

Economic Challenges of Ageing in East Asia: Prospects of Regional Cooperation

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**“Ageing East Asia: Policy Responses and
Regional Cooperation”**

Organized by PRI/MOF and ADBI

Tokyo, 1 June 2006

The logo of the Asian Development Bank (ADB), consisting of the letters "ADB" in white, bold, sans-serif font, centered within a dark blue square.

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1. Introduction: Key Issues

- East Asia's demographic trend of the last fifty years will change dramatically over the next fifty years.
- Both high-income economies and some developing economies will experience a rapid ageing process.
- What are the policy challenges for these ageing economies in East Asia?
- What lessons can East Asia learn from OECD countries—particularly from Europe?
- How should China cope with the ageing challenge while at the same time pursuing economic transition, economic development and social equity?
- What can the East Asian economies do jointly to face the ageing challenge

2. East Asia as a Rapidly Ageing Region

Rising demographic dependency

- Population in “dependent” age groups (age 0-14 and 65+)/Population in “working” age groups (age 15-64)
- Considerable variations exist within East Asia in “old-age dependency ratio,” showing another flying-geese pattern (Table 1)
 - Japan, Korea, Hong Kong, Singapore and Taiwan will age very rapidly, will be one of the most “aged” society
 - China and Thailand will follow
 - Then, Vietnam, Myanmar, Indonesia, Malaysia
 - Philippines, Cambodia and Laos will not experience rapid ageing
- China will be the first country to become “aged” before becoming rich.

