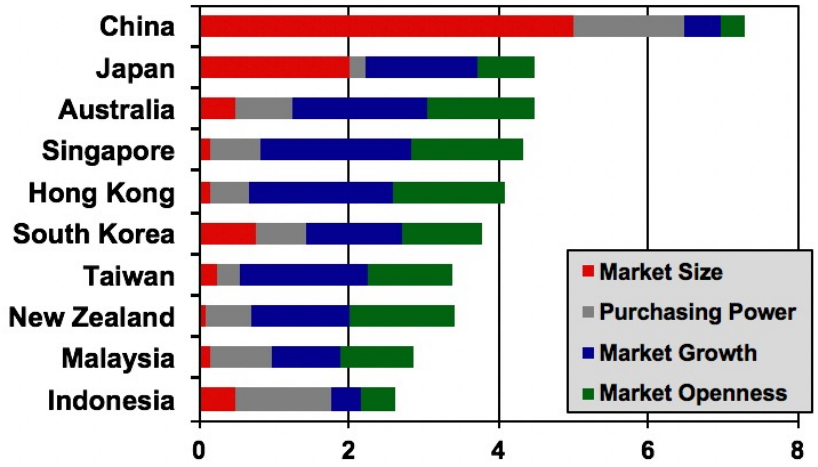
Ranking Export Markets in the East Asia and Pacific Region

Summary - No region has been able to match the growth opportunities that the East Asia and Pacific region has provided to exporters in recent decades. In fact, this region contributes more growth to exporters in most industries than any other region in the world. On one side, there are the East Asia and the Pacific region's developed markets such as Japan and Australia that have long been major markets for exporters from around the world. On the other, there are the region's emerging markets, led by China, that have become the key drivers of growth for exporters in recent decades thanks to the size of their markets and the rising levels of purchasing power in these countries. While growth in this region has been strong, and more such growth is forecast, there are nonetheless a number of challenges facing exporters as they select markets in this region for their exporting activities. For example, exporters face a number of formal and informal obstacles when attempting to sell their goods or services in many countries in this region. Likewise, purchasing power levels in many of the larger countries of the region remain relatively low, limiting near-term growth opportunities. Nevertheless, the East Asia and Pacific region will continue to provide more opportunities for growth for exporters than any other region in the coming years.

Ranking Export Markets

As a reminder, ISA uses four criteria to rank a country's export market potential in order to determine the attractiveness of a region's markets. First and foremost, the size of the market is the most important criteria in determining the attractiveness of a particular market and therefore, this accounts for 50% of our score for market attractiveness. Second, purchasing power accounts for 20% of our score, as most exporters are focusing on the upper and middle classes in export markets. Third, the growth outlook for each market plays a vital role in the attractiveness of an export market and this counts for 15% of our overall score. Finally, the openness of the market for exporters, both formally and informally, is a major factor in determining how exporters view a potential market and this also accounts for the final 15% of the overall market attractiveness score. Altogether, these four criteria give us a solid base from which we can determine the relative attractiveness of individual export markets within a particular region, in this case, the East Asia and Pacific region. Please note, this region's rankings are within the region only and should be compared with our scores used in a recent report on Latin American export markets.

East Asia and Pacific Export Market Rankings



Scoring: The score is an accumulation of the scores for market size (50% of total score), purchasing power (20%), market growth (15%) and market openness (15%).

Ranking Export Markets in the East Asia and Pacific Region

Three Export Market Tiers

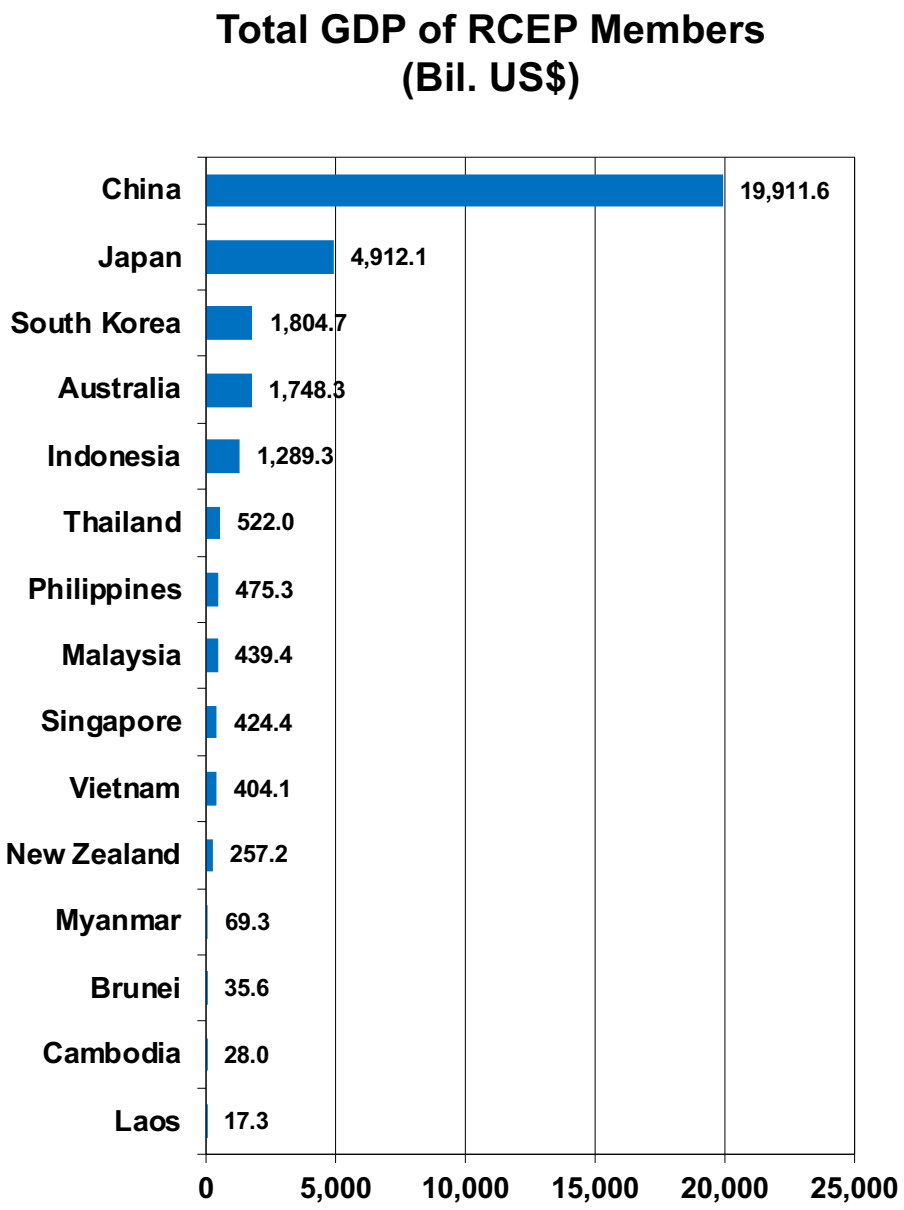
In the East Asia and Pacific region, there are three clear tiers of export markets according to our ranking system. As one would expect, the top tier is occupied by a single country, China, which has gone from a closed market three decades ago to the world's most important growth market for exporters. Thanks to its massive population and rising income levels, China is now the largest or second-largest market for many of the world's leading exporting companies and, despite recent economic concerns, its domestic market continues to expand at a healthy pace, particularly its consumer market. The next tier of export markets in the East Asia and Pacific region consists of the region's developed economies, led by Japan. This group of countries, with a combined population of more than 225 million, enjoys some of the highest purchasing power levels in the world. Next come Southeast Asia's larger emerging markets, led by Indonesia, Malaysia, Thailand, Vietnam and the Philippines. While purchasing power levels here are well below those of the region's developed economies (and in most cases China's level as well), large populations and rapid economic growth mean that these markets have major long-term growth potential. However, their near-term potential is limited by their lower purchasing-power levels and, in some cases, substantial trade barriers.

The Region to Be In

There is no doubt that major growth opportunities remain in place for exporters across most of this giant region. At the top, China, while already a massive export market, still has much room to grow and will continue to provide most exporters with significant opportunities for growth. The region's developed economies will not grow as fast as China, but apart from Japan, their outlook is at least as favorable as that of other developed export markets in North America and Europe. The emerging markets of Southeast Asia also have a massive potential for growth and will become, over time, some of the world's most important markets for exporters. The key will be openness, as it remains to be seen if many of the region's emerging export markets will make it easier for exporters to do business in those markets. If so, the opportunities for exporters in the East Asia and Pacific region will continue to expand faster than nearly anywhere else in the world. In fact, given the region's size and growth, it is imperative for all exporters to have at least a presence in the region that will drive global economic growth for the foreseeable future.

