

Aging, Economic Growth and Old-Age Security in Asia

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Introduction

- Asia faces a number of internal structural challenges to medium and long term growth.
- Perhaps the biggest among these is a region-wide demographic transition to older populations.
- Up to now, favorable demographics played a major role in Asia's rapid growth.
 - Large working-age population, high savings rate
 - Demographic dividend is far from automatic
- However, Asia's demographic dividend is now coming to an end.

Introduction

- As in other parts of the world, demographic transition in Asia is driven by two main factors.
 - Declining fertility and rising life expectancy
 - Higher living standards and rapidly changing social conditions
- Decline in share of working-age population has negative ramifications for growth.
- Within the common region-wide trend of aging, the level and speed of aging differs a lot.
 - For example, South Asia is substantially younger than East and Southeast Asia

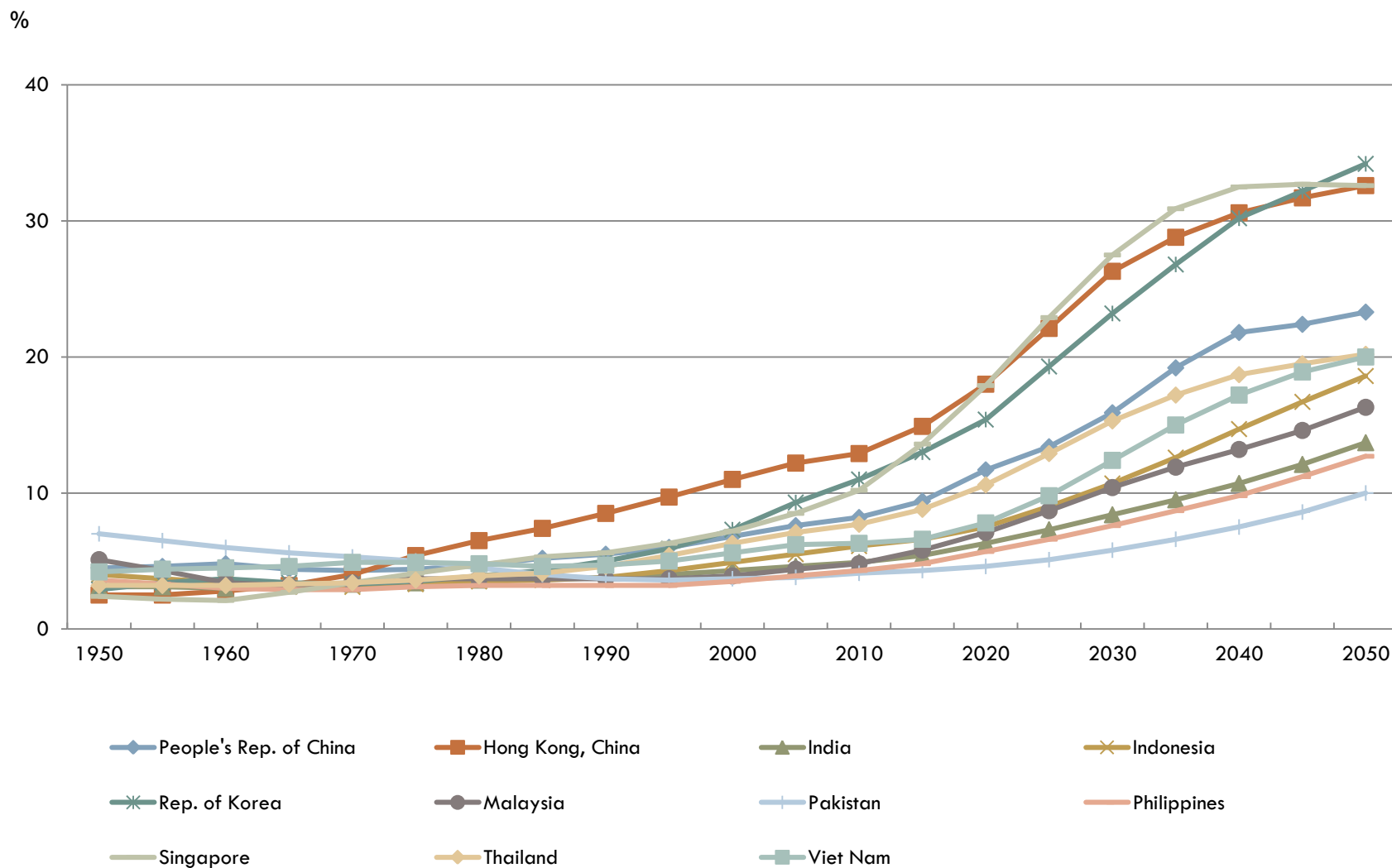
Introduction

- The primary objective of our research project is to assess the impact of aging on Asia's growth.
- We also look at old-age income support systems in Asia, an issue of high and growing significance.
- For Asian policymakers, population aging gives rise to two major strategic policy objectives.
 - Sustain rapid economic growth in the face of aging
 - Develop socioeconomic systems which provide economic security to the region's growing elderly population

