

# A conversation about the future of Asia

Asia will account for more than half the global economy by 2040.  
What opportunities and risks lie ahead as “the Asian century” unfolds?



**Simon London:** Hello and welcome to this episode of the *McKinsey Podcast*, with me, Simon London. If the 19th century was dominated by Europe, and the 20th by North America, there is a strong argument that the current century will belong to Asia.

On current trends, Asia will account for more than half of global GDP by around 2040. While China will remain an engine on growth, on current trends, the rest of Asia will contribute just as much. As we'll hear, the region, as a whole, is also becoming more integrated—whether you look at the flow of goods, finance, people, and even culture.

To discuss the future of Asia, I sat down in Seoul with Oliver Tonby, who is McKinsey's Asia chairman, Wonsik Choi, who leads the firm's Korea practice, and we're also joined on the line by Jonathan Woetzel. Jonathan is the leader of the McKinsey Global Institute, and he's based in Shanghai.

**Simon London:** Oliver, Wonsik, Jonathan, thank you so much for joining, and welcome to the podcast.

**Oliver Tonby:** Thank you for inviting us.

**Wonsik Choi:** Thank you. Thank you for having us.

**Jonathan Woetzel:** A pleasure to be here.

**Simon London:** A phrase that I think we're hearing increasingly in the media is this concept of the Asian century. This idea that we are moving into a period where Asia is going to be maybe the dominant region economically, but maybe in other ways too. Oliver, let's start with you. What do you think?

**Oliver Tonby:** I do think there is something to that. Let's talk about GDP. Asia is going to be home to 50 percent of the world GDP by 2040. If you look at where the growth in consumption is coming from, the growth in the consuming class, it's in Asia.

Look at technology. In April, the world had an order of magnitude 300 unicorns, 119 of which are Asian. If you look at VC [venture capital] funding, 40 percent of VC funding globally is Asian. If you look

at some of the world's best-performing companies, they happen to be Asian. You can look at it many different ways, but there is absolutely something to this Asian century. As we say, the question is no longer "Is Asia going to rise?" The question is, "How is Asia going to lead?"

**Simon London:** Would you agree with that, Wonsik?

**Wonsik Choi:** Absolutely. I think the Asia century is not only inevitable, but it's already here.

In the past 50 years, seven countries in the world have grown at 3.5 percent or more in terms of GDP per capita. All of those countries are Asian countries. In the past 20 years, 11 countries have grown at or above 5 percent GDP per capita. More than half of them are Asian countries, so it's already here.

As Oliver said, half of the world in terms of GDP is going to be Asian. Half of the global middle class will be Asian. Forty percent of global consumption will be Asian. Simply put, in 20 years, half of the world will be Asia.

**Jonathan Woetzel:** Just to build on that, I think that the Asian century is an indisputable reality. The only reason people might dispute it is that they've been essentially living in the past, and it has arrived on us relatively quickly in terms of how fast everything flipped.

What does the implication of this being an Asian century—in terms of the center of commerce, of consumption, of capital, and technology—leave for the rest of the world? Notably, of course, for Europe and North America, but also for emerging markets.

That is a great question, because it leads us smack into this relationship between Asian and the world, if we look at issues that are globally relevant such as the environment, security issues, or health issues. There Asia and the world must collaborate more closely than they have in the past if we are going to address these issues. Asia will be at the center, but it will take a global effort.

If we go into obviously economic issues, where there have been more conflicts recently, there may well be a need to rethink some of those arrangements, which were essentially created in earlier eras. Whether they're about how to manage currencies, obviously intellectual property is a big flash point.

**Simon London:** I think the interesting thing in the light of that answer is the news from out of Asia at the moment is anything but positive. We've effectively got a trade war going on between the US and China. There are also other tensions between Korea and Japan. There are issues in Hong Kong. How would you answer that, Wonsik?

**Wonsik Choi:** My personal view is that the biggest uncertainties and risks in the way of economic growth, ironically, are not economic.

I think these are geopolitical and political uncertainties and risks. I think the good news from my point of view is that it's not new to Asia. We've dealt with these issues before. What I would like to urge the business leaders and the policy makers and the broader constituents out there is not to lose the win-win perspective.