Table 1. Age Distribution as a Share of Total Population

	2000					2025					2050				
	0-14	15-64	65+	TDR	ODR	0-14	15-64	65+	TDR	ODR	0-14	15-64	65+	TDR	ODR
Asia	30.2	63.9	5.9	0.56	0.09	22.6	67.3	10.2	0.49	0.15	18.3	64.3	17.5	0.56	0.27
Japan	14.6	68.2	17.2	0.47	0.25	12.5	58.5	29.1	0.71	0.50	13.4	50.7	35.9	0.97	0.71
Korea	20.8	71.8	7.4	0.39	0.10	13.0	67.5	19.6	0.48	0.29	12.0	53.5	34.5	0.87	0.64
Hong Kong	16.5	72.4	11.0	0.38	0.15	12.0	60.4	21.5	0.55	0.36	12.4	55.3	32.3	0.81	0.58
Taipei,China	21.1	70.2	8.7	0.42	0.12	15.6	66.7	17.8	0.50	0.27	13.7	57.0	29.3	0.75	0.51
Singapore	21.8	71.1	7.2	0.41	0.10	13.3	64.3	22.3	0.55	0.35	12.6	56.1	31.3	0.78	0.56
China	24.8	68.4	6.8	0.46	0.10	17.9	68.4	13.7	0.46	0.20	15.7	60.7	23.6	0.65	0.39
Brunei	31.3	65.8	2.9	0.52	0.04	22.1	70.3	7.6	0.42	0.11	18.6	66.6	14.8	0.50	0.22
Cambodia	40.7	56.1	3.2	0.78	0.06	31.0	63.4	5.6	0.58	0.09	23.0	67.1	9.9	0.49	0.15
Indonesia	30.2	64.9	4.9	0.54	0.08	21.3	70.1	8.6	0.43	0.12	17.6	64.9	17.4	0.54	0.27
Lao PDR	42.7	53.8	3.5	0.86	0.07	32.7	62.8	4.5	0.59	0.07	22.6	68.8	8.7	0.45	0.13
Malaysia	33.7	62.2	4.1	0.61	0.07	23.6	67.5	8.9	0.48	0.13	18.2	65.7	16.1	0.52	0.25
Myanmar	32.5	62.8	4.7	0.59	0.07	21.3	69.9	8.8	0.43	0.13	17.1	65.0	17.9	0.54	0.28
Philippines	37.5	59.0	3.5	0.69	0.06	26.0	67.2	6.8	0.49	0.10	19.0	66.8	14.2	0.50	0.21
Thailand	25.6	68.4	6.0	0.46	0.09	19.3	67.4	13.3	0.48	0.20	16.8	61.8	21.4	0.62	0.35
Vietnam	33.5	61.1	5.4	0.64	0.09	22.0	69.6	8.4	0.44	0.12	17.4	64.0	18.6	0.56	0.29
Bangladesh	37.5	59.1	3.4	0.69	0.06	27.9	66.4	5.7	0.51	0.09	21.1	67.3	11.6	0.49	0.17
India	34.1	61.0	4.9	0.64	0.08	24.5	67.5	8.1	0.48	0.12	18.3	66.8	14.8	0.50	0.22
Pakistan	41.3	55.0	3.7	0.82	0.07	30.6	64.0	5.4	0.56	0.08	22.4	67.4	10.2	0.48	0.15
Africa	42.6	54.2	3.3	0.85	0.06	36.9	58.9	4.2	0.70	0.07	28.7	64.7	6.7	0.55	0.10
Europe	17.5	67.7	14.7	0.48	0.22	14.7	64.3	21.0	0.56	0.33	15.0	57.4	27.6	0.74	0.48
France	18.6	65.0	16.3	0.54	0.25	16.5	61.0	22.6	0.64	0.37	15.7	57.1	27.1	0.75	0.47
Germany	15.6	68.0	16.4	0.47	0.24	13.6	62.5	23.9	0.60	0.38	14.9	56.7	28.4	0.76	0.50
Italy	14.3	67.5	18.2	0.48	0.27	11.9	61.7	26.4	0.62	0.43	13.1	51.3	35.5	0.95	0.69
United Kingdom	19.1	65.1	15.9	0.54	0.24	16.9	63.2	19.8	0.58	0.31	16.4	60.4	23.2	0.66	0.38
Latin America & Caribbean	32.0	62.5	5.6	0.60	0.09	23.3	66.6	10.1	0.50	0.15	18.1	63.6	18.4	0.57	0.29
Argentina	28.0	62.1	9.9	0.61	0.16	22.0	65.3	12.7	0.53	0.19	17.8	63.3	19.0	0.58	0.30
Brazil	29.6	64.9	5.4	0.54	0.08	22.2	67.1	10.7	0.49	0.16	17.7	63.0	19.2	0.59	0.30
Chile	27.8	65.0	7.3	0.54	0.11	19.4	66.2	14.3	0.51	0.22	16.5	61.4	22.1	0.63	0.36
Northern America	21.3	66.3	12.4	0.51	0.19	18.3	63.6	18.0	0.57	0.28	17.1	61.8	21.1	0.62	0.34
Canada	19.1	68.3	12.6	0.46	0.18	15.4	63.7	20.9	0.57	0.33	15.7	58.6	25.6	0.70	0.44
Mexico	33.7	61.6	4.8	0.63	0.08	21.9	68.2	9.9	0.47	0.15	16.7	62.2	21.1	0.61	0.34
United States	21.6	66.1	12.3	0.51	0.19	18.6	63.6	17.7	0.57	0.28	17.3	62.1	20.6	0.61	0.33
Oceania	26.2	64.1	9.7	0.56	0.15	21.1	64.1	14.8	0.56	0.23	18.0	62.7	19.3	0.59	0.31
Australia	21.2	66.6	12.1	0.50	0.18	17.6	63.3	19.0	0.58	0.30	16.2	60.0	23.8	0.67	0.40
World	30.0	63.0	6.9	0.59	0.11	24.2	65.3	10.5	0.53	0.16	20.2	63.7	16.1	0.57	0.25

Source : United Nations, *World Population Prospects: The 2004 Revision Population Database*; and US Census Bureau, *International Database*.