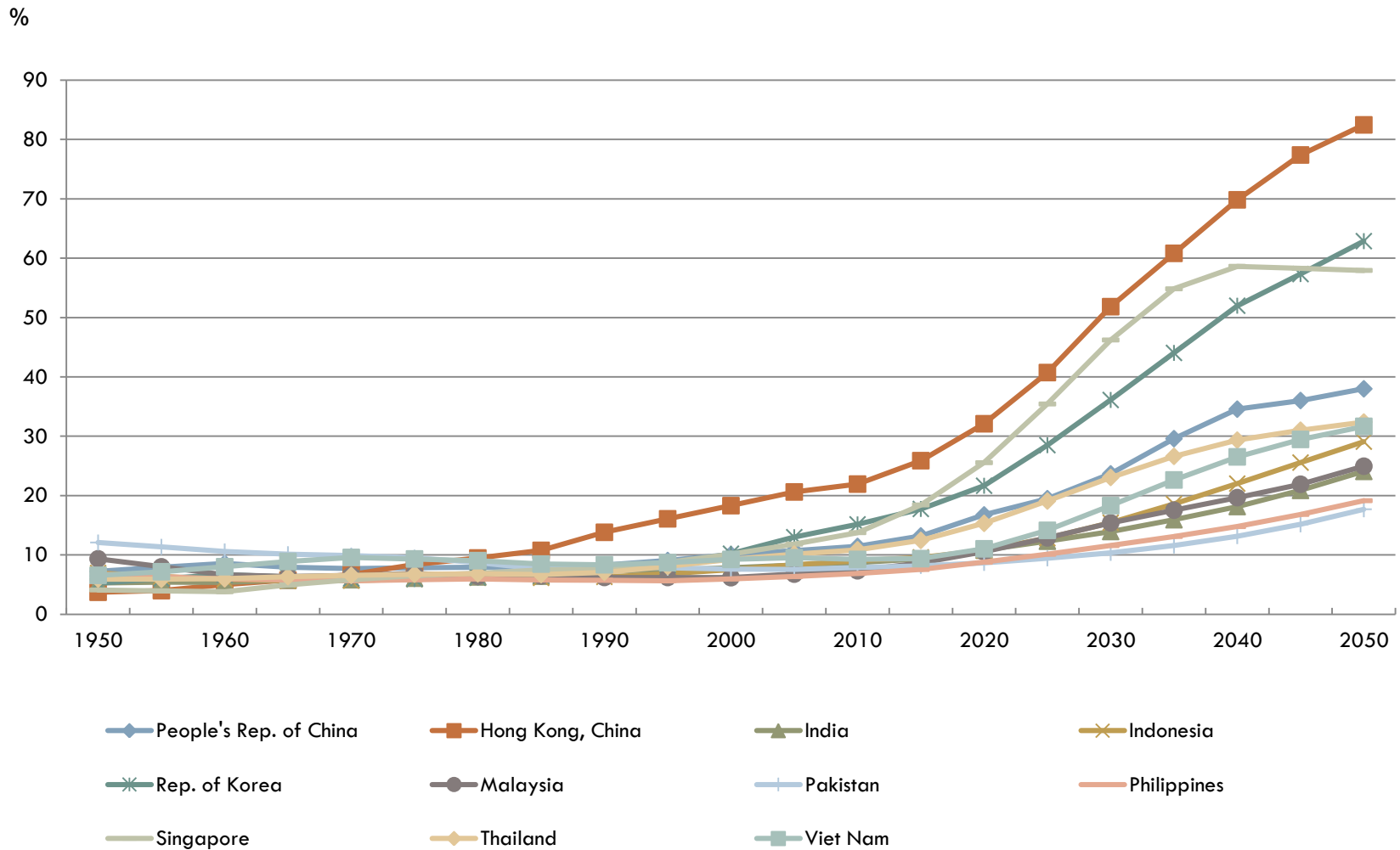
Demographic transition in Asia – key stylized facts