Asia is becoming much more intertwined in terms of economic flows and activities. It is impossible for China, for example, to grow on its own; that's also the case for Korea and Japan. Everything value chain wise is becoming much more intertwined. It's a very complex thing to unravel.

**Oliver Tonby:** I'm going to just add to that. Listen, it's very clear. These are big worries, they are top of mind for CEOs globally. Absolutely, people are worried. We are worried. We see these developments. Having said that, the long term is quite clear.

Some of these trends are long term, and they're to the point of being unstoppable. Because it's driven by the rise of demographics and rising income, because it's driven by technology innovation, and, by the way, technology that is for the most part already present in the region, there's kind of something here that is inevitable.

**Wonsik Choi:** Twenty years ago, Asia had 2.2 billion people in the working age population. In 20 years, that number will increase to 3.4 billion people. That's a whopping one-billion-person addition to the labor force.

**Oliver Tonby:** We also see—I think it's not to be underestimated—social progress. What do I mean? Education levels are going up. Today, almost 50 percent of the world's international students are Asian. Basic education is going up. We see rights for women—protection by law and what have you, all of the social progress in all of the countries. Now, it is not where it needs to be, but it is increasing. That's one of the fundamental drivers here.

**Simon London:** That's a fundamental driver of productivity, isn't it? Because a healthy person, an educated person, an included person is much more likely to be an economically productive person.

**Oliver Tonby:** Exactly.

**Simon London:** I think an interesting point is, sitting from where I sit in the US, the news flow is overwhelmingly dominated by China. To what extent is the future of Asia story a China story?

**Oliver Tonby:** China is, of course, an incredibly important part of the story, but it is not only China. We actually talk about four different Asias. We talk about China, as you mentioned for obvious reasons, given its size, given its stage of development, and other technology, technological developments that are happening in China.

We also talk about advanced Asia. The Japans, Australias, the New Zealands, Singapores, Koreas, which are highly advanced countries that are already well developed. We talk about emerging Asia; call it ASEAN-plus. Then we talk about India and frontier Asia. The latter two have large populations. They are growing. That's where we see the growth, especially in the middle-class populations. We see rapid urbanizations. The interplay between these four Asias is what makes this really interesting.

**Jonathan Woetzel:** Speaking from China, where I've been living for the past 30-odd years, everything looks a bit Chinese. We believe in, as Oliver said, the four Asias, that this is an increasingly interconnected region. I can't remember which long-gone English statesman made the comment that Asia is a geographic expression, not an economic or cultural identity. That was true 200 years ago, and Asia is physically still just a collection of islands.

What we're starting to see now is Asia as an actual Asia where there are increasing linkages between the regions of Asia, both economically, and, for that matter socially, environmentally, and physically. That is the context for it all. Whether we're talking about manufacturing value chains that span multiple countries or innovation where finance unites the region across a whole bunch of multilocal solutions. Or tourism, where there are flows to and from pretty much every Asian country, albeit with a substantial China focus or a China component to it, but with increasingly growing non-Chinese components. The flows which go regionally, not to and from China. I would say it's an important side but trying to separate Asia into a China and a non-China would sort of miss the point of Asia: Asia as a region and Asia as an interconnected network.

**Simon London:** One of the big takeaways for me, reading the latest McKinsey research is this figure that 60 percent of Asian trade now is intraregional trade. It's a little bit lower than the European Union or little bit lower than Europe, but actually higher than North America, higher than Latin America, higher than any other region.

**Oliver Tonby:** There's no question that Asia is becoming more Asian, and that's driven by several things. The different Asias that we talked about, goods flowing from the advanced Asia into other parts, that's one measure of the interconnectedness, but we also see other things. We see FDI [foreign direct investment]. Fifty percent of FDI is intraregional, meaning investments that are now going into the Indonesias and Malaysias and India are coming.

