Asia’s Second Leap Forwards

How demographic and socio-economic developments are changing the most populous continent on Earth

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Asia’s Second Leap Forwards

How demographic and socio-economic developments are changing the most populous continent on Earth
This study, produced in collaboration with the Berlin Institute for Population and Development, continues the GfK Verein’s series analysing economic and demographic developments and future prospects. After “Five Lions Poised to Leap? The Economic and Demographic Potential of Africa’s Threshold Nations” in 2012, it is now time to shine the spotlight on Asia. “Asia’s Second Leap Forwards” examines the rise of many millions of people into the global middle class in what is the Earth’s largest continent in terms of area.

Asia is not only the world’s largest region, it is also the most populous, being home to six out of ten of the Earth’s inhabitants. Europeans and citizens of the USA are currently still situated at the lower end of the income scale. Even if by Western standards most of the new middle-class consumers in those countries are caught up in spectacular style: in recent years China has managed to more than double its market share of household appliances, recording an increase from 6 to 15 percent. Consumers in India, in contrast, have barely managed to achieve 2 percent so far. In aging Japan the share of appliances sold is stagnating at 6 percent. The automobile market is also changing, with the Asian share of registered new cars worldwide increasing from a fifth in 2007 to a third in 2012. At 19 percent, China’s market share during this period has more than doubled. Yet in demographically shrinking Japan, but also in South Korea, whose population is already moving in the same direction, all the indications point to the end of consumer growth. The market share of new cars is now stagnating in both countries.

The very different levels of development and consumption are also clearly revealed by the structure of average households in each country, as shown in a further study published by the GfK Verein in association with the Berlin Institute for Population and Development entitled “Under One Roof. How Households are Changing Worldwide.” The range of household sizes is particularly wide in Asia: while Japan has a similar number of one-person households to Germany, households with two people are more common in South Korea – as well as in the United States. In Turkey, Indonesia and China three- and four-person households are (still) prevalent. In India, Bangladesh and Cambodia most people live in multi-generational households containing five or more people.

Household size is a reflection of wealth, but it also accounts for differences in consumer behaviour from country to country. While the Chinese, according to “GfK Consumer Choices”, bought a fifth of all LCD TVs produced worldwide in 2013, Indians had a market share of only 2.6 percent, although their population is of comparable size. Some Asian countries have caught up in spectacular style: in recent years China has managed to more than double its global market share for household appliances, recording an increase from 6 to 15 percent. Consumers in India, in contrast, have barely managed to achieve 2 percent so far. In aging Japan the share of appliances sold is stagnating at 6 percent. The automobile market is also changing, with the Asian share of registered new cars worldwide increasing from a fifth in 2007 to a third in 2012. At 19 percent, China’s market share during this period has more than doubled. Yet in demographically shrinking Japan, but also in South Korea, whose population is already moving in the same direction, all the indications point to the end of consumer growth. The market share of new cars is now stagnating in both countries.

The big question is how the “catch-up” effect will pan out in Asia. Will the region really become an economic supercontinent, as long predicted by market researchers and investors? Or will stumbling blocks hinder economic development here, too? Countries like Indonesia and Malaysia are already being confronted with one familiar problem: they are caught in the middle income trap. This is a risk when income and hence production costs rise rapidly during an economic upturn, but production fails to keep pace. This situation can swiftly paralyse economic growth that had initially been fast and comparatively easy to achieve.

Quite apart from culture and religion, a crucial factor for all the Asian countries will be how they react to the great environmental challenges of the twenty-first century: climate change, loss of species and limited natural resources. The consequences of global environmental crises could significantly impair the continent’s growth and prosperity. The welfare of the entire planet also depends on the impact millions of new middle-class Asians have on the environment and climate. Asia’s new rising countries must demonstrate how they can act with more foresight than the Western cultures that preceded them.

Ronald Frank
GfK Verein

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BIG STEPS FORWARDS

Most of Asia was regarded as a crisis area until only a few decades ago, yet in the coming years it may well develop into the world’s most prosperous region. Experts are already predicting a “golden age” for the vast continent.

From Istanbul in the far west to Tokyo in the east, Asia spans nearly 9,000 kilometres. Its most northerly tip in Kazakhstan is just over 7,000 kilometres away from its most southerly point in Indonesia. In between lie 50 countries inhabited by more than 4.3 billion people belonging to countless ethnicities, speaking hundreds of different languages and dialects and living their lives according to the most diverse value systems and religions.

In the 1960s, this giant continent was considered to be the crisis region of the post-colonial era. Japan and a handful of Gulf States aside, all of Asia stood for privation, hunger, plagues, catastrophes, political crises and armed conflicts. In those days, development experts predicted significantly better futures for the new nations of Africa.

The picture we have of Asia today is radically different – and not only when compared with Africa. Business consultancies from the industrialised nations of Europe and North America have established entire departments focusing on individual Asian countries. Business publications dedicate whole sections to the Asian continent. And governments convene top-class teams of experts in order to ensure they do not miss out on the Asian economic miracle. Leading decision-makers – ranging from noted economists to top managers at big international corporations, and even US presidents have already declared the twenty-first century “Asia’s golden age”.

A continent on the rise

Asia’s population grew by around 15 percent between 2000 and 2012. The number of city dwellers grew by twice as much. But the number of inhabitants is growing significantly slower than the economy, and that means more prosperity for every single resident on average. In the future they might enjoy even greater wealth still, for the rise every year in newly registered trademarks is proof of Asians becoming more innovative. A new class of creative entrepreneurs could soon give a further boost to growth.

Enormous growth in only a few years

There are good reasons for this change of focus. Dozens of Asian countries are poised for a simultaneous leap forward as they follow in the wake of the “Asian Tigers”, Singapore, Hong Kong, Taiwan, and South Korea. Within only a few decades, these countries managed to transform themselves from the poorest and most backward developing regions into the most prosperous nations on Earth. While the Singaporeans and Koreans of the past were generally poor farmers, they now earn their salaries in high-rise offices. They now send their children to universities that rank among the world’s best, and they travel home from work on the most innovative transport networks of our time.

Now it seems that the rest of the continent is catching up in large steps. Whereas growth in yesterday’s trailblazer South Korea or the successful late bloomer China appears already to be levelling off, it has only just begun in most of Asia’s other countries. They are all following widely varying development models in their race to the top. A number of political systems – ranging from hereditary monarchies and socialist systems to the world’s largest democracy – are all to be found in Asia, and all forms of economy imaginable, from the most strictly regulated to the entirely liberalised, are at home on this continent.

Regardless of the path they have opted for, nearly all Asian countries have seen enormous economic expansion in recent years. In some places annual economic growth between 2003 and 2012 was almost 10 percent. While it is true that a number of governments have failed to ensure their inhabitants have a fair share in these achievements – with these countries continuing to rank among the world’s least developed – in nearly every country the rising incomes of the past few years have trickled down slowly to the population. Poverty rates are falling, and increasing numbers of people are joining the ranks of the middle class.

Automobiles instead of donkey carts

By 2050 the number of Asians of working age will rise by 350 million to a total of 3.3 billion – nearly 2.5 times the number of working-age Chinese today. In contrast to their parents, this new generation of workers will earn fairly adequate wages, meaning that they will not only have no problem supporting themselves, but will also be able to ensure their children are well educated. They may also finally be able to fulfil their wish for consumer durables, from televisions and washing machines to compact cars and owner-occupied flats. Thus sooner or later nearly every Asian country is likely to become an interesting market.

(Data source: World Bank; calculations of gross domestic product and the number of registered trademarks only take those countries into account in which such data is available)
In order for Asia to achieve all of these goals, it must also ensure that the eternal trouble spots, such as Afghanistan, North Korea, or large parts of the Middle East, are also able to share in the growth. Furthermore, the first Asian success stories are already facing aging populations. They will have to develop functioning welfare systems in order to ensure the health and financial livelihoods of their rapidly increasing numbers of retirees and pensioners.

However, if today’s successful upwardly mobile countries remain stable and are able to attract investors and create an adequate number of jobs, then the world’s largest prosperous area could soon emerge in Asia. It would cover nearly a third of the Earth’s land surface and be home to nearly two thirds of today’s global population. The dream of an “Asian golden age” would then truly be a reality.

Increasingly liveable

Each year, the United Nations Human Development Index evaluates levels of development in all of the world’s countries based on economic, health and educational indicators. A total of twelve Asian states today belong to the world’s fifty most developed nations. With China, Malaysia, Turkey and many other countries, large parts of Asia are already highly developed. But this is not the end of the boom: many other countries, such as populous India and Indonesia, are close on the heels of the vanguard states and have already reached a medium level of development. Only in notorious crisis regions such as Afghanistan, Yemen or Pakistan is there little hope for improvement at present.
The differences between individual Asian states are as large as the continent itself, and this means that it is virtually impossible to analyse them according to a standard pattern. A more sensible approach is to divide the countries into smaller groups. A well-established method for doing this is cluster analysis. Using a statistical analysis method comprised of preselected indicators, the countries are divided into groups or clusters. Thus, the majority of these quite heterogeneous countries can be clearly arranged according to their strengths and weaknesses, affording a better overview.

The following indicators enable us to pool 36 of Asia's 50 states into groups with similar economic and demographic potential:

- **Gross domestic product (GDP) per capita** (A country's economic performance)
- **Number of internet users per 100 inhabitants** (Size of the middle class – the affluent group)
- **Dependency ratio** (Extent to which the working population is burdened by having to provide for children and the elderly)
- **Percentage of the population aged 15 to 34 who have completed at least a secondary education** (Educational level of the young working population)

Cluster worthy of special treatment: Population giants

The sheer size of their populations of more than a billion inhabitants each means that India and China face particular challenges. Regardless of the available data, it is for this reason that they are grouped into a cluster of their own – a cluster that nevertheless includes nearly two thirds of the Asian population.

**Omissions:** Microstates

Alongside the world's most populated countries, Asia is also home to very small states with fewer than two million inhabitants. Like the population giants, these microstates follow their own developmental logic, which usually depends on unique local parameters. For this reason they are not considered in this analysis. This is the case for eight states with a combined population of around seven million inhabitants: Qatar, the Maldives, the Sultanate of Brunei, Macau, Bhutan, East Timor, Bahrain and Cyprus.

Furthermore, the data for Myanmar, North Korea, Palestine and Syria is so incomplete that these countries cannot be included in the clustering. This means that an additional 100 million of Asia's inhabitants are not included in the analysis. Nevertheless, the cluster analysis covers more than two thirds of all Asian countries and 97 percent of its population.

### Cluster 1: Problem Countries with Opportunities

Cluster 1 includes Asia's poorest countries. Although many of these countries are suffering from severe crises, they still have realistic opportunities for development.

**Average values for the countries of Cluster 1**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per capita GDP (US dollars)</td>
<td>1,712</td>
</tr>
<tr>
<td>Internet users, in percent</td>
<td>9</td>
</tr>
<tr>
<td>Dependency ratio, in percent</td>
<td>66</td>
</tr>
<tr>
<td>Proportion of the population aged 15 to 34 with secondary school or higher education, in percent</td>
<td>44</td>
</tr>
</tbody>
</table>

### Cluster 2: Beacons of Hope in a Critical Situation

The countries of Cluster 2 are still quite poor but they are currently on the road to growth. They have accomplished a great deal over the past years, but to date their inhabitants have profited little from their countries’ successes – and now they are slowly growing impatient.

**Average values for the countries of Cluster 2**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per capita GDP (US dollars)</td>
<td>4,266</td>
</tr>
<tr>
<td>Internet users, in percent</td>
<td>26</td>
</tr>
<tr>
<td>Dependency ratio, in percent</td>
<td>50</td>
</tr>
<tr>
<td>Proportion of the population aged 15 to 34 with secondary school or higher education, in percent</td>
<td>81</td>
</tr>
</tbody>
</table>
**CLUSTER 3 AT THE CROSSROADS**

The countries of Cluster 3 are determinedly moving forward, but the path they have chosen may prove too slow. To date, these states in many cases have offered their inhabitants little in the way of opportunities. This has often resulted in waves of emigration.

**Average values for the countries of Cluster 3**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per capita GDP (US dollars)</td>
<td>6,854</td>
</tr>
<tr>
<td>Internet users, in percent</td>
<td>51</td>
</tr>
<tr>
<td>Dependency ratio, in percent</td>
<td>45</td>
</tr>
<tr>
<td>Proportion of the population aged 15 to 34 with secondary school or higher education, in percent</td>
<td>95</td>
</tr>
</tbody>
</table>

**CLUSTER 4 NEW RICHES**

Cluster 4 comprises countries that have achieved high levels of development over the past years. Their middle classes are large, educated and hungry for consumer goods.

**Average values for the countries of Cluster 4**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per capita GDP (US dollars)</td>
<td>35,703</td>
</tr>
<tr>
<td>Internet users, in percent</td>
<td>73</td>
</tr>
<tr>
<td>Dependency ratio, in percent</td>
<td>35</td>
</tr>
<tr>
<td>Proportion of the population aged 15 to 34 with secondary school or higher education, in percent</td>
<td>88</td>
</tr>
</tbody>
</table>

**CLUSTER 5 PIONEERS OF OLD**

The countries of Cluster 5, such as Israel and Japan, long had more in common with European nations than with their Asian neighbours. Yet their earlier huge lead has shrunk. Furthermore, the social, economic and demographic problems these countries face have grown so large that they are in danger of soon falling behind many other Asian countries.

**Average values for the countries of Cluster 5**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per capita GDP (US dollars)</td>
<td>39,985</td>
</tr>
<tr>
<td>Internet users, in percent</td>
<td>76</td>
</tr>
<tr>
<td>Dependency ratio, in percent</td>
<td>64</td>
</tr>
<tr>
<td>Proportion of the population aged 15 to 34 with secondary school or higher education, in percent</td>
<td>88</td>
</tr>
</tbody>
</table>

**SPECIAL CLUSTER POPULATION GIANTS**

With their huge populations of more than a billion inhabitants, India and China face unusual challenges. But because India is the world’s largest democracy, whereas China, with its unconventional concept of socialism, is venturing a globally unprecedented experiment, these challenges are quite different in nature.

**Average values for the countries of the Special Cluster**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Per capita GDP (US dollars)</td>
<td>3,790</td>
</tr>
<tr>
<td>Internet users, in percent</td>
<td>27</td>
</tr>
<tr>
<td>Dependency ratio, in percent</td>
<td>45</td>
</tr>
<tr>
<td>Proportion of the population aged 15 to 34 with secondary school or higher education, in percent</td>
<td>41</td>
</tr>
</tbody>
</table>

A detailed description of all the indicators is to be found in the Chapter “Indicators and their evaluation”
After they have been divided into clusters, the countries can be evaluated based on additional indicators, allowing ranking lists to be created for each cluster. This study focuses on five areas: population potential, living conditions, economy, politics and environment. An overall evaluation taking all of these five areas into account shows which countries within a given cluster are particularly well placed and which are doing poorly.

The countries receive points for each indicator. The maximum number of points corresponds with the number of countries in a given cluster. Based on the average number of points in each area, we can determine a ranking for the five categories of population potential, living conditions, politics, economy and environment. The sum of the average values produces an overall evaluation.

The category environment receives only half the weighting of the other categories in the overall evaluation, because in many developing countries the provision of basic public utilities represents such a great challenge in itself that environmental problems can scarcely be attended to. Ignoring them completely, however, would also be wrong, for this would inevitably lead in the long-term to further, more dramatic environmental problems.

**Population potential**

The number of potential consumers grows with the size of the population. But more people does not necessarily translate into greater markets for certain products, for factors other than income and wealth, such as age structure and place of residence, can determine the level and type of demand.


The larger a country’s population, the greater its market potential in purely statistical terms. In the countries examined in this study, this figure ranges from 1.4 billion inhabitants in China to 2.9 million in Mongolia. This large variance over the entire region means that the gaps within a given cluster can be quite large in some instances.

2. Change in the share of 15- to 24-year-olds in the population between 2010 and 2020.

   **Index: 2010 = 100**

   (source: UNPD)

   Not all of a country’s inhabitants are equally eager consumers. As a general rule, young adults and middle-aged people consume more than children or the elderly. When 15- to 24-year-olds leave the parental home and find their own household, their demand for consumer products rises. Studies have shown that when the size of this age group grows as a share of the total population, per capita GDP rises with it. A drop in the size of this population group, on the other hand, can lead to an economic downturn. In most Asian countries, the share of the population in this age group will shrink by 2020 – in Saudi Arabia it will even drop by almost one fifth. One of only five countries in which this age group is set to grow is Afghanistan – with a plus of 22 percent, this represents the greatest increase in the size of the younger population.

3. Dependency ratio in 2015 (source: UNPD)

   The consumer potential of the working population aged 15 to 64 can only develop if their incomes and productivity are not sapped by extensive obligations to provide for children and the elderly. The dependency ratio describes the number of children under the age of 15 and the number of older people over 64 who in statistical terms must be supported by 100 working-age inhabitants. The ratio ranges from 20 in the United Arab Emirates to 90 in Afghanistan.

4. Size of the urban population in 2015, in percent (source: UNPD)

   City dwellers are generally more prosperous and better educated than rural inhabitants. Unlike farmers, urban residents do not grow their own food. Consumer potential rises with a growth in the size of the urban population. In city states such as Singapore this value is 100 percent, whereas in rural societies such as Sri Lanka, the percentage of urban residents does not even reach 20 percent, indicating that levels of urbanisation in Asia are very diverse.
Prosperity on the rise

The middle class is growing in nearly every Asian country. Broadly defined, the middle class is made up of all individuals who, according to international standards, are neither rich nor poor. In developing and threshold countries, members of the middle class earn an average income of around two to four US dollars per day – meaning they are just over the international poverty level. Growing prosperity not only enables today’s poor to rise into the ranks of the middle class, it also means that average incomes are increasing within it. This means that among millions of Asians, demand for clothing, furniture, cameras, larger apartments and meals in restaurants is also growing, and this continues to stimulate economic growth.

More Indians can afford to buy more

In India, not only is the population growing, so are incomes. In the coming years, the number of people earning a middle-level income could be four times as high as it is today. This would completely transform the Indian market, for the middle class consumes much more than it requires for its daily existence. They not only purchase necessary foodstuffs and a roof over their heads, they also decorate their apartments, surf the internet on their own computers or meet their friends in cafés.

Living conditions expressed in terms of health and education provide information regarding a country’s future economic development potential – and thus what the chances are of a middle class developing with high levels of purchasing power.

5. Infant mortality rate 2010–2015 (source: UNPD)

Infant survival depends on quality of medical care as well as the prosperity and educational level of families. The probability that an infant will not survive its first year therefore is a reflection of a country’s socio-economic level of development. In states such as Japan, where the infant mortality rate is two for every 1,000 live births, infant mortality is a problem of the past. In Afghanistan, however, where there are 67 deaths per 1,000 live births, the rate is worryingly high.


