The Future of Asia:
Can it remain the engine of global growth?

Keynote speech by

Rhee, Chang Yong

Governor of the Bank of Korea

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Sawatdi khrap.

Thank you for inviting me today. I would like to express my gratitude to Managing Director Georgieva, Governor Ratanakorn, Director Srinivasan, my friends at the Fund and the Bank of Thailand for organizing this conference. I also wish the IMF Annual Meetings here in Bangkok this October a great success.

I was asked to speak on the Future of Asia. As a central banker, it would be natural to focus on monetary policy—but monetary policy alone does not fully capture what lies ahead for Asia. So today, not as the Governor of the Bank of Korea, but as an economist with Asia's economy close to heart and who loves Thai food, I will speak about the realities Asia faces and the challenges ahead.

1. Asia's Rise and the Road Ahead

To talk about Asia is to talk about half of humanity.[1] Since 1991, when Thailand last hosted the IMF Annual Meetings, Asia's per capita GDP has grown nearly eightfold.[2] All 13 countries then classified as low-income have since reached middle-income status,[3] lifting over 1.2 billion people out of poverty. To be sure, China was a major driver, but even excluding China, Asian incomes rose 4.5 times—well above the 3.1 times seen in the rest of the world.

Let me walk through how Asia became the engine of global growth,[4] by period and by region.

Asia's contribution to global growth rose from roughly 20% in the 1970s to 60% today [Figure 1].[5] These are remarkable figures. China's share alone climbed from 5% in the 1970s to 35% by the mid-2010s following WTO accession, before declining to a projected 27% this year. Until recently, the prevailing view was that even as

[1] Based on 37 Asia-Pacific economies as classified by the IMF. In 2024, the region's population stood at 4 billion, or 49% of the global total of 8.1 billion.

[2] Based on PPP per capita GDP as of 2024 or 2023.

[3] Based on World Bank income classification.

[4] Georgieva (2025).

[5] Contribution rates are calculated by multiplying each region's real GDP growth rate by its share of global GDP at PPP. Projections from 2025 onward are based on IMF WEO (Oct. 2025).

China's growth rate would moderate with maturity, its expanding economic size would keep its contribution steady.[6] Yet the recent sharp decline suggests that geopolitical tensions, population aging, and real estate deleveraging are exerting a much heavier toll than previously expected.

China's rise often overshadowed the rest of Asia, but the region excluding China also steadily raised its contribution from about 18% to 30% over the same period. Japan's contribution peaked in the 1970s–80s and Korea's in the 1990s [Figure 2]. Both saw declining contributions as demographic headwinds weighed on growth, though their deep integration into China-centered production networks in the 2000s likely cushioned this decline. ASEAN-5 maintained a steady 5–10% share throughout. What stands out recently is the rise of India, which is rapidly filling the gap left by China and now accounts for over 15% of global growth. Asia's growth drivers are diversifying, and the region continues to power the world economy.

Many observers attribute Asia's success to its drive toward export-led manufacturing within a favorable globalizing environment.[7] Without major wars over the past half-century, geopolitical tensions and trade barriers eased, and free trade and capital flows expanded. Unlike other emerging economies that relied on commodity exports or import substitution, many Asian economies pursued government-led, export-oriented industrialization.[8] From the 2000s, "Factory Asia"—vertical production networks centered on China—enabled the region to account for over half of global manufacturing gross output by 2022: roughly one-third from China and one-fifth from the rest of Asia.[9]

This manufacturing-led growth laid the foundation for Asia's middle class. Labor-intensive manufacturing created large numbers of quality blue-collar jobs, raising incomes and reducing inequality. By 2024, more than half of Asia's population had joined the middle-class-and-above consumers, with another one billion in Indonesia,

[6] IMF (2014).

[7] World Bank (1993).

[8] IMF (2025).

[9] Factory Asia covers ASEAN-10 plus East Asia. Source: OECD TiVA 2025.

India, the Philippines and Bangladesh, expected to follow within the next decade.[10] Asia's rapid growth has also been the key force reversing the nearly 200-year trend of widening global income inequality.[11]

2. The Limits of Export-Led Manufacturing Growth

Ladies and gentlemen,

Among the many topics addressed at this 'Asia in 2050' conference, the central question may well be this: can Asia's success over the past half-century be sustained?