- One notable feature of Asia's aging is its exceptional speed → unprecedented in human history.
 - This is primarily due to a sharp fall in fertility
 - In East Asia, fertility rates have reached exceptionally low levels.
 - Rapid improvement in life expectancy is also a factor.
- Asia's aging is a natural and final outcome of the demographic transition.
 - A welcome trend but its sheer speed is cause for concern.
- Broadly three groups of countries in terms of aging
 - Advanced-aging, middle-aging and early-aging

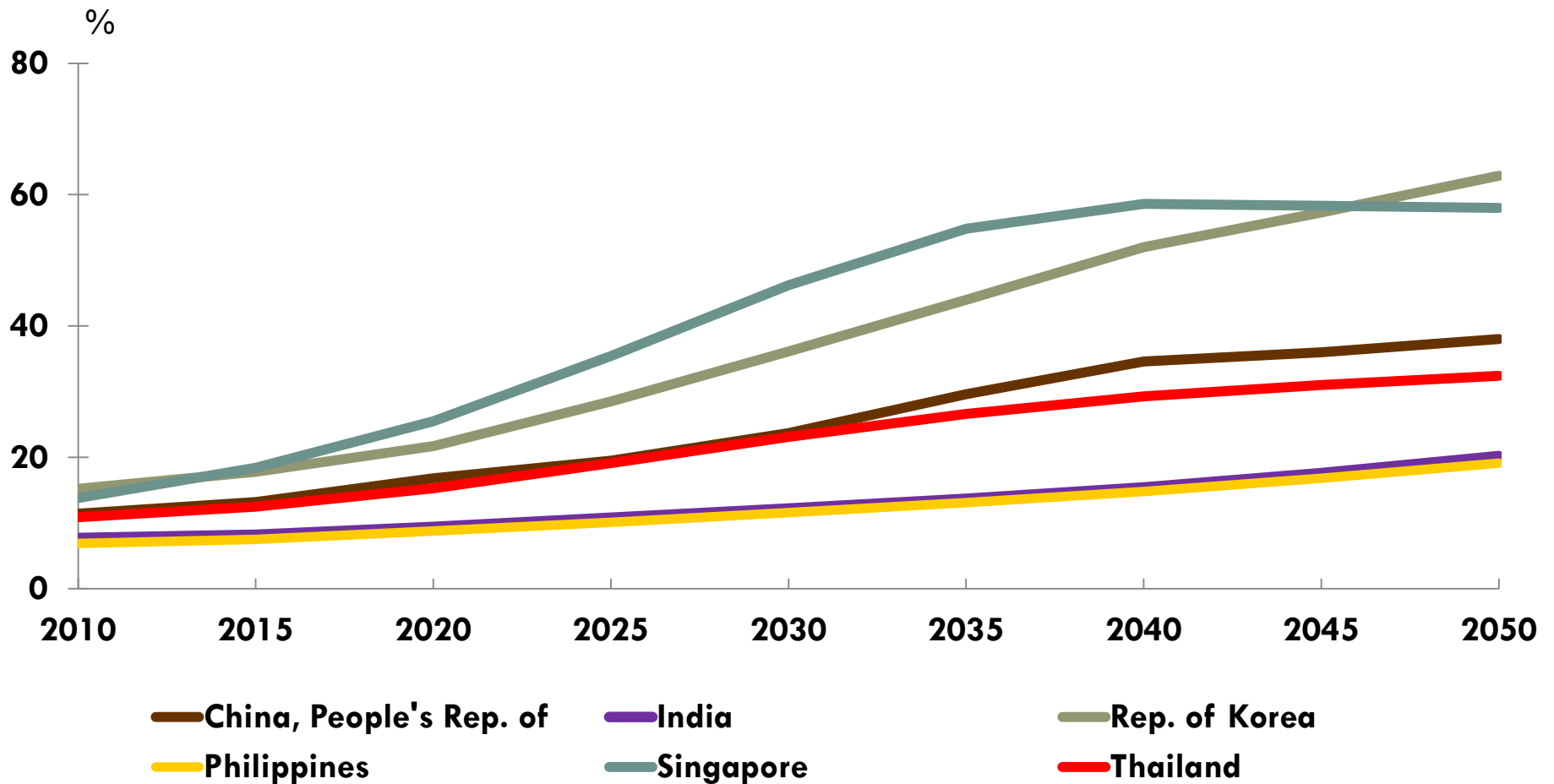
Share of elderly in total population



Ratio of elderly to working-age population



Significant demographic diversity within broader, common Asia-wide trend of aging



Demographic transition in Asia – key stylized facts

- Demographic profile of 2050 may appear too remote to matter for today's economic concerns.
 - This is especially true in younger countries.
- However, today's working-age population is tomorrow's elderly.
 - Prospects of old age and retirement will influence today's behavior.
 - And, today's policies influence today's behavior.