Statistics in Focus:

The Regional Comprehensive Economic Partnership (RCEP)



Summary

• The Regional Comprehensive Economic Partnership (RCEP) is the largest trade deal ever reached.

• The RCEP includes the ten member states of the ASEAN bloc of Southeast Asian countries, as well as China, Japan, South Korea, Australia and New Zealand.

• The RCEP's 15 members have a combined population of 2.2 billion and a combined GDP of $32 trillion.

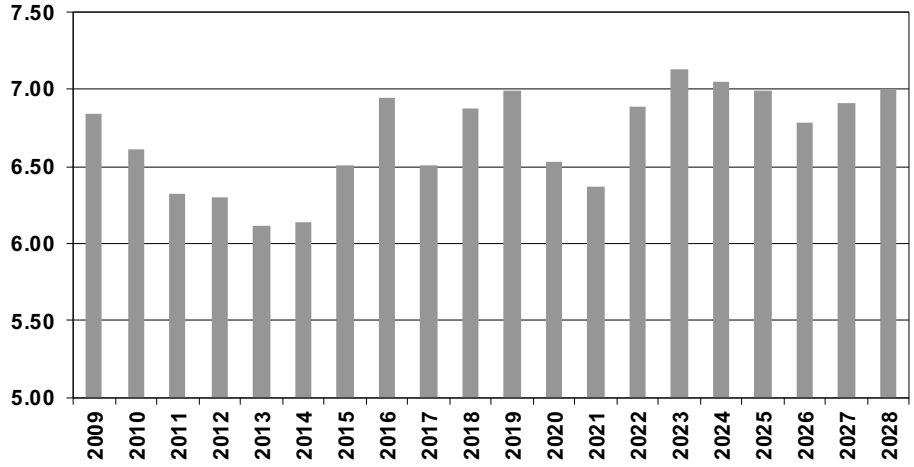
• China accounts for two-thirds of the RCEP's total population, and nearly half of its total GDP.

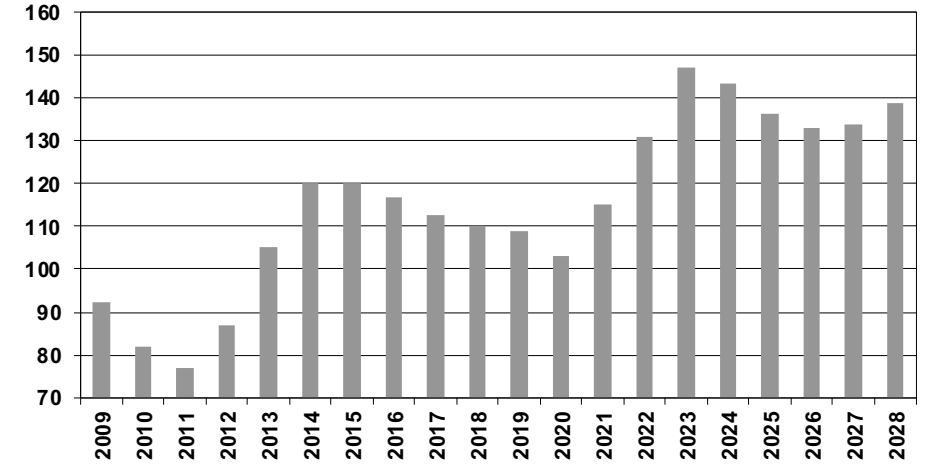
• For many of the countries that signed this deal, it was a signal to the rest of the world that the center of gravity for the global economy was continuing to shift to Asia.

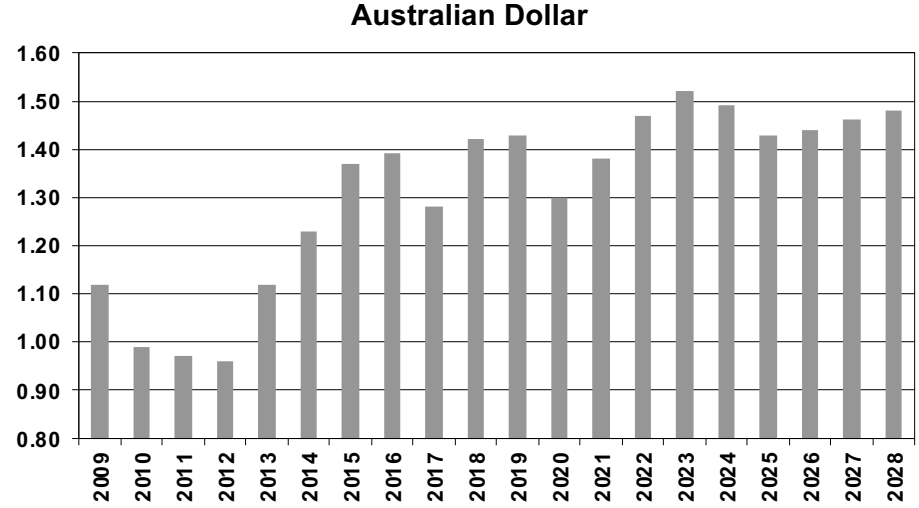
East Asia and Pacific Key Exchange Rates Against the US Dollar

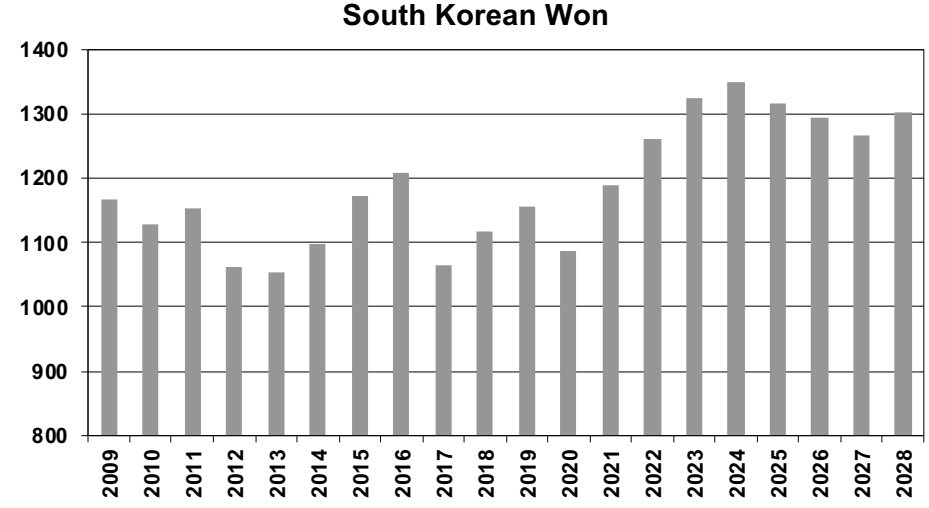
(1 US$ = Local Currency)