A decade ago, when I served as IMF APD Director, or earlier as ADB Chief Economist, I would have answered "yes" without hesitation. Asia still had relatively low per capita income, a massive population and domestic market, and growing intra-regional trade—all pointing to further convergence. Even as China's high-growth phase passed, its economic size would anchor global growth, and large emerging markets like India and Indonesia would help Asia evolve from Factory Asia into a consumer powerhouse.[12]

If asked the same question today, I would be far more cautious, given the shifting global landscape. Let me highlight three.

First, what is often called deglobalization—a trend long underway but now accelerating amid trade tensions. The global economy is increasingly fragmenting into blocs, and supply chains are being reorganized along geopolitical rather than economic lines. The premise that price competitiveness alone guarantees access to global markets no longer holds. Geopolitical alignment now matters.[13] This is also related to the decline in China's growth contribution we saw earlier, and export-oriented Asian economies are inevitably affected.

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[10] Caballero and Fengler (2024). Middle class is defined as daily per capita consumption of $12–$120 (2017 PPP).

[11] Garcia Rojas et al. (2025). The global Gini coefficient rose from about 50 in 1820 to 70 in 1990, then declined to 62 by 2019—driven largely by rapid growth in Asian population giants such as China and India.

[12] IMF (2014). More recently, McKinsey (2021) and Lim (2024) also project a continued Asian Century, conditional on domestic reforms and regional cooperation.

[13] Gopinath et al. (2024).

That said, this is less a shrinkage of global trade than a reorganization. Countries like Vietnam, India, and Indonesia are benefiting from supply-chain diversification through China+1 strategies, while Korea and Japan, deeply embedded in existing supply chains, face adjustment pressures. “Reglobalization” may be a more fitting term than “deglobalization.” Global merchandise trade volumes have continued to expand even after the pandemic, growing at an average rate of 2.2%—broadly in line with the 2.4% pace of the 2010s—with last year’s volumes coming in well above initial forecasts despite heightened trade tensions.[14] Also, China’s exports to the U.S. fell sharply, but total exports still grew 5.5%, driven by diversification into non-US markets.[15] This implies that competition with China in other markets will intensify—not only with advanced economies like the EU, but also with Asian countries in the region.

Second, advanced economies are returning to industrial policy in pursuit of manufacturing self-reliance. Industrial policy in advanced economies is not new, but since 2010, over two-thirds of such policies have been concentrated in high-income countries, with objectives extending beyond economic efficiency to national security.[16]

This shift is reflected in the evolving positions of international organizations. The OECD now views industrial policy as “crucial” for addressing structural challenges such as productivity slowdowns and green and digital transitions. The World Bank acknowledges that with advanced economies actively deploying industrial policy, “neutrality” has been compromised, and has committed to providing guidance on industrial policy design for emerging economies. The global debate has thus shifted from whether to pursue industrial policy to how to do so. By contrast, the IMF maintains a “handle with care” stance, emphasizing that industrial policy must remain transparent and should not undermine macroeconomic stability.[17]

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[14] Based on global merchandise export volumes. The 2010s figure covers 2011–2019 (excluding the immediate aftermath of the GFC); the post-pandemic figure covers 2022–Q3 2025. Through Q3 2025, trade volumes grew 4.5%, well above the initial WTO forecast of 2.5%. Source: WTO

[15] Source: General Administration of Customs of China.

[16] Global policy interventions rose from 100 in 2010 to 3,531 in 2022, with 70% of cumulative interventions since 2010 concentrated in top-quintile income countries (Juhász et al. 2025).

[17] Baquie et al. (2025); OECD (2025); Varela (2025); IMF (2024b).

