The Importance of Asia
Economic and Geopolitical Considerations

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Two themes: Economics and Geopolitics

• Economics
  – The size and importance of Asia
  – Trends:
    • The re-emergence of Asia
    • The shrinking world
    • Rapid growth
      – Emerging hot spots in Asia

• Geopolitics
  – The emergence of China as a military superpower
What is Asia?
What is Asia?
Economics

• Asia is large
  – Population of Asia: 4,427 million
  – 60% of world population
  – USA: 319 million
• #1 China: 1,368 million
• #2 India: 1,268 million
• #4 Indonesia: 255 million
• #6 Pakistan: 189 million
• #8 Bangladesh: 158 million
• #9 Russia: 146 million (> 75% of landmass in Asia)
• #10 Japan: 127 million
Trend 1: The Re-emergence of Asia

- In 1500, over 60% of the world’s economic output came from Asia.
- In 1960, only 20% of the world’s GDP came from Asia.
- By 2000, the share had doubled, to 40%.
- By 2100, it is likely that the Asian share of world GDP will have reverted to (or will exceed) 60%.
- Region of enormous opportunity.
Trend 1: The Re-emergence of Asia

Output and Outlook
Share of World GDP, 1820-2001

Trend 2: The Shrinking World

• Improvements in
  – communication,
  – transportation, and
  – information technology

• America is closer than ever before to Asia
Cost of a Three-minute Telephone Call in 1994
Cost of a Three-minute Telephone Call in 1998
Trend 3: Rapid Economic Growth

- Of the six economies that are growing at a rate of 5% or more:
  - Five are in Asia, of which
  - Four are among the 10 most populous countries in the world
- India: 7.5%
- China: 7.3%
- Egypt: 6.8%
- Malaysia: 5.8%
- Pakistan: 5.4%
- Indonesia 5.0%

Source: Economist, Q4 2014 figures
Trend 3: Rapid Economic Growth

Rise of the MINTs
($ trillions)

Gross Domestic Product 2012

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP 2012</th>
<th>Ranking</th>
<th>Estimated GDP in 2050</th>
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</thead>
<tbody>
<tr>
<td>US</td>
<td>16.24</td>
<td>1</td>
<td>52.62</td>
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<tr>
<td>China</td>
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<td>0.71</td>
<td>19</td>
<td>3.19</td>
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<tr>
<td>Switzerland</td>
<td>0.63</td>
<td>20</td>
<td>3.17</td>
</tr>
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Source: World Bank, Goldman Sachs
Geopolitics in Asia

• The emergence of China as a military superpower
  – Recent defense budget increases of 10%+

• Re-negotiation of bilateral and multilateral relations
  – Territorial disputes and the use of force
Defense Budgets, 2013
Territorial Disputes: East Asia

• Japan
  – Diaoyutai/Senkaku dispute
  – Claimed by Japan and China

• Japanese government purchases islands from private citizen in 2012

• Increase in tension

• Fishing boat/rare earths crisis
  – Consequence: Japan diversifies sources of rare earths
Territorial Disputes: South China Sea

- Conflicting claims over islands in the South China Sea
- Seven countries directly involved
  - China, Philippines, Vietnam are key players
- Use of force
- Chinese land reclamation projects
Claims over the South China Sea
Territorial Disputes: South Asia

- China-India dispute
- Large areas under dispute
- Pakistan involved
- China in the Indian Ocean
  - “String of pearls” theory and encirclement of India
  - Burma, Bangladesh, Sri Lanka, Maldives, Pakistan
China-India Border Dispute
Conclusions

• Asia holds enormous potential for Michigan
• Large economies, populations
• Rapid growth
• But geopolitics can affect economic relations
• Knowledge of geopolitical change critical to understanding the climate in the region