Source: ISA Economic Forecasts, OANDA

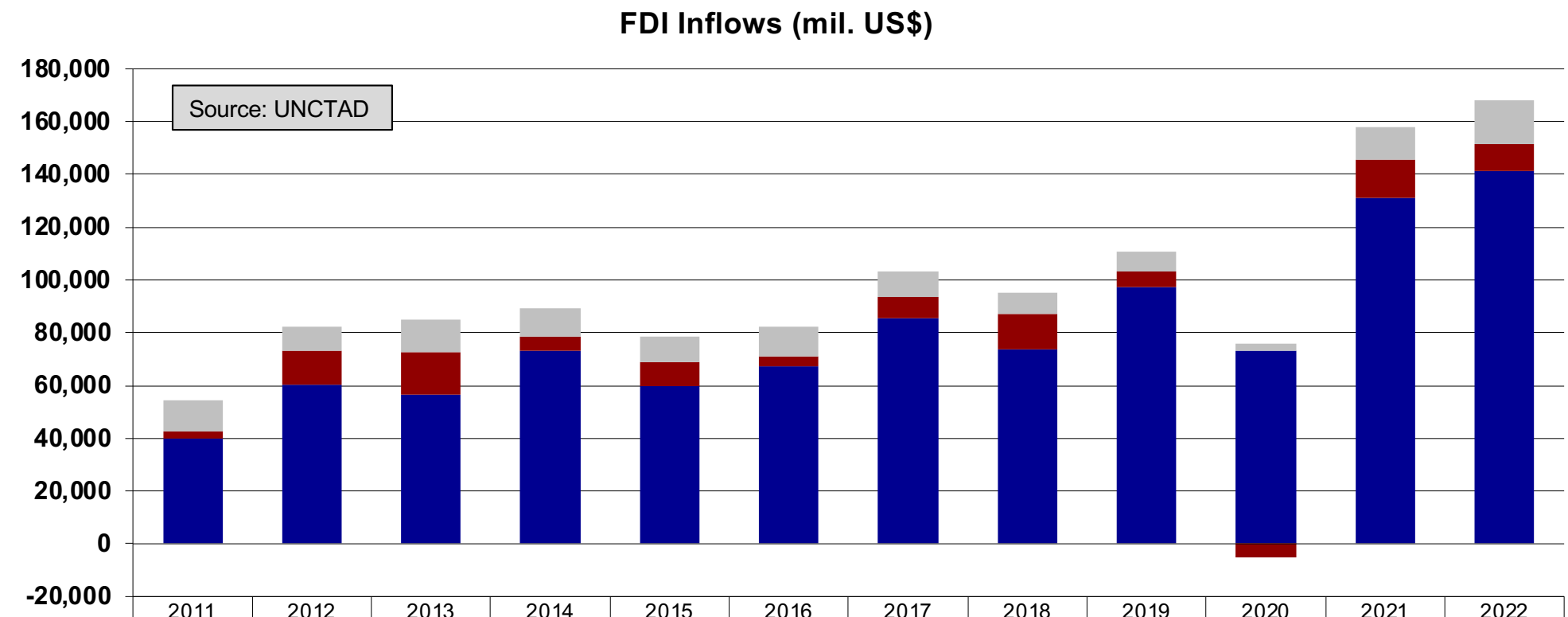








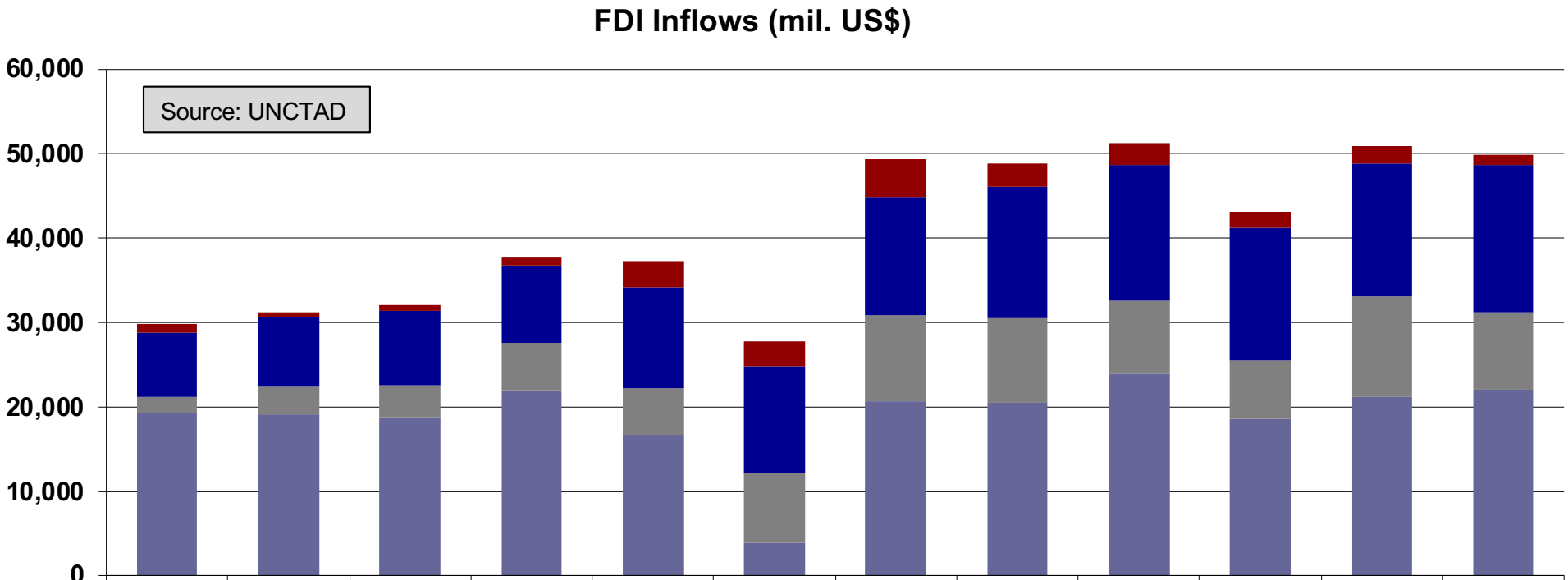
Foreign Investment in the More-Developed ASEAN



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Malaysia	12,198	9,239	12,115	10,877	10,082	11,336	9,399	7,618	7,813	3,160	12,173	16,940
Thailand	2,474	12,897	15,946	4,975	8,928	3,486	8,285	13,752	5,519	-4,951	14,641	10,034
Singapore	39,890	60,103	56,672	73,287	59,700	67,502	85,369	73,561	97,484	72,903	131,151	141,211

Foreign investment in the more-developed regions of Southeast Asia rebounded in recent years following the global financial crisis. Singapore remains one of the leading recipients of foreign investment in Asia, but Thailand has seen its foreign investment inflows decline as a result of that country's recent political uncertainty.

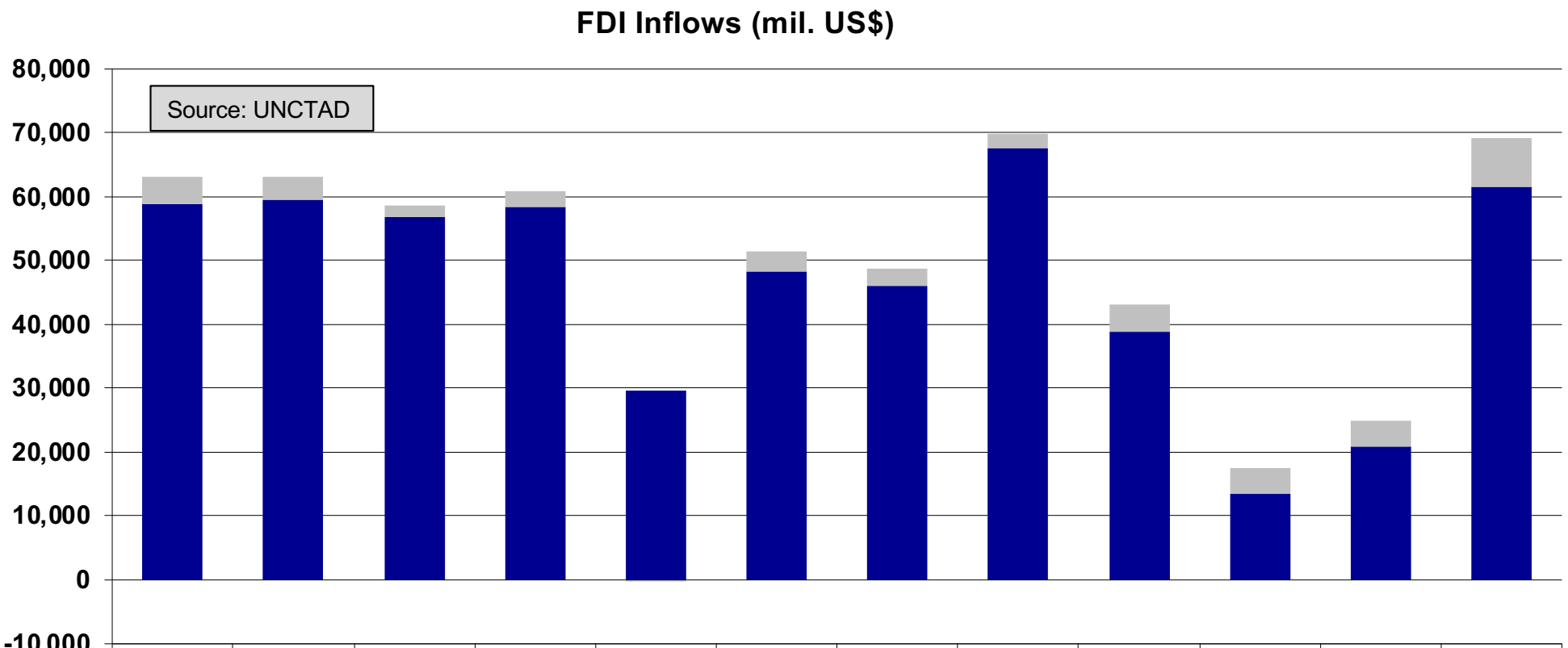
Foreign Investment in the Less-Developed ASEAN



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Myanmar	1,118	497	584	946	3,141	2,930	4,409	2,892	2,509	1,907	2,067	1,239
Vietnam	7,519	8,368	8,900	9,200	11,800	12,600	14,100	15,500	16,120	15,800	15,660	17,500
Philippines	2,007	3,215	3,737	5,740	5,639	8,280	10,256	9,949	8,671	6,822	11,983	9,200
Indonesia	19,241	19,138	18,817	21,811	16,641	3,921	20,579	20,563	23,883	18,591	21,131	21,968

Foreign investment in Indonesia has risen as that country's domestic market potential attracts investors. Meanwhile, countries such as Vietnam, Myanmar and the Philippines have seen a steady increase in foreign investment in recent years.