Third, technological change is structurally transforming manufacturing. In a 2019 paper, my co-authors and I found that every high-income country, without exception, had at some point seen manufacturing employment reach 18% of total employment.[18] As economies mature, demand naturally shifts toward services and manufacturing employment declines. But our research showed that this degree of manufacturing experience—through knowledge diffusion and productivity spillovers—was an essential pathway to high-income status.[19] Today, however, automation is displacing labor, and manufacturing no longer generates employment at the scale it once did.[20] If AI and humanoid robotics spread further, falling production costs could erode Asia's manufacturing comparative advantage.[21] Already, manufacturing employment in emerging Asia has stalled at around 13% on average, well short of the 18% threshold—a phenomenon known as "premature deindustrialization."[22]

This is why Richard Baldwin[23] and others argue that service exports should become the new growth engine. There are promising signs: Thailand and Vietnam in tourism, Singapore, Hong Kong, and Japan in financial services, India in software and IT, and Korea and China leveraging ICT capabilities to expand manufacturing-related service exports.[24] The rapid growth of e-commerce and fintech further demonstrates the potential. However, advanced economies already hold strong advantages in high value-added services such as finance, law, and biotech R&D. Unlike manufacturing, these sectors exhibit powerful network effects, and it remains an open question whether Asian latecomers can catch up as quickly as they once did in manufacturing.

In sum, the tailwinds that powered Asia's rapid growth—globalization, accessible export markets, and labor-intensive manufacturing—are weakening, and in some

[18] Felipe, Mehta, and Rhee (2019), analyzing 52 countries over 1970–2010.

[19] India's "Make in India" strategy launched in 2014 can be seen as a rational policy response in this context.

[20] Acemoglu and Restrepo (2020).

[21] Kikuchi (2025).

[22] Average manufacturing employment share across 13 middle-income Asian economies: 10.5% in the 1990s, 11.7% in the 2000s, and 12.7% in the 2010s (13.2% in 2018). Vietnam is an exception, exceeding 18%. Source: Groningen Growth and Development Centre.

[23] Baldwin (2023).

[24] Jung et al. (2024).

cases turning into headwinds. Whether Asia can sustain its role as the engine of 60% of global growth is increasingly uncertain.

3. What Should Policymakers Do? Lessons from Korea's Experience

What changes are needed for Asia's continued growth? Much has been said about the need to strengthen innovation, human capital investment, digital transformation, service-sector upgrading, and governance reform, among others.[25] But beyond these general prescriptions, what specifically to do depends on each country's circumstances. So let me draw on Korea's experience to share my thoughts on how Asian economies that have achieved a degree of industrialization might reorient their policies.

Korea is perhaps the country that benefited most from the past half-century of globalization and government-led, export-oriented growth. During the Cold War, as capitalism's front line competing against North Korea's socialism, it also received strong support from the liberal democratic bloc. Today, Korea's manufacturing share of GDP stands at 26.7%—[26]the highest among major advanced economies—and its export dependence on the U.S. and China is roughly 20% each, making it a prime example of the challenges posed by manufacturing restructuring and reglobalization.

In facing these challenges, my first message is this: we must recalibrate our expectations of what government can do. In Korea and other East Asian economies, government-led industrial policy was highly effective for catching up—imitating advanced manufacturing and learning technology. The government set the strategic direction and drove it forcefully, while large private-sector firms found the concrete solutions.[27]

But circumstances have changed. The closer a country gets to the technological frontier, the fewer models there are to imitate, and the harder it becomes for the government to guarantee commercial viability in specific industries. The scope of

[25] IMF (2024a).

[26] As of 2024. This is roughly double the OECD average of 13.4% and well above Japan (20.6%) and Germany (18%). Source: World Bank.

[27] Lane (2025); Choi and Levchenko (2025).

industrial policy also needs to diversify beyond manufacturing. Just as advanced economies have adapted the role of government to changing conditions, Asian economies must now recalibrate their expectations of what government can and should do.

Second, I would like to emphasize that industrial policy should move away from so-called "picking winners", directly selecting firms, and instead shift toward sharing risks with private financial institutions, providing indirect support through on-lending arrangements. Success stories tend to attract attention, but failures are also prevalent in industrial policies. In Korea, for example, zombie firms—those unable to cover interest payments with operating profits for three consecutive years—have reached a record 17% of all firms, with only 1 in 8 recovering within a year.[28] This mirrors problems seen in 1990s Japan and in China's state-owned enterprises today.[29]

One reason zombie firms persist is the political difficulty of cutting off support once given. When governments pick firms directly, pulling back amid poor performance invites the political accusation of "taking away the umbrella when it rains." A more efficient approach is for the government to share risk with private financial institutions based on project risk profiles, leaving firm selection to those private institutions. When firms are unaware of the government's involvement, private lenders can withdraw funding from underperformers, improving the efficiency of policy finance.

