Many countries in Asia failing to gain from population bonuses

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SINGAPORE -- Asia is home to roughly 4 billion people, but many countries in the region are failing to use their large populations to better propel economic growth.

July's presidential election in Indonesia was a widely reported event. But one of the key issues, and one that was not mentioned much in international reports, was population control.

At roughly 250 million people, Indonesia accounts for 40% of all of Asean's population. It is the fourth-most populous nation on Earth. This is a huge potential for domestic demand, and precisely why many Japanese companies have expanded into Indonesia. But the country has not been able to fully use its population growth to its advantage.

The term "population bonus" describes a demographic breakdown in which the working-age population -- between 15 and 64 -- is greater than that of the children and the elderly. This is when a country can best make the most of its large labor pool and channel this subsequent income growth to boost domestic demand. Japan did exactly this following World War II.

Indonesia's population bonus phase began in the 1970s, and is forecast to continue until around 2030. But a look at the economic figures shows that the country is not fully utilizing this blessing.

Simply not working

Indonesia's jobless rate has risen from less than 3% in the early 1990s to just above 6% today. More than 11% of its population lives in poverty.

Even the sale of men's hair mousse shows how poverty affects consumption. In provincial cities, hair mousse is commonly sold in small quantities in little plastic bags. Most consumers simply cannot afford mousse products in sizes normally sold in advanced economies.

"If we raise the price even a little, sales will drop," an official at a Japanese trading company said.

Indonesia's nominal gross domestic product has grown roughly 80% in the past five years, yet most people continue to struggle to make ends meet.

The biggest cause of this is the country's failure to foster job-creating industries. The proportion of the unemployed who have completed high school or more advanced education was 46% in February 2013, up from the 42% in 2004.

The 30-plus years of President Suharto's dictatorship did see the creation of domestic manufacturing industries. But their proportion to the overall domestic economy has been shrinking since the country's democratization in the late 1990s, as the mining sector has become increasingly important.

This is problematic in that mining jobs are not as reliable as factory work due to wild fluctuations in mineral prices.

Poor at home

The Philippines, home to around 100 million people, has also failed to capitalize on its population bonus.

The country achieved 7.2% real GDP growth in 2013, the highest figure in Southeast Asia. But despite this, the country's unemployment rate remains stuck at 7%.

"The actual jobless rate is close to 30%, if underemployment is taken into consideration," an analysis by the Asian Development Bank reads.

Rural areas have few factories or other such sources of employment. Nearly 30% of people in the country are classified as poor, meaning they live on less than $1 a day.

Motorcycle sales in the Philippines rose 7% on the year in 2013, marking the first increase in three years. But the level was still below the record set in 2010.

The country's growth engine is the money received from the 10 million Filipinos who work abroad. Because the domestic job market is not sufficiently large enough, people who could become the middle class stay outside the country. This prevents the creation of a cycle of domestic income growth that would feed into higher consumption.

Among the major Southeast Asian countries, Singapore has the highest nominal per capita GDP, followed by Malaysia. While two countries with smaller populations than many of their neighbors top the list, Indonesia and the Philippines rank among the bottom.

If their populations continue to increase but household incomes remain stagnant, only the proportion of people living in poverty will grow.

To turn its large population into an engine of economic growth, rather than a burden, Asia must find ways to help individuals become more prosperous. A good place to start is getting governments to play key roles through deregulation and promotion of job-generating industries.