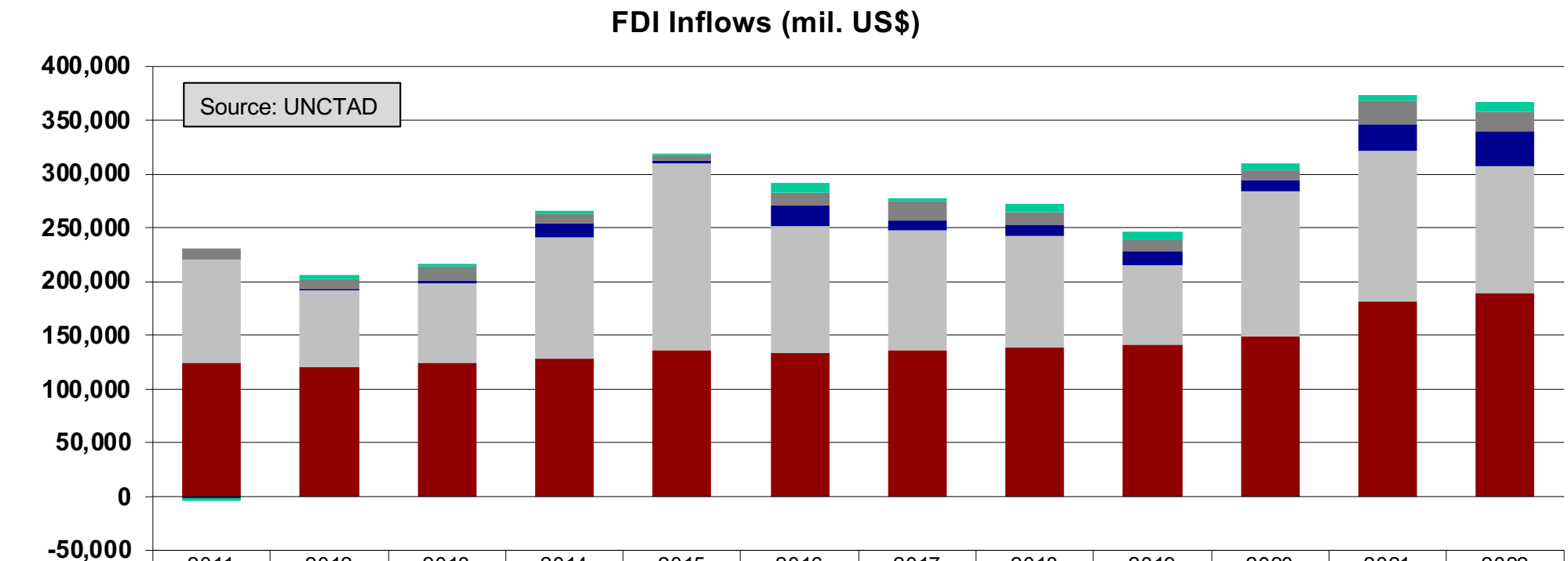
Foreign Investment in the Pacific



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
New Zealand	4,238	3,504	1,862	2,437	-309	2,979	2,723	2,298	4,273	3,886	3,993	7,539
Australia	58,932	59,574	56,766	58,507	29,580	48,401	46,114	67,568	38,886	13,583	20,899	61,629

Australia remains one of the world's leading recipients of foreign investment inflows thanks to a surge of investment from China and other emerging markets eager to access Australia's huge reserves of natural resources.

Foreign Investment in Northeast Asia

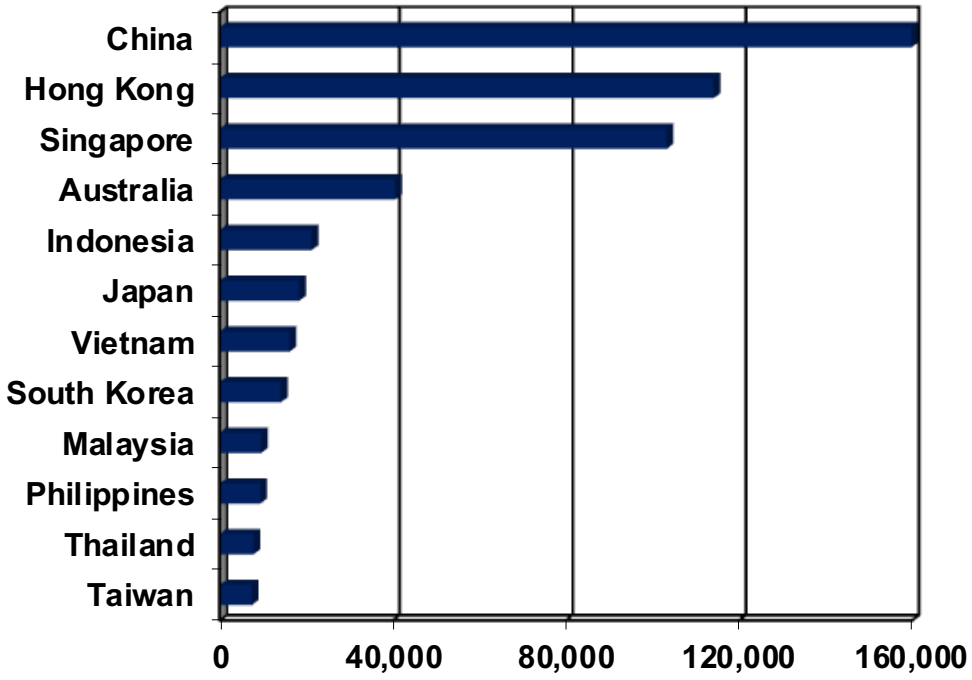


	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Taiwan	-1,957	3,207	3,598	2,828	2,391	9,692	3,401	7,114	8,240	6,053	5,416	10,189
South Korea	9,773	9,496	12,767	9,274	4,104	12,104	17,913	12,183	9,634	8,765	22,060	17,996
Japan	-1,758	1,732	2,304	12,030	2,976	19,359	9,356	9,963	13,755	10,703	24,652	32,509
Hong Kong	96,581	70,180	74,294	113,038	174,353	117,387	110,685	104,246	73,714	134,710	140,186	117,725
China	123,985	121,073	123,911	128,502	135,577	133,711	136,315	138,306	141,225	149,342	180,957	189,132

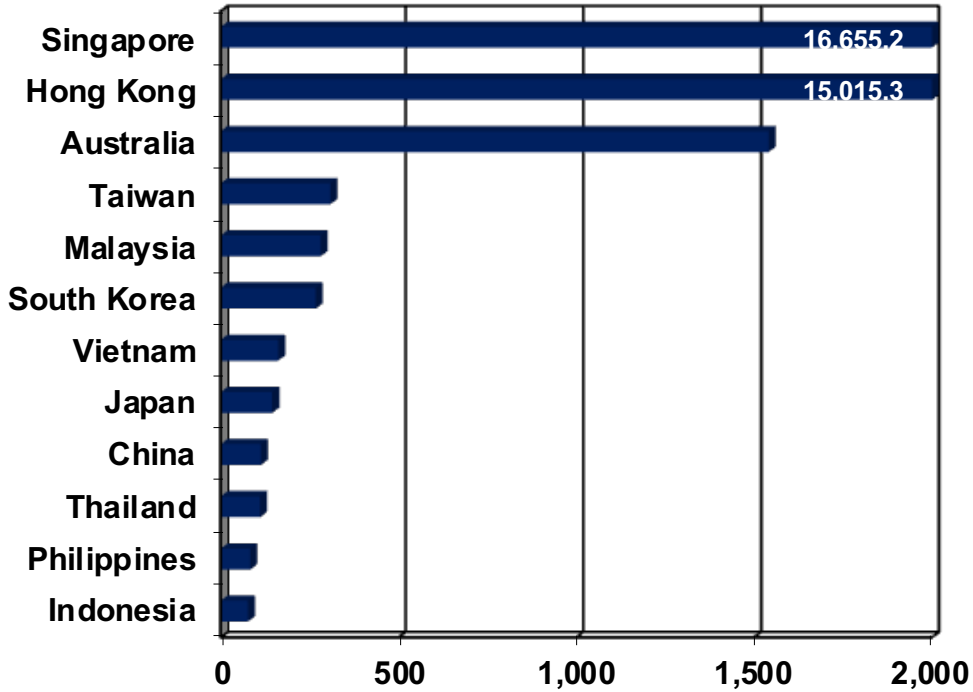
Over the past decade, only the United States has attracted more actual foreign investment than China and this will continue for the foreseeable future as the Chinese market is simply too attractive for foreign companies not to be present. Meanwhile, Japan and South Korea both will see increasing foreign investment inflows in the future.