The number of deaths per 1,000 inhabitants aged 15 to 59 provides information about the general health of the population. This is not only influenced by the quality and availability of health care, but also by the daily risks these populations face, such as falling victim to a traffic accident or violence. Within Asia, the rate ranges from 51 in Hong Kong to 258 in Afghanistan.
Economic Forum, illustrates the risk of people becoming ill as a result of poor environmental conditions. The situation is particularly dire in Bangladesh (30 points), whereas residents of Singapore (99 points) can feel quite safe from environmental dangers.

**Economy**

Most Asian countries are now on the path to economic growth. It is by no means certain, however, that this growth will also lead to increased prosperity for all strata of the population. That also depends on the economic structures these countries develop as well as on whether their economies can provide employment in the long term, for only in this way can a middle class develop. This in turn would act as an economic stimulus. Economic restructuring and modernisation often require cooperation with foreign partners. The economic indicators used in this study reflect this causal chain. They show a country’s current economic performance and offer a glimpse of the future.

9. Number of internet users per 100 inhabitants in 2012
(source: World Bank)

The middle class is growing in many Asian countries. Upward social mobility out of poverty is nearly always accompanied by the purchase of consumer articles. Nearly everywhere in the world, middle-class households are acquiring cars, washing machines and tablet computers with an internet connection. The distribution of these products among the population is therefore a reliable indicator of the size of the middle class.

Whereas there are scarcely comparable data on the number of cars or washing machines per capita, the United Nations does collect detailed information regarding the telecommunications infrastructure around the world. Anyone wishing to surf the internet needs a computer or a smart phone. The number of internet users per 100 inhabitants therefore indirectly reflects the size of the middle class. In Asia the number ranges from five in Afghanistan and Cambodia to 85 in the United Arab Emirates.

10. Average annual economic growth from 2003 to 2012, in percent
(source: World Bank)

Economic data are heavily dependent on short-term developments. For example, a tsunami in Japan, a poor rice harvest in Bangladesh or a bank failure in China can produce very negative short-term effects. Even one or two bad years with zero or negative economic growth are not enough to draw reliable conclusions concerning a country’s economic situation. The ten-year average, however, shows how economic growth has developed over the long term in a given state. The fastest-growing Asian country is resource-rich Azerbaijan with 13 percent, followed closely by China and Turkmenistan each with 11 percent. All three of these countries began at a low level, however, and in absolute terms their economic performance per capita lies far behind that of rich industrial nations, where growth is much lower. Israel and Japan, with 2 and less than 1 percent, respectively, are located at the lower end of the growth scale.

11. Per capita GDP in 2012 in US dollars
(source: World Bank)

The motor of economic growth is revving up in a number of Asian countries, yet they have a long way to go before they achieve the levels of economic performance enjoyed by the richest nations. The GDP per capita in Singapore, Asia’s most successful nation in economic terms, is 75 times that of the region’s poorest country, Afghanistan. Even with high levels of stable growth at constant rates of 9 percent, Afghanistan would need nearly a century to achieve Japan’s level of economic power. This indicator simply describes economic performance per capita but tells us nothing about purchasing power.

12. Foreign economic relations in 2010
(source: KOF Index of Globalisation)

Close integration with world markets has its advantages: businesses in a given country are not limited to domestic consumers, but can also market their goods abroad. Establishing business locations far from company headquarters can help some businesses to gain a competitive edge in production for global markets. This not only helps businesses but also generates jobs at home and brings with it experience and technology. For many countries, this is the first step towards a modern economy. How intensive these relations are can be measured in the flow of goods, capital and services. The higher the share of foreign investment and of imports and exports and salaries paid to foreign employees in a country’s GDP, the stronger the connection...
to world markets. This indicator brings all of these different values together. Singapore, an international financial centre, receives 99 of a possible 100 points. Nepal, with only 15 points, scarcely has contact with international markets. Even Iran, which has been cut off from the world by economic sanctions, scores 26 points.

13. Share of manufacturing as a percentage of GDP in 2012 (source: World Bank)

In developing nations in particular, the manufacturing sector ensures that the economy grows and jobs are created in the factories. While in many of these countries the service sector is large, this contributes little to rising prosperity. Many service providers work as one-person operations, such as hawkers. The index therefore only takes into account the share of manufacturing in GDP as a positive sign of economic restructuring. Services are excluded. At 5 percent, the manufacturing sector’s share of GDP is nowhere lower than in oil-rich Azerbaijan. In South Korea, China and Thailand, it is particularly high at 30 percent. As current data are lacking for a handful of countries, in this study the data are provided for the years 2008 to 2011. In highly developed economies, the share of the manufacturing sector in GDP does not play a clear role. Hong Kong, for example, has hardly any industry, but it is host to a highly developed financial sector. The special administrative regions adjacent to China therefore come off slightly worse than they deserve in this economic index.

14. Rule of Law Index 2012 (source: World Bank)

From road traffic to the conclusion of million-dollar deals, nothing works without legal certainty. It is, however, hardly possible to measure in numbers factors such as the ability to sue for breach of contract, the autonomy of the courts or the quality of police work. Various NGOs, opinion research institutes, private consultancies and international organisations around the world have attempted to assess the quality of legal certainty with the aid of various survey instruments. The Rule of Law Index produced by the World Bank summarises these results in a comprehensive indicator that is as objective as possible, ranging from -2.5 (very high legal certainty) to -2.5 (very low legal certainty). A particularity of the indexing model means that anomalies upwards or downwards are possible. This is how Pakistan, for example, is able to obtain a value of -2.7, which is worse than permitted by the scale, for it is among the lowest-ranking countries in the world. Singapore, on the other hand, is among the world’s top countries with a rating of 1.3 points.

15. Political Stability Index 2012 (source: World Bank)

Political conflicts can generate violence and years of instability. If and when tensions will arise is unclear, however. The Political Stability Index measures the probability of political violence in the form of insurgencies, violent coups, political murders, civil wars or terrorism. Like the Rule of Law Index, this study draws on a variety of sources and ranges between -2.5 (low stability) and +2.5 (high stability). A particularity of the indexing model means that anomalies upwards or downwards are possible. This is how Pakistan, for example, is able to obtain a value of -2.7, which is worse than permitted by the scale, for it is among the lowest-ranking countries in the world. Singapore, on the other hand, is among the world’s top countries with a rating of 1.3 points.

16. Corruption Control Index 2012 (source: World Bank)

It is impossible to determine the full extent of corruption, as it always takes place in secret. Private and public organisations throughout the world strive to expose the extent of corruption by conducting opinion surveys or expert evaluations. The results of this research are summarised in the Corruption Control Index. Countries can receive a score ranging from -2.5 to +2.5. Singapore, with 2.2 points, receives a score surpassed only by six other countries worldwide, which include the Scandinavian countries, New Zealand and Switzerland. But Asia is also home to some of the world’s worst-performing countries. Among all the world’s countries, only four score worse than Afghanistan (-1.4 points), a country considered to be almost as corrupt as the failed state of Somalia.
Good environmental conditions provide the foundation for long-term security of investment. Many Asian island and coastal states are especially threatened by global climate change. Not only rising sea levels but also the destruction of entire landscapes increase the risk of man-made disasters world wide, thus limiting the potential for economic development. If Asian governments do not actively commit themselves to improving the environment, at some point their citizens may no longer accept the limitations environmental factors pose. Their protests could be a source of political instability.

18. Ecosystem Vitality Index (source: Yale Center for Environmental Law and Policy)

Failing water supplies, deforestation, contaminated soil and declining fish stocks combined with smog and global warming can cause long-term damage to economic performance. The Ecosystem Vitality Index illustrates the degree to which countries conserve resources and protect their ecosystems as well as their rates of success. At the top of this chart in Asia is Singapore. Afghanistan, on the other hand, is at the bottom of the list.

Changing populations

When a poor country’s socio-economic conditions improve, this usually leads to changes in the nation’s demographics. First, thanks to improved health care and food, people on average tend to grow older. Second, within a few years or decades, the average number of children per woman sinks as a result of higher levels of education and improved career opportunities for women. This leads to changes in a country’s population structure. Prior to the demographic shift, a relatively small generation of adults was followed by a large generation of children, whereas later, groups of working-age adults are followed by fewer numbers of children. A “demographic bonus” arises during this phase: the working population grows faster than the overall population, and this brings benefits for society. During this phase, the financial burden posed by children who need to be provided for is limited, and the percentage of elderly requiring support is still small. This leaves working adults leeway for consumption and investments, and this in turn helps to further promote economic growth. If this comes to pass, countries can reap a “demographic dividend”. In order for this to occur, however, countries must meet certain requirements. The young working population must be well educated and they must be able to find suitable jobs in their country.

Using the bonus

South Korea and Singapore are fine examples of how this can take place. Both of these nations were still among the world’s poorest only 50 years ago. Today, however, they easily rank among the world’s established industrial nations. When they reached the demographic bonus phase, they had fulfilled the preconditions necessary for them to turn the bonus into a dividend. A competitive, large-scale manufacturing industry provided jobs for the large masses of young workers. The reduced number of offspring began increasingly to enjoy a better education, which allowed them to enter more advanced economic sectors with better-pay. Because they were able to set aside a part of their earnings, the savings rate increased, and the money flowed into investments that supported new and innovative businesses. The secret of the most successful Tiger States is the perfect use of the demographic bonus.

Preparing for old-age

In some Asian countries, such as Yemen, Iraq or the Philippines, the demographic transformation has only just begun. These countries should now focus on providing health care and education for their populations and decreasing fertility rates in order to ensure a bonus. For other countries, such as Vietnam, Malaysia or Iran, the bonus phase is just getting under way. Their greatest challenge now is to provide employment for their populations and invest the profits sensibly.

South Korea and Singapore are fine examples of how this can take place. Both of these nations were still among the world’s poorest only 50 years ago. Today, however, they easily rank among the world’s established industrial nations. When they reached the demographic bonus phase, they had fulfilled the preconditions necessary for them to turn the bonus into a dividend. A competitive, large-scale manufacturing industry provided jobs for the large masses of young workers. The reduced number of offspring began increasingly to enjoy a better education, which allowed them to enter more advanced economic sectors with better-pay. Because they were able to set aside a part of their earnings, the savings rate increased, and the money flowed into investments that supported new and innovative businesses. The secret of the most successful Tiger States is the perfect use of the demographic bonus.

Preparation for old-age

They do not have unlimited time, however, for the demographic bonus only lasts around 40 years. The baby-boomer age groups that can help the economy get started will sooner or later move past working age and retire. This raises the costs for the following, smaller generation. Japan, the country with the world’s oldest average population, is currently experiencing this dilemma. The Asian tigers South Korea and Singapore are not far behind. Their future success will greatly depend on how well they are able to meet the needs of their changing populations. They will have to reform their state pension systems and motivate their inhabitants to take out private pensions. Only in this way can they avoid poverty among the elderly.
Asia’s Second Leap Forwards

From the pyramid to the Christmas tree

The countries of Asia are currently in very different phases of demographic development. In Iraq, the population structure is still the classical pyramid-shape of a poor, underdeveloped country. This is reflected in its high birth rates and high mortality rates for all age groups. Population will continue to rise for some time to come, meaning that a demographic bonus lies in the distant future. In Indonesia we see how a demographic bonus is currently starting to emerge that will last for 40 years. In South Korea, however, the bonus is currently fading out, for the last group of baby boomers will enter retirement in around 20 years. The demographic transformation has advanced the farthest in Japan, the country with the world’s oldest population.

Population according to age groups in millions of inhabitants, 2015 (projection)
(Data source: UNPD)
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1) Data for the year 2010; Barro and Lee, see footnote on page 10  
2) IIASA (2010), see footnote on page 10  
3) Cluster average  
4) 2011  
5) 2010  
6) average of Arab countries investigated (Iraq, Jordan, Kuwait, Lebanon, United Arab Emirates, UAE).

Asia’s Second Leap Forwards
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7) Growth between 2000 and 2009  
8) Growth between 2002 and 2011
Cluster 1 includes the poorest countries in Asia. Most of the inhabitants of these states cannot satisfy their wishes much beyond basic everyday needs. The middle class is also correspondingly small, and consumer articles such as computers still play virtually no role. The population structure is critical too, for many children have to be provided for by a comparatively small working population. This situation presents the countries with major problems. Fewer than half of those aged between 15 and 34 have attended a secondary school when they start their working lives. The rising numbers of children will lead to even greater challenges for the educational system. Yet the population structure of the countries in this cluster also holds potential, for as soon as women decide to have fewer children, subsequent generations will also become smaller. This will change the age structure of the population, with fewer children and more people of working age. As long as the number of senior citizens is still low, employees in these countries will be able to be highly productive, for they will have to spend comparatively little on providing for the youngest and oldest members of society. This window of time in population development is called the demographic bonus. If the countries in Cluster 1 manage to exploit this bonus they will realise a demographic dividend, enabling them to make a leap in development. The key to all this remains investment in education and the labour market.

Laos, Nepal, Bangladesh, Iraq and Pakistan lead the cluster at a similar level in the overall index, followed by Cambodia in a mid-ranking position and Yemen lagging significantly behind as the last but one country – but still far ahead of Afghanistan, which brings up the rear in just about every respect. There, economic development, living conditions and the political situation are all way below average, and the figures offer little hope that the state of affairs will improve soon.

Yet things are not all rosy for the leading group in the cluster, either. Although Nepal is ranked highest for politics and Laos for the environment, for instance, this certainly does not mean that either country has a high level of development. Their rankings simply indicate that they are ahead of other countries in the same cluster – but at a generally low level. The situation in Iraq illustrates this perfectly: despite the unstable supply chain and continuing violence the country heads the cluster in terms of living conditions, for compared with most other nations young Iraqis are not only better educated, but are also less likely to die early of illness.

The evaluation table, therefore, does not reflect absolute strengths, but simply shows where individual countries excel within a cluster and the areas in which there is potential for improvement. Vietnam and Sri Lanka are examples of countries that can be transformed from “problem children” into beacons of hope through the introduction of progressive measures. Both states used to be characterised by war and civil war, but are now the “beacons of hope” in Cluster 2.
Lao People’s Democratic Republic, with its 6.9 million inhabitants. Laos is one of the least developed countries in the world, at a similarly low level to other countries in the same cluster such as Afghanistan, Bangladesh and Cambodia. At 36 deaths per 1,000 births among infants under one year old and a life expectancy of only 68, the country’s statistics are the third worst in South East Asia, behind only the war-torn and conflict-ridden East Timor and Myanmar, which has been isolated for decades. More than one in four Laotians between 15 and 24 cannot read and write properly, whereas in the neighbouring countries of Cambodia and Vietnam only one in ten is affected in the former and one in twenty in the latter.5,6

According to the national government’s ambitious agenda, by 2020 Laos is finally supposed to have left the group of least developed nations. The Laotians intend to raise the money required for this development primarily through foreign investment, comparatively large amounts of which have already entered the country in recent years. Between 2003 and 2012, new investment from abroad rapidly soared from 19 million US dollars to 294 million US dollars. During the same period GDP rose by around 8 percent annually. At the same time the government managed to lift a considerable section of the population out of extreme poverty, defined as an income of less than 1.25 US dollars per day, a significantly lower proportion than in 2002. But in Laos there is poor – and then there is really poor. This is demonstrated by the poverty gap, a measurement which can be used to estimate the extent of poverty. A gap of 20 percent means that poor people on average have as much as 20 percent less money at their disposal than they would have at the poverty line – only 1 US dollar daily. In other words. In the remote mountainous Laotian province of Sekong the poverty gap is 19 percent, albeit with fewer than 90,000 inhabitants. The situation is different in the north, for instance in the rugged regions Houaphan and Xieng Khouang where there are few roads. The poverty gap there is more than 13 percent, with a population exceeding half a million.

Raw materials in high demand

Yet uncertainty remains about whether the socialist Lao People’s Revolutionary Party can maintain this success for much longer. The current progress is being largely driven by two sectors: mining and energy.6 Laos has abundant natural resources such as gold, silver and tin at its disposal. Moreover, the country’s location on the Mekong river makes it ideal for generating large quantities of electricity from hydro-electric plants. Yet exploiting the natural resources has not only poisoned entire regions with chemicals but has also led to illegal land grabs and forced expulsions. Some of the dam projects are gigantic, and it is not yet possible to predict their consequences for the region’s ecosystems. The radical intervention into the natural flow of the Mekong could also create political problems with neighbouring countries downstream.9

So far, however, Laos’s neighbours have focussed their interest on good relations rather than conflict. China, Thailand and Vietnam, for instance, have invested massively...
in large-scale projects in the Laotian mining and energy sectors. That will probably continue to stimulate the economy in the future, too, ensuring a flow of money into the state’s coffers. Very few jobs will be created, however, for both mining and hydro-electric plants are capital- but not labour-intensive. If the Laotians are to achieve a higher standard of living in the long term, they urgently need paid employment. Almost two-thirds of the population live rurally, the majority of whom are farmers. Yet only a third of these actually sell their own produce, with the remainder scratching a living through subsistence farming.

That situation would remain unchanged even if a processing industry requiring many employees were established from one day to the next. For years the Laotian government failed to ensure the country had sufficient doctors and good schools, and consequently the working population is poorly qualified and unproductive. This deficiency in human capital is a considerable hindrance for Laos in terms of global competition for the best production conditions. Overall, the situation is so bad that the country only manages 159th place out of 187 countries in the Ease of Doing Business index. While it is true that there is a great commitment to improving the economy, education and health and some significant achievements have already been made, such initiatives are late in coming. Laos is already at the start of its demographic bonus, and if this is to be exploited the country needs to catch up exceptionally quickly.

In 2013, when an election was fought, the political battle had become so embittered that there were 85 hartal days. According to estimates the damage amounted to around 10 percent of GDP.

Bangladesh could well have done with that lost economic power, for the country is right at the start of its demographic bonus. Most of the roughly 160 million inhabitants are young people of working age, and the following generations are now so small that providing for them will no longer be a great economic burden. Thus in demographic terms the opportunities for economic and social advancement are greater than ever before, but in order to achieve this Bangladesh must make a financial investment in education and jobs.

It has been a long journey for the country to get where it is today. When the state was founded in 1971, the average Bangladeshi woman had almost seven children, whereas nowadays that figure is only just above two – in other words, roughly at the level needed by a society in order to keep the population stable. In the long term, the country’s population growth could well stagnate by the middle of the century. Virtually no other country has experienced such a rapid decline in fertility rates, despite the fact that Bangladesh is one of the poorest countries in the world with an average income of 752 US dollars per capita (2012). Adjusted for purchasing power, per capita GDP is still only 2,405 US dollars. Bearing this in mind, it is all the more astonishing that Bangladeshis have an average life expectancy of 70. This is the same as the average for Asia as a whole, a figure that includes threshold countries such as China and rich industrial nations such as Japan. When considering the key health indicators of infant and child mortality rates, Bangladesh even performs slightly better than the majority of Asian states.

