GLOBAL TRENDS

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FIVE-YEAR REGIONAL OUTLOOK

East Asia and the Pacific

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The trajectory for East Asia to 2025 increasingly appears to be one in which China expands its leading position in the region, with the majority of its neighbors accommodating Chinese predominance. This accommodation derives largely from their need for economic ties to China and a lack of alternatives, although many countries would prefer to avoid deference to Beijing. By 2025, China's ambitions and military capabilities are likely to extend further into the Pacific, and its institutional reach will be even broader, having already expanded via organizations such as the Asian Infrastructure Investment Bank and the Lancang Mekong Cooperation forum. During this period, non-traditional security issues, including sea level rise and extreme weather, are likely to become more prominent across the region. Although the COVID-19 pandemic has increased uncertainty, most countries in the region appear to have weathered the pandemic better than the rest of the globe. Barring a major resurgence of COVID-19, East Asia and Pacific nations are likely to be better positioned economically and politically than the West in the post-pandemic era.

KEY TRENDS

Economic and Demographic Dynamism

The effects of COVID-19 on short-to-medium term economic forecasts has been severe, pushing economies across East Asia and the Pacific into recession, some for the first time in decades. Overall regional dynamics have not changed due to the pandemic, however, and some economies—particularly those of China and South Korea—have weathered the crisis better than others. Absent a prolonged pandemic that forces countries into debt crises or destabilizes their financial markets, the region as a whole is likely to begin recovery in 2021. Regional growth can be expected to resume its previously strong but slowing trajectory in the next several years, and regional overall GDPs will be likely to recover, although at a lower level than expected before the pandemic.

East Asia has been an engine of global growth for decades, most recently fueled by the rise of China as an economic power. Late 2019 pre-COVID estimates projected that Asia's GDP (including India) would overtake that of the rest of the world combined, and by 2030, contribute 60 percent of global growth. Much of this growth was expected in Southeast Asia, particularly in Indonesia, Malaysia, and the Philippines, where growing working-age populations have fueled a rise in per capita disposable income and consumption.

Projections for growth and dynamism in East Asian economies exist against a regionally divided demographic backdrop. With a few exceptions, the demographic story is one of an aging, graying Northeast Asia and a young and developing Southeast Asia. With some of the highest median ages in the region and fertility rates well below replacement, China, Japan, and South Korea are expected to see significant drops in their working-age populations in the next several decades as well as rising social security burdens. Conversely, many Southeast Asian populations are young and well above replacement fertility rates. Indonesia, for example, with a median age of 30, and a fertility rate of 2.3, will be poised to reap a demographic dividend in which its working-age population outnumbers dependents.

Increased Role of Middle Powers, Multilateralism

During the last decade, East Asia has watched China rise against a global backdrop of cracks in the rules-based, Western-led international system. Within this context, East Asia's middle powers have taken on larger roles to defend democratic rules and norms, push back against perceived Chinese assertiveness, help others build resilience and protect their own sovereignty, and preserve regional stability. Northeast Asian countries' size and military strength allow them to push back more forcefully than their Southeast Asian neighbors, yet they are increasingly likely to take China's preferences into account. Australia, Japan, and to a lesser extent New Zealand and South Korea, have deliberately increased their efforts to support free trade, the rule of law, and democratic norms, and provide the region with economic alternatives to Chinese funding.

Regional responses to more prominent middle power leadership have been largely welcoming, in part because many countries in the region are wary of growing tensions between great powers and overreliance on either China or the United States. These middle powers are generally seen as trusted partners. In a poll in 2020, Southeast Asian policy elites ranked Japan as the "most trusted" global power, with 61.2 percent of the respondents expressing confidence in Japan to provide global public goods. In the next five years, there probably will be even more calls for middle powers to play this active role, although their ability to meet regional demand for assistance is likely to be constrained by their own economic and strategic circumstances vis-a-vis China.