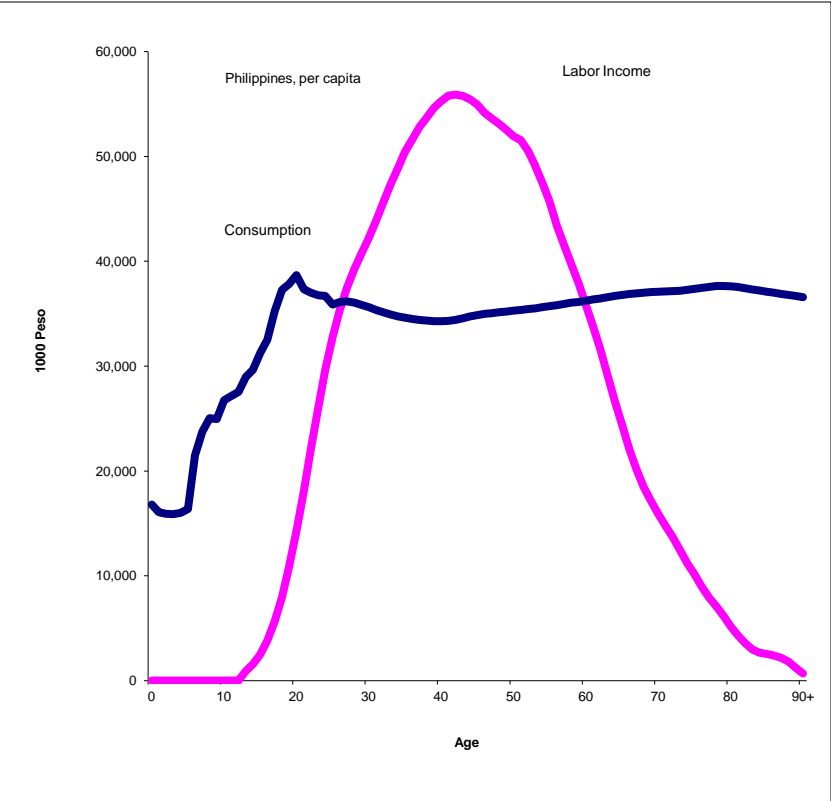
Economic lifecycle and consequences of demographic transition

- Why does age structure matter for growth?
 - Economic life cycle
 - Humans have extended periods of dependency at beginning of life and at end of life
 - In those periods, individual consumption exceeds production
 - Aggregated over individuals, implies a general deterioration of economic conditions
 - Our ability to measure the economic lifecycle has been vastly improved due to the recently developed National Transfer Accounts (NTA) --- Lee, Mason and Lee
 - Purpose of NTA is to measure, at the aggregate level, how people at each age in the lifecycle acquire and use resources.