This transition requires significant political will. Policy finance institutions have long worked directly with firms, and downsizing their workforce for on-lending will meet resistance. There is also the political temptation to publicize government support. Yet advanced economies have already made this transition—Germany's KfW, the European Investment Bank, and the U.S. National Science Foundation demonstrate that it can be done.[30] There is an additional reason to act now: unlike in the past, when the public accepted support for specific firms on the understanding that

[28] As of end-2024. Bank of Korea (2025).

[29] Caballero et al. (2008); Lam et al. (2017).

[30] Oh, Lee, and Rhee (2008).

success would be shared broadly, today such selective support by government triggers political backlash over fairness—making this transition no longer deferrable.

Third, it is time to compare the returns on industrial policy with those on structural reform, and deploy both complementarily. Industrial policy is typically a vertical intervention targeting specific industries, while structural reform is a horizontal intervention that reduces frictions across the economy.[31] The distinction is not always clear-cut, since both aim to remove bottlenecks. But at an early stage of industrialization, it made sense to prioritize building specific industries and leveraging their positive externalities to drive broader growth.

Now, for more industrialized Asian economies, relative efficiency must be reassessed. In Korea, Japan, and several emerging Asian economies, low growth is deeply tied to aging and declining birth rates. Nurturing strategic industries like AI is essential, but so is investing in structural reforms to address population aging through labor market flexibility, pension reform, and expanding economic participation among women and older workers[32]. Even the zombie firm problem I mentioned earlier illustrates the point: structural reforms for faster market exit free up resources that can be redirected to new industrial initiatives. In this sense, there is no need to choose between industrial policy and structural reform; the task is to rigorously compare their relative returns and allocate resources accordingly.

Yet given the deep uncertainty about what frontier technologies will bring, assessing relative efficiency between these two policies is harder than it sounds. If humanoid robots become widespread, aging societies like Korea and Japan may need less urgency on raising birth rates or expanding foreign labor, while Southeast Asia and India—counting on a demographic dividend—could see youth employment threatened instead. Of course, entirely different scenarios are possible—AI may create quality jobs rather than destroy them. The point is that frontier technology is advancing so rapidly that today's preferred policy choices could be overturned within

[31] Baquie et al. (2025).

[32] IMF (2025) finds that countries with stronger structural foundations see greater returns from industrial policy, suggesting that structural reform is both a prerequisite for and complement to industrial policy.

years, and national fortunes could diverge sharply. Building flexible and agile policy-making capacity is itself a critical task.

Closing Remarks

Let me close.

I have argued that Asia's economic success is not pre-ordained. How Asian countries respond to reglobalization, deindustrialization, and other emerging challenges will determine the outcome. Central banks have a role to play here as well. Structural transformation inevitably produces winners and losers, and managing the resulting tensions requires political leadership. For that political process to work smoothly, macroeconomic and financial stability must first be assured—so that external shocks do not destabilize the economy as a whole. That is precisely the central bank's mandate.

I hope this conference will serve as a forum for sharing our collective wisdom on Asia's future. Thank you once again to the IMF, the Bank of Thailand, and all of you for your attention.

Khop khun khrap.

