Two familiar quotations are worth citing to clarify the objectives of this analysis. The first is President Eisenhower’s truistic observation that “the future lies before us”; the second has been variously attributed to Mark Twain and Yogi Berra: “It is dangerous to make forecasts, especially about the future.”

The period through 2015 remains “before us,” as it was at the time of RAND’s previous forecasting work in 1988–1989 and 1994–1995; and, as before, it remains hazardous to make forecasts.1

Nevertheless, the aim of this analysis is to update and improve upon our previous forecasts of economic and military trends in five countries (Japan, China, India, South Korea, and Indonesia), with respect to four indicators of their relative power and leverage, namely, gross domestic product (GDP), per-capita gross domestic product, military spending, and military capital (the latter representing the net accumulation of annual weapons procurement and military construction). We will also highlight and explain those instances where the present

forecasts differ from our previous ones. Our focus on these five countries is explained by both their size and prominence, and by the interests of the sponsors of this research. In particular, India’s inclusion reflects these considerations, as well as its heightened recent and prospective influence in the Asian region. Our present assessment is based on data up to and including September 1999.

We also employ these new forecasts to address several security-related issues, including the broad outlook for the Asian region’s future security environment; the intraregional balance of forces; prospects for multilateral security cooperation and multilateral institutions; and prospective attitudes toward, and host country support for, U.S. forward-based forces in the region, notably in South Korea and Japan.

To facilitate comparisons between the current and previous estimates, we employ the same forecasting model used in the earlier study (see Appendix A).

The estimates presented in this report are intended as reasonable forecasts based on explicit assumptions about certain key parameters as explained fully in the text and in Appendix B. This does not preclude other reasonable forecasts, nor does it imply that the ones presented here are the most likely ones.

Our present forecasts differ from those made in 1994–1995 for several reasons:

- The use of more recent and better data, described in the individual country sections of Chapter Four.
- The sharp and unforeseen economic reversals and financial turmoil that occurred in East Asia in 1997 and 1998, as well as the remarkable recovery experienced by some of the East Asian countries since then.
- The use of both “nominal” exchange rates and “real” purchasing-power-parity rates for the dollar conversions from local currencies; the previous RAND work reported only purchasing-power-parity conversions.
• The present forecasts use purchasing-power-parity rates based on the latest (1995) Penn World Tables (PWT), rather than the 1989 PWT data employed in the earlier study.

Probably the largest differences from the earlier work arise in our estimates for Korea, reflecting sharp changes in the underlying assumptions. In 1994, following the death of Kim Il Sung, it was consensually anticipated that the anachronistic polity in North Korea would self-destruct through one or another scenario. In our earlier forecasts, we therefore postulated reunification by 1996 through one of three different scenarios: a “soft landing;” an East German–West German type of consolidation; or a military conflict through which North Korea would be defeated and would merge with South Korea. The resulting forecasts for Korea assumed a reunited South and North Korea which, after an initial setback lasting several years, would return to South Korea’s prior high-growth path. These assumptions and the forecasts based upon them were plainly wrong.

In our current estimates, we confine the forecasts to South Korea, positing that North Korea will maintain its separate status, without imposing appreciable extra economic burdens on the South, while South Korea itself will continue to recover smartly from the economic and financial turmoil of 1997–1998. (All future references to “Korea” are to “South Korea,” except where otherwise noted in the text.) It is not inconceivable that these assumptions may also turn out to err.

As in the prior RAND studies, the present forecasts are made on a country-by-country basis; interactions among the countries are not allowed for in the estimating model, nor does the model directly allow for the effects of possible changes in international trade and capital flows. So, for example, we do not consider the extent to which Japan’s and China’s large current account surpluses are sustainable. In the concluding chapters, we briefly consider several potential interactive effects: for example, the possible effects on Japan of China’s increased economic and military power, the possible effects on China of India’s increased economic and military power, and the potential effects on multilateral security cooperation in the Asian region resulting from the economic crisis of 1997–1998.

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Chapter Two provides a brief review of the 1997–1998 Asian economic turmoil, and the marked progress in recovering from it in some parts of East Asia to a much greater extent than in others.

Chapter Three summarizes the principal results of our forecasts for each of the four indicators of economic and military trends that we have used—GDP, per-capita GDP, military spending, and military capital stock—in the five principal countries, Japan, China, India, Korea, and Indonesia, of the Asian region for the 2000–2015 time period.

Chapter Four presents detailed country-by-country forecasts, together with a brief account of the individual data sources and key parameters used for each of the five countries in applying the macroeconomic model described in Appendix A. The historical pattern of these parameters and reasons for the values assumed for them in this study are set forth in Appendix B. Also, limited sensitivity testing of these parameters and the results from it are summarized in Appendix B.

Chapter Five applies two approaches to aggregating the separate country estimates: (1) indexing the GDPs and military capital stocks of the five countries to show changes in the intraregional balance of power with respect to these metrics, together with a qualitative consideration of potential interaction effects on the individual country estimates; and (2) formulating two contrasting scenarios for the future security environments of the region by combining our forecasts with other possible developments in East Asia.

Finally, Chapter Six considers relations between our forecasts and several specific issues: (1) prevalence of bellicosity or amity in the region; (2) prospects for multilateral security cooperation; (3) burden sharing; and (4) attitudes toward U.S. Army presence in the region, especially in Korea.