

The global forces altering Asia's future

Oliver Tonby, chair of McKinsey in Asia, discusses the reasons to be positive about the outlook of the Asian economy and how the region is strengthening its position as the epicenter of global growth.



The economic outlook for Asia in the long term is a much rosier picture than what some see in the short term, says McKinsey senior partner and Asia chair Oliver Tonby. In this video, Oliver highlights the opportunities in shifting trade patterns and supply chains and describes how consumer demand will continue to power the region. An edited version of his remarks follows. The conversation is part of our series on the future of Asia.

What are the top three most disruptive forces at play when you consider Asia in the next ten years?

In the short term, we've heard a lot of worry. We worry about the ongoing trade war; we worry about the slowdown in China to now only about 6 percent. So, a lot of worries in the short term. In the long term, though, we are much more positive about the outlook. We see a number of things that are really shaping Asia going forward.

Number one, we see that Asia is going to continue to strengthen its position as the epicenter of global growth and economic activity going forward. We know already that today, even at approximately 6 percent growth, China is adding the size of the Dutch or the Turkish economy to its own every single year. We know that South–South trade, or China-to-South trade, has gone from 8 percent to 20 percent of global trade. So Asia really is at the epicenter of growth. It's going to continue to stay that way—and actually increase in importance going forward. Let's remember that India and ASEAN [Association of Southeast Asian Nations], both of which are \$2 trillion to \$3 trillion economies, are growing at 7 percent and 5 percent per year, respectively. So, we see a lot of growth going forward in Asia, overall.

The second thing we see is shifting value chains. It comes as a result of technology and as a result of shifting demand. We see growing demand in many of the countries in Asia. Look at what's happened in Vietnam. It's risen to become a huge exporter—a globally relevant exporter of electronics goods. We see many of these value chains being shifted. We see, for example, that the manufacturing cost today

in Vietnam and Indonesia is less than one-third of what it is in China. We're going to continue to see these shifts in value chains across the regions, and it opens up lots of opportunities for many countries as well as companies.

The third thing I would point out is growing consumer demand—and the growing consumer class in Asia. We're going to have more than a billion new consumers added to the population, which obviously drives demand. And the kinds of goods produced need to be tailored for India, need to be tailored for Indonesia, and so forth. This, again, creates a ton of opportunity.

The final thing that I think is very important to mention is the role of technology. There is a technology revolution happening that we know is absolutely happening in Asia too. And we see it. You go to Japan, and even though overall economic growth might be sluggish, there's a different dynamism there that wasn't there a few years ago. You see companies really wanting to transform. They want to innovate. They want to use technology. You go to India, and you look at the importance of the system integrators: it's globally relevant. There are huge companies now playing in a different league than they used to. You go to Southeast Asia, you see companies such as Grab, GO-JEK Indonesia, and Sea, which are all unicorns that have grabbed the opportunities that come from technology. That revolution has just started. Go to Korea, one of the most innovative economies in the world, and see that technology is reshaping everything that is happening. You look at the combination of all these forces, and you say, "Listen, Asia going forward? Very interesting." And you know there's reason to be positive about the outlook.

How should CEOs and companies be responding when they consider these forces at play?

I would say there are three or four questions that CEOs need to be asking themselves.

Number one: "How is the value chain in my industry being reshaped by the shift in demand patterns, by

technology, by trade?” And therefore, “What does that mean for my operational footprint, my supply chain? Where do I place what?” and so forth. I think that’s the first group of questions.

The second question is in and around technology: “Which technologies do I bet on? How do I make sure I stay ahead of the game? Who do I partner with?” And by the way, “Who do I compete with?” These are all important questions.

The final one that I would point out is skilling. Reskilling the workforce of the future is on most CEOs’ minds. “What kind of skills do I need?” They are different. You need data scientists, you need IT engineers, you need behavioral scientists, but you also need different kinds of skills. The importance of communication, of creative thinking, of teamwork and collaboration: these are different types of skills that you need more of going forward. They all pose a huge question: “Where do I get the talent?” And

that prompts, “How do I reskill my own team? How do I reskill my organization?” These are at least three questions that are on top of CEOs’ minds.

When you consider all of these, what are the biggest worries and opportunities that come to mind?

As much as I think we should be positive about the long-term outlook, I think one big, big worry is sustainability. You don’t need to travel far around the region to see how smog is affecting some of the cities. The plastics in the water: eight million tons that have been put into the rivers, and the majority of those large rivers are in Asia. It’s affecting our populations. So I think the whole topic of sustainability—“How do you get sustainable economic growth for the populations in this part of the world?”—is a key worry for everybody. It’s complicated, but it’s also dependent on which industry you’re in.

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