Middle powers champion the region's tradition of multilateralism, asserting their commitment to the

Association of Southeast Asian Nations (ASEAN) centrality, participating in regional and sub-regional gatherings, and promoting new mechanisms for free trade and development. In the next five years, reliance on regional multilateral mechanisms is likely to increase, particularly if smaller states see these bodies as ways to promote their agendas and buffer themselves from great power tensions, and as middle powers use them to reinforce international rules and norms.

New multilateral coalitions may arise in the aftermath of COVID-19, particularly among countries that have successfully managed their own domestic outbreaks. Countries in the region are considering easing travel restrictions among small groups, or "bubbles," of countries, most notably Australia, Japan, New Zealand, Thailand, and Vietnam. These groups could extend to China or other countries that have managed the pandemic relatively successfully. Over time, these networks could present alternative groupings for the region, with economic and trade ties restructured along post-COVID-19 lines.

This growing regional emphasis on multilateralism could have the unintended consequence of pulling East Asia more tightly together even as regional states become increasingly wary of growing Chinese power. A greater sense of East Asian regionalism could by chance or design exclude the United States from some regional activities, despite many regional states' continuing interest in the United States playing a stabilizing role.

Non-traditional Security Issues More Important

During the next five years, non-traditional security challenges such as public health, climate change, and food and water security are likely to become more important national security concerns for countries in the region, and in some cases, spill across borders with implications for regional stability.

Most prominent among these concerns is the threat of another regional pandemic. East Asia and the Pacific appear to have managed the COVID-19 pandemic relatively well compared with the United States and Europe, although the course of outbreaks is still unfolding. In this sense, COVID-19 may be an ongoing concern for its ripple effects as well as a case study for future outbreaks.

Climate change probably will have a severe effect on East Asia and the Pacific. Many effects are expected to manifest in the next few decades. While this is outside the five year time horizon, recent research predicts even more dire results from climate change-induced sea level rise than previous estimates, with China, Vietnam, and Indonesia among the most severely affected. This is not just a long-term challenge, however; in many places in the region, the threats from climate change and environmental degradation have already become acute.

Sea Level Rise. Many of East Asia and the world's largest cities, including Bangkok, Ho Chi Minh City, Jakarta, Manila, Osaka, Shanghai, and Tokyo, are coastal and are already facing rising sea levels. Forty percent of Jakarta, for example, is now below sea level and is sinking at a rate of between 1 and 25 cm per year. In addition to mitigation efforts such as building sea walls and instituting flood prevention planning, Indonesian President Joko Widodo has announced plans to begin moving the administrative capital from Java to East Kalimantan by 2024. This project, expected to cost about $33 billion, is on hold while the government focuses on pandemic-associated economic strains.

Pacific Island nations are particularly vulnerable to sea level rise within the next five years, with some environmental experts in the region claiming they are already seeing changes they did not expect for another twenty years. At least eight low-lying islands have been submerged in recent years. Atoll states such as Kiribati, the Marshall Islands, and Tuvalu are the most threatened by rising sea levels and are already feeling the effects. The Marshall Islands declared a national climate crisis in October 2019; and the Government of Kiribati in 2014 spent $8.77 million to purchase land in Fiji to relocate its citizens if such a move became necessary.

Extreme weather. Extreme weather events have become more frequent throughout the Asia Pacific and can be expected to continue apace in the next five years. A UN Economic and Social Commission report in August 2019 noted that the "relentless sequence of natural disasters over the past two years was beyond what the region had previously experienced or was able to predict." In 2019, tropical storms and typhoons battered China, Japan, the Philippines, South Korea, Thailand, and Vietnam, while extreme heat and drought conditions contributed to record-breaking bushfires in Australia.