**Stronger women**

The comparatively good results in these standard developmental indicators are due to a whole raft of initiatives. Since the 1970s there has been a political drive, supported by non-governmental organisations, to improve the position of the female population through measures such as health programmes, microcredits for women with small businesses and stipends for schoolgirls. As a consequence Bangladeshi women nowadays enjoy roughly the same social status as men. Educationally they even achieve slightly better results than their male counterparts. The comparatively liberal social climate permits women to use their educational achievements on the labour market. Two thirds of women aged 25 to 34 are economically active, which is considerably more than in the likewise Muslim countries of Pakistan (26 percent), Iraq (21 percent) and Afghanistan (18 percent).

It would have been almost impossible for Bangladesh to achieve rapid economic growth in recent years – around 6 percent annually between 2003 and 2012 – without such a high rate of female employment. This growth has been driven primarily by the textile industry. Low wage costs combined with preferential trading agreements with the EU and the USA have made Bangladesh the second-largest clothing exporter in the world after China.
Around four million people work in textiles in Bangladesh, 80 percent of them women. While it is true that the working conditions in this sector are far removed from Western standards and in some cases even inhumane, the opportunity to earn money in clothing factories has helped many households to receive an income at all.

**Progress in rural areas too**

Another consequence of this development is that the proportion of Bangladeshi whose income falls below the international poverty line of 1.25 US dollars per day dropped from almost 60 percent in 2000 to 43 percent in 2010, although the population actually grew by 19 million inhabitants during the same period.

**Utilising potential**

Although the country has achieved numerous successes in the education sector, many Bangladeshis still get to the end of their formal education having attended only a primary school. If subsequent generations are to find jobs in sectors beyond agriculture and mass production and become active in more lucrative sectors, Bangladesh urgently needs to invest in education. The conditions are currently favourable, for sinking birth rates mean fewer and fewer children being raised in the years to come. Subsequent generations can therefore expect to enjoy higher standards of education while costs remain stable. If the right investments are made, the proportion of inhabitants between 25 and 34 with tertiary education would more than double by 2055: from 12 to nearly 30 percent.

**Prognosis for the composition of the population in Bangladesh (in millions of inhabitants) according to educational background for the years 2015 and 2055 (based on 2010).** For under-15-year-olds only the size of the age group is shown but not their educational status, as they will ideally still be in education or training. (Data source: IIASA)

Poverty is still a major problem in rural areas, home to around two thirds of the population, but even there significant progress has been made.

This is due not only to the many jobs created in the textile industry, but also thanks to over five million Bangladeshi migrant workers abroad who send money home to support their families. In 2012 alone their remittances totalled more than 16 billion US dollars, or over a tenth of GDP. Many emigrants try their luck in one of the rich Gulf states, rendering Bangladesh dependent on political developments in those countries. When the United Arab Emirates, Saudi Arabia and Kuwait recently closed their labour markets to immigrants, the amount of money transferred from Bangladeshis abroad plummeted. It spelled financial disaster for many families who had only just fought their way out of poverty. In the future it is hoped that recruitment treaties will make the position of migrants more stable.

Yet even if Bangladesh manages to push through this treaty, its chances of succeeding are shaky. One key reason for this is that the country has not yet managed to become internationally competitive in other economic sectors apart from textiles, which would give the country greater value added and lead to further economic growth. Bangladesh would first need to solve its major infrastructural problems. Entrepreneurs are hampered by regular power cuts and traders by congested export routes; the port in Chittagong, for instance, is notoriously hopelessly overstretched. At the same time investors complain of too few qualified personnel. Even though the formal educational level of young Bangladeshi has now improved significantly, there are still too few recruits for middle management positions. Whether Bangladesh can utilise its young population structure and transform the country into a new tiger economy depends on its ability to solve these problems in the years to come.

**The perpetual problem child**

In 2014 the sale of licences for high-speed mobile internet access brought Pakistan into the modern age of mobile technology, potentially changing the nature of communication permanently in this south Asian country, which borders on Afghanistan and Iran to the west, China to the north, and India to the south-east. At least in the long term, that is, for at the moment only 10 percent of Pakistani mobile phone owners have a smartphone. This is possibly why investor interest in 3G licences has been significantly lower than government expectations; it had hoped to receive 2 billion US dollars from the licence auction, but the actual figure was just under 1.2 billion.
This was a bitter setback for Pakistan, which is mired deeply in debt and has already only avoided insolvency several times thanks to assistance from international funders such as the World Bank or the International Monetary Fund. Support of this kind is attached to conditions and trading recommendations such as the introduction of a functioning taxation system or the privatisation of state enterprises. Although these radical measures are supposed to help the country get on its feet, so far the reforms have achieved little.

Sluggish growth

This means that Pakistan remains one of Asia’s problem children. While many Asian countries enjoyed significant economic growth between 2003 and 2012 despite major problems – 8.6 percent annually in Iraq, 7.9 percent in Cambodia and 7.8 percent in Laos – the paltry 4.3 percent growth in Pakistan for the same period is somewhat sobering. By comparison with other countries on the Asian continent Pakistan has failed to position itself on the global markets as a supplier of cheap consumer goods; only 12 percent of GDP comes from exports. While it is true that per capita GDP is significantly higher than most other countries in the same cluster, that could soon change.

In Bangladesh, for instance, which is culturally similar and indeed was part of the same country until the 1970s, exports now comprise around a quarter of GDP – 10 percentage points more than in 2000. This has helped the country to achieve strong growth. The nominal economic output is one of the lowest globally at around 750 US dollars per capita, far below that of Pakistan at 1,250 US dollars. Yet in terms of purchasing power Bangladesh has managed to increase its economic power by 350 percent, up from 691 US dollars in 1990 to 2,405 dollars now. In Pakistan the increase for the same period was only 230 percent, from 1,918 US dollars to 4,437 dollars.

Moreover, Pakistan sells almost exclusively raw materials or virtually unprocessed goods abroad, such as cotton or textile fibres. Not only do these yield less money than higher value products, but their production is not particularly labour-intensive. Pakistan is thus missing an opportunity to create jobs for its steadily growing population. According to prognoses, by 2035 the population will have grown from 185 million today to 322 million, with the population of working age (between 15 and 64) alone growing by more than 36 million people. It is already the case that only just over half of the population of working age is available to the labour market, partly because women seldom take paid employment in such a traditional society, but also because the chances of finding work are low and thus many people don’t even bother looking.

It is presumably also the lack of jobs that has motivated the government to focus on strengthening industry, taking a similar path to other Asian developing countries but at a significantly earlier stage. In January 2014 Pakistan thus joined the Generalized System of Preferences, a tariff system exempting the EU from paying taxes and tariffs on certain goods from developing countries. Bangladesh has already been operating in line with similar treaties for a number of decades. They are recognised as a major reason behind the country’s swift and dramatic transformation into an attractive location for textile production.

An overburdened infrastructure

Yet it is questionable whether Pakistan can follow this example under present-day conditions. Even without much industry the infrastructure is overloaded, one of the greatest challenges being that of energy provision. In large cities power cuts lasting longer than 10 hours are an everyday occurrence, leaving Pakistan comparatively undesirable to investors as a location for industrial manufacturing. And the fragile political situation only makes things worse. According to estimates, between 2007 and 2014 more than 50,000 Pakistanis fell victim to armed conflict, terror and violence. Moreover, natural disasters such as earthquakes and floods regularly claim thousands of lives and cause damage to property running into the billions. An index compiled by the Economist Intelligence Unit ranking the best places to be born in the world placed Pakistan at 75th out of 80 countries.

Despite all the problems the socio-economic situation in the country has actually improved in recent years. State support programmes for the very poorest citizens have caused the proportion of the population in extreme

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**Successful battle against poverty**

Since 2000 Pakistan has managed to stem the spread of poverty. At that point every third person in paid employment lived on less than 1.25 US dollars per day, while today the figure is only slightly more than one in ten. Additionally, many have managed to move out of poverty altogether: whereas at the start of the new millennium only a quarter of employees earned between 2 and 4 US dollars per day, by 2012 this had increased to significantly more than a third. The middle class, however, is still very small, comprising less than 10 percent of the working population.

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**Extremely poor (under 1.25 US dollars per day)**

**Moderately poor (between 1.25 and 2 US dollars per day)**

**Near poor (between 2 and 4 US dollars per day)**

**Developing middle class (between 4 and 13 US dollars per day)**

**Developed middle class and above (more than 13 US dollars per day)**

Each income group as a proportion of the whole working population, in percent

(Data source: ILO)
Difficulties with taxation and electricity provision

Pakistan comes 110th out of 189 nations in the World Bank’s Ease of Doing Business Index. The country performs particularly poorly on energy provision, where it only manages to achieve 175th place. There are also major problems with taxation and enforcing contracts. The only area in which Pakistan manages to get into the top third is protecting investors, where it is at place 34.

Pakistan’s position in the Ease of Doing Business Index 2013, showing various dimensions (Data source: World Bank)

Syria: A failed state

Six months before the outbreak of civil war, even the experts could not have predicted the suffering and chaos that would so quickly descend upon the country. Although living conditions lagged far behind Western standards, until then the political situation was still relatively stable for a Middle East country. There were even faint signs that the government would loosen its strict social controls in the future and dare to start liberalising the economy.24

But these plans came too late for Syria’s population. Their dissatisfaction with the corrupt state apparatus, which enabled the family clan surrounding President Bashar al-Assad to enrich itself on the country’s oil revenues while many only had enough to survive, was too great. According to official statistics, unemployment was at 10 percent at the time, but unofficial estimates place it at 25 percent.25 The available jobs were usually poorly paid.36 Encouraged by the successful protest movements in some other Arab nations, the Syrians took to the streets in March 2011. A short time later government troops fired their first shots at demonstrators. Some of the opposition took up arms, and soon the entire country descended into civil war.

At the time, Syria had a population of 23 million, of which approximately 2.6 million lived in the capital, Damascus, 3.5 million in Aleppo and 1.6 million in Homs. To date the war has led to 130,000 deaths.27 Continuous bombardment, guerrilla warfare and war crimes have driven nearly half the country’s residents from their home areas. 2.5 million of them have fled to safety over the border, and another six million have found shelter within Syria.28

Politically, economically and along religious lines, too, the country has been torn apart: rebels control the more or less stable northern and north-eastern regions along the border with Iraq, whereas the government controls the rest of the country. Supplies of food, electricity and medicine have completely collapsed in some places. Syria, once a leading producer of oil and gas in the Mediterranean region, now relies on raw material imports from friendly neighbouring states. Production has come to a standstill in nearly every other economic sphere, driving up unemployment massively. Only 46 percent of working-age Syrians are available to the labour market, and of this group 8 percent are unemployed. Furthermore, life in the war zone is getting more expensive each day. Inflation is around 37 percent. Three quarters of the population lives on less than two US dollars per day – 54 percent on less than 1.25 US dollars per day.29 Between the first and second year of the civil war alone, GDP per capita plummeted by more than a quarter to around 2,100 US dollars.30 To date, the United Nations estimates the total economic damage caused by the war at 60 to 80 billion US dollars.31

Even were the war to end tomorrow, it would take decades for the country to recover. This is compounded by a coming generation that has seldom or never attended school during the war and can hardly imagine a future in its own country. Furthermore, many children have been traumatised by the violence. Experts are already speaking of a “lost generation” – the generation the nation needs to shape its future.
Asia’s Second Leap Forwards

The countries in Cluster 2 have made progress in recent years. The average per capita income may still be low, but a middle class is gradually emerging. The countries are in the middle of their demographic bonus phase, meaning that there are still plenty of opportunities for further socio-economic advances. The prerequisites appear to be reasonably good: on average for the cluster four out of five people between 15 and 34 have attended a secondary school. If the labour market provides sufficient jobs for these young people, entry level workers will stimulate the economy. If there are no opportunities for those at the start of their careers, however, social unrest could be the result. Almost all the countries in this cluster have already experienced this.

This is the largest group of states, numbering 12 countries divided into three sub-groups. Turkey, Jordan and Thailand are significantly ahead of the rest overall, but their success is by no means assured. The indicators do not yet reflect the recent wave of protests and scandals in Turkey, for instance. The country would probably lose its top ranking for politics in any future analysis. Indeed, if the political situation were to destabilise any further, this could have consequences for other categories.

Several countries which are highly dynamic in some respects have already started catching up. Sri Lanka, Vietnam, Indonesia, Mongolia, the Philippines, Iran and Turkmenistan mostly only achieved an average ranking in the overall index, but in certain areas some of them are already up there with the front runners of the cluster. Indonesia, for example, has a huge population potential, and Mongolia is regarded as comparatively politically stable. Then there is Iran, where the present-day living conditions are already better than those in Turkey.

Far behind at the bottom of the table are the Central Asian republics Kyrgyzstan and Tajikistan. They bring up the rear of the cluster in just about every category. This will have consequences for the countries in question, and the distance from the other nations could well get larger in future rather than smaller.

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picturesque Oriental charm, which can now only be glimpsed here or there. Steel, glass, concrete, asphalt, and dust are everywhere, the result of a construction boom that seems to be taking place without any urban planning whatsoever.

This modern Turkey is seldom beautiful, but a few of the structures do convey the nation’s self-confidence: the two suspension bridges connecting Europe and Asia over the Bosphorus; the international aviation hub Atatürk Airport, which already processes twice as many passengers as both Berlin airports combined but will soon be replaced by one three times as big; and the Marmaray, the railway and suburban train tunnel under the Bosphorus opened in 2013 and designed to ameliorate Istanbul’s congested roads.

Better than BRICS

In the past 35 years Turkey has progressed from an agricultural nation to an industrialising country. With a per capita GDP of 10,666 US dollars it is better placed than the much vaunted BRICS countries China, India or South Africa, and it is even better off than EU members Bulgaria and Romania. Within Cluster 2 Turkey is the strongest economic power, significantly ahead of Thailand or Indonesia. It belongs to the group of the “Next Eleven”: eleven states spread throughout the world with a large population and a reliably dynamic economy.

Turkey benefits from its position sandwiched between Occident and Orient. Geographically only three percent of its land mass is in Europe, with the bulk of the country lying in Asia. But it is the region around the Bosphorus bordering the two continents which is proving decisive for the nation’s future. More than half of the country’s imports and exports go via Istanbul, and the city is home to 20 percent of the Turkish population, generating 40 percent of the nation’s value added. The majority of Turkish banks, insurance companies and industrial corporations have their headquarters in Istanbul.

Not in the first division of emerging nations

In terms of economic growth Turkey has been trailing behind Indonesia and Thailand since 1990, although the per capita GDP is generally lower in the latter two countries than in Turkey. South Korea, as the “model child” of the top performers, is in a whole different league thanks to its significantly higher educational standards and innovative companies, although the population is already noticeably older.

The EU is Turkey’s most important trading partner by far, and the majority of tourists to the country come from Europe. Economically, however, Turkey is also looking eastwards, mainly to Russia, China and neighbouring Iran. Furthermore, in the Central Anatolian region around Konya and Kayseri an aspiring yet religiously conservative emergent middle class is expanding trade links with the Middle East and south-western Asia. Foreign investment companies like Toshiba, Sanyo, Siemens, Bosch and Phillips have facilitated the growth of the electronics and car industries. The diverse nature of businesses and increasing domestic demand ensured that Turkey was swiftly able to shake off the effects of the 2008/09 financial crisis, and by 2010 it had returned to growth of 9.1 percent.

The increasing wealth has also enabled Turkish society to modernise, leading to rapid demographic change in contrast with the expectations of 20 to 30 years ago. The fertility rate currently stands at 2.1 children per woman, while between 1950 and 1955 it was as high as 6.6 children. For this reason the actual population growth is lower than predicted in 1989 by the World Bank, which had estimated 81 million inhabitants by 2014. With the current figure a mere 76 million, if current prognoses are correct this time round, growth will stagnate entirely soon after the middle of the century once the population has reached 95 million people. The total will only increase at all up to that point because it is relatively young on average – 42 percent of all inhabitants are aged below 25 – and therefore many Turks have still to reach the potential parenting age.
The young average age of the population is also the reason Turkey can expect an increase in people of working age leading up to 2040. Since approximately 2002 the country has been benefitting from its demographic bonus (i.e. a population with a composition favourable for the labour market), which is one reason for the sustained economic growth. Yet it is comparatively easy to exploit the first bonus phase when plenty of jobs are created in the construction or manufacturing sectors in the early years of the boom, as was the case in Turkey. It is more difficult to sustain that growth at a high level for a prolonged period, for it requires the economy to move up the value chain. Subsequent generations need to receive better training and the savings ratio must rise if financial investment is to flow back into the economic cycle. Efficient institutions and deregulation should give entrepreneurs an opportunity to invest these funds sensibly. Finally, democratic structures would create an opportunity to invest these funds sensibly.

**A country failing to fulfil its potential**

Economic indicators show that Turkey is currently failing to achieve even this much. In fact, growth has fallen to between 2 and 4 percent since 2012. In the last two years productivity has increased only marginally and investment has dropped. Many people are still employed in the large informal sector or in micro-entities where productivity is particularly low. The textile industry, which had long been Turkey’s most important export sector, has largely migrated to Asian countries which can produce at even lower cost. The savings ratio has dropped sharply. While the education system does reach all young people, the quality is inadequate. Thus Turkey is signal failing to fulfil its potential and make full use of its young population structure. As an illustration of the extent of the problem, in 2012 only just over half of all 15- to 64-year-olds were active in the labour market. By comparison, in Germany the figure was 77 percent for the same period. Women in particular are comparatively unlikely to be in paid employment in Turkey: only 32 percent have a job.

This situation could mean that a large number of young people of working age will fail to become integrated into working life and thus will not be able to find a suitable role in society because their income is insufficient. These dissatisfied young people form a “youth bulge” which also harbours potential for social unrest. The consequences of a situation like this can be seen not only in Turkey, but also in a number of other countries such as Thailand with similar demographic and economic trajectories.

Ultimately, the potentially attractive geopolitical location between Europe, Middle East and Central Asia also presents a risk factor for the country, as the opportunities for economic cooperation will remain unexploited if more and more neighbouring states – whether Syria, Iran, Iraq or Ukraine – tailspin into crisis. For that reason it is currently debatable whether the impressive upsurge in prosperity over the last decade, when the country’s per capita income rose from 3,000 to 10,000 US dollars, can be sustained in the future. The Turkish government certainly hopes to increase the per capita income to 25,000 US dollars by 2023.

**Economic engine on the Bosphorus**

Istanbul has a magnetic attraction for many Turks. The city’s population is growing around three times as quickly as the country’s average. This is solely due to the high migration from central and eastern Turkey, for the fertility rate in Istanbul itself is only 1.7 children per woman on average, significantly below the rate needed to ensure a stable population. The metropolis on the Bosphorus will probably continue to appeal to migrants, for it is not only at the heart of the country’s economic power, but the average income is far above that of the country as a whole.