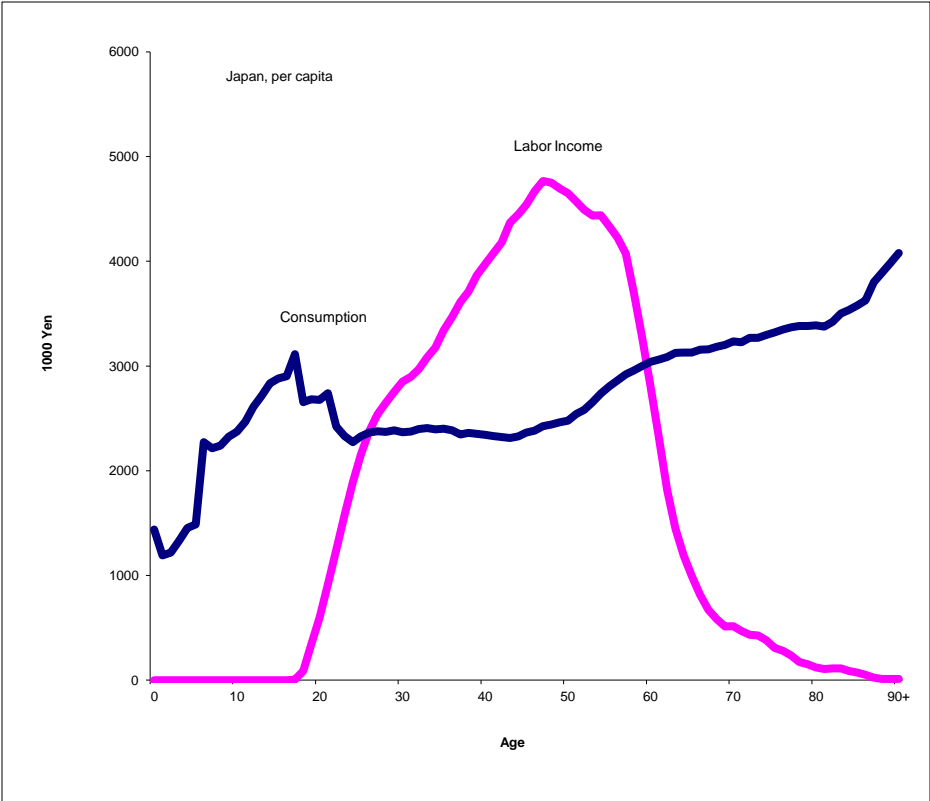
Economic lifecycle and consequences of demographic transition

- Why does age structure matter for growth?
 - NTA represents a significant advance in our understanding of resource allocation across ages.
 - Comprehensive measures of key variables such as production, consumption, saving and transfers by age at aggregate level
 - NTA is constructed so that it is consistent with National Income Accounts
 - NTA distinguishes between the private and public sectors