Food and Water Insecurity. The risks of food and water insecurity have grown in recent years because of the intersection of population growth, infrastructure development, rapid urbanization, and climate change, and are likely to become more prominent problems in the region by 2025, although specific outcomes are difficult to estimate. For example, drought conditions along the Mekong River in mainland Southeast Asia are caused by gradually shifting climate effects, as well as construction of multiple dams in the Chinese section of the river, which has limited the water's flow, and in February 2020 caused unprecedented drought conditions. Further downstream, another dam under construction in Cambodia could block 60 percent of the sediment needed for the rice paddies in Vietnam's Mekong Delta region and block fish migration.

Fisheries throughout Northeast and Southeast Asia, as well as the Pacific Islands, are also under strain. Reductions in catches are already being documented, with few indications that these trends will slow or reverse by 2025. One regional expert noted that the competition for fishing rights, already a primary cause of tension in this region, could heighten after the pandemic has ended because of regional countries' increased focus on improving food security.

- ***South China Sea.*** In May 2020, China announced a temporary fishing prohibition in waters it has claimed above the 12th parallel, including waters also claimed by the Philippines and Vietnam, as a move to conserve fisheries. Philippines fisheries bureau statistics indicated that the average daily haul for Filipino fishermen had fallen from about 20 kilograms (kg) in the 1970s to less than 5 kg today.
- ***Northeast Asia.*** As of 2019, the rapid warming of the Sea of Okhotsk between Japan and Siberia has contributed to the collapse of salmon stocks off Japan's northern coast and a reduction in salmon catches by as much as 70 percent in the last 15 years.

Resurging Autocratic Tendencies Yet Democracy Remains Potent

Governance in the East Asia-Pacific region probably will remain a mix of autocratic and democratic regime types through 2025, with autocratic gains in some countries prompting strong pushback from publics and neighboring democracies. Southeast Asia in particular has seen waves of democratization for decades that have receded as autocratic rulers and regimes regained power. Regional elections in 2018 and 2019 in Indonesia, Malaysia, the Philippines, and Thailand promised democratic advances, only to fall short of expectations, as challenges to constitutional order, religious pluralism, multi-party systems, or anticorruption efforts have emerged. The February 2021 military coup in Burma, and subsequent violent crackdown against protesters, effectively ended a 10-year process of democratization in that country, and eliminated a one of the few regional examples of a peaceful transition from previous military rule.

The strengthening of autocratic tendencies in some countries is counterbalanced by the presence of strong democracies elsewhere in the region. Australia, Japan, New Zealand, South Korea, and Taiwan are liberal democracies that hold free and fair multiparty elections, guarantee freedom of speech and expression, uphold the rule of law, and have constraints on the executive. Six other states—Indonesia, Mongolia, Papua New Guinea, Solomon Islands, Timor Leste, and Vanuatu—rank in the top half of countries on one internationally recognized index of democratic governance.

Concerns about China's increasing presence and influence throughout the region have prompted regional democracies to defend democratic rules and norms through both multilateral engagement and bilateral development assistance programs in Southeast Asia and the Pacific Islands, a trend that probably will continue and perhaps accelerate in the aftermath of the COVID-19 pandemic.

KEY UNCERTAINTIES

China will be the common denominator for most regional tension in the next five years as it navigates great power politics and its interest in establishing regional dominance over its neighbors. The manifestation of these tensions is likely to reflect the interconnected nature of East Asia, as Chinese actions in one area—such as the Mekong River—may lead to responses by other countries elsewhere—such as the South China Sea. Tensions may also spiral upward from the local to the international level, such as when Vietnamese or Filipino fishermen confront Chinese Coast Guard vessels and then appeal to their own governments for support from their national coast guards or navies. Each of the areas highlighted in this section could serve as the locus for conflict in the next five years, but it is hard to pinpoint exactly where or when conflict might break out.

Taiwan

We assess a high likelihood that cross-Strait tensions will have increased in the next five years. Taiwan's President, Tsai Ing-wen was re-elected in January 2020 after vowing to protect Taiwan's sovereignty, and in August 2020, her government announced it would increase Taiwan's defense budget by 10 percent following a 5 percent increase the year before. In addition, China's actions to undercut Hong Kong's autonomy and suppress dissent have increased public support for a distinct Taiwan identity and cemented longstanding concerns that China may take similarly hardline steps toward forcing unification with Taiwan.