**Increasing wealth, hindered by politics**

In economic terms Thailand is the strongest-performing of the South East Asian states in Cluster 2. The annual per capita income of around 5,500 US dollars is significantly above that of its neighbours Vietnam (1,800 US dollars), the Philippines (2,600 US dollars) and Indonesia (3,600 US dollars). Only a decade ago more than one in ten Thais was considered poor by international standards, surviving on less than 2 US dollars per day, whereas nowadays that is the case for less than one in 20. Almost every household has a television, and seven in ten Thais own a mobile phone.
That all sounds very positive – but Thailand should actually have achieved much more by now. It has always been more prosperous than its neighbours and has largely been spared from wars and domestic conflicts. For that reason alone the country was ideally placed to achieve a greater level of affluence than its neighbouring states Myanmar (Burma), Laos, Cambodia and Malaysia. Furthermore, in recent years Thailand has been going through a favourable demographic phase which is now coming to an end. Yet in contrast to South Korea, Thailand has not managed to exploit its demographic bonus. The former is a textbook example of how to use a demographic dividend in Asia, and is five to ten years ahead of Thailand in its demographic development. During this phase of its rise, South Korea successfully made it into the group of the wealthiest nations worldwide, whereas Thailand is currently only just managing to achieve a mid-ranking level of development.

This is mainly because the Thais have long failed to create jobs outside the agricultural sector. Large swathes of the population thus remained poor, and economic growth was sluggish. As late as the mid-1980s, two out of three Thais still worked in agriculture, and only one in ten earned a living in industry. At that point the government decided to liberalise the economy and sought to establish links to the global markets. Foreign investors became interested as the market opened up, and the economy was able to gain momentum.

**Transformation into an industrial nation**

Today Thailand is the largest rubber producer in the world. Furthermore, it has become the second-largest manufacturer of hard drives globally and established itself as a successful maker of car parts and even entire transport vehicles.38 The proportion of employees in the industrial sector has almost doubled since the 1980s and now comprises 20 percent. This makes industry the most important sector of the economy, along with the service industry, which is booming thanks mainly to tourism. The idyllic coastlines in the south of the country as well as the mountainous scenery in the north brought over 22 million visitors to Thailand in 2012 alone. It is estimated that earnings from tourism comprise around a tenth of the country’s GDP.39

This is presumably the reason why an exceptionally large number of Thais work in the service sector, where they predominantly take up temporary, unskilled jobs in hotels and restaurants. Numerous employees receive their money cash in hand, and over half of them are not even officially employed – thus losing any chance of receiving even minimum levels of social security. At the same time, the many informal workers deprive the state of income from taxation. According to estimates, only one in every two US dollars earned in Thailand is recorded in the official accounts – a record low in Asia.40

Yet Thailand’s political class is currently too occupied with itself to deal with clandestine employment or corruption. A military government has just taken power in reaction to years of tension and conflict between the different political camps, particularly between supporters of the “red shirts” and “yellow shirts”. These two political groups have very different ideas of how the country should be ruled. The yellow shirts are seen as wealthier supporters of the royal family who aim to expand its sphere of influence. Campaigners for the red shirts belong mainly to the poorer rural population who support democracy but expect ample social transfers in return. The dispute between these two sides has long paralysed political decision-making, even erupting every few months in violent conflict.

**Confidence shattered**

The military takeover could bring stability to the country, at least in the short term. This would be a crucial development, as Thais have currently lost any measure of faith in the system – as reflected in the Consumer Confidence Index, which dropped to a 12-year low in 2014.41 At the same time tourists are avoiding Thailand, and thousands of migrant workers have now left the country.42,43

Yet Thailand urgently needs these mobile workers, some of whom come from neighbouring countries, for its own population is aging, leaving Thailand with fewer and fewer...
people in its labour force. Furthermore, Thai workers are exceptionally poorly qualified. It is true that virtually every Thai has been to school, but the state institutions have such low standards that graduates are essentially unsuitable for the labour market. Foreign investors are already complaining about the lack of staff. Meanwhile pay for Thais is increasing all the time; between 2011 and 2013 wages rose by over 30 percent. While this hefty gain could allow many Thais to achieve middle-class status, others might lose their jobs altogether as foreign companies realise that it might not be worth their while to continue producing in Thailand.

Furthermore, droughts and floods have destroyed food crops in many locations. Smaller harvests and rising food prices can lead to famines and refugee migration. The numbers are already overwhelming: in 2010, 77 percent of the world’s nearly 40 million internal refugees were Asians – a large share of them fleeing from too much or too little water. Climate change also increases the risk of cross-national conflicts. In Asia’s mountainous regions, melting glaciers lead to rivers carrying smaller and smaller volumes of water. This is compounded by the fact that countries located upriver are consuming more water, leaving less for their neighbours located downstream who require it chiefly for agricultural purposes. Over the long term, this could lead to water conflicts – the first signs are already evident in Central Asia.

In order to cushion the effects of climate change, countries must not only cooperate with one another, they must also work together to prepare for possible disasters. Developmental agencies describe the resulting ability to survive disasters as “resilience”. In order to achieve this resilience, governments must set aside sufficient funds, develop plans to cope with disasters and simultaneously invest in a durable infrastructure in order to prevent their countries being knocked off course for years should emergency strike.

At the same time, countries must seek to avoid further environmental destruction. This is particularly difficult in Asia as it is currently experiencing an economic and population boom. Mass production, consumption and traffic pose further threats to the environment. The worldwide Ecosystem Vitality Index assigns the majority of Asian countries less than 50 of a possible 100 points. The man-made threats to the ecosystem are too great and the interest in protecting the environment using targeted measures too small.
The Reunification Express train travels between Hanoi and Ho Chi Minh City (which used to be known as Saigon), weaving its way along the coast of the South China Sea from the north to the very south of Vietnam. The term “Express” should not be taken too seriously, however, for the train requires as much as 36 hours to journey around 1,600 kilometres. New tracks and more modern rolling stock are long overdue, but so far there has been insufficient money to pay for them. Now the Vietnamese central government is hoping to attract foreign investors to the project – and has a reasonable chance of success, for in recent years its record for drawing foreign capital into the country has been excellent. Its experimental blend of capitalism and socialism is similar to that practiced in China.

It was back in the 1980s that Vietnam’s Communist Party first adopted a market-driven liberalisation programme and opened up the country to the outside world. Since then its economy has been growing steadily, even during the Asian crisis in the late 1990s and the most recent global economic crisis. Between 2003 and 2012, annual growth averaged 6.5 percent, enabling Vietnam to be re-categorised from a low-income economy to a middle-income economy in 2010. Today the country’s per capita income is 1,755 US dollars – significantly ahead of neighbouring states Laos and Cambodia, although these are also countries on the way up enjoying a sustained economic boom.

Vietnam achieved its economic growth in the 1980s because it upgraded its agricultural system to modern high-yield breeding programmes. This enabled the country to increase its agricultural output significantly and establish itself on global markets as the second-largest exporter of rice and coffee beans, a position it still holds. Since the 1990s, industry has also been playing an ever greater role. Vietnam has become exceptionally attractive as a location for investment thanks not only to its low wage costs and superb productivity levels, but also aided by its membership of the World Trade Organisation since 2007. Furthermore, entrepreneurs can draw on a large pool of potential employees, for around two-thirds of the 93 million Vietnamese are of working age.

Indeed, the rate of working women in Vietnam is even higher than in Germany: 79 percent compared with 72 percent. The growth of employment opportunities has been accompanied by a rise in the average standard of living. That, in turn, has stimulated domestic demand and further boosted the economy.

After such a long period of success, the Vietnamese are also highly confident about the future. More than 90 percent of them believe they will have a better life than their parents and that their own children in turn will enjoy a higher standard of living than they

Half way there

The flow of direct foreign investment had already risen steeply a year before Vietnam joined the World Trade Organisation in 2007. In terms of GDP the country is the second-largest recipient of direct foreign investment among South East Asian states at a similar level of development. However, the flow of capital from abroad has dropped sharply in recent years.

Sustained demographic bonus

This means that Vietnam has entered its demographic bonus phase, which may well continue for quite a while. The group of 15- to 64-year-olds will not reach its highest level of just below 71 million people until the mid-2030s, and only after that will it start to decline, while the proportion of older inhabitants rises. Moreover, a much higher proportion of women and older people are active on the labour market than in other countries with a similar level of development.

Open for capital from abroad

The flow of direct foreign investment had already risen steeply a year before Vietnam joined the World Trade Organisation in 2007. In terms of GDP the country is the second-largest recipient of direct foreign investment among South East Asian states at a similar level of development. However, the flow of capital from abroad has dropped sharply in recent years.
But the country first has to eliminate certain deficits if it is really to progress as strongly as expected. Inflation and corruption are still paralysing the economy and making it more difficult for foreign investors to get established in Vietnamese markets. Furthermore, there is a shortage of skilled workers, with a substantial gap between the educational standard of the working masses and the actual requirements of the market. There are not enough technically versed employees, neither are there sufficient experienced middle managers. Most young people have been trained at best for manufacturing jobs in the low-wage sector. Yet in the long term the economy cannot rely solely on mass producing cheap goods. If it is to exploit its demographic bonus fully, Vietnam has to venture into higher value-added chains. However, this will only work if the working population has the appropriate education and skills and the country’s infrastructure allows upscale businesses to exist. The Reunification Express will be only one of many “works in progress” for Vietnam in coming years.

Climate for investment could still be better

Vietnam comes 99th out of 189 nations in the World Bank’s Ease of Doing Business Index. In several aspects, such as dealing with construction permits or getting credit and enforcing contracts, the country even makes it into the top third of the global comparison. In other areas, however, such as resolving insolvency, getting electricity or paying taxes, Vietnam is one of the most unattractive locations in the world.

The rough diamond

There are few countries on Earth where everyday life differs as greatly from one region to another as it does in Indonesia. The territory of this South East Asian country consists of around 17,000 islands, with two-thirds of the population – approximately 170 million people – living on the two best known, Java and Bali. The other 80 million Indonesians are unevenly spread around the islands in the Indian Ocean, some of them as large as countries, others tiny. The residents of some islands have little contact to the outside world; Siberut, for instance, is inhabited only by primitive societies who have largely retained their archaic way of living in the rainforest. They are more or less unaware that their country has become one of the leading economic beacons of hope in the region. Yet this lack of knowledge affects more than just the geographically isolated peoples; in general, despite significant achievements Indonesia is finding it difficult to enable its inhabitants to participate in the wealth generated.

Indonesia’s impressive annual economic growth of around 6 percent on average between 2003 and 2012 is primarily based on the export of natural resources. The country is rich in copper, nickel, tin, bauxite and gold. Moreover, Indonesia has great reserves of oil and gas. All these are commodities that are needed in great quantities in the nearby rising nations of China and India. The demand for natural resources on global markets has brought large amounts of money into the country in recent years, yet living conditions for many of the 253 million inhabitants have changed little. Exploiting natural resources requires little labour, and as around two-thirds of the traded commodities leave the country completely unprocessed, no jobs are created through processing and refining products.

Not enough investment in education

The chances of finding work are correspondingly low: less than 40 percent of the Indonesian working population has a regular job. Of those, 35 percent are active in agriculture and 43 percent work in the service sector, often as hawkers, delivery staff, or service staff. Industry has not yet played a major role, employing only 22 percent of the workforce. Wages are low, and poverty is widespread: over a third of the population (43 percent) lives from less than two US dollars per day. In this respect Indonesia is on a par with Vietnam, although the per capita GDP of the latter at 1,800 US dollars is only about half the level of the Indonesian economic
output (around 3,600 US dollars per capita). If the situation does not change, a serious social and political crisis will almost inevitably result. Indonesia already has the third largest population of working age in Asia after China and India. This number will continue to grow by around a million per year until the middle of the century, when it will reach a total of 210 million people. Yet not only does the country have too few entrepreneurs to provide much-needed jobs, the educational standards are also too low to supply suitably qualified employees for those jobs that are available. Strong unions have ensured that employee protection and minimum wages are virtually at the same level as in European countries. Yet the Indonesian workforce is reputedly the least productive in Asia. At least almost all young Indonesians now attend a secondary school, but the quality of education there is inadequate, mainly because Indonesia spends little on education and research in comparison with other states in the region. Investors are deterred not only by the limited education of the workforce, but also by structural impediments. Indonesia achieves a lowly 120th place out of 189 countries in the World Bank’s Ease of Doing Business Index. Setting up a company involves jumping through major bureaucratic hoops, and even then the legal basis is considered doubtful. The infrastructure is completely overloaded, particularly in the cities, where 135 million people live – which is over half the Indonesian population. In 1950 that figure was only 9.3 million, which then comprised one tenth of the total population. There are 19 cities with more than 500,000 inhabitants, over six times as many as in 1950. In future many of these cities could be facing one problem in particular: as a state made up of many islands, and with most of the population living close to the coast, the country is more seriously affected by climate change and rising sea levels than other nations. More than 110 million people living in 60 Indonesian cities are regarded as being in danger of falling victim to a natural disaster.

Little growth through urbanisation

The capital city Jakarta is already struggling to provide an adequate infrastructure for its ten million inhabitants. Not only are water supplies, the waste water system and the electricity grid failing to keep up with demand, but the road network too is overloaded. There is a rumour circulating in Jakarta that if all the city’s vehicles were placed end to end, then the entire road network would be crammed full. The consequence is a permanent traffic jam. Such problems mean that Indonesia, in contrast to other Asian countries, has not yet managed to capitalise on its urbanisation. Every time urbanisation rises by a single percent in China, India, Vietnam and Thailand, it results in 6 to 10 percent greater economic output per capita. In Indonesia, however, that increase is no more than 2 percent.

More money does not lead to more prosperity

The per capita income of Indonesians is higher than in many other South East Asian states. Despite this fact, their socio-economic situation is no better: the proportion of society living in extreme poverty is just as large as that of the considerably poorer Vietnam – and even slightly larger than that of the Philippines, whose economic performance is not quite as good.
Nevertheless, Indonesia has not yet squandered all its opportunities to make something positive out of the growing urbanisation, for the process is by no means yet over. According to prognoses, the number of city dwellers will have increased by 40 million by 2030, but it is the medium-sized cities that will be expanding most rapidly. By contrast with Jakarta they still have a chance of installing modern infrastructures in time to deal with their population growth. This will establish the basis for economic success and entice those future-oriented entrepreneurs to the region who will be creating tomorrow’s jobs. Indonesia could thus indeed become home to one of Asia’s largest consumer markets, just as many analysts have long been hoping.65

For despite all its problems, what characterises Indonesia above all else is its great stability. It is home to the largest Muslim population on Earth, who are considered to be moderate and largely free of fundamentalist tendencies. Democracy is firmly established and it is almost regarded as good manners to participate in one of the country’s numerous civil initiatives. Indonesia has good diplomatic relations in various directions, counting the USA, EU, Russia, China and Venezuela among its partners. The country is a driving force behind the Association of Southeast Asian Nations (ASEAN), the EU-style economic organisation of South East Asian nations. As a member of the G20, Indonesia is also now being taken seriously beyond Asia as an up-and-coming economic power. The international rating agencies, too, have recognised the country’s value, granting Indonesia investment grade status in 2012 and thereby strengthening global trust in the Indonesian economy.

Social networking

With more than 50 million members, Indonesia has the fourth largest Facebook community in the world. In purely statistical terms, that means over one in five Indonesians is active in the social media network. Many young people are passionate about technology and dream of achieving success with their own start-up. Millions of others, however, do not even have access to electricity.

An island nation with a good outlook

Spring 2013 marked a high point for German–Filipino relations, when Monika Varnhagen (director of International Placement Services at the Federal Employment Agency) and the then labour minister Ursula von der Leyen signed an agreement to recruit Filipino health care professionals to Germany. Like many other countries, Germany wishes to benefit from the highly skilled Filipino workforce and in exchange guarantees complete recognition of vocational qualifications and remuneration packages at German levels. This is a real opportunity for many inhabitants of this island state, which has long found it a challenge to create sufficient jobs.

There is no sign that this trend is about to end, particularly because despite a healthy annual economic growth of around 5 percent over the past decade, the standard of living has hardly improved at all for the population. Around 40 percent live on less than 2 US dollars per day, and nearly one in five endures extreme poverty on less than 1.25 US dollars daily. For decades now the Philippines has failed to launch a successful development strategy, although the country once enjoyed a reputation as one of the most modern in Asia when it became independent from the USA in 1946 after almost half a century of colonial rule.68 The industrial sector was already well developed, that it soon started trailing behind its regional competitors. Only since the late 1990s has it slowly been able to return to stability.70

There are a rosy future seemed to be mapped out.69 But the population was well educated, the path to industrial sector was already well developed, and the focus slowly been able to return to stability. Only since the late 1990s has it slowly been able to return to stability.70

Ten million people, or a tenth of the population, have already left the Philippines, and this Filipino diaspora sends over 20 billion US dollars in remittances to their families each year.69 The first recruitment agreements were set up with the USA and Canada back in the 1960s, and since then the state has been supporting its citizens actively in finding work abroad, for emigration relieves pressure on the domestic labour market.67
Healthy, educated, productive

Filipinos have placed great hopes in President Benigno Aquino, who was elected in 2010. He sees himself as a reformer who aims to transform growth into prosperity by concentrating on education and health. In this respect he is following on from a successful initiative introduced by the – otherwise controversial – preceding government, which had ensured by means of a 2007 social programme that more parents from poor households regularly sent their children to school and took them to see a doctor. In recompense the families receive 33 US dollars monthly, which helps take them out of poverty. The programme has reached 15 million people so far, while costing the state less than 0.5 percent of its GDP. If President Aquino has his way, the scheme will be expanded to give even more Filipinos access.

Furthermore, with other projects for improving the socio-economic situation up his sleeve, he is apparently unwilling to be deterred from implementing them by anyone or anything. This recently became clear when he pushed through the Reproductive Health Act, opening the way for sex education in schools and the partially state-financed distribution of contraception – despite the opposition of the influential Catholic church, to which 80 percent of all Filipinos belong. By blocking the law for many years, the clergy prevented the rapid population growth from slowing down at all. By 2050 the current Filipino population of 100 million may well have grown by a further 55 million – considerably more than the labour market can support in its current state.

If President Aquino manages to implement a state health insurance scheme with as much determination as he put into his Reproductive Health Act, every Filipino will receive guaranteed access to healthcare. In addition to additional expenditure on health, the government would like to raise education spending, which has been quite low up to now, and significantly increase the numbers of classrooms and teachers. It was only recently that the period of compulsory education was extended from ten to twelve years.

The service sector as a future market

These health and education initiatives could pay off in the long term, but only if sufficient jobs are created for the more highly skilled generations that follow. The chances of this happening are good, because although the Philippines, unlike its neighbours, missed the opportunity of establishing a labour-intensive serial manufacturing industry, Filipino companies can, for example, provide reasonably priced telephone customer support or bookkeeping services for globally active corporations. This sector grew by 17 percent in 2013 alone and currently employs 900,000 Filipinos. If the plans of the employers’ association come to fruition, a further 500,000 jobs could be created. It works in the sector’s favour that English is widely spoken in the Philippines thanks to its American colonial history. The rise of the service industry has triggered growth in other areas, too – such as construction and telecommunications. A country like the Philippines with over 7,000 islands and 36,000 kilometres of coastline also generates jobs and income from tourism. Between 2010 and 2013 the number of foreign guests increased from 1.7 to over 2 million.