Asia-Pacific: Regional Foreign Investment

Average Annual FDI Inflows (Mil. US$) 2018-2022



Average Annual Per Capita FDI Inflows (US$) 2018-2022



Source: UNCTAD

China has grown to rival the United States as the world's largest recipient of foreign investment in recent years. However, China still trails most developed Asian countries in terms of per capita foreign investment inflows, signalling the foreign investment into China has the potential to continue trending upwards in the coming years.

The Automotive Industry in East Asia and Pacific

Summary

East Asia has emerged as the leading center of the global automotive industry in recent years.

• Automotive production in East Asia has easily overtaken that of North America and Europe, thanks in large part to the rapid expansion of China's automotive industry.

Japanese automotive companies also hold a leading position in most of Asia and continue their growth in North America and Europe.

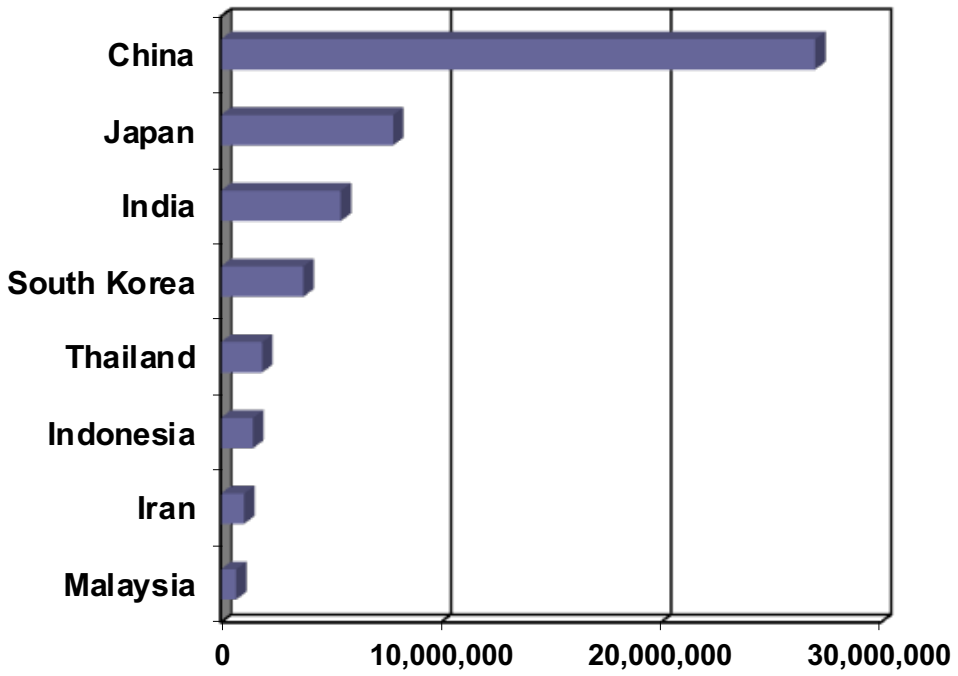
• South Korean automotive companies are following their lead.

China's staggering market potential is attracting huge amounts of automotive FDI.

• China's automotive market continues to boom and is now the largest in the world by some distance.

Data

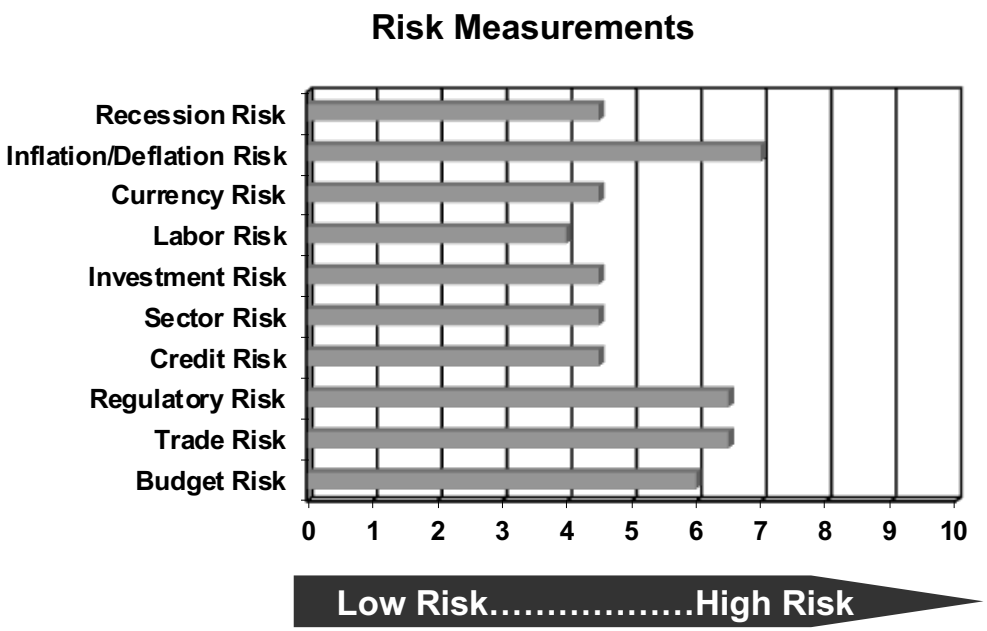
Motor Vehicle Production in Asia in 2022



East Asia and the Pacific is becoming the world's leading center of automotive production and sales, particularly as the markets of China and Southeast Asia grow. Japan's automotive companies will remain major global players, with Toyota threatening to become the world's largest automaker in the next decade,

East Asia and Pacific: Economic Risk Outlook

Current Economic Risk Ratings:



ISA Risk Ratings

- 0.0 to 1.9 = Low Risk
- 2.0 to 3.9 = Low to Moderate Risk
- 4.0 to 5.9 = Moderate Risk
- 6.0 to 7.9 = Moderate to High Risk
- 8.0 to 10 = High Risk

Economic Risk Outlook:

• The region's economic risk levels have risen significantly in recent years as export demand has been weaker than forecast and as the coronavirus pandemic has potentially introduced new long-term threats to the region's economic future.

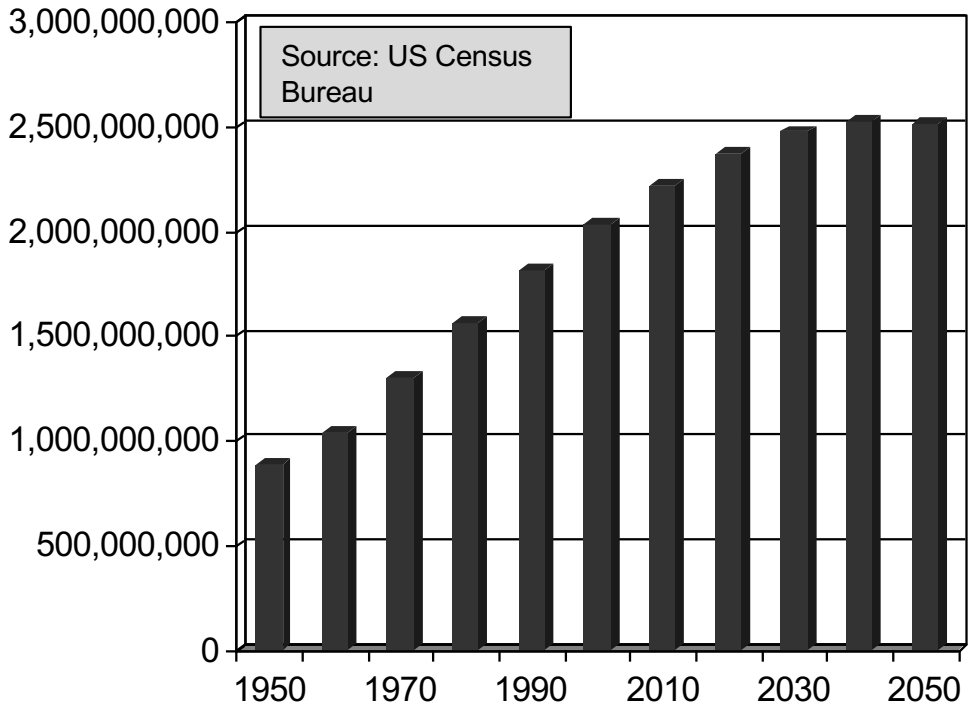
• However, the region's longer-term economic risk levels are forecast to remain well below those of most other key emerging markets.