**Simon London:** From within Asia.

**Oliver Tonby:** Fifty percent of that is from within Asia. That is true whether it's for M&A purposes or if it's for greenfield investment purposes. We also see it at a more company-by-company level; we see companies investing in new countries, whether it's in the Philippines or it's in Vietnam. This is being accelerated by the ongoing trade tensions for sure, but there's also a long-term development here. Long story short, absolutely more and more interconnectedness.

**Jonathan Woetzel:** Yes, there are some interesting patterns. Of course, on the manufacturing and supply chain we have seen this big question of what will happen to Chinese manufacturing, where does that go? Over the past ten years, we've finally started to see Chinese low-end value-added manufacturing migrate. Migrate internally, but also migrate to the region and throughout the region, notably to places that have a port, that have reliable local infrastructure, which are able to provide a low-cost, labor-intensive manufacturing option. That's a finite number of places.

Some of the countries and regions that have picked up a share, have been of course Vietnam. We look at Hai Phong, for example, as an up-and-coming medium-sized city. That has really picked up a lot of share recently.

There are others. If one goes to the Dhaka airport in Bangladesh, you see the same kinds of advertisements that we saw in China 25 years ago for Guangxi, for zipper manufacturers for the textile industry. I think that investments and manufacturing technologies are regional, with some things like machines from Japan or Korea or China, are now operated by people in Bangladesh or Cambodia or Vietnam.

That's manufacturing. On the technology side, I think what we start to observe—and I'll link this a bit to finance—is that it is very multilocal in the sense that we have multiple ride-sharing technologies and networks and multiple internet search engines, reflecting the different regional characteristics.

What is common across many of these countries is the finance sources, in the sense that there is a regional venture capital, there's a regional private equity, there's a regional multilateral development bank network.

The flows in Japan and Korea, as the aging societies, are increasingly taking a leading role in the funding of technology, and by extension, by infrastructure, digital infrastructure, physical infrastructure, and the surpluses that are being generated by the aging societies are now increasingly being deployed across emerging Asia.

Then finally culture and tourism. I think it is fair to say that China is really driving the bus there. As we look at the flows we see this massive outgrowth in outbound tourism from China, notably to Bangkok, Thailand, where I understand Chinese tourists account for upwards of 9 or 10 percent of all Thai retail consumption, which is pretty amazing.

**Simon London:** As an executive from outside the region, does it even make sense to think about an Asia strategy? How do you advise executives from outside the region to even conceptualize an Asia strategy, in the light of such a big and diverse region?

**Oliver Tonby:** That is a tough question. On the one hand, those of us who are based here and live here, we know that there's not one Asia, so you're absolutely right. At some stage it does not make sense to think about one Asia.

Having said that, you do need to think about, what is my supply chain, for example, across Asia? That is changing rapidly. For multiple reasons that we've talked about it's changing, because the respective economies are becoming more advanced. Labor arbitrage is no longer a reason to start building a plant here or there.

Less than 20 percent of today's trade is actually based on that low cost at labor arbitrage. There is an Asian question around how do I think about my supply chain? It has become even more important now when you see some of the trade disputes, trade tensions, not only between the US and China

and Brexit, but also Japan and Korea. This whole topic is now much more alive, and there is an Asian question in and around that.

**Simon London:** How do I think about my Asia footprint in terms of manufacturing supply operating model? This is a big deal.

**Oliver Tonby:** Absolutely. I think there is a question around Asia in terms of if I'm an MNC [multinational corporation], where do I base my headquarters? I think we need to move away from the single Asian headquarters; it doesn't work. You need multiple.

Where do I place my sources of innovation? R&D, but also innovation more broadly, innovation of business models, innovation in products that we're selling. I think there are Asian angles, but going back to your starting point, there is no one Asia. This is complicated question.

**Wonsik Choi:** Key to me is whether that understanding is granular enough. For example, behind the Shenzhens, the Shanghais what are the next up-and-coming cities that will propel economic growth?

What are you doing about those, if you're a consumer retail company, or even a global company that wants to establish manufacturing bases? Did you know that Hai Phong in Vietnam and Bekasi in Indonesia, for example, are two of many cities in Asia that are rapidly becoming production centers for electronic products?