Late dividend?

With the exception of the small state of East Timor, the Philippines is the only country in South East Asia where population growth is predicted to continue beyond 2100. The current issues leading to major logistical and environmental problems could be transformed into opportunities in the long term. Because other Asian nations have already – more or less simultaneously – entered their demographic bonus phase, they are competing with each other. But the Philippines is somewhat later, with a demographic window that is only just opening and will remain open for a long time. This means that when the populations of its regional competitors are aging and even shrinking, the Philippines will be able to score points with investors for its large, young, well-educated workforce.

(Data source: UNPD)

Number of dependents under 15 and over 65 per 100 people aged 15 to 64
(Data source: UNPD)
But nature itself, the most important capital in the tourism industry, is threatened – by population growth, among other things. The biodiverse Filipino rainforest has already been largely destroyed, as have 70 percent of all mangrove forests, which offer natural protection against the flooding caused by cyclones. In many places cyanide and dynamite fishing, as well as tourist diving, have ruined the reefs around the coastline. This already fishing, as well as tourist diving, have ruined protection against the flooding caused by of all mangrove forests, which offer natural been largely destroyed, as have 70 percent biodiversity Filipino rainforest has already in the tourism industry, is threatened – by But nature itself, the most important capital disasters. Even today climate change means that the island nation is being subjected to ever stronger cyclones. Then there are the natural dangers facing the country in any case, for its position at the heart of the “ring of fire” makes the Philippines vulnerable to volcanic eruptions, earthquakes and tsunamis.

Suitable preventative measures thus have to be integrated into the country’s long-term planning; they are already regarded as comparatively advanced and in the future are to be improved even further. For instance, should a natural or man-made disaster occur, the Philippines wants to be able to regain its economic power swiftly and continue with its dynamic development. And it is the educational programmes that could prove especially useful in this respect: as studies have shown, people with a higher level of education are significantly better protected against the consequences of natural disasters, particularly in threshold and developing countries.

Hoping for reforms

Religious leaders can be wrong, too. That was possibly what Ayatollah Ali Khamenei, the supreme leader of Iran, was thinking in 2012 when he introduced a change of direction to the country’s family planning policy, one which had been in place since 1988. The government replaced slogans such as “fewer children, better life” with poster campaigns promoting large families beaming with joy next to visibly dissatisfied smaller families. This marked Iran’s departure from one of the world’s most successful family planning programmes, which had ensured that within 20 years the fertility rate had plummeted from nearly six children per woman to fewer than two. This was achieved not just by free state provision of contraception, but also through a national healthcare system and, more than anything else, by investing in education for boys and girls. Population growth among the now 79 million inhabitants has consequently fallen from almost 3.5 percent per year in the late 1980s to 1.3 percent today. Now the ruling elite, seeking to increase that figure, has cut subsidies for contraception and abruptly banned women from participating in a total of 77 university courses.

It is, however, questionable whether young Iranians want to return to larger families, for social norms concerning family size have changed in Iran as much as in other modern societies. Moreover, many young couples are finding it difficult to keep afloat financially. Since 2000 the unemployment rate has constantly remained between 10 and 15 percent, although not even half of all Iranians of working age are actually available for work. The situation is particularly critical for young people between 15 and 24; of the 31 percent of people in this age group who would like to work – many are still studying – almost one in three was without a job in 2012.

As in many other Asian states, millions of young people will be entering the job market in coming years in Iran. There are currently 4.5 million students in the country, and upon graduation they will need suitable employment. But that is difficult to find in Iran, with the consequence that emigration among highly qualified people is already higher in Iran than anywhere else in the world. Those who stay will not shy away forever from making their dissatisfaction felt. They already demonstrated this during the “Green Wave” movement in 2009, when mainly young people took to the streets in protest for weeks on end in spite of the armed security police willing to use violence. Presumably concerned about further waves of protest, the Iranian government now calls rampant unemployment “the most urgent issue” in the country.

Isolation pushes up prices

Yet it is uncertain how – if at all – Iran can get to grips with the employment crisis, for it is facing a challenging economic situation. This is partly due to the international sanctions imposed in protest at its nuclear programme which have largely blocked Iranian access to Western markets. Whereas in 2011 oil, gas and coal worth 18 billion US dollars came onto the European market, only two years later that figure had dropped to 556 million dollars. It is true that China has remained as a major customer, but that is not sufficient to compensate for the losses.

The economic isolation has also forced up prices, exacerbating the difficulties. The consumer price index, which tracks average price changes for goods and services purchased by private households, more than doubled between 2010 and 2013. The inflation rate was almost 40 percent in 2013, forcing Iranian families to dig ever deeper into their pockets. The last census in 2008 found that 14 million Iranians lived below the national poverty level, and it can be assumed that the situation has deteriorated since then. According to the
Religion alone does not make children

While religion itself has no influence on the number of children families have, the form it takes probably does. Similarly to Evangelical Christian families in the USA or Orthodox Jewish communities, in many devoutly conservative Muslim countries large families are seen as divinely ordained and thus the norm. Fertility rates in the conservative Muslim nations Afghanistan, Iran and Pakistan have fallen in recent decades, but still remain high. In more liberal societies such as Malaysia, Turkey and Lebanon, however, the rates are now similar to those in the West. Despite its strict adherence to religion, Iran is the exception in this respect. Worried about rapid population growth, the otherwise traditional regime ruled by mullahs re-interpreted the religious beliefs on family size in 1988 and established a successful family planning programme. Since then the birth rate has dropped to fewer than two children per woman.

Social provisions for all households

A first – unsuccessful – attempt to reform the subsidies was made by the then president Mahmoud Ahmadinejad back in 2010. He slashed part of the supplementary payments and used the money thereby saved for social benefits instead. However, because it was unclear which households needed help, the president granted the aid to everyone equally. This brought a huge amount of money into circulation – and the value of the Iranian rial plummeted. The reform thus actually worsened the living conditions of many poorer people instead of providing financial relief. This is probably one reason why the government has since shied away from further reforms. However, successfully eliminating subsidies is regarded as a crucial step in stabilising the economy, for it would provide long-term financial relief for the Iranian state, rescue thousands of Iranians from poverty and induce wealthier households and businesses to reduce their level of consumption.

President Hassan Rohani, who has been in power since 2013, would like to abolish the subsidies now and replace them with a social welfare system supporting only families in need. It remains to be seen whether he can implement his planned new social policy. All hopes at home and abroad are now resting on the new president, who is regarded as being significantly more liberal and competent than his predecessor. His negotiating skills with the West will be crucial in determining not only whether the strict sanctions will be lifted, but also which role the country will adopt in the Middle East. Furthermore, his only option for giving the country long-term stability is to make the economy future-proof within a very short time. In contrast to other economies dependent on natural resources Iran is regarded as being somewhat diversified and thus it could perform well beyond the oil and natural gas sectors – for instance in textiles, construction materials or car production.

Sanctions curbing the oil business

The global economic crisis in 2009 caused demand for oil to sink all over the world. The market recovered quickly, however, and the oil-producing nations extracted 7 percent more from energy sources in 2013 than in the year of the crisis. In Saudi Arabia and the United Arab Emirates production rose even higher. Iran, too, initially increased production, but following the sanctions soon afterwards it lost its key markets and production fell to 84 percent of the 2009 level – which was the lowest level since the new millennium.
The countries of Cluster 3 have all experienced rapid growth in recent years and can today boast relatively strong economies. Levels of prosperity are still far below those of the newly affluent countries of Cluster 4, yet in these countries, too, a middle class has emerged with a thirst for consumption. The educational level of their rather young populations is relatively high, as are these young people’s career and income expectations. Many inhabitants of these countries emigrate, as there is still little demand for their knowledge in their generally less diversified economies, which means they are losing important human capital. At the same time, these states must prepare now if they are to successfully tackle the aging of their societies in the near future.

Malaysia heads the ranking for Cluster 3 in nearly every category. In many respects, it is already on a par with countries such as Turkey, South Korea and, in some areas, even Singapore. For the time being at least Malaysia also enjoys great population potential, in marked contrast to Armenia, which occupies second place. Despite its political stability and good living and environmental conditions, the working population in Armenia is already aging and shrinking. It has already gone quite far along this demographic trajectory, yet the level of economic development is not anything like sufficient to adequately provide for the growing numbers of retirees the country will soon face.

Nevertheless, things look a lot more rosy in Armenia than in Kazakhstan, Georgia, Lebanon or Azerbaijan. While these countries achieve a comparable overall score, there are marked differences between the various areas. For example, resource-rich Kazakhstan does well economically, Georgia is relatively stable politically, and living conditions are comparatively good in Lebanon. Azerbaijan heads the cluster in terms of the environment, but its healthcare system is poor and its provision of drinking water and sanitary facilities inadequate, making living conditions well below average. Ranked below Azerbaijan in this cluster is Uzbekistan, which 20 years after the collapse of the Soviet Union has still not managed to create a stable political infrastructure or develop a competitive economy.

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<th>Living conditions</th>
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On the way to the top income bracket

Malaysians seem to like political stability. Since the country’s independence from Great Britain in 1957, Malaysia has been continuously ruled by the party known as the Malaysian National Organisation. Its nationalist conservative politicians set their sights on growth and national unity – and their strategy appears to have been successful. According to the World Bank’s definition, this mainly Islamic country with a per capita gross national income (GNI) of 10,400 US dollars is in the middle-income bracket. GNI is an economic indicator that measures all of a country’s earnings regardless of whether they have been earned domestically or abroad. In this respect, it encompasses more than GDP, which focuses only on production within a country’s borders. Malaysia, however, aspires to join the club of nations with the world’s highest incomes as described by the World Bank – and if possible by 2020.

It is not all that unlikely either, for although it is true that this two-island country is not breaking any records with average economic growth of 5 percent between 2003 and 2012, its economy has continued to grow steadily with only a slight hiccup during the global economic crisis. More than half of Malaysia’s 12.3 million workers now belong to the lower middle class with an income of between four and 12 US dollars per day. A third of these even earn 13 US dollars or more. As the government’s social programmes support nearly eight million people, hardly anyone in the country still lives below the poverty level by international standards of less than two US dollars per day.

As millions of Malaysians enter the middle class they are fueling consumption too, with domestic demand currently the country’s most important economic factor. It remains to be seen, however, how long this can continue, for large acquisitions in particular, such as cars or homes, are generally purchased on credit. In 2013, private loans made up 87 percent of GDP. This makes Malaysian households the most indebted in all of Asia. The banks could easily put an end to this demand boom – and in doing so would put a lid on economic growth.

Slowly but surely

Between 2003 and 2012, Malaysia grew at an annual average rate of 5 percent. Together with Lebanon, the South East Asian country achieves the lowest economic growth in Cluster 4. But unlike most other nations in this cluster, Malaysian growth was continuous. Only the global economic crisis stymied Malaysian growth in 2008 and 2009. Quite the opposite is true of Azerbaijan, whose average growth rate of 13 percent places it at the top of the cluster – but as this country’s economy is dependent on demand for raw materials, its annual growth rates fluctuate sharply. In Lebanon, on the other hand, it is primarily the country’s political situation, which is very fragile to say the least, that determines the economic climate.

There is another threat to economic growth in Malaysia, too, however. Many experts believe that this island nation in the South China Sea is in danger of falling into what is known as the middle-income trap. This is a fate that befalls nations on the path from poor developing countries to affluent economies if their manufacturing locations become too expensive for mass production yet have too little potential for the innovation required to develop new, more viable branches of the economy. With the exception of Japan, South Korea and Singapore, many of Asia’s rising nations find themselves caught in this trap.

A booming Islamic financial sector

Malaysians, however, are seeking their own way to avoid this problem. In addition to the sale of raw materials such as oil, zinc, rubber or palm oil and the production of industrial goods such as cars, semiconductors and other electronic components, the country has developed a promising new sphere of business: Islamic banking. After the trauma of the Asian financial crisis in the late 1990s, the Malaysian government completely restructured the banking sector. Today, the country is considered the world’s most competitive market when it comes to Islamic financial services. This financial sector is based on the rules set forth in the Koran, which forbids earning interest and replaces it with profit-sharing. Furthermore, investments at odds with Islam, such as in pornography or pork and alcohol production are strictly forbidden. The Malaysian financial system holds 8 percent of the world’s assets belonging to Islamic banks, putting it in second place behind Saudi Arabia.
Malaysia maintains this leading role by means of targeted educational and research institutions, such as the Islamic Banking and Finance Institute of Malaysia, which educates tomorrow’s businessmen and women. Furthermore, together with the International Centre for Education in Islamic Finance (INCEIF), the Bank Negara Malaysia has run the world’s top-rated university focusing on the study of Islamic finance since 2005. With approximately 2,000 students, the INCEIF not only ensures a supply of qualified young financial workers, but also helps Malaysia to maintain its global image as an innovative powerhouse in this sector, for the institute’s experts lay down the financial rules that are recognised throughout the Islamic world. Thanks to its diverse economic structure and relative stability, Malaysia with its 30 million inhabitants has become the third-strongest economy in South East Asia after Indonesia and Thailand. This says a lot about Malaysia’s strengths, for Thailand has twice and Indonesia eight times the population. Both of these countries thus have a significantly lower GDP per capita. Vietnam and the Philippines are also much larger in terms of population, but they are nowhere near as successful. For this aspiring Tiger Nation, admission to the club of high-income states may therefore be only a question of time.

**Koran-style finance**

Qismut is the term used to describe the promising markets encompassed by Islamic banking, which includes the Gulf States, Turkey and the majority of Muslim countries in South East Asia, Malaysia and Indonesia. Compared with the other countries in this group, Malaysia has a medium-sized economy. The GDP of the in terms of population size much larger Indonesia is 2.5 times that of Malaysia, giving it the highest rank among all the Qismuts. Yet whereas Islamic banking only plays a small role in Indonesia, with only 1 percent of all holdings, Malaysia holds 8 percent of Islamic investments, putting it in second place after Saudi Arabia, the leader in the group with 16 percent.

**Resource giant with a chance to reform**

In 2017 Kazakhstan will host the first-ever Central Asian Expo under the motto “Future Energy” – a natural choice for a country with immense energy reserves that include uranium as well as oil and gas. Even today, more uranium is mined in Kazakhstan than anywhere else in the world. Furthermore, Kazakhstan will rank among the world’s ten largest oil-producing nations by 2030. And the country is rich not only in energy resources, but in other mineral resources such as iron ore, gold and rare earths as well, bringing billions of dollars into Kazakhstan’s treasury each year.

But despite these gigantic reserves and high global demand, the world’s ninth-largest country in terms of land surface faces a strategic disadvantage: Kazakhstan has no access to the oceans and hence no direct route to global markets. This giant landlocked state’s only maritime link is the Caspian Sea, which only offers access to Azerbaijan, Russia, Turkmenistan and Iran. Most trade routes therefore cross the country’s land borders – usually either east to China or north to Russia.

Good relations with both these trading partners are therefore equally important to Kazakhstan, which is what led President Nursultan Nazarbayev to participate in the founding of the Russia-dominated Eurasian Union. At the same time, however, Kazakhstan has intensified its economic relations with Russia’s competitor China. The EU has also been negotiating an energy partnership with Kazakhstan for years. EU engagement in Kazakhstan must walk a fine line, however, for although the country potentially offers a favourable alternative to Russian gas, EU rules mean that it must also demand improvements on the democracy, corruption and human rights fronts – much to the displeasure of its Kazakh partner.

Kazakhstan’s President Nursultan Nazarbayev has ruled the country since 1990 practically without a chance to reform. One result of the concentration of power is the country’s low ranking on Transparency International’s Index of perceived corruption at place 140 out of 175.

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Kazakhstan’s President Nursultan Nazarbayev has ruled the country since 1990 practically without a change to reform. One result of the concentration of power is the country’s low ranking on Transparency International’s Index of Perceived Corruption at place 140 out of 175.
All firms under one roof

The sovereign wealth fund Samruk-Kazyna, with holdings in the billions, brings together all state enterprises under a single roof, encompassing the railways, post and national airline as well as the financial services industry and oil, gas and uranium companies, but it is primarily Nazarbayev’s favourites who profit from its earnings. The country is home to five billionaires and more than 50 super-wealthy individuals with assets of 100 million US dollars or more. In total, the Kazakh economy grew an average of 7 percent per year between 2003 and 2012 and therefore ranks in the middle of Cluster 4 below its Central Asian neighbours Azerbaijan (13 percent), Uzbekistan (8 percent) and Armenia (9 percent).

If the government’s official plans come to fruition, in the future every Kazakh should receive a piece of the resource pie. In late 2012, President Nazarbayev signed the “Kazakhstan – 2050” strategy, which seeks to upgrade the country to become one of the world’s 30 most-developed nations. Plans like this are nothing new in Kazakhstan, but this time things do seem to be happening. Poverty has already decreased in the country, for example. Whereas more than 6.5 percent of the population was living below the national subsistence level in 2010, today the figure is just under 4 percent. And although rural and urban income differentials are still substantial, they are slowly beginning to equalise. This is an important factor, for nearly half – and in the north and east two thirds – of all Kazakhs continue to live in rural areas. One Kazakh in four works in the agricultural sector, which contributes only 5 percent to GDP. Although many rural inhabitants only earn just enough to get by, few seem attracted to life in the city: in a global comparison, Kazakhstan’s urbanisation rate is well below average.

Unequal distribution

In Kazakhstan, the place of residence is also a decisive factor determining income. In the south of the country, on the border to Uzbekistan, people on average earn around a third less than the Kazakh average. With approximately 2.7 million inhabitants, the southern region is the country’s largest. In the big cities of Astana and Almaty or the oil-rich Atyrau, incomes are sometimes more than double the Kazakh average.

Striving for diversification

These are just some of the reasons why the president is striving for the kind of economic diversification that would make the country less dependent on raw material prices and create productive jobs. But it will take foreign investment to make this happen, and Kazakhstan has only recently opened up to the outside world after years of hesitation. It will also need an educated and innovative population.
The demographic potential is by all means there, for Kazakh fertility rates are traditionally high: in this predominately Muslim country, women have an average of 2.4 children. And as the waves of emigration have eased since the 1990s, Kazakhstan can expect to grow from 17 to 20 million inhabitants by 2050.

Nevertheless, investors complain of Kazakhstan’s lack of qualified workers. Whether study in Europe, where they can profit from State scholarships enable some students to education is still considered to be inadequate. Yet domestic university-level programmes. Yet domestic university-level standards and introduced bachelor and masters programmes. Yet domestic university-level education is still considered to be inadequate. State scholarships enable some students to study in Europe, where they can profit from higher educational standards. Whether or not they return and, for example, take up employment in one of the numerous banks that have opened in recent years or even found their own companies depends on how seriously Nazarbayev takes his present course of reforms.