• Domestic market growth has been a key driver of overall economic growth for a number of key economies in the region, but some key economies face domestic market weaknesses in the coming years.

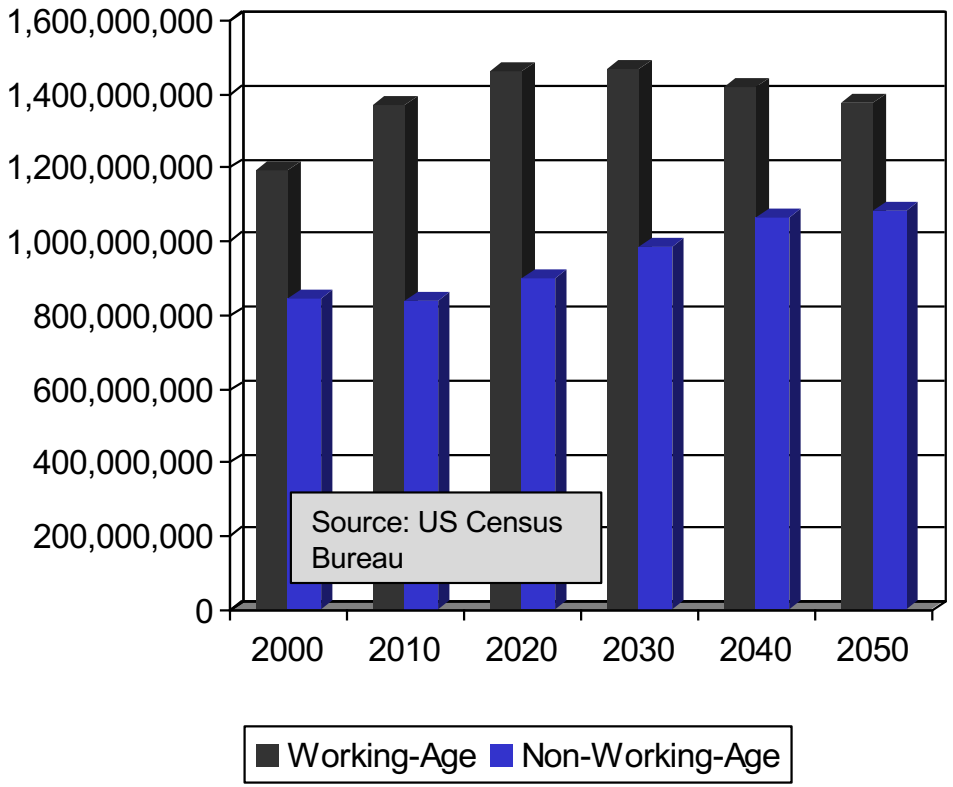
Demographic and Environmental Outlook

East Asia and Pacific Population Trends

Total Population



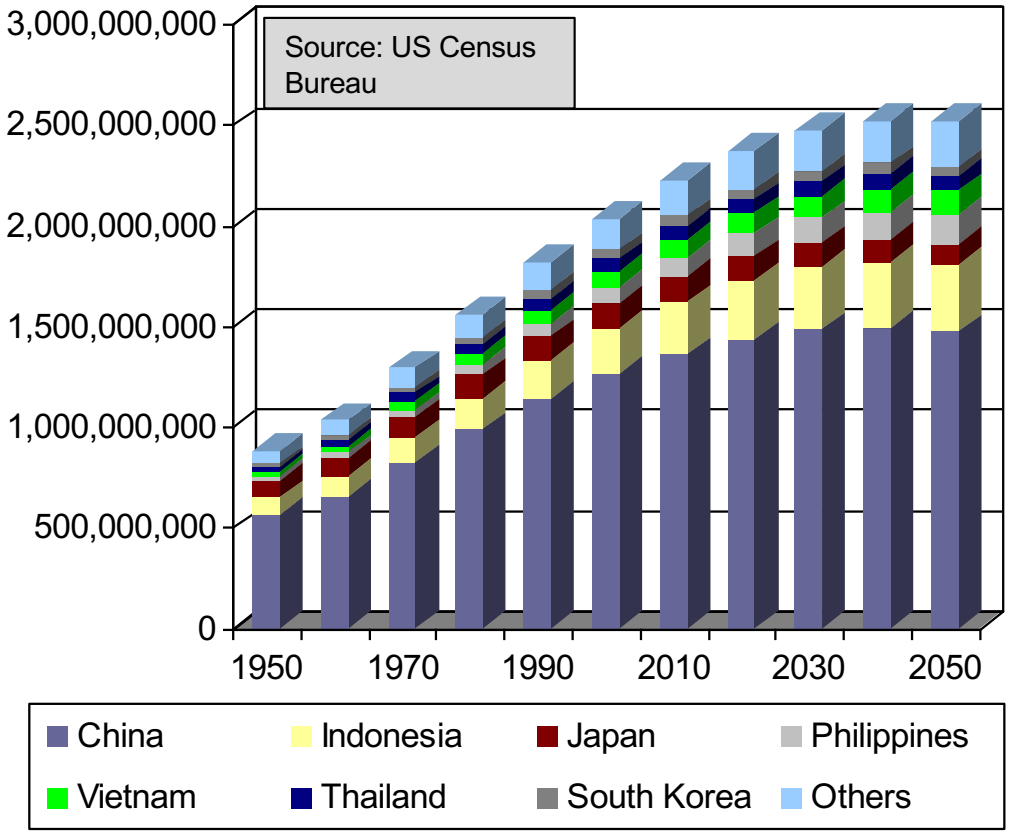
Working-Age Population



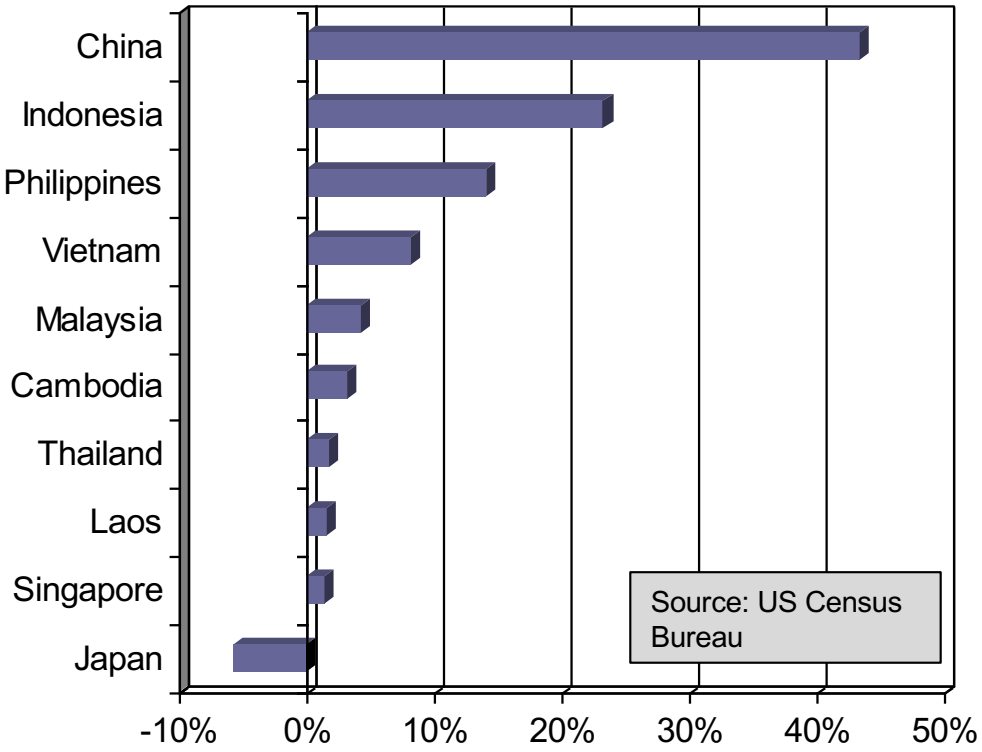
Population growth in East Asia will slow rapidly as birth rates fall across the region, drastically changing the demographic situation. On one hand, overcrowding will be eased, but an aging population will present many new problems for the region.

East Asia and Pacific Population Trends by Country

Total Population



Contribution to Regional Population Growth (2000-2050)



China will continue to account for much of the region's population, but its share will decline later this century as its population growth stops. Meanwhile, population growth will continue apace in countries such as Indonesia and Vietnam. The most developed countries in the region will realize some of the world's largest population declines.

East Asia and Pacific Ethnic Composition

Ethnic Chinese account for more than 60% of East Asia's population.