2. East Asia as a Rapidly Ageing Region

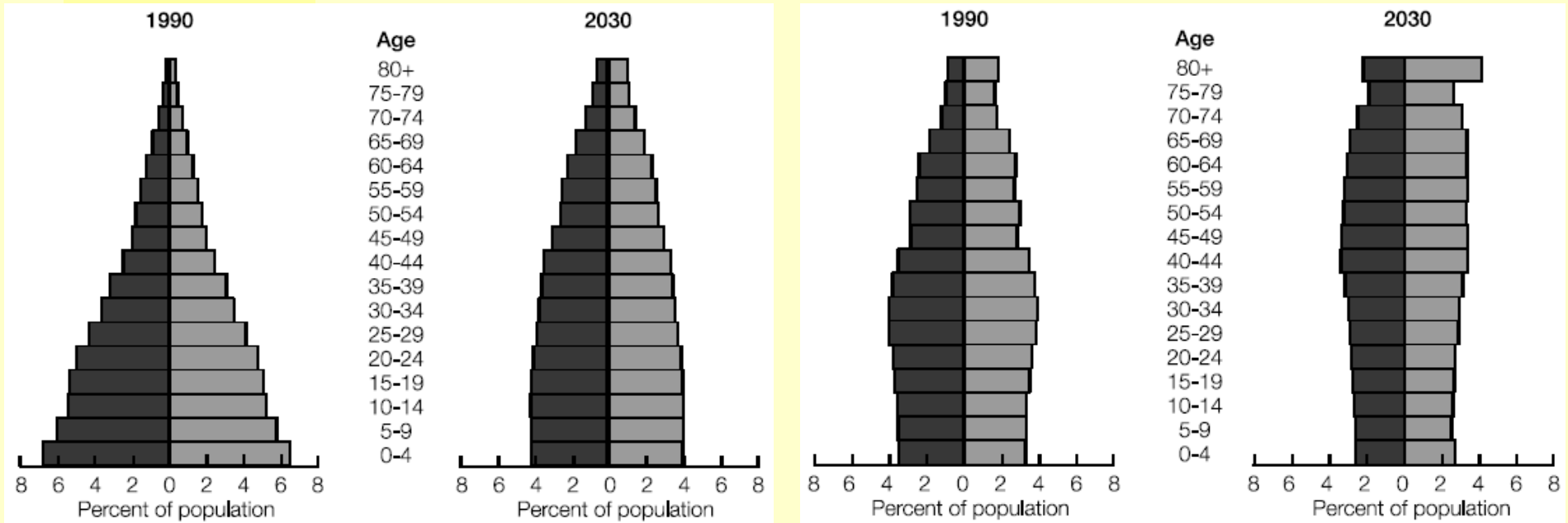
Economic dependency

- Population in “dependent” age groups (age 0-14 and 65+)/Population in employment
- Even if the degree of demographic dependency rises, economic dependency does not have to rise.
- This depends on how high labor force participation is and how low unemployment is.
- Crucial parameters are: labor force participation of the old-age groups and women, unemployment rates of the working age groups, and length of average working lifetime

Population Age and Sex Structure: 1990 and 2030

Less Developed Countries

More Developed Countries



Source: UN Population Division, World Population Prospects: The 2002 Revision (<http://esa.un.org/unpp>).



3. Impact of Ageing: East Asia's Challenges

Fiscal pressure

- A trend increase in old-age “dependency ratios” tends to increase budgetary needs to support public pension and health-care systems.
- Contingent liabilities of the public sector can rise.
- A trend decline in young-age groups does not reduce the budgetary needs for education. Budgetary needs for human capital development may even rise.
- China and Thailand will continue to require fiscal resources for economic transition (China), economic development, and social equity, which will pose a challenge for availing fiscal resources for age-related needs.

3. Impact of Ageing: East Asia's Challenges

Labor supply

- Shrinking population of working “age” groups will naturally lead to a smaller workforce, smaller employment and, hence, smaller labor supply.
- By increasing labor force participation, particularly among women and old-age groups, the negative impact of population “ageing” on labor supply can be mitigated.
- By reducing unemployment in all age cohorts, particularly among working age groups, this negative impact can be further reduced.
- Effective labor supply can be raised by increasing education levels and skills of workers.

3. Impact of Ageing: East Asia's Challenges

Savings and asset management

- Life-cycle model of savings behavior suggests that the savings rate will decline with population ageing.
- Given the limited degree of portfolio diversification—presence of “home” bias—, low savings imply low investment.
- The flipside of the life-cycle model of savings is that the current working age population does save for future post-retirement consumption.
- It is very important for such savings to be invested in high-return, low-risk projects.
- This requires efficient financial markets and asset management industry.