South China Sea

Disputes in the South China Sea are likely to evolve but not lessen during the next five years if larger powers are increasingly called upon to support the sovereignty claims and commercial interests of smaller claimant states Brunei, Malaysia, the Philippines, and Vietnam. Although these states appeared to be increasingly capitulating to China's desired outcomes pre-pandemic, many in the region responded negatively to Chinese actions in spring and summer 2020, which were perceived as efforts by Beijing to exploit the COVID-19 crisis to consolidate its position. Resource constraints, particularly for fish and energy, are likely to sharpen during the next five years and raise tensions among smaller states, even if they do not feel empowered to push back against Beijing.

East China Sea

The waters around the Senkakus—a grouping of disputed islands in the East China Sea administered by Japan—have long been a source of strain between China and Japan, particularly after the Japanese Government bought the islands from a Japanese family in 2012. The presence of Chinese and Japanese fishing and coast guard vessels increases during annual fishing seasons, raising the risk of conflict. The already tense dynamic could be further aggravated by a change in number or type of vessels in and around the territorial waters off the islands. Japan has recently asserted an "unprecedented" increase in the number of Chinese incursions into these waters.

Pacific Islands

An influx of attention and aid from larger powers has created a new locus of great power rivalry in small Pacific Island states as Chinese infrastructure and land reclamation projects have fostered academic and press speculation about potential Chinese bases and their significance for US and allied defensive positions. This increased Chinese diplomatic and economic activity has prompted concerns among leaders in some of those countries and spurred counter-efforts by Australia, Japan, New Zealand, and the United States to expand their diplomatic, economic, and security engagement.

Korean Peninsula

Tensions on the Korean Peninsula, one of the few hotspots in East Asia in which China is not at its center, are unlikely to be resolved by 2025, the year that will mark the 75th anniversary of the start of the Korean War. Despite promising signs in 2018 that Pyongyang was shifting from coercion and intimidation tactics to dialogue and reconciliation with Seoul, by 2019, missile launches, military posturing, and harsh rhetoric had resumed, with North Korea destroying the inter-Korean Joint Liaison Office in June 2020 to demonstrate its lack of interest in inter-Korean rapprochement. Leader Kim Jong Un's efforts to improve North Korea's nuclear and missile capabilities run counter to South Korean, Japanese, and Western priorities to denuclearize the Peninsula and formalize peace. Moreover, North Korea's modernization of its military capabilities presents a growing threat to its neighbors as well as stability in and around the Korean Peninsula.

CHINA'S DOMESTIC LANDSCAPE IN 2025

Chinese President Xi Jinping probably will still hold power in 2025, having removed his only term limits in 2018, suggesting we will see continuity on his policy priorities, including a strong Chinese Communist Party (CCP) role in controlling society and the economy, robust support for technological and military development, and little to no tolerance for dissent.

- Beijing probably will pursue economic reforms to lower the risks of a financial crisis, increase domestic consumption, reduce administrative barriers to commerce, and attract foreign investment. However, leaders probably will preserve a guiding CCP role in major state-owned enterprises and private firms, maintain robust industrial policies, selectively intervene in markets, and control cross-border capital outflows.
- Many of China's heavily indebted local governments, especially in interior and northeastern provinces, are likely to struggle to fund social services and new stimulus measures without substantial national fiscal reforms. China's demographics will exacerbate these pressures, as its work force has been declining for nearly a decade and its total population could peak as soon as 2023.
- Beijing will continue to rely on security services, extensive local party and partner organizations, and propaganda to prevent citizens from acting on their grievances. Chinese leaders may continue to make minor adjustments to harsh policies targeting Uyghurs or Tibetans; however, they will persist in long-term efforts to forcibly assimilate ethnic and religious minority groups with little concern for international criticism.