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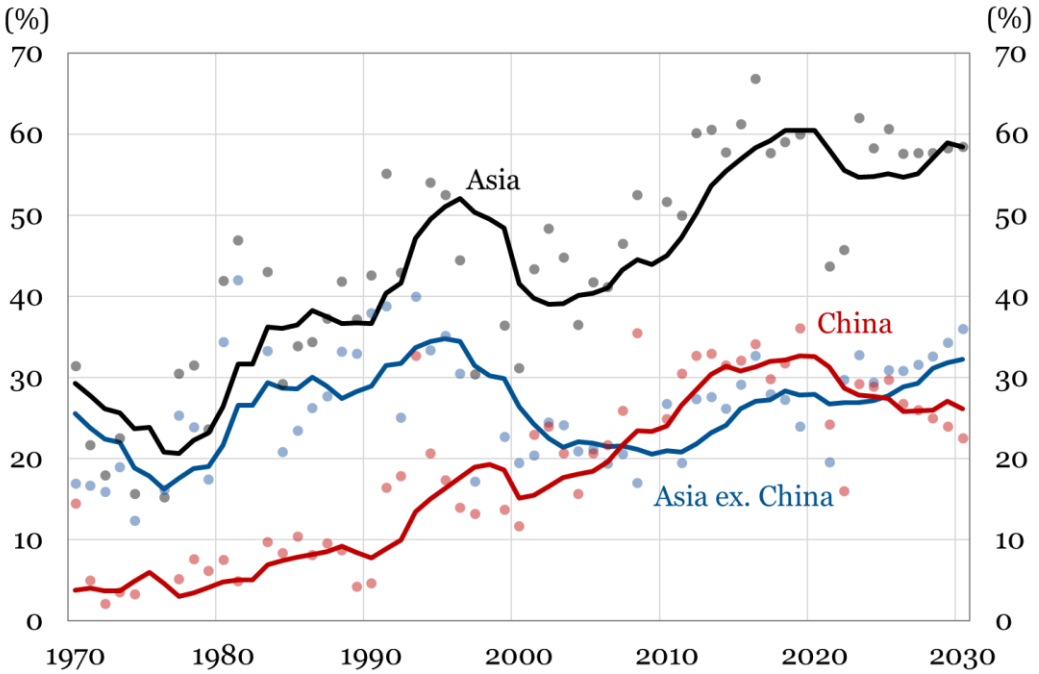
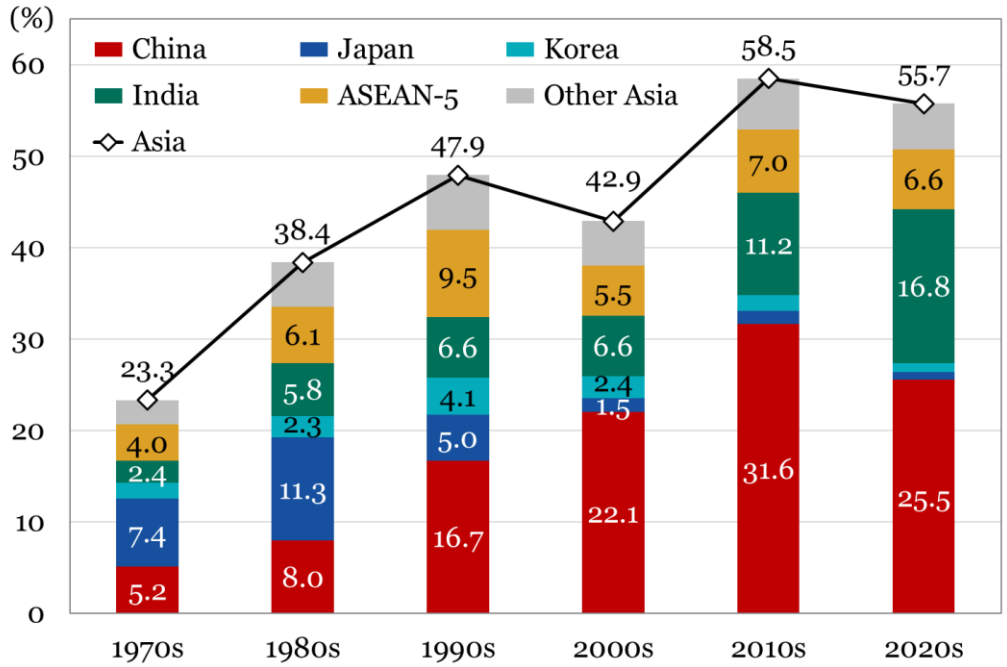
[Figure 1] Asia's Contribution to Global Growth



[Figure 2] Decade-Average Contributions to Global Growth



Notes: 1) Growth contributions are calculated by multiplying each region's real GDP growth rate by its share of global GDP at purchasing power parity, and then dividing by the global GDP growth rate. Periods covering the first and second oil shocks, the Asian financial crisis, the global financial crisis, and the pandemic are excluded.

2) In figure 1, each dot represents the annual contribution share; the solid line shows a seven-year moving average. 3) Data from 2025 onward are based on IMF projections.

4) In figure 2, ASEAN-5 refers to Indonesia, Malaysia, the Philippines, Thailand, and Viet Nam.

Sources: IMF World Economic Outlook (October 2025), World Bank, Penn World Table