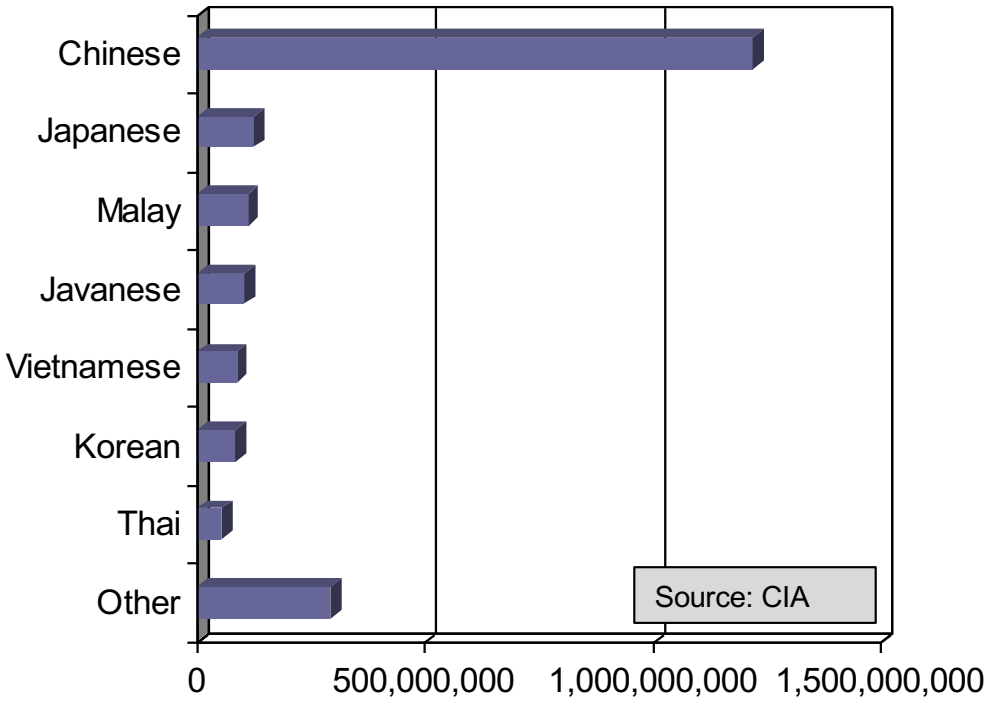
The Chinese diaspora has reached many areas of Southeast Asia.

The Japanese population will shrink rapidly over the course of the 21st century.

Malays live in many areas of Southeast Asia including Malaysia, Indonesia and the Philippines.

Countries such as Indonesia and the Philippines are comprised of numerous ethnic groups.

Largest Ethnic Groups



Ethnic rivalries are a major risk for the region's stability, particularly in countries such as Indonesia with its large number of inter-mixed ethnic groups. Elsewhere, some of the world's most ethnically "pure" countries are found in this region, such as Japan and the two Koreas which have only tiny ethnic minorities within their borders.

East Asia and Pacific Religious Composition

Confucism is one of the world's largest religions and has had a major impact throughout the region.

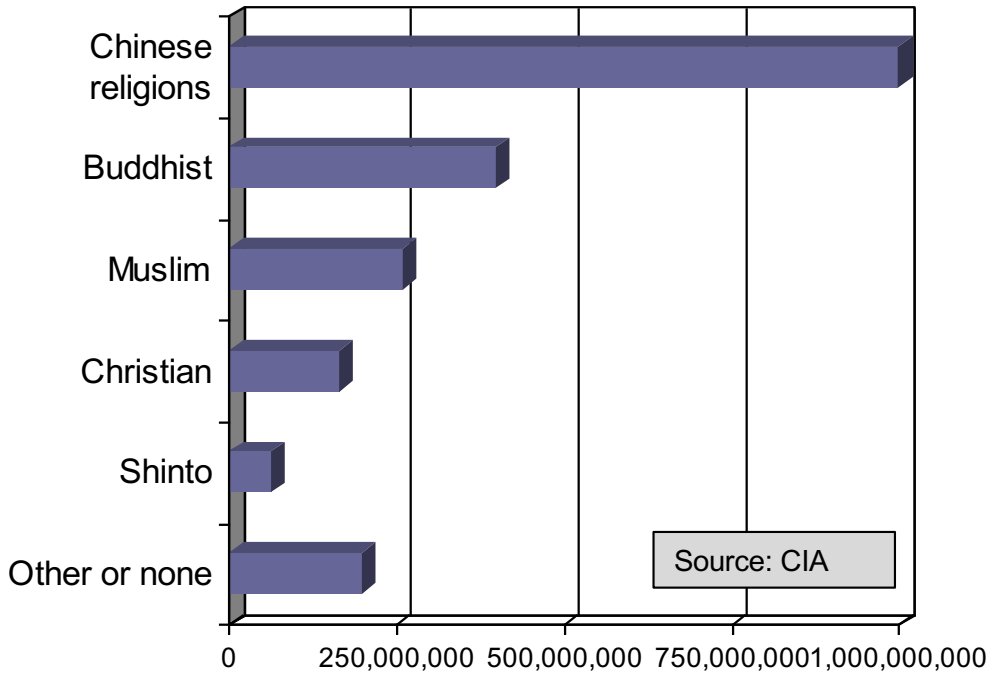
Most of the world's Buddhists live in Southeast Asia.

Indonesia is the world's most populous Muslim country.

Large Christian populations are found in Australia, New Zealand, South Korea and the Philippines.

Most Japanese adhere to Shintoism.

Largest Religious Groups



The biggest religious issue in the region is the relationship between Muslims and Christians in the Philippines and the Molucca Islands of Indonesia. This divide remains one of the most volatile disputes in the region.

East Asia and Pacific Language Composition

Mandarin Chinese is the world's most spoken first language in the world.

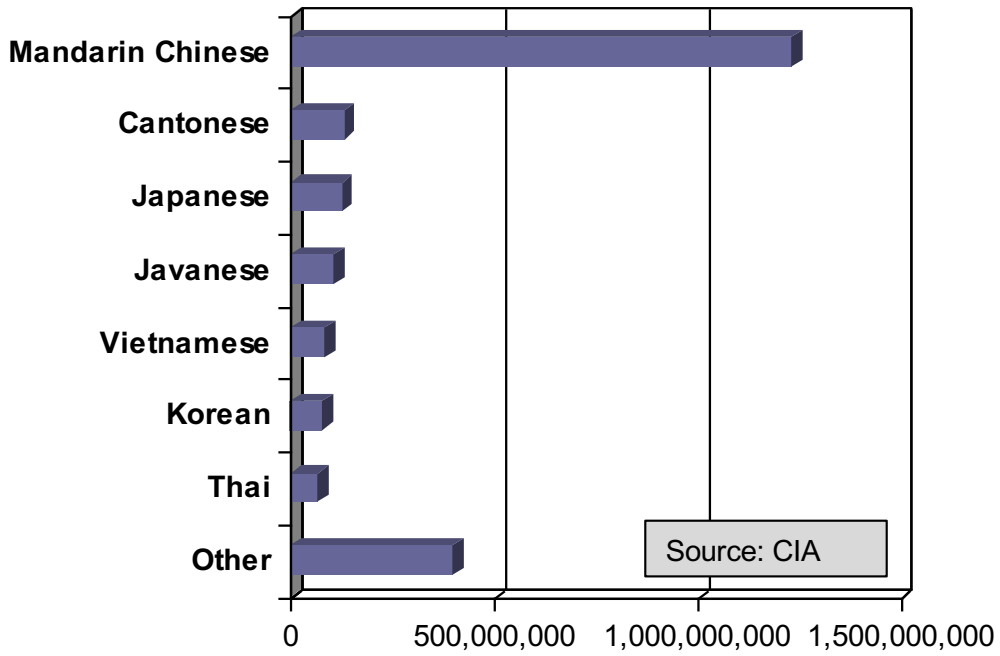
Cantonese is the main language of southern China and many areas of Southeast Asia.

English is widely spoken as a second language in most areas of East Asia and the Pacific.

Japanese remains confined to Japan, where English is spoken as a second-language by many.