If you're in the sector, maybe you do. If you're not, maybe that's a level of granularity that is worth educating yourself and the rest of the management team as well as the organization about, so that you know Asia properly and how rapidly it is evolving, versus the picture that you may have as of today.

**Simon London:** Just say a little bit more about the corporate scene across Asia. As you mentioned, it has some unique characteristics.

**Jonathan Woetzel:** I think that the Asian corporate ecosystem is its own thing. It's clearly got its

own drivers and its own history. One of which has been, in most environments, a relatively outsized role for multinational corporations. Look at China, for example. Multinationals have almost twice the share of the market in China as they do in the United States. In terms of who's who on the playing field, there's a lot more multinational presence in Asia than in other parts of the world. That's one difference.

The second characteristic of the Asian context is that it is high-growth context, and of course there's been higher growth macroeconomically, but it's also microeconomically higher growth. We see companies growing faster in their top lines and to, some extent, in their bottom lines, though not always across the region.

That shapes the characteristic of competition. It's a much more volatile world. To Asia's benefit, it's a more dynamic one, especially as we look at small- or medium-sized enterprises becoming medium- to large-sized enterprises. That's really what shapes industries, and we've seen more of that and we've seen more of that competitive middle market in Asia than we have in more mature environments in the last couple of decades. I think that's a second factor.

**Oliver Tonby:** We look at what is called a power curve, which is, what are the companies that are delivering economic profit? In the top 10 percent globally, more than half of those happen to be Asian. These are the top 10 percent performing companies globally. More than half of them happen to be Asian.

**Simon London:** That's performing in terms of economic value added, right?

**Oliver Tonby:** Economic value added over the cost of capital, yes, to get specific.

**Simon London:** Yeah, yeah.

**Oliver Tonby:** Now that's interesting. Our companies here are making significant amounts of economic profit. By the way, at the other end of

the spectrum, there's also quite a number that are destroying value. Let's be clear. What's interesting to see, it's a much more dynamic population. The probability of staying in that top 10 percent is actually lower in Asia. There is more change in who are the winners. That comes for a variety of reasons. It comes from just the overall growth in the economies, which basically gives rise to new companies growing more quickly. You see the rate of innovation, of technology, basically allows new business models, new products.

**Wonsik Choi:** I think the challenge for many Asian companies is not about the ambition to get big, not in size, but also in profits, but the way to get there.

One of the things that many Asian companies need to overcome in that disruptive journey is changes in their approach to governing their businesses. Many of the Asian companies that have been successful have been growing through a lot of what I call top-down entrepreneurship.

It will still be relevant and important going forward, but many of the companies would have to shift their orientation in terms of their approach to innovation, much more bottom-up, voluntary, fast to fail. A lot of what companies are trying to adopt in terms of digital ways of working, agile ways of working, these will be foundational to their transformation going forward.

**Oliver Tonby:** Let's come back to and spend a little bit more time on this innovation happening in Asia, because I think this is a very important point. We have heard a lot about the Chinese ecosystem players and their rise, and I think that's a fantastic growth story, and they will continue to be very important. But I think it's not only that. I think it's important that we are aware of, if you look at the VC funding happening today in fields such as virtual reality, autonomous vehicles, 3-D printing, robotics, drones, AI [artificial intelligence], there is more VC funding for those happening in Asia than there is in the rest of the world.

This is a very large part: the VC funding is happening. If you look at some of the companies

that are coming and growing out of this in diverse sectors, you look at it's now either the world's largest or second-largest hotel operators, Oyo, which is an Indian company.

You can we can talk about Grab, Gojek, Tokopedia that come out of ASEAN. We can talk about Ola Cabs. There's just a proliferation of companies that are driven by technology and that are coming out of Asia.

**Jonathan Woetzel:** If I could go on from there for just a second. One of the characteristics of Asian innovation I think is that it is multilocal in that while there is a sharing of the basic ideas and the standards, if you will, as well as the finance, but the actual marketplace that Asians are developing much of their technology for is an Asian marketplace.

It's quite natural to see as areas and regions within Asia have a bigger local marketplace and they combine that with a source of human capital, and yes, a willing and large customer such as the government or a large employer, that they can and do develop their own local innovative capacities.