3. Impact of Ageing: East Asia's Challenges

Potential growth

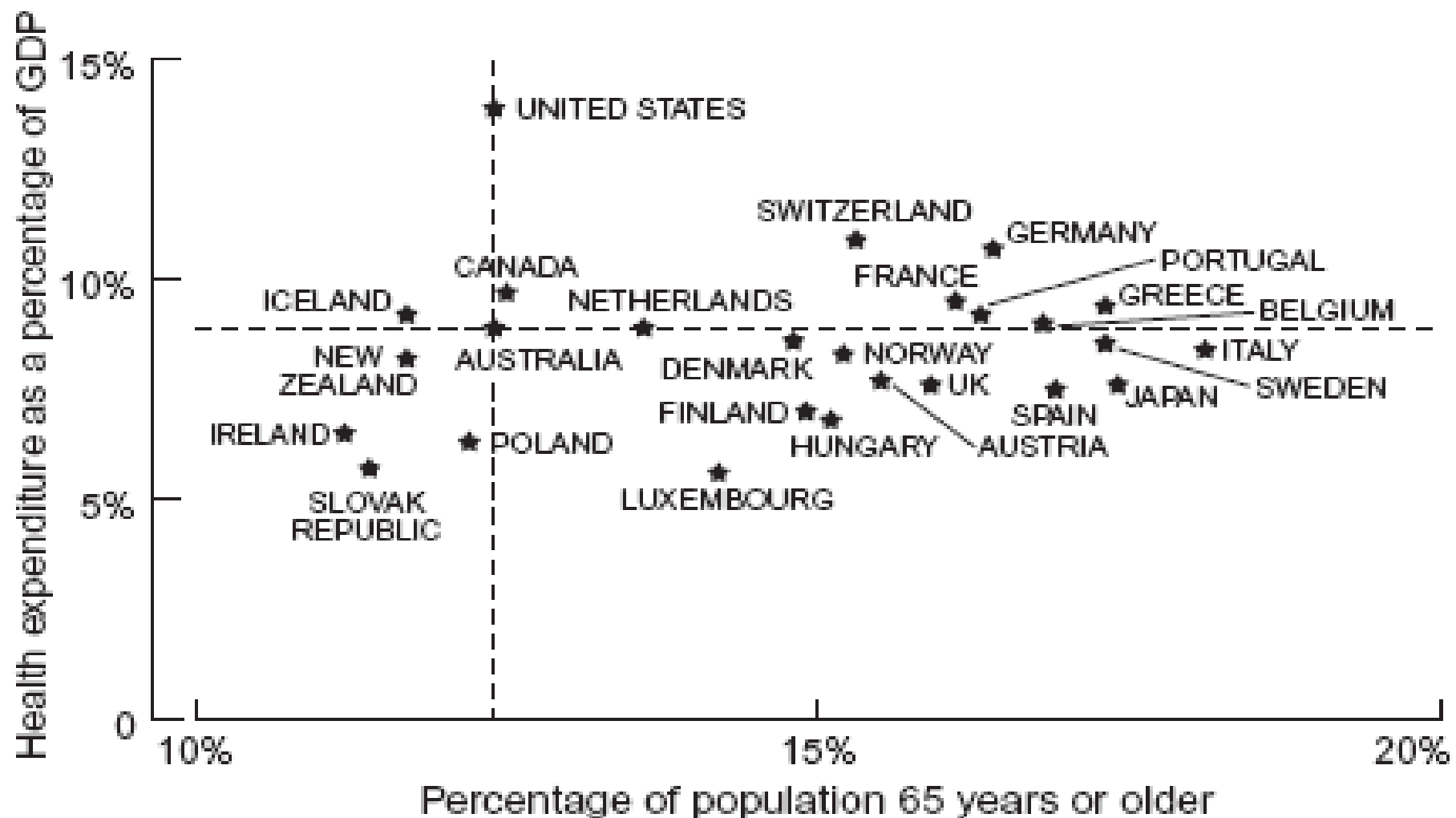
- Declines in labor supply and investment will reduce the potential growth rate of the economy, assuming constant total factor productivity (TFP) growth.
- In the face of declining labor supply, it is important to increase labor productivity through R&D investment, infrastructure investment, or TFP growth.
- TFP growth may or may not rise with population ageing.
- Hence, per capita income is generally expected to fall significantly unless the government adopts some critical measures.

4. Reform Agenda in an Ageing Society

Old-age security reform: controlling fiscal burden

- One of the biggest challenges for all “ageing” economies is to control age-related public spending, while providing adequate social protection for the aged and other socially vulnerable groups.
- Pension reform will eventually require a gradual shift from PAYG scheme to a “fully-funded, defined contribution” scheme to ensure financial sustainability.
- Health-care reform needs to focus on various ways to control health-care costs while providing adequate health care for the aged. But there is no strong correlation between ageing and health-care spending.
- Health maintenance of the aged is good investment to keep them employed.

Health expenditure, by percentage of population 65 years or older, 26 OECD countries, 2000



OECD = Organisation for Economic Co-operation and Development.

4. Reform Agenda in an Ageing Society

Labor market reform

- Even if demographic dependency ratios go up fast, a country can pursue policies to offset the negative impact of demography on labor supply.
- Raising labor force participation among women and old-age groups would be important. Greater labor force participation by the “aged” is unlike to reduce employment opportunities for young workers.
- Reducing structural unemployment through reduction of incentives to being unemployment such as excessively generous unemployment compensation.
- Lengthening average working lifetime is another way to maintain high employment among the old-age groups. Good health of the aged is an important factor.