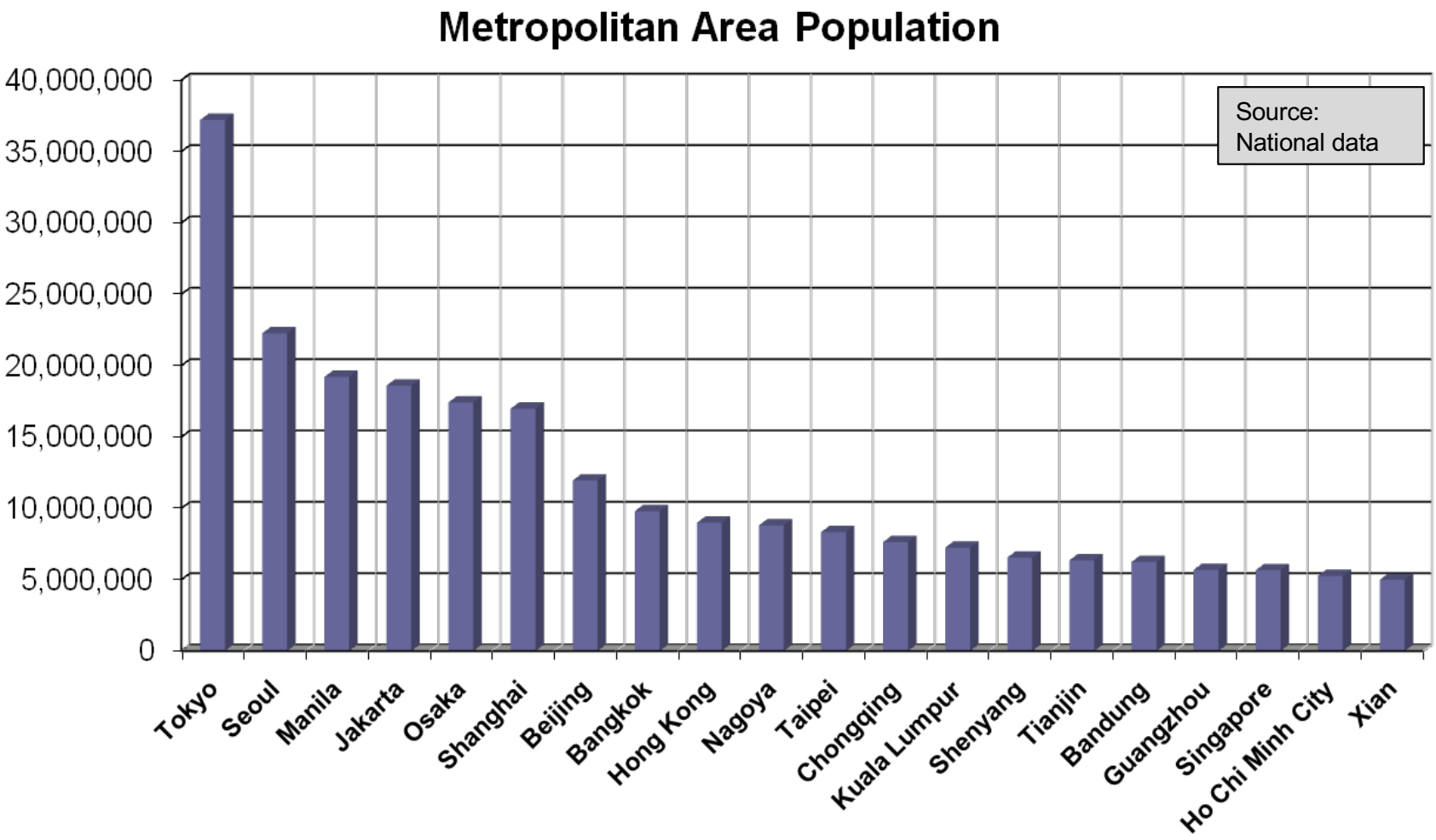
Indonesia is home to more languages than any other country in the world.

Largest First Languages



Mandarin Chinese and Cantonese continue to grow in stature as China's economic and political influence grows. Meanwhile, English is widely spoken in many areas of East Asia and the Pacific.

Largest Cities in East Asia and the Pacific



No region contains more of the world's largest cities than East Asia, with China alone accounting for seven metropolitan areas with populations greater than five million. Meanwhile, Tokyo remains the world's most populous urban center with more than 37 million people. Outside of Japan, the cities continue to grow rapidly.

Top Environmental Issues in East Asia and Pacific

Urban Pollution

Urbanization continues across the region, with many of the world's largest cities being found here.

- Growing vehicle traffic in China and Southeast Asia are creating serious air pollution problems.
- Urban populations across the region will continue to grow, leading to problems far greater than those today.

Deforestation

Deforestation continues to consume the rainforests of Southeast Asia.

- Indonesia, home to some of the world's largest rainforests, is suffering the worst levels of deforestation.
- Logging and the need for agricultural land are the main causes.

Desertification in China

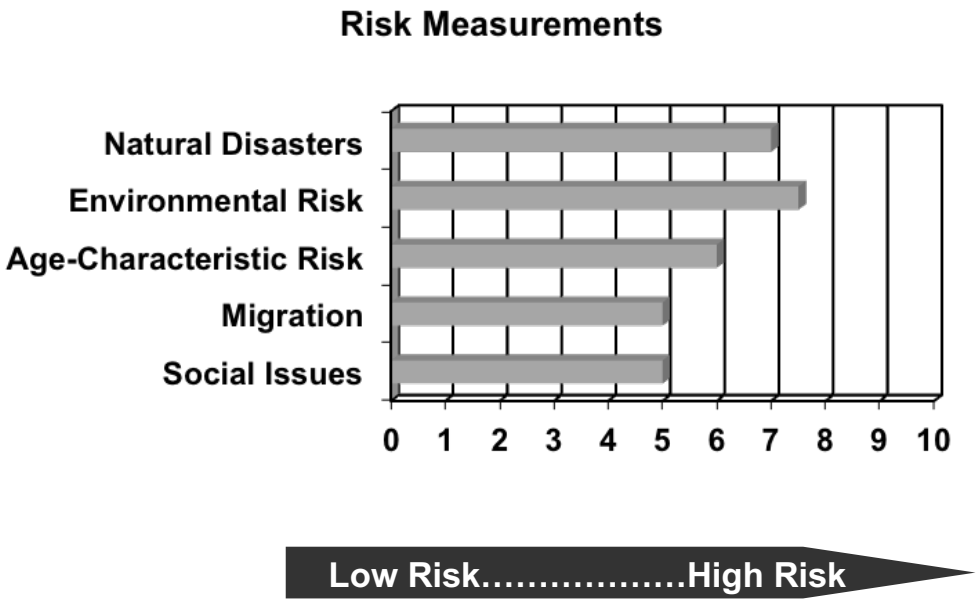
The deserts of North-Central China are spreading southwards.

- Beijing already suffers from massive dust storms during the late summer, and the desert is spreading in the direction of the capital.
- Needed agricultural land is being lost in the process.

The region's continuing population growth and industrial expansion is creating some of the world's most pressing environmental issues. Unfortunately, economic concerns will continue to override environmental worries in most countries in the region.

Demographic and Environmental Risk Outlook

Current Risk Ratings:



- ISA Risk Ratings
  - 0.0 to 1.9 = Low Risk
  - 2.0 to 3.9 = Low to Moderate Risk
  - 4.0 to 5.9 = Moderate Risk
  - 6.0 to 7.9 = Moderate to High Risk
  - 8.0 to 10 = High Risk

Demographic Risk Outlook:

• Demographic risk levels vary greatly across the region, with some areas facing huge aging issues (Japan and South Korea) and others facing ethnic and religious divides (Indonesia and the Philippines).

• China's demographic risk levels are much higher than that of most other emerging markets due to the impact of the country's One-Child policy.

Environmental Risk Outlook:

• The potential for man-made and natural disasters is greater in the East Asia and Pacific region than anywhere else in the world.

Summary

Future Outlook Summary

Political Outlook

• China's rising power will lead other countries in East Asia to seek closer defense ties in order to offset China, raising tensions with China in the process.
• East Asia and the Pacific will contain some of the world's most dangerous flashpoints, including Taiwan, the South China Sea and the Korean Peninsula.
• The risk of higher levels of political tensions in many areas of Southeast Asia will remain in place in the coming years.

Economic Outlook

• Economic growth will trend downwards over the longer-term in China, but a hard-landing for the Chinese economy is not expected.
• Southeast Asian economies will continue to depend on exports, with some countries in that region recording some of the highest rates of economic growth in the world.
• Japan's economy will remain sluggish over the forecast period.
• Australia and South Korea will remain two of the fastest-growing developed economies in the world.

Demographic and Environmental Outlook

• Population growth will continue to slow across most of the region, easing slightly the overcrowding problem that confronts many countries in the region.
• India will overtake China as the world's most populous country, if it hasn't already done so.
• The aging and decline of Japan's population will be among the most dramatic of any country in the world.
• Environmental problems will remain a major problem in China and other areas of this region, particularly those areas with a combination of heavy industry and high population density.

International Strategic Analysis
Understanding Tomorrow's World, Today

ISA Region Report
East Asia and Pacific

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