That's what we mean by multilocal—it's a cluster development. That's what we are going to see across Asia, is a set of innovative clusters sharing global technology standards. We don't think that, for example, there will be magically another 7G or 10G that sort of miraculously appears. China, Asia understands the value of having a common standard. But a local development capacity to develop and to innovate against that standard, to meet that standard's requirements. That's what we are going to see.

**Simon London:** We talked a little bit earlier about some of the geopolitical tensions, the trade tensions, that have been going on at the moment that are in the news. If we think about the other things that could go wrong with the Asian century that either could knock it off track, or the big challenges that you need to be able to overcome, what are the sort of things that spring to mind?

**Oliver Tonby:** There are several. Let me just mention a few. Number one, uneven or unequal distribution. We now see countries, sectors, parts of the population, the haves and the have-nots. This is important. If we have increasing differences in inequality, that could derail. How countries deal with rising inequality is absolutely critical. We do see, by the way, rising Gini coefficients in many countries. This is one thing to point out. The second one is sustainability, in particular, environmental sustainability. We have some of the most polluted cities to the point where you cannot be outdoors in several of these cities.

This is a huge problem: how cities and countries go about dealing with environmental issues, climate change, unhealthy cities, plastics, and water. [There are] eight million tons of plastic put into rivers every single year, and most of them are in Asia. Environmental sustainability is a huge topic. Climate change is included there.

The third one I would point out is, if some of these tensions that we currently do see—trade tensions, geopolitical tensions—evolve into something more, that would obviously be a huge problem.

**Simon London:** Wonsik, anything to add?

**Wonsik Choi:** I think economic inequality, among many other challenges that I also recognize, is the most concerning potentially for me. That is being accelerated, aggravated, by the digital disruptive technological innovations that are happening, which for the most part are creating big benefits for humankind and also the global economy.

By the way, that issue with respect to technology-driven inequality is not a new issue nor is it a unique issue for Asia. It's a global issue to address together. At least part of the solution will involve redeployment of the labor force that's actually out there. It's not a trivial task.

**Jonathan Woetzel:** I think that the Asian context in many ways is going to be the testing ground for defining a new set of arrangements, if for no other

reason than Asia is ground zero when it comes to disruption. There's no country or region on the planet that's had more disruption in the past 30 or 40 years than Asia.

China has been at the center of a lot of that, but not exclusively, and by no means going forward. I mean that we're going to see as exclusively that all of Asia is going to be experiencing vast amounts of change.

In the change lies the potential for developing a solution. It is often the case that we develop solutions because we must; not because we want to, but because they're necessary.

How do cities in Asia help absorb the next 300 million, 400 million urban arrivals? What will be the social impacts of a global distribution of AI across the economies? I mean these are issues that will affect Asian countries very quickly, and already are. They will be at the forefront of developing the new sets of solutions and arrangements for them.

**Wonsik Choi** is a senior partner in McKinsey's Seoul office, **Oliver Tonby** is a senior partner in the Singapore office, and **Jonathan Woetzel** is a senior partner in the Shanghai office. **Simon London**, a member of McKinsey Publishing, is based in the Silicon Valley office.

Designed by Global Editorial Services  
Copyright © 2019 McKinsey & Company. All rights reserved.

**Simon London:** Sad to say, I think we're out of time today, but thank you for a fascinating discussion, Oliver, Jonathan, and Wonsik.

**Oliver Tonby:** Thank you, Simon. Really appreciate it.

**Jonathan Woetzel:** It's been my pleasure, Simon. Thank you for making the time.

**Wonsik Choi:** Likewise, thank you. You should consider moving to Asia to be in the center of the action going forward.

**Simon London:** And thanks, as always, to you, our listeners for tuning in to this episode of the *McKinsey Podcast*. To learn more about this topic, please do subscribe to our brand-new *Future of Asia* podcast series, which you can find in all the same places you can find the *McKinsey Podcast*. Alternatively, visit us at [McKinsey.com](https://www.mckinsey.com) or download the splendid McKinsey Insights app.