From pawn to player

In the heights of the Caucasian republic of Georgia nestled among the Nordmann firs lies the little spa town of Borjomi. Despite its seclusion, the town is known well beyond the country’s borders. For decades the mineral water from the local springs was considered a cure-all for ailments of all kinds in the former Soviet Union. This remained the case until Georgia became independent in 1991. In 2006 Russia placed an import ban on Georgian water citing supposed health risks. Only in 2013, after years of diplomatic haggling, could Borjomi once again export to Russia. By then, however, the brand had lost its leading position in the Russian market.

The 4.3 million inhabitants of Georgia have always striven for cultural, political and economic independence. Their country is about the same size as Ireland and it is located in a buffer zone between the regional powers of Russia, Iran and Turkey. Georgia’s experiences with its northern neighbour Russia have been particularly bad, and it is not only the Borjomi company that has felt the country’s wrath: in the course of its history, Russia has on numerous occasions annexed Georgian territory. The mutual distrust is therefore traditionally large – and in the past few years it has tended to grow rather than shrink. Since the Russo-Georgian War of 2008, Russia recognises the independence of two separatist regions in northern Georgia: Abkhazia and South Ossetia. Only four other countries recognise these regions. Worried about continued Russian influence in the area, Georgia has sought the West’s protection. In addition to EU membership, NATO membership is the country’s greatest foreign policy goal.

Yet bringing Georgia into the military alliance or the EU would be tantamount to Western interference in the smouldering conflict, and for that reason both are considered unlikely.

Not only is foreign policy a source of tension: Georgia is also faced with big problems on the domestic front both political and economic. To date, the agricultural sector is the country’s largest employer. However, the machinery that would enable people to profit from the production and processing of agricultural products is lacking. The World Bank’s latest survey in 2007 showed around half of all Georgians working in the agricultural sector, yet this sector contributes only around a tenth of the nation’s GDP. An agricultural worker in neighbouring Armenia produces more than three times the value of his Georgian counterpart. In Armenia the incomes and standard of living are thus correspondingly higher: only just under one in five Armenians lives below the internationally recognised poverty line of two US dollars per day. In Georgia it is more than one in every three.

Up to their ears in debt

Petroleum products, gas, medicines, wheat, cigarettes, telephones, cosmetics and even soap and detergents – nearly every product needed for everyday life has to be imported into Georgia. A lack of competitive exports means that Georgia has experienced a negative trade balance year after year. This has caused debts to rise and leads to price erosion. Inflation rates of up to 10 percent are not uncommon – a trend which can lead to insecurity among investors and consumers.

Georgia’s exports and imports of goods as a share of GDP, in percent
(Data source: IMF)
Nevertheless, the Georgian economy has been growing for years – between 2003 and 2012 it grew at an annual rate of 6 percent – but only a small share of the population actually derives any benefit from this, as is shown by the Gini Index, which measures levels of social inequality on a scale of 0 (for no income disparity) to 1. With 0.42, Georgia is significantly worse off than its post-Soviet neighbours Armenia and Azerbaijan (with scores of around 0.3).

Transforming weaknesses into strengths

The country’s most recent economic developments could indicate that this is set to change. Georgia hopes to profit from its strategic location between orient and occident. Already, the purchase and sale of cars for the Azerbaijani and Armenian markets is one of the Georgian economy’s main sources of income.123 Trade relations such as these are to be expanded in the future to encompass other countries, and for this reason Georgia is planning to develop the Black Sea city of Anaklia into a giant port complex that after completion will be able to handle 110 million tons of goods per year124 – nearly as much as current capacity in the large port of Hamburg.125 Additional road and rail projects will also do much to help establish Georgia as a trade hub.126

The country’s energy sector is also future-oriented. Georgia is currently constructing several hydro-electric power plants, and more are in the planning stage. This could enable the country to soon become a net exporter of electricity.127 There is no lack of capital for further large-scale projects, for there is a great deal of interest on the part of large international corporations. A minimum of red tape, low taxes and trade barriers as well as low wage costs make the country highly attractive to international investors. In the Ease of Doing Business Index 2014, the country ranks eighth among 189 states: nowhere else in the world is it easier to register property, and in hardly any other country in the world is access to credit or construction permits as unproblematic as it is in Georgia. Such business conditions are helping to stimulate the construction branch in particular,128 but the underdeveloped agricultural sector is also attracting the interest of international firms.129 Should the Georgians succeed in transforming agriculture into a competitive sector, they could soon profit from rising food prices in global markets and export their products all over the world. To date, Georgia’s agricultural sector has hardly exported anything more than nuts and wine.

Furthermore, the ruling government, which has been in power since 2013, is planning comprehensive investments in the areas of education, health and social security.130 If it fulfils its promises, many Georgians might be able to rise out of poverty, a feat that would do much to strengthen social cohesion. Much has already been achieved in this area. In 2013 the country experienced its first peaceful transition of power since independence, therefore making important strides towards democracy. The outside world has also taken notice. Georgia is gaining in popularity among spa visitors, winter sports fans and culture enthusiasts. In 2013, 5.4 million tourists visited Georgia – an increase of more than 20 percent in one year and a million more visitors than the total population.131 Tourism has therefore become an important economic factor as well as a future market.

There are, however, a number of old problems that need to be tackled. Georgia is heavily in debt, and because practically all goods, from washing powder to medicines and petroleum products, have to be imported, the level of debt is constantly rising.132,133 Furthermore, Georgia is dependent on foreign remittances. More than a million Georgians have emigrated, most of them to Russia, and they send a share of their incomes back to their families each month.134 This money adds up to 4.5 percent of GDP.135 An economic downturn in Russia would be enough to land thousands of Georgians in dire financial straits. The exodus has also deprived the country of skilled workers. In total, Georgia loses 0.6 percent of its population to emigration each year. Investors are already complaining about the lack of sufficiently qualified employees.136 And while the population has continued to shrink for years, the number of elderly continues to grow. The pensions system is still a work in progress, and the healthcare system is poor. And these problems won’t get any easier as the country’s population continues to age.
Cluster 4 brings together a group of very diverse countries, ranging from Asian city-states to recently industrialised rising nations and Arabian resource economies, all with widely varying economies and forms of government. What they have in common is their level of development: in these countries per capita incomes are very high compared to the Asian average. Furthermore, most of the population receives a share of these revenues, resulting in a large middle class and a generally high level of education. However, they have arrived at this positive state of affairs via widely differing routes – and their futures are likely to be just as different.

The frontrunner by far is the financial, high-tech and science giant Singapore. This city-state receives the best scores in the cluster on every count. Similarly structured to Singapore in terms of economy and urban development, Hong Kong – the Chinese special administrative zone – comes in a distant second, its good performance closely linked to its unique political situation.

Together with South Korea, Singapore ranks among the Asian Tigers, the countries which have made the leap from poverty to become high-tech economies. Investment in education and the development of competitive and labour-intensive economic sectors have enabled both countries to exploit their demographic bonuses and achieve considerable levels of prosperity. Today these countries score high on education, and the per capita value yielded by their economies is even higher than those of some European countries. The population structure of these two countries remains favourable in the cluster comparison, at least for the time being. The working-age population will remain stable over the coming years, but rapid aging of society will become tangible in the near future. The cohorts with the most purchasing power are not set to decline either. The vast majority of the consumption-happy middle class lives in the cities, and it is their shopping trips to the malls that helps to further spur economic growth.

The situation is completely different in the United Arab Emirates, which ranks just above South Korea in third place. Most of the country’s residents are from abroad, a situation similar to that of Kuwait (rank five), where bombastic construction projects lure millions of migrant workers from India and Pakistan. Even if these immigrants must often labour under miserable conditions, the supermodern architectural wonders they help to build enable these countries to achieve top scores for environment. Less developed are the traditional hereditary monarchies of Saudi Arabia and Oman. Whereas the Saudi Kingdom (rank six) scores high in some areas, enabling it to level peg with its neighbour Kuwait, the Sultanate of Oman ranks last in the cluster.

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A prosperous island state in need of immigrants

Singapore ranks among the world’s top ten nations in terms of socio-economic indicators. Its per capita GDP is around twice that of France, life expectancy is just above Sweden’s and many Singaporean research institutes and universities are among the world’s best. Its ports and airports occupy strategic locations between the Asian economic miracle countries and are some of the world’s largest and best. Unemployment, crime and corruption seem hardly to exist.

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The government has invested these revenues in infrastructure projects and in education for the coming generations. In contrast to their parents, today’s Singaporeans are increasingly less likely to work on an assembly line producing goods for the world’s markets and more likely to be found developing said products in research laboratories for microelectronics or biotechnology. This step up the economic ladder was essential, for the industrial production with which the country had hoisted itself up by its bootstraps is increasingly moving to cheaper neighbouring countries such as Malaysia or Indonesia. Like nowhere else, Singapore has shown how a country can harness its large young population to bring about an economic boom – if they are given the right kind of support.

At least for the time being, that is, for now that Singapore has passed through phases one and two of its demographic transition (sinking fertility rates and a growing working population), the country now finds itself faced with phase three: an aging society. Just over one in every ten of its 5.5 million inhabitants is already over the age of 65. By 2030 it will be one in every five.

More foreigners

The effects of this aging are already bringing instability to the country, and for this reason the government has for years sought to boost the workforce through immigration. Without foreign talent, Singapore’s economy would not be sustainable. Thus the percentage of foreigners in the country has grown from less than 15 percent in 1990 to nearly 39 percent today. If the government has its way, by 2030, 49 percent of the country’s inhabitants will be foreigners. Whether the Singaporeans will go along with this change is questionable, however, for already today each square kilometre of the island state is home to more than 8,000 people – a density 35 times that of Germany, for example. Furthermore, according to public opinion, these immigrants are pushing up rents and depressing wages. The government has responded to these criticisms, at least in part. Since 2014, employers have had to make additional wage payments to foreign workers in an attempt to hinder wage dumping. But the governing party, which has remained in power uninterrupted since 1965, is sticking to its guns on its aggressive immigration policy.

The pendulum is swinging back

Singapore’s population will continue to grow until around the middle of the century, when it will reach 7.1 million. But this growth will mainly take place in the over-65 age group. According to forecasts, the number of working-age Singaporeans will begin to fall both proportionally and in absolute terms beginning in the 2020s. Over the long term, the number of dependents per member of the labour force will be pushed back to the same levels as the 1960s, a time when large numbers of children constituted a major economic burden, especially as they were very expensive to educate. However, the challenges posed by a growing elderly population, some of whom require nursing care, will be quite different.

Dependency ratio of young and old dependents and size of population of various age groups in Singapore (in millions of inhabitants) 1950 to 2100 (Data source: UNPD)
However, this strategy will serve at best to cushion the forthcoming aging of society. That the government is only partially prepared for a continuously rising number of pensioners is a calculated strategy. The less than generous state welfare system is designed to prevent people letting the community provide for them instead of being productive. Pensions are nowhere near high enough to finance a comfortable retirement, yet so far old-age poverty does not appear to be a significant issue.

The larger the number of people who have left work behind, the greater the problems many elderly Singaporeans will have obtaining adequate care. This is another reason why the government is not backing down from its policies and has decided soon to offer at least the “pioneer generation” special benefits. This group of around 450,000 Singaporeans born before 1949 was the one that helped the country achieve its current level of prosperity – often by means of enormous physical effort.

Service to their country entitles them to a competitive country after Switzerland, meaning 10 percent of the country’s population. From the textiles industry to tourism, from banking to insurance, the

**UNITED ARAB EMIRATES**

![Graph showing population in millions](image)

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**Successfully built on sand**

When in October 2013 the Arab blogger Sultan Sooud al-Qassemi wrote that the United Arab Emirates (UAE) should make citizenship available to foreign workers, he was met with a wave of outrage. The very notion was too much for even his overwhelmingly liberal readership. Expanding citizenship would offer millions of people access to the UAE’s generous state services at one fell swoop, they thought. One could hardly describe the holes this would make in the swollen coffers of this oil-rich hereditary monarchy on the Persian Gulf.

Probably pretty big ones, for foreigners make up the majority of the UAE’s population: four out of every five inhabitants are immigrants, making the UAE the world’s leading migration country with the exception of the Vatican. Things were quite different around 40 years ago, when most of the country’s then 235,000 inhabitants lived nomadic lifestyles. The need for streets, villages or even cities was very low. But since the country’s founding in 1971/72, the ruling Emirs have tirelessly sought to propel the country in the direction of an Islamic-style modern society with a luxurious standard of living in high-tech metropolitan landscapes. Around 85 percent of the UAE’s population lives in one of the model cities that have shot up out of the desert sands and are meticulously planned down to the last detail. In order to erect skyscrapers with futurist glass facades, some of them of a dizzying height, the Emirs needed one thing above all: workers.

The resulting wave of immigration led to rapid population growth. Since 1970, the number of inhabitants has increased forty-fold to 9.4 million. Three quarters of this growth can be attributed to immigrants, most of them from south Asia. They find jobs on the numerous construction sites and are housed in shared accommodation. Although human rights organisations regularly criticise the country’s poor living and working conditions for migrant labourers, the relatively high wages continue to attract people to the country year after year.

A large share of their earnings is sent back to their families in their countries of origin.

**A tax oasis in the desert**

But it is not only simple labourers who are drawn by the Emirates; the country also attracts highly qualified workers from Western or East Asian industrialised nations. The latter now make up nearly 10 percent of the country’s population. From the textiles industry to tourism, from banking to insurance, the

**No family outing**

The influx of foreign workers in the UAE has remained unbroken since the 1970s. Around eight million emigrants now live in the country. At more than 80 percent of the total population, this means that not only is the country’s ethnic composition beginning to shift, but so is the gender balance. Most of the foreign workers who come to work on the country’s numerous construction sites are men – the demand for female workers is significantly lower. This has led to a situation where there are now more than three men for every woman in the Emirates.

This service to the country entitles them to a little extra, or so the reasoning goes. This is another reason why the government is not backing down from its policies and has decided soon to offer at least the “pioneer generation” special benefits. This group of around 450,000 Singaporeans born before 1949 was the one that helped the country achieve its current level of prosperity – often by means of enormous physical effort.

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Emirates offer lucrative jobs in the industrial and service sectors.149 Large firms are also drawn to the Emirates as a business location, for the country is a tax oasis with no business, income or value-added taxes. The employees of these large international companies usually share the company of like-minded spirits in a world of their own in which they maintain their Western lifestyles in the middle of the desert. Native-born employees, however, are hardly ever found working for these foreign businesses. This is because, on the one hand, many Arabs prefer the generous salaries offered by the state to those offered by private companies. On the other hand, international employers place little trust in the Arab educational system.150,151

This could soon pose something of a problem, for – at least on paper – the level of education among 20- to 34-year-olds is high, and these cohorts are numerically strong. But even the UAE’s huge state apparatus will never be able to provide work or social security benefits for today’s students. A lack of prospects similar to that found in Egypt could soon drive all these highly-qualified young people onto the streets. So far things have remained calm – and the Emirs are working on ensuring things stay that way. For example, the government is actively trying to place university graduates in the private sector and even goes as far as to pay a part of their salaries.152 The plan hopes to provide jobs in private companies for 20,000 local university graduates.153

Conspicuously absent
No other country in Cluster 4 has more people of working age on the labour market than the United Arab Emirates. At first glance it would appear that the Emiratis are especially industrious. But appearances deceive. Among native-born Emiratis, not even one in every two is currently working or seeking work. It is the immigrants who are truly industrious, for four in five immigrants are economically active. This pushes the employment rate significantly upwards.

Sustainability on the agenda
Nevertheless, the need for foreign expertise will remain high in the coming years. Whereas in the past the government strove for the highest living standards at any price, an environmentally sustainable economy is at the top of today’s agenda and for this the country needs foreign experts. The UAE is still miles away from its goal, however. The country’s annual CO2 emission rates of 20 tons per capita are higher than nearly any other nation. This is primarily due to the large volume of electricity – generated mainly from oil and gas – required to desalinate seawater to provide drinking water.154 This is set to change over the long term, as the country has set its sights on nuclear energy. The first atomic power plant, designed and built by South Korea, is set to connect to the power network in 2017.

But regenerative energy sources are also a part of the Emirs’ plans – and these, too, are attracting foreign investment. Masdar, the world’s first CO2-neutral city, is to serve as a test laboratory for groundbreaking future technologies. This ambitious project has got off to a shaky start, however, for the 2008 financial crisis did much to thwart plans. Many of the 1,500 international companies that were to participate in the project continue to hold back. What is more, the goal of an emissions-free city is, in view of the climate and the lifestyle of the local population, hardly realistic. Even just to build Masdar will require such a huge volume of resources and energy that one can hardly speak of “sustainability”.155

By the time its 50th anniversary rolls around in 2021, the Emirates hope to rank at the top of the world sustainability table as well as in every other area. If they can keep up the same pace as they have over the past 40 years, then this goal might not be as crazy as it sounds.

A tiger begins to feel its age
Over the past six decades, South Korea has experienced an unprecedented development process. When the country signed a ceasefire agreement with North Korea in 1953, thus cementing the partition of Korea into two states, this agrarian country with no recognisable potential was ranked among the world’s ten poorest nations. North Korea is still ruled by a brutal dictatorship, yet South Korea has developed into a modern democracy and one of the world’s most renowned centres of leading-edge technology. In a model fashion the South Koreans have succeeded in turning their demographic bonus into a demographic dividend, and the results are quite clear. Starting in the 1960s, the South Korean economy grew an average of 14 percent per
From an industrial economy to a service society?

At 38 percent, industry still represents a larger share of South Korea’s GDP than in the early industrialised countries of Germany or Japan. Conversely, South Korea’s service sector is still somewhat smaller, but it is here that creative, knowledge-intensive jobs will have to be generated to ensure the country’s future – so it will need to grow.

Yet this lifestyle has little in common with that of the majority of the city’s residents, for wage increases in the country have long since been unable to keep up with prices. In order to keep their heads above water, many South Koreans work a 60-hour work week, and some even take on two jobs.156 The group of households earning mid-level incomes is shrinking, and more than half of households are spending more than they earn. Levels of private debt are alarmingly high, something which could throw the brakes on domestic demand.157

Living costs reduce the birth rate

The high cost of living deters many young South Koreans from having more than one child, for the price of education in the country is horrendous. In order to get a job in South Korea, pupils and students are expected to be top performers. South Korea ranks among the world’s best in international comparisons of education systems, and 64 percent of inhabitants aged 25 to 34 have a university degree.158 Parents are prepared to spend considerable sums on private tutoring to ensure their children can compete. Some South Koreans, however, decide to forgo children all together. In conservative South Korea, raising children is still seen as women’s business, spelling the end to a career for many young women – a further factor scaring off potential parents.