Labor income and consumption in Japan and Philippines, NTA, individual

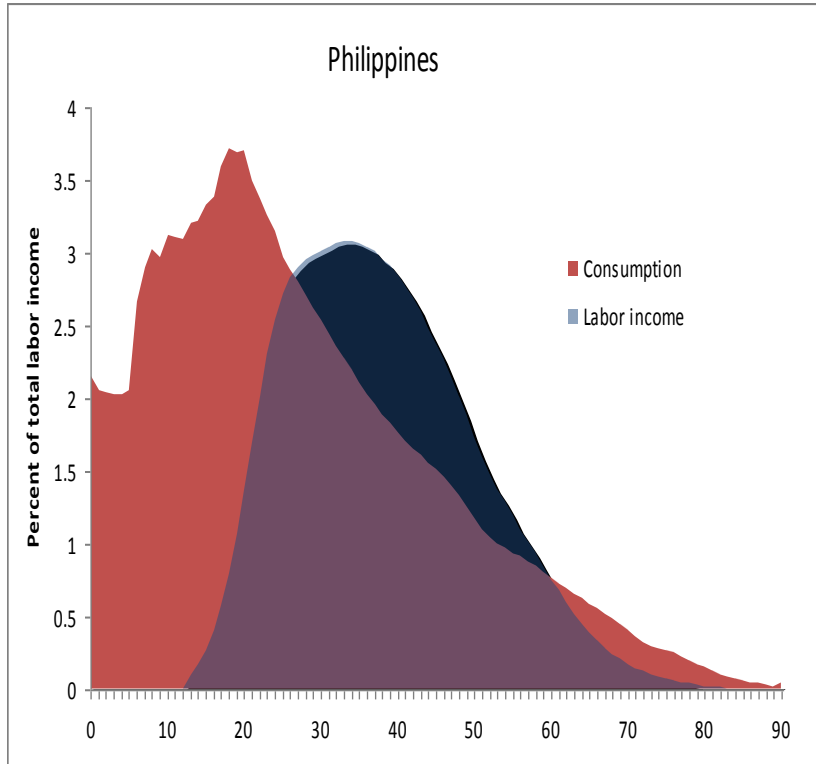


PHILIPPINES

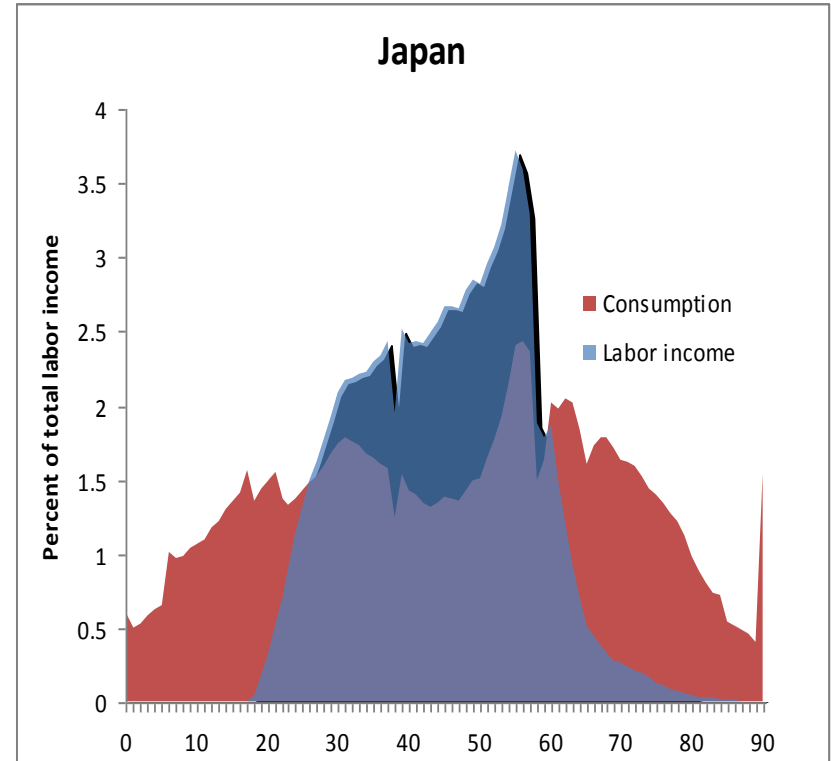


JAPAN