4. Reform Agenda in an Ageing Society

Productivity improvement

- Given that lower labor supply and investment can reduce per capita income, it is important to adopt policies to improve labor productivity.
- Investment in education and human capital is essential to increase labor supply efficiency and productivity.
- R&D investment, technological innovations and infrastructure investment can also increase labor productivity.
- Total factor productivity (TFP) can be raised through deregulation, creation of competitive market environments, improvement of efficiency and rule of law.

4. Reform Agenda in an Ageing Society

Financial market reform

- A rapid demographic change requires efficient financial market and asset management industry in East Asia which can ensure high, stable rates of return at low risks for post-retirement life.
- Financial market reform requires a strong regulatory and supervisory framework in the banking sector and capital markets. Financial institutions need to put strong corporate governance in place.
- A “fully-funded, defined contribution” pension system requires a good asset management industry.
- Financial market opening is also necessary for greater risk diversification.

5. Prospects of Regional Cooperation

Policy dialogue and information sharing

- The East Asian economies can benefit from mutual learning and experience sharing.
- Information sharing on the current state and projections of demographic changes within East Asia, and on policy responses and reform agendas.
- Information sharing and policy discussions about OECD experiences, best practices their applicability in East Asia.
- Policy discussions for exploring an East Asian social model that strikes the right balance among the government, the market and informal communities (families) due to cultural similarities and shared values of families

5. Prospects of Regional Cooperation

Common agendas: structural reforms

- Striking a balance between demographic challenges and developmental priorities
- Reforms on age-related social sector protection—pension and health-care systems
- Implications of demographic changes for savings and investment and the current account
- Labor market reform to stimulate labor supply
- Education and knowledge economy
- Trade and investment opening and competitive markets
- Financial market development and deepening—Asian bond market initiative and asset management
- Labor mobility and migration

5. Prospects of Regional Cooperation

Taking advantage of demographic complementarities

East Asian economies are diverse in levels, pace and patterns of ageing. Hence, both the “aged” and “young” economies can gain by mutual interaction through cross-border transactions in services, capital, and labor.

- Enhancement of cross-border capital flows, particularly for wealth accumulation, diversification and management for post-retirement life
- Liberalization of cross-border mobility of temporary workers, particularly for support of the “aged” society
- Cross-border settlement of “aged” people for post-retirement life, particularly in a low-cost location and for long-term care
- Promotion of cross-border tourism in developing Asia, particularly to attract rich “aged” people.
- Striking a balance between demographic challenges and
- Reforms on age-related social sector
- Implications of demographic changes for savings and investment and the current account

5. Prospects of Regional Cooperation

Common agenda 1: Pension system reform

- Most countries have several types of pension arrangement—(1) a base-level PAYG scheme, (2) state-sponsored or privately sponsored defined benefit plans, and (3) defined contribution plans sponsored by employers, mandated by the state or undertaken by individuals.
- But the pension coverage is typically limited.
- Only a few economies have adequate pension assets and old-age provisioning, but not many others.
- For the former, a challenge is to increase choice and competition among asset managers and asset classes.
- For the latter, a challenge is to build a sustainable pension systems based on defined contributions.

5. Prospects of Regional Cooperation

Common agenda 2: ABMI

- Asian bond markets can provide (1) stable sources of financing for investment and (2) alternative modes of wealth accumulation for Asian households and investors, particularly in an ageing economy
- Asian bond markets can facilitate direct mobilization of Asian savings for Asian long-term investment
- Asian bond markets can reduce the “double mismatch” —currency and maturity mismatches
- Asian bond markets can make its financial system more balanced and resilient through (1) greater competition in the financial system and (2) less concentration of financial risks in one wheel of the system.

5. Prospects of Regional Cooperation

Common agenda 3: Labor migration

- Labor immigration can ease labor market constraints but cannot be a long-term solution to the ageing society.
- Nonetheless it is useful to identify benefits and costs of cross-border labor migration at the regional level.
- Demographically favorable economies have incentives to send temporary workers abroad and those unfavorable ones to import such workers.
- Social protection of migrant workers can be an important issue.

6. Concluding Remarks

- Considerable diversity exists in the level and pace of ageing in East Asia. Hence, no “one-size-fits-all” approach is appropriate and inevitable.
- High-income economies (Hong Kong, Singapore, Japan, Korea and Taiwan) need to explore best practices developed by OECD countries.
- China and Thailand need to strengthen policy and institutional frameworks to cope with the future budgetary pressures from age-related spending, while allocating resources for transition, development, poverty reduction and social improvement.
- Regional policy dialogue will be useful for information sharing, learning and coordination to exploit demographic complementary.



Thank You

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