As even fewer children are being born in South Korea than in Germany and immigration has hardly played a role to date, the country’s population is set to shrink in the mid-term. This, combined with the rapid increase in life expectancy, has had a serious impact on population structure. Scarcely any other country finds itself faced with such a rapidly aging society. According to current forecasts, the share of inhabitants over 65 will grow from today’s 13 percent to 23 percent by 2030. The same development has taken more than 50 years in Germany. This rapid aging will present the country with a number of massive challenges. Today, the elderly are three times more likely than the young to live in poverty. In 2011, only one in every five retirees could claim payments from pension funds. The government’s support programmes are rather meagre. This is compounded by the fact that working South Koreans usually do not have the necessary time or money to help their parents – as was usual in the past. The pension system has been overhauled in recent years in order to sufficiently cover all workers in the coming years, but this does little to help today’s elderly.159

Furthermore, the number of pensioners is rising faster than it has to, for most older South Koreans are choosing to retire in their early sixties – and many even stop working in their fifties. This is because many older inhabitants have lower levels of education but earn significantly more than younger employees, meaning that older South Koreans are considered far too expensive relative to their productivity.160 Many experts believe, however, that productivity levels among older people are actually on a par with those of their younger colleagues due to their decades of experience.161 All of this means that South Korea is losing an important source of labour, for there are fewer young people to take their place, meaning that the pool of potential workers is getting ever smaller. If South Korea is to meet its demand for labour in the long term, a new work culture will have to evolve in which older employees are assured a place.162

But this alone is not enough. South Korea is in desperate need of immigration, but to date the country has sought to protect its labour market. In 2011 only six foreigners for every 1,000 inhabitants settled in South Korea. In Canada, a country open to immigration, the number was 16 – nearly three times as high.163 Without qualified immigrants, South Korea will hardly be able to maintain its economic

At the turning point

Since the mid-1970s, the number of South Koreans under the age of 15 has been on the decline. This means that ever fewer young people are reaching working age. According to current forecasts, by 2020 there will already be more elderly Koreans than children. The number of workers will therefore soon begin to shrink, whereas the number of elderly in need of care will continue to rise.

South Korea’s population according to age groups in millions (data based on UNPD statistics)
performance in the future. Yet the country would actually make an attractive destination for labour migrants from around the region, for in contrast to other nations in East and South East Asia, South Korea is a beacon of prosperity and modernity.

**Much know-how, little entrepreneurial spirit**

The makers of this success are the country’s major players such as Hyundai, Samsung or LG. In order to ensure long-term success, however, South Korea must move away from labour-intensive industries dominated by large firms and towards a knowledge-intensive service economy. To date, the service sector has been made up of small, local businesses such as shops and restaurants, but a dynamic entrepreneurial culture has not really got off the ground. One of the reasons for this is the rigid and hardly interactive university system, which may generate a great deal of know-how, but very little in the way of entrepreneurial spirit or risk appetite. Lacking alternatives, much of the country’s highly-qualified potential is being squandered on the assembly line or behind the counter.

In the future, South Korea will have to encourage its tech-savvy young jobseekers to come up with innovative ideas for the world’s markets. Psy’s “Gangnam Style” global hit is a good start. If this creative energy were to spread to other economic sectors, the necessary economic restructuring might soon happen of its own accord.

**Guns and money keep the peace**

The first Saudi motion picture, Wadjda, was released in 2013. It tells the story of the ten-year-old girl Wadjda whose greatest dream is to own a bicycle with which she can beat the neighbourhood boys in a race. With her film, director Haifaa Al-Mansour touches upon one of the currently most important issues in Saudi society: gender equality. Over the past several years, Saudi Arabia has taken a number of small steps towards more rights for women. For example, in 2012 Saudi women participated in the Olympic Games for the first time ever, and in 2015 they will be allowed to vote in local elections, the country’s only democratic elections, and even stand as candidates. By 2020 they will also be able to hold their own passports, for to date, women are only listed in their husband’s documents.

None of this changes the fact that, in terms of gender equality, Saudi Arabia is one of the most backward countries on earth. Women are forced to veil themselves in public, they are not allowed to drive cars and they fall prey to arbitrary treatment by the state and domestic violence. In the United Nations’ worldwide Gender Inequality Index, this desert nation on the Arabian Peninsula traditionally ranks in the lowest quarter – but according to the UN, it is the only economically advanced country in that group.164

Saudi Arabia also lags behind its own potential in other areas of development. With a GDP of more than 25,000 US dollars per capita, this nation of nearly 30 million inhabitants is among Asia’s richest. However, its infant mortality rate of 12 for every 1,000 live births places it below significantly poorer countries such as Malaysia or Sri Lanka, where the rates are 5 and 11, respectively. And with an average life expectancy of around 75, the Saudis live only a little longer than the inhabitants of these two South East Asian developing countries. This all comes as no surprise, for the country spends 9 percent of its GDP on the military (2013) – much more than the 2 percent it spends on health care (2012).

**Stability at a price**

A large army, which the Saudi government finances with its immense defence expenditure, is one of two classical elements of stability in what are known as “rentier states”. These are countries mainly financed by the sale of natural resources. The constant presence of the security forces also helps discourage the population from taking part in civil disobedience and protests. To avoid discontent among the population in the first place, the reigning powers keep the people happy by distributing cash gifts – the second element of stability.

This is also the case in Saudi Arabia. Most Saudis are employed by the artificially inflated state apparatus, where they earn relatively high incomes for relatively little work.165 In a 2011 survey conducted by the consulting firm Booz & Company, more than three quarters of 1,445 respondents claimed to belong to the middle class. Their family members could purchase flat-screen televisions, exchange messages on Facebook or Twitter and count weekend trips to the shopping mall among their favourite leisure activities.166

But all of this state-financed prosperity might soon come to an end, for the state is no longer able to provide enough jobs for everyone. Today, more than one in four Saudis between the ages of 15 and 24 is unemployed and faced with poverty. If this state of affairs remains unresolved, the country’s political situation could turn volatile, for by 2030 the number of young inhabitants reaching working age is set to grow by more than a million. If no new jobs are created, the share of young unemployed will also rise.
New jobs needed

The government of 90-year-old King Abdullah is trying to turn the tide. One short-term solution is the policy of “freeing up” jobs in the private sector for the country’s own citizens. To do this the government simply sent thousands of the country’s nearly ten million foreign workers – most of them from Egypt, Ethiopia or Indonesia – home.162, 168 It is, however, unlikely that these low-paid jobs will be viewed as an acceptable alternative to unemployment.169 In the long term, the government has set its sights on a path of diversification away from a resource-based economy and towards a more service-based one. For this to work, the Saudis are not only investing in founding new cities intended as state-of-the-art business and, more importantly, educational centres. The Saudi royal family also regularly funds new universities and for the past few years has financed Saudi students’ education at Western universities. More than 40 percent of Saudis between the ages of 25 and 29 have attended university.170

Despite all of these efforts, experts fear the country might face protests and even an overthrow of the government similar to what happened in Egypt – and their worries are not unfounded. In addition to the burgeoning rates of youth unemployment, the slow march of gender equality is also putting pressure on the labour market. Whereas only 7 percent of women of working age between 15 and 64 were available to the labour market in 1990, by 2012 the number had swollen to 19 percent. If this trend continues, the number of inhabitants seeking employment will grow faster than previously expected. Behind the current handful of defiant female filmmakers and athletes could soon rise masses of women actively striving for equality as well as jobs. They will demand a place in Saudi society alongside their male contemporaries.

Good business, bad health

Growing per-capita income usually leads to improvements in a country’s health care, as South Korea, Hong Kong and Singapore have exemplarily demonstrated. In Hong Kong and Singapore the infant mortality rates are lower than the German average, with only three deaths per 1,000 births in the first year of life. The situation is quite different in Arab countries. Despite the high incomes in these nations, the infant mortality rates are quite high. In Saudi Arabia – despite its slightly better economic performance – the infant mortality rate is nearly four times that of South Korea and significantly higher than in Germany.

Number of deaths of infants under one year per 1,000 births

Nowhere in Asia is economic performance as strong or the middle class as large as in Israel and Japan. For decades these two states have established a lead over their neighbours. But it has long ceased to be as unassailable a lead as it was a few years ago, albeit for different reasons. Japan’s prospects suffer mainly from the aging of its population, a trend that is more advanced in Japan than in any other country on Earth. This has led not only to rising expenditure on pensions and health/nursing care but also to a shortage of skilled workers and a decline in innovation capability. In Israel, the demographic trend may look better due to higher number of children and a significantly younger working population, but the country faces difficulties in both domestic and foreign policy. Both countries are therefore likely to find it more difficult in future to maintain their lead over Asia’s other upwardly mobile nations, some of which are highly dynamic.

Japan is slightly ahead of Israel in most areas, but the differences are minimal for all indicators that make up the overall index.

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At a dead end

In Japan one of the twenty-first century’s most exciting large-scale social experiments is currently under way. The issue is how a country is to cope with the end of growth – the end of its population growth, which has been a reality in Japan since 2008, and maybe also the end of its economic growth. Parting company with these two processes could hardly be more difficult because the industrialised countries have for decades known nothing but growth.

There are various reasons why Japan is involuntarily at the forefront of this post-growth movement. Since its birth rate took a tumble in the 1970s the number of births has been halved. As a consequence the population is aging and shrinking faster than anywhere else in the world. And because Japan stubbornly resists immigration it does not even have immigrants who might offset the natural decline.

The pace of change is particularly impressive. Over the next quarter of a century Japan’s working population will decline by about 1 percent per year. The country is also declining rapidly in international comparisons. Until the mid-1970s the Japanese were still the youngest industrial nation; today they are the oldest. In 1950 Japan still had the world’s fifth-largest population and could describe itself as a demographic great power. Today it is in tenth place and by 2050 it is likely to have slipped to sixteenth – behind countries like Ethiopia or Tanzania.

Experts disagree on the precise extent of Japan’s population decline. The United Nations estimates that by 2050 only 108 million of today’s 127 million Japanese will be left, and by 2100 only 85 million. But this optimistic forecast presupposes larger numbers of children and more immigration.

The Japanese National Institute for Population and Social Security Research thinks both are fairly unlikely and is therefore much more pessimistic. By 2100 it expects the population to have declined by 80 million, or two thirds of today’s population. On the basis of the same projection over one in four Japanese would be over 75 by 2060. Interestingly, extremely long-term scenarios are circulating in Japan. They describe a country in which the last Japanese will have died out in 3300.

The end of Japan, Inc.

The demographic crisis is one of Japan’s problems. Its faltering economy is another. That is a striking fact in that Japan was until fairly recently on a breathtakingly fast course of expansion that terrified the rest of the world. Over nearly two decades of economic growth averaging 10 percent per annum Japan overtook France, the UK and Germany. It seemed only a matter of time before it would replace the United States as the world’s leading economic power.

Japan, Inc. was a concept that seemed to be synonymous with progress, and the Japanese Ministry of International Trade and Industry as an incubator for the most innovative companies. Honda, Nikon, Panasonic, Nissan and others had risen in next to no time from copycat companies to global corporations.

However, the project died at the planning stage when the boom imploded in 1990. The Bank of Japan had previously flooded the market with cheap money in order to foster growth artificially and drive companies to invest. But...
companies failed to invest as expected because demand had already tailed off and billions of yen were invested in stocks, shares and property instead.

By the time the Bank realised that this was a speculative bubble and sought to end living on credit by increasing interest rates it was far too late. The bubble burst, property prices and the stock market collapsed and indebted companies and private individuals went bankrupt by the dozen. Japan has still not recovered from that shock, and as rising Asian countries in its immediate vicinity grew increasingly competitive the Japanese economy has virtually marked time since 1990. The US economy, which it had recently been expected to overtake, has grown by more than 160 percent over this period.

**Falling wages, shrinking tax revenue**

Owing to the crisis and to falling wages in real terms Japanese tax revenues have halved since 1990. At the same time the aging population is increasing healthcare and pension costs by the equivalent of ten billion euros per year. Many Japanese now earn so little that they are no longer liable to pay tax; and because they are buying less than they used to do, companies are now sitting on their goods. As a consequence they are investing even less and having to sell their products at lower and lower prices in the market. The result has been nearly two decades of deflation with further negative consequences for the economy. In a deflation consumers cut back on purchases because they expect refrigerators and TV sets to cost even less next year.

In order to finance the apparatus of state and keep the standard of living more or less stable the Japanese government has amassed an enormous mountain of debt amounting to 240 percent of the country’s GDP – the highest level of all industrialised countries. Even though interest rates are extremely low, the state had to allocate nearly a quarter of its 2013 budget to interest payments.

The prevailing opinion in Japan is still that the horrendous debt level, corresponding to 7.5 trillion euros as of July 2014, is not really a problem because over 90 percent of the money raised is from Japanese citizens (mainly in the form of pension funds) and not from the global capital market where it would have cost much more to borrow. But when the Japanese grow older and need this money there will, in the long term, be no real alternative to international capital.

**Demographic change at breakneck pace**

In the 1970s and 1980s the dankai no sedai, or “mass generation” of Japanese baby boomers, made the country’s economy flourish. They are now reaching retirement age. In the years ahead Japan will experience an enormous aging phase. As the working population (in red) shrinks by 1 percent per year, the over-64s will make up about 40 percent of the population by 2060.

**“Abenomics” to combat the crisis**

Shinzo Abe’s government, elected at the end of 2012, has for two years tried with all its might to overcome the economic crisis. Its economic policy measures, known as Abenomics, consist of three so-called arrows that look more like crossbars. The first is an even more aggressive monetary policy, with the Bank of Japan printing money fast and furiously and pumping the equivalent of a trillion euros into the economy within two years. So far it has been a success. The plan to devalue the yen, transform deflation into slight inflation and make exports cheaper seems to have worked for the time being. The second “arrow” is an enormous debt-based economic recovery programme that will include funding for the 2020 Olympic Games buildings. The third “arrow” is aimed at structural reforms to deregulate the economy and increase government revenues.
Israel joined the OECD just half a decade ago, making it the only country in the Middle East to gain admission to the club of the world’s richest industrialised nations – and rightly so, as a glance at its GDP shows. Israel has long since reached the level of Western industrialised countries. Its economy is flourishing and grew by an average 2.4 percent per year between 2003 and 2012 – despite the financial crisis, despite uprisings in neighbouring countries and despite its perennial conflict with the Palestinians.

Between modernity and tradition

Israel. The South Korean Samsung Group or Lenovo of China have long outstripped Sony & Co. Japan has thus reached an economic and demographic dead end – with a declining population and rising debts but without the strength required for renewal.

Debtor and creditor

Japan still consoles itself with the fact that it remains the world’s third-largest economy. It may be deep in debt but it is also one of the world’s biggest creditors and holds US bonds worth 1.2 trillion dollars for a start. And if life expectancy, averaging 80 for men and 86 for women – the highest in the world –, is taken as a development criterion, the Japanese and their country are in fine fettle.

Above all, however, Japan is a textbook example of what is known as a resilient society. Like Japanese bamboo, which bends under the weight of the snow in winter but grows green leaves again in the spring, it survives setbacks without sustaining too much damage – setbacks such as tsunamis, typhoons, earthquakes or a fully-fledged worst-case nuclear scenario.

Japan is looking for its own way out of the crisis and recalling its principles of old: closing off rather than opening, with robots rather than immigrants working in production and nursing care, and solidarity in place of welfare cuts. Japan may well not succeed in returning to its growth of old, but maybe it will find a way to ensure the well-being of its society without growth. It would then be a model for many other industrialised countries.

Prime Minister Abe’s predecessors fired “Arrows” 1 and 2 without success. He is now merely repeating the exercise with even more money. But not much of the money is being invested in anything other than – again – speculation. Inflation has picked up, but mainly because energy prices have risen due to high oil and gas imports after the Fukushima catastrophe. These expensive imports are making the trade balance, already at a record negative level, even worse.

On “Arrow” 3, the most important and toughest package of his proposed reform measures, Mr. Abe is holding back. He has merely increased value-added tax from five to eight percent – and the second proposed hike to ten percent is already highly controversial. More competition in healthcare, agriculture and the energy market and more welfare and immigration policy reforms have come to grief on the interests of Mr. Abe’s conservative Liberal Democratic party and its voters.

Most analysts believe that Abenomics will only help Japan out of the crisis in the short term. The problems are simply too wide-ranging. Foreign investors continue to exercise restraint, there is a shortage of creative youngsters in the research departments of technology enterprises and the unbridled debt policy mainly harms future generations that ought really to be injecting fresh momentum into Japanese society and the Japanese economy. None of the new global mega-corporations – from Google to Apple and Facebook – is from Japan. The South Korean Samsung Group or Lenovo of China have long outstripped Sony & Co. Japan has thus reached an economic and demographic dead end – with a declining population and rising debts but without the strength required for renewal.

Rise and fall

Until 1990 Japanese companies experienced an unprecedented boom in the course of which it became the world’s second-largest economy after the United States. Since then, however, the economy has to all intents and purposes not grown at all, whereas the US economy has grown by 160 percent over the same period.

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP (in US dollars)</th>
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<td>1970</td>
<td>100</td>
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<td>1974</td>
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<td>2006</td>
<td>190</td>
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<td>2010</td>
<td>200</td>
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</table>

Japan’s per capita GDP compared with the USA’s (USA = 100 percent) in US dollars at 2005 purchasing power (Data source: OECD)
Poverty amid wealth

One Israeli in five earns less than 50 percent of the median income. Within the OECD only Mexico has more widespread poverty than Israel.

Since the State of Israel was founded some 60 years ago, the country has succeeded in building up a competitive economy, at first mainly with its armaments industry but since the 1990s with successes in the high-tech sector, too. Today, Israelis manufacture complex security technology, design innovative software and are leaders in biotech and pharmaceuticals research. In developing these knowledge-intensive sectors the country has benefited from thousands of qualified immigrants, mainly from the former Soviet Union, who brought with them the highest levels of specialised know-how.

To enable it to continue to benefit from this advantage, Israel invests nearly 4 percent of its GDP in research and development, which is significantly more than either Germany or the United States, each of which invests around three percent. International investors see the Israeli economy as so innovative that it now attracts twice as much risk capital per inhabitant as the United States and three times as much as Europe. With the discovery of natural gas fields in 2011 Israel was also unexpectedly able to secure its energy supplies for the future and thereby eliminate a major structural and home-grown problems

Religiously, politically and economically divided

Yet despite all these successes Israeli society is deeply divided – politically, religiously and socio-economically. Well over half of the Israelis may be classified as middle class, but a large section of the population also relies on welfare benefits and donations of food and in kind. One in five of the roughly eight million Israelis must get by on less than 50 percent of the median income. So according to the OECD definition over 1.5 million Israelis live in relative poverty. They are, in particular, Israeli Arab families (who make up about a fifth of the population) and ultra-orthodox Jewish families (about one in ten). Over half the members of these two groups are poor, mostly because many of these families have many children and only one bread-winner.