Labor income and consumption in Japan and Philippines, NTA, aggregate



PHILIPPINES

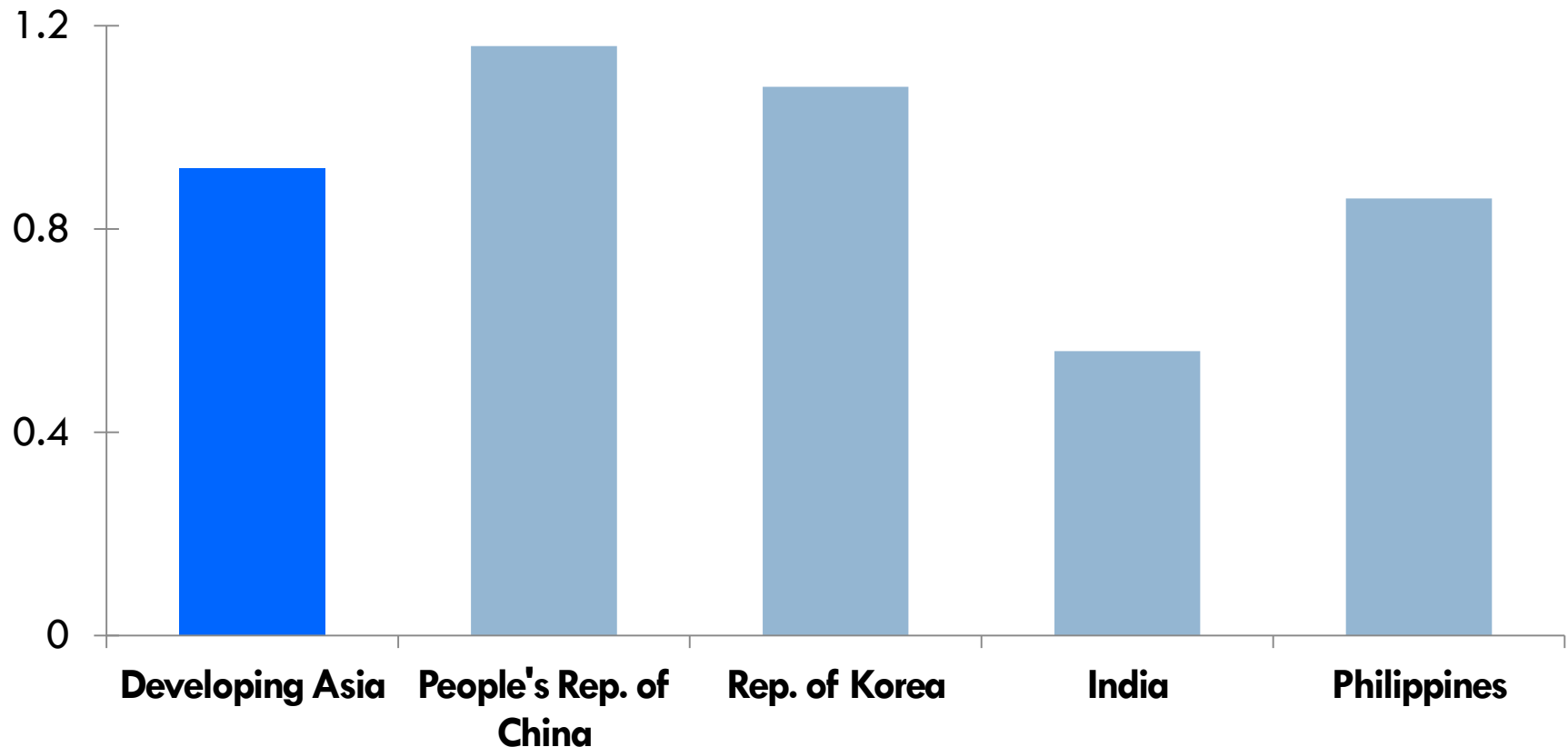


JAPAN

Young populations gave the region a growth dividend in the past...