Ever since Israel joined, the OECD has called on Israel to devote greater efforts to improving the situation of Israeli Arabs and strictly religious Jewish families. If it fails to do so the problem of poverty might not be the only one to intensify significantly. As both population groups have many more children than the Israeli average, they could both make up about half of the population by the middle of the century – and ultra-orthodox Jews and Israeli Muslims are irreconcilably opposed to each on the Palestine question, which would make a political solution of the Israel-Palestine conflict most unlikely.

Children of ultra-orthodox Jews grow up in a segregated, anti-modern world. While girls receive a normal school education and then take up a trade or profession, most boys attend one of the non-state religious schools that teach mainly Jewish religious beliefs. Secular subjects such as English, social sciences or mathematics, in contrast, are taught barely if at all. According to the ultra-orthodox, who call themselves Haredim or “God-fearing”, this is knowledge of which they have no need. Their task is not to earn a living but to spend their lives studying the Torah. As a result, only a little over half of the male Haredim aged between 20 and 64 are at the labour market’s disposal. While the Haredim refuse education of their own accord and largely fail to make socio-economic progress as a result, young Arabs stand little chance of improving their lot because they are unable to do so. For that the educational system is mainly to blame. The Arab communities in the north and south of the country have nowhere near the infrastructure of the urban centres Jerusalem (population of 0.8 million), Tel Aviv (3.6 million) and Haifa (1.1 million), and that also applies to the schools. The ratio of pupils to teachers is significantly worse than in predominantly Jewish areas. What is more, Hebrew is taught inadequately in Arab schools.

The Israeli government has sought for years to improve educational opportunities for young Arabs, but their results remain below average. That impacts on their prospects of a good job. Arab girls can seldom put their schooling to profitable use in any case because in the traditional Muslim families of Arab Israel women seldom take up employment even though, on average, they go to school for longer than their male counterparts.

Most Haredim can afford to spend their lives without working because of the political influence that ultra-orthodox political parties wield. For years they have blocked a long overdue reform of a number of special...
rights – rights offering strictly conservative Jews incentives not to work. Orthodox Jews were exempted from military service – for which others were liable up to the age of 40 – if they were demonstrably continuing their religious education. The government also promotes Torah studies for men by awarding scholarships. Under pressure from the majority of the population it has now partly shelved this exemption from military service and made access to welfare benefits more difficult.

Reforms for equality of opportunity

Not for nothing do many Israelis no longer accept preferential treatment for ultra-orthodox Jews. Dissatisfaction is on the increase, partly because the ongoing conflict with Israel’s Arab neighbours requires immense military expenditure. In recent years the cost of food, electricity and housing has skyrocketed, making it hard for many families to make ends meet.

The country’s wealth is now concentrated in a handful of Israeli families who between them control 30 percent of the Israeli economy. The incomes of the richest tenth of Israeli society are more than twice as high as the median, which makes the gap between rich and average Israelis much wider than the OECD average. In 2011 that led for the first time to days of mass protest involving nearly half a million people. Political reforms are now to ensure equality of opportunity and fair competition.

Unlike in most Asian countries, however, the current change processes are aimed not at tapping economic strengths but at increasing them, and in principle the prospects of achieving this are good. The economy is widely based and at the technologically highly advanced. Thanks to continued high birth rates Israeli society is significantly younger than that of other OECD member-states. If Israel succeeds in making today’s generations of children fit for the knowledge-intensive labour market, it should be able to maintain its present economic status. Israel’s success might then spread to its crisis-torn neighbours. That, however, would require political stability and peace in the region and the prospects of that have tended to decline in the recent past.

New human resources

Israeli Arabs and Haredim, neither of whom has contributed much towards the country’s economy as yet, are growing increasingly important for Israel’s labour market. According to projections by Israel’s Central Bureau of Statistics, they could make up nearly half of the country’s working-age population by the middle of the century. They need to be offered education if they and their families are not to drift into poverty. Furthermore, incentives and statutory provisions are needed to enable women and men in equal measure to take up employment.

India and China are facing special challenges because of the sheer size of their populations, which exceeds one billion in both countries. As population giants, these two states form an independent cluster within the study – a cluster that encompasses almost two thirds of the overall population of Asia.

China scores higher than India in almost all the areas covered by the study. Both countries have the same high population potential, but China has the more stable political situation and higher standards of living and educational levels. Additionally, economic development is significantly more advanced in China than in India. Even the quality of the environment is better in China than in multi-ethnic India, despite smog-ridden megacities and explosive increases in industrial manufacturing. Although both countries currently have the same population potential, their demographic characteristics are markedly different. In China, the one-child policy will soon result in a lack of new job entrants, while the number of retired people and pension receivers is growing. In contrast, India has a high proportion of dependent children and few old people. This is one of the reasons why India has barely begun to exploit its potentials. In China, however, the meteoric rise to economic prosperity may soon level off and give way to leaner years.
The limits of growth

Before Mao Zedong set the cultural revolution in motion, high birth rates were regarded as proof of the country’s status as a major world power. It was Mao’s successor Deng Xiaoping who realised that China’s population growth would eventually plunge the country into disastrous famine. The coercive enforcement of the communist party’s two-child policy, and later of the one-child policy, checked the growth rate and paved the way for the economic boom. China’s population size is expected to peak at just over 1.4 billion people in approximately 2030. However, the decline shown here assumes a rise in the birth rate. If it remains at its present low level, China’s population will decline to less than half its present size by 2100.

Population and population growth in China
(Data source: UNPD)

The end of the golden years

Who would have thought a planned economy was the answer? The same economic system that failed on a grand scale under the field conditions of real socialism, the same system that arrogantly assumed a central authority could do better than the free market at organising services and the production and distribution of goods – this centrally planned “command economy” was the unlikely instrument that worked a miracle in China. How was this possible?

China has adhered to a series of five-year plans ever since 1949, the year of the founding of the People’s Republic. In the early years under Mao Zedong the results were disastrous, with famines (the results of crass planning errors) and political purges claiming an estimated 45 million victims. Despite its great plans, China remained a poor, developing country.

But everything changed with the accession to power of Mao’s successor, Deng Xiaoping. He surprised his compatriots by saying “To get rich is glorious” and adopted the unadulterated capitalism of Singapore as the role model for his reforms. He allowed farmers to sell their products at local markets and created four special economic zones on the coast of the China Sea where private enterprise was free to flourish within the domain of socialism.

One of these special zones was Shenzhen. Originally little more than a fishing village surrounded by rice paddies and vegetable fields near the border to Hong Kong, which was then still under British rule, Shenzhen grew into a glittering industrial city within just a few years. Today, the per capita income of its 12 million residents is one of the highest on the Chinese mainland – and China now boasts dozens of carbon copies of Shenzhen. Since Deng Xiaoping became the head of the communist party in China in 1979, just over a generation ago, the total value of goods and services produced in China has grown by a factor of a hundred, reaching 9.2 trillion dollars in 2014. Western industrial states needed two centuries to achieve this increase in growth.

An escape from poverty for millions of people

Since Deng’s reforms, China’s exports have grown explosively – from barely existent to over 2.4 trillion dollars in 2013. Today the country is the world’s leading export nation and boasts the second-largest economy after that of the USA. China is the only communist state that boasts the second-largest economy after that of the USA. China is the only communist state that has succeeded in freeing millions and millions of people from poverty while simultaneously preserving national unity. It is almost impossible to think of anything that is not produced and exported by this most important industrial nation in the world: from tombstones to artificial Christmas trees, from chicken incubators to X-ray equipment and bubble machines, and so on. Made-in-china.com, a web site that connects Chinese manufacturers with customers all over the world, lists 1,762 different instruments for skin rejuvenation in its section devoted to “Skin Beauty Equipment” and also catalogues 4,697 types of bathroom mirrors and 3,235 coffee makers.

But industrial products are not the only reason why China is in the news. When the Chinese make plans, they do so on the largest possible scale. Chinese engineers have built the world’s longest underwater tunnel, the world’s most powerful hydro-electric plant and the fastest liner train, which, of course, runs on the world’s longest railway line – the tracks of which were laid in record time. One Chinese company, Broad Sustainable building (BSB), specialises in high-speed construction and can put up a 30-storey building in only 15 days.

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Demographic change, Chinese style

When Deng Xiaoping became the architect of China’s development strategy in the late 1970s, he knew that a vast but impoverished country with a population approaching one billion was doomed to certain failure if nothing was done. At the time, the country’s population was increasing by a million every three and a half weeks. China was home to one-fifth of the world’s arable land, and with Deng’s demographers predicting a population of four billion in 2075 if the birth rate remained high, disastrous famines seemed a certainty. Deng therefore added demographic policies to his economic plans. Whereas Mao had recently introduced the two-child policy, his successor decreed that one child was enough. There were always exceptions, for example in the case of twin births and for ethnic minorities, but the policy was strictly monitored and enforced with brutal coercion and the government succeeded in reducing the birth rate to its current average of 1.7 children per woman.

Although the country still failed to meet Deng’s demographic target of no more than 1.2 billion people by the year 2000, the population is expected to peak at 1.4 billion in the coming years and to begin declining in the medium term. The United Nations estimates that, given stable fertility rates, the Chinese population will drop to 1.3 billion by 2050 and to 0.9 billion by 2100, which would represent a decline of one-third in less than 100 years.

Although these developments will go hand in hand with a sharp uptick in the average age of the population and are likely to undermine the economic miracle sooner or later, it was the decline in birth rates that made the economic boom possible in the first place. This too was part of Deng Xiaoping’s plan, since the one child policy caused the working population to grow more swiftly than the overall population. The latter increased by 38 percent between 1980 and 2010, while the number of people aged between 15 and 64 almost doubled in the same period. Since Deng’s reforms also meant that people of working age were able to find employment, the economic boom was unstoppable. For years the poor rural population provided an almost inexhaustible supply of cheap labour, allowing wages to remain low and Chinese products to compete on the global market.

A slowdown in growth

But this is also the reason why China’s growth curve cannot extend infinitely into the future. The goal-oriented economic policy and the decline in birth rates have until now made the demographic dividend possible, but the sharply dropping birth rates of the past will lead to an even sharper decline in the working population as the average age rises. The same measures that turbo-charged the country’s economic growth will eventually halt it.

The first demographic dip came in 2013. Since then, the number of young people entering the work force has been lower than the number of people going into retirement in the same period. Feng Wang, the director of the Brookings Tsinghua Centre, a Chinese-American think tank in Beijing, predicted years ago that these changes would weaken the economic boom. He was proved right in 2012, when China’s growth rate virtually collapsed from double digits to the comparatively low figure of 7.7 percent. Feng expects the growth rate to continue declining by 0.5 percent per year from now on.209 If this prognosis is correct, the Chinese economic miracle would come to an end only 15 years from now.

And there are good reasons to expect the growth curve to flatten out still further. Three out of four Chinese villages no longer have enough young people to send as migrant workers to the country’s industrial cities, so companies are running out of sources of cheap labour. As a result, wages are on the rise – and the toy, textile and shoe industries themselves are migrating to neighbouring countries where industrial development is still in its infancy, such as Myanmar, Vietnam and Cambodia.210

While the number of job entrants aged between 15 and 24 will drop by 30 million in the coming ten years, the opposite is happening in the over-60 age group, which will increase from approximately 210 million to almost 350 million between 2015 and 2030 and exceed 450 million by 2050. The minimum retirement age in China is currently 60 years for men and five to ten years younger for women, depending on their employers. However, most Chinese continue working after reaching retirement age, since pensions are meagre – especially in the case of the 230 million migrant workers, who have virtually no benefits at all.211

Economic growth and increasing pollution

China’s economic upswing began with Deng Xiaoping’s reform policies. The sharp increases in steel production are a clear indicator of the boom. For approximately the past 15 years China has been by far the world’s largest producer of raw steel. Since the steel industry requires large amounts of coal and the growth of the overall economy consumes vast amounts of energy, emissions of carbon dioxide (a greenhouse gas) have increased dramatically. Here, too, China holds the world record.
Is China set to become an immigrant country?

China owes its competitive advantage over early industrialised countries like Germany to its plentiful supply of cheap labour, but this supply will largely dry up by 2050. In the long term, it will have to combat the consequences of the abrupt demographic change through education and even immigration. China is certainly more flexible, more open and more willing to learn than Japan, which was East Asia’s poster child for economic growth until the late 1980s but subsequently fell into an economic and demographic crisis. However, China has one significant disadvantage compared to its neighbour: Japan was twice as wealthy by the time it reached the point in its demographic development at which China finds itself today. Thus China will join the club of the ageing industrial nations while it is still a threshold country.

Ageing nations

Birth rates are dropping and life expectancy is increasing everywhere in the world. Both developments are the result of rising educational levels and increasing wealth. Since these changes have been accompanied by a corresponding increase in the proportion of older people in society. In China the average age of the population could increase from its present fairly low level to equal that of the EU by 2050. Japan is ageing significantly more quickly, while the average age in India is increasing at a slower rate.

People aged over 64 as a proportion of the overall population in China, Japan, India and the EU in 1990, 2015 and 2050, in percent (Data source: UNPD)

Many Chinese strategists believe that the demographic problem could be solved by simply abandoning the one-child policy. However, this assumption is based on another assumption – that it is possible to plan higher birth rates as well as lower ones. But there are several reasons to doubt that this is the case. For one thing, China’s current fertility rate of 1.7 children per woman is one of the lowest in the world, far below the minimum rate for ensuring a stable population. Secondly, the average educational level of the Chinese is rising rapidly – but the census of 2010 indicates that Chinese women graduates were only having 0.4 children per woman. Thirdly, the Chinese government continues to pursue its urbanisation policies, aiming to have 70 percent of all residents living in cities by 2030. And the urban birth rate is already lower than that permitted by the one-child policy. Thus China is already experiencing the demographic conditions typical of the modern age, which includes shrinking populations as well as declining economic growth rates.

Regional and religious fragmentation

“If India continues on its current course, Mahindra’s predictions could soon come true. Thanks to the economic reforms of the 1990s, the populous state has already graduated from developing country to threshold state, with the service sector providing the impetus for its economic growth. The booming IT industry provides employment for almost three million people and Bangalore, India’s answer to Silicon Valley, is regarded as one of the most interesting centres of innovation in the global technology sector. And if India’s decision-makers have their way, their country’s economic success story will not remain limited to the IT industry. India aspires to lead the world in high-tech development from medicine to space technology and is already home to global corporations worth billions, such as the steel manufacturer Lakshmi Mittal and Tata Motors in the automobile sector.”

At the same time, mobile phone and Internet technology is spreading rapidly through the country. Although the number of Indians using the Internet is still relatively low at 13 percent, over half of all Indian households now have a mobile phone and almost as many have a television set. Income, too, has risen noticeably in recent years and has brought an increase in spending above and beyond subsistence needs, and refrigerators, television sets, brand-name clothing and cars are in high demand. The middle class still comprises a minority of 25 percent of the total population, but at roughly 270 million strong it is already over half as large as the total population of the EU. It is also growing rapidly and its numbers are likely to be swelled still further in the coming years by people rising from the lower classes.
Slow pace of development

However, despite all its potential and its economic progress, India has so far failed to sustain a growth rate of over 10 percent for longer periods. And while the gaps between rich and poor and between urban areas and the country-side are slowly beginning to close in China, India’s prosperity gradient is still very steep. Although both urban and rural poverty rates are decreasing every year, approximately one-third of India’s 1.2 billion people still lives in extreme poverty and must survive on less than 1.25 US dollars per day. With a life expectancy of 66.4 years, an infant mortality rate of 44 per thousand live births and almost 214 million people (17 percent of the population) suffering from malnutrition, there is still vast scope for improvement.219,220,221 In the United Nations Human Development Index, a multidimensional development indicator, India ranks 135th out of 187 countries, which signifies a medium level of development.222 But the numbers and the data for India as a whole generally cannot do justice to the country’s complex reality, nor do they give any indication of the vast socio-economic divides between its different regions, ethnic groups and religions. The caste system, for instance, remains an important factor in society; additionally, the northern and north-eastern regions are significantly less well developed than the coastal areas in the south and south-west. Living conditions in the western state of Gujarat, for example, compare with those

Development lag in the east

Despite a multitude of regional differences, there is a clear divide between the wealthier states of the south and west and the poverty-stricken states of the north-east. The small state of Goa on the west coast not only has the lowest poverty levels, but also a high proportion of university students and the highest per capita GDP in the country. The situation in the impoverished state of Chhattisgarh is very different. This region in the interior has the country’s highest poverty rate and most of its young people cannot even dream of graduating from university. In general, the prosperity of the Indian states is crucially dependent on the presence of affluent metropolitan cities that promote the spread of urbanisation.
in some European countries, while Bihar in the east is on a level with the world’s poorest countries in Africa.223 These disparities in the world’s most populous democracy have presented enormous challenges to every government in its history.

The Gujarat success story

Since the last elections, Narendra Modi of the Bharatiya Janata Party as the new prime minister carries the country’s hopes for economic growth. Both the party and Modi himself are controversial because of their Hindu nationalist alignment and have been harshly criticised for their ambivalent roles in violent conflicts between Hindus and Moslems in 2002.224 Nevertheless, Modi won over 172 million of the country’s 554 million voters by promising to enable the entire population to participate in the country’s economic growth and improve the living conditions and economic situation of the poor.225

In his time as chief minister of Gujarat, Modi provided impressive proof of his ability to follow through on this promise. Not only did he set the state of Gujarat firmly on course for sustainable growth, he also enabled almost the entire population of the state to benefit from the upswing and managed to give a simultaneous growth boost to three sectors of the economy – agriculture, industry and services. Thus progress in one sector did not come at the price of setbacks in another. As chief minister, Modi made a point of staying in touch with the population and ran awareness campaigns to encourage families to take responsibility for their futures and send their children to school.226 Along with a broad spectrum of training for young job entrants, schooling will help to secure the future of the new generation. Modi now aims to transfer the Gujarat model to the country as a whole.

To do this, he needs outside help, and thus his aim is to make the country more attractive to foreign investors. To date, only a slow trickle of direct investments has reached India from abroad, and the total volume has dropped from 3.5 percent of GDP in 2008 to less than 2 percent today. One of the most important areas with room for growth is the industrial sector, where the construction, automobile, textile and transport industries are deemed to hold the greatest potential.227 To meet the expected demand for personnel in these industries and to strengthen the formal sector against the dominant model of informal employment, the government aims to provide education and training for hundreds of millions of people in the coming years. It will be particularly important to reach out to the rural population with these measures, since the agricultural sector is poorly developed and many people in rural areas are underemployed. To bring jobs to these people, factories must be built in smaller cities remote from the major metropolitan centres.

In all these efforts to boost the economy, Modi will be able to capitalise on the country’s favourable demographic conditions. India’s population is young and still growing, and since almost half of all Indians are under the age of 25, ageing will not become an issue in the medium term. Today, India has only 51 dependent children and old people for every 100 people of working age, fewer than ever before. And this proportion could drop still further to bottom out at 46 in the year 2040. India’s administration is aware of the country’s favourable age distribution and its government programmes explicitly seek to make the most of the demographic bonus to ensure growth and prosperity for all Indians.228
SOURCES

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