Contribution to the annual growth rate per capita GDP, 1981-2010

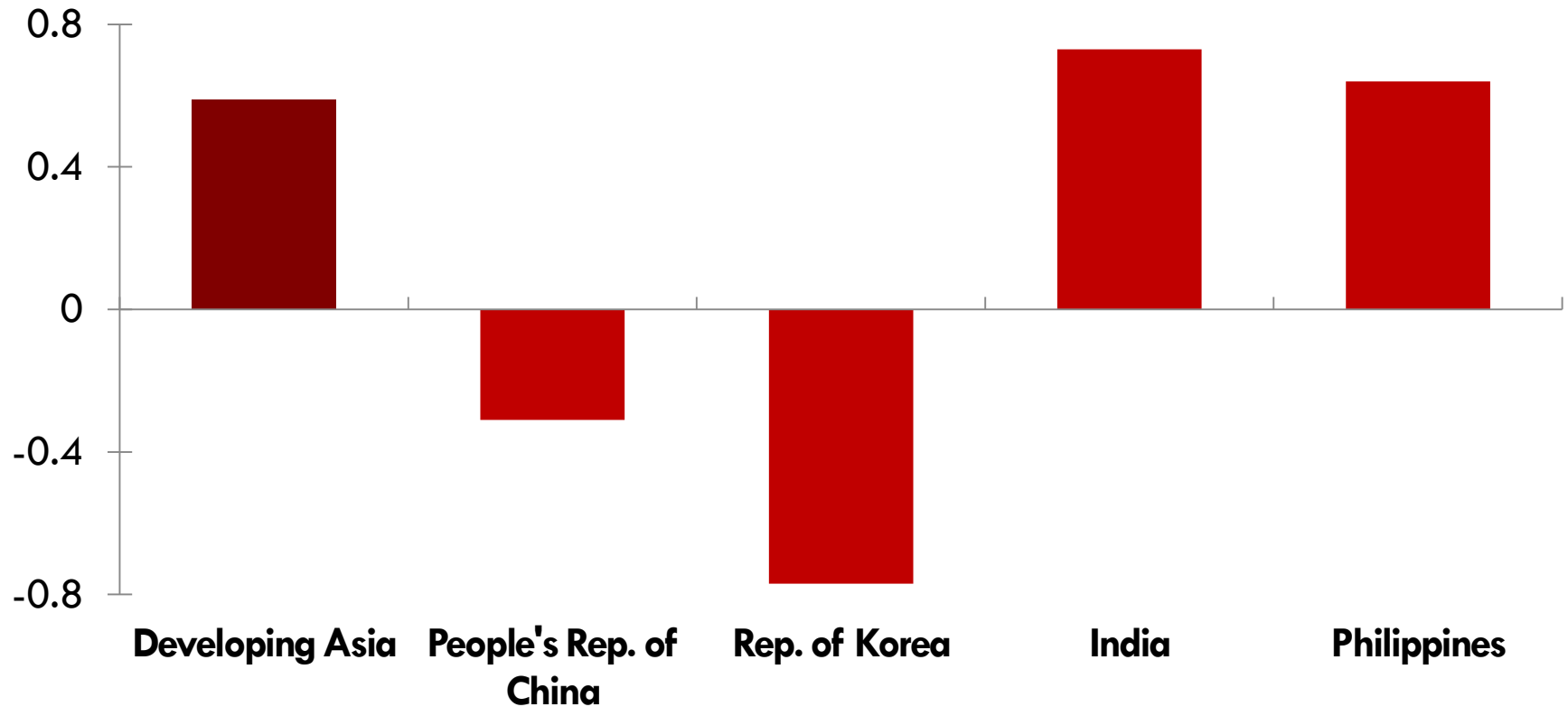
% points



...but some countries now face a demographic tax

Contribution to the annual growth rate per capita GDP, 2011-2030

% points

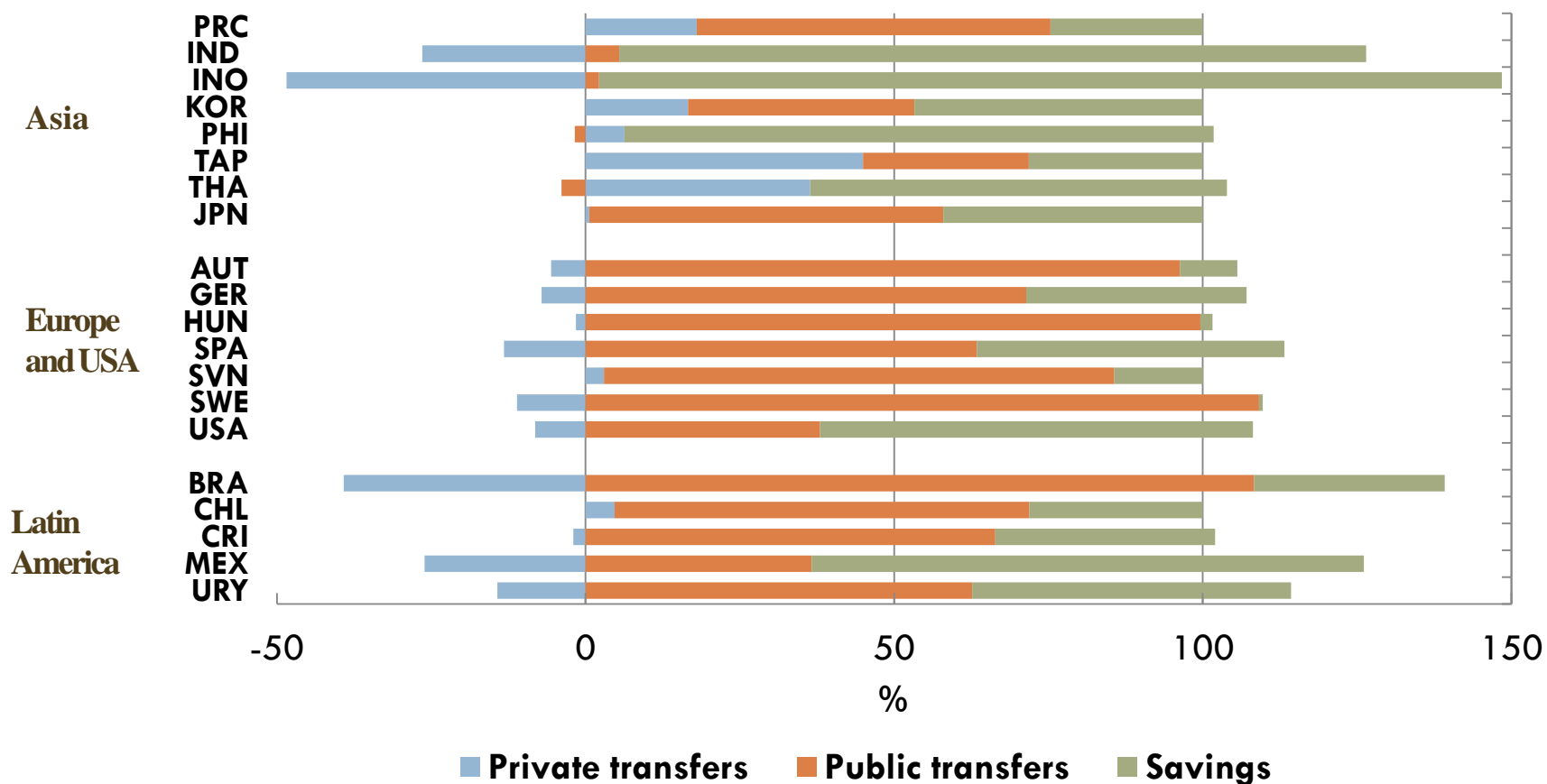


Population aging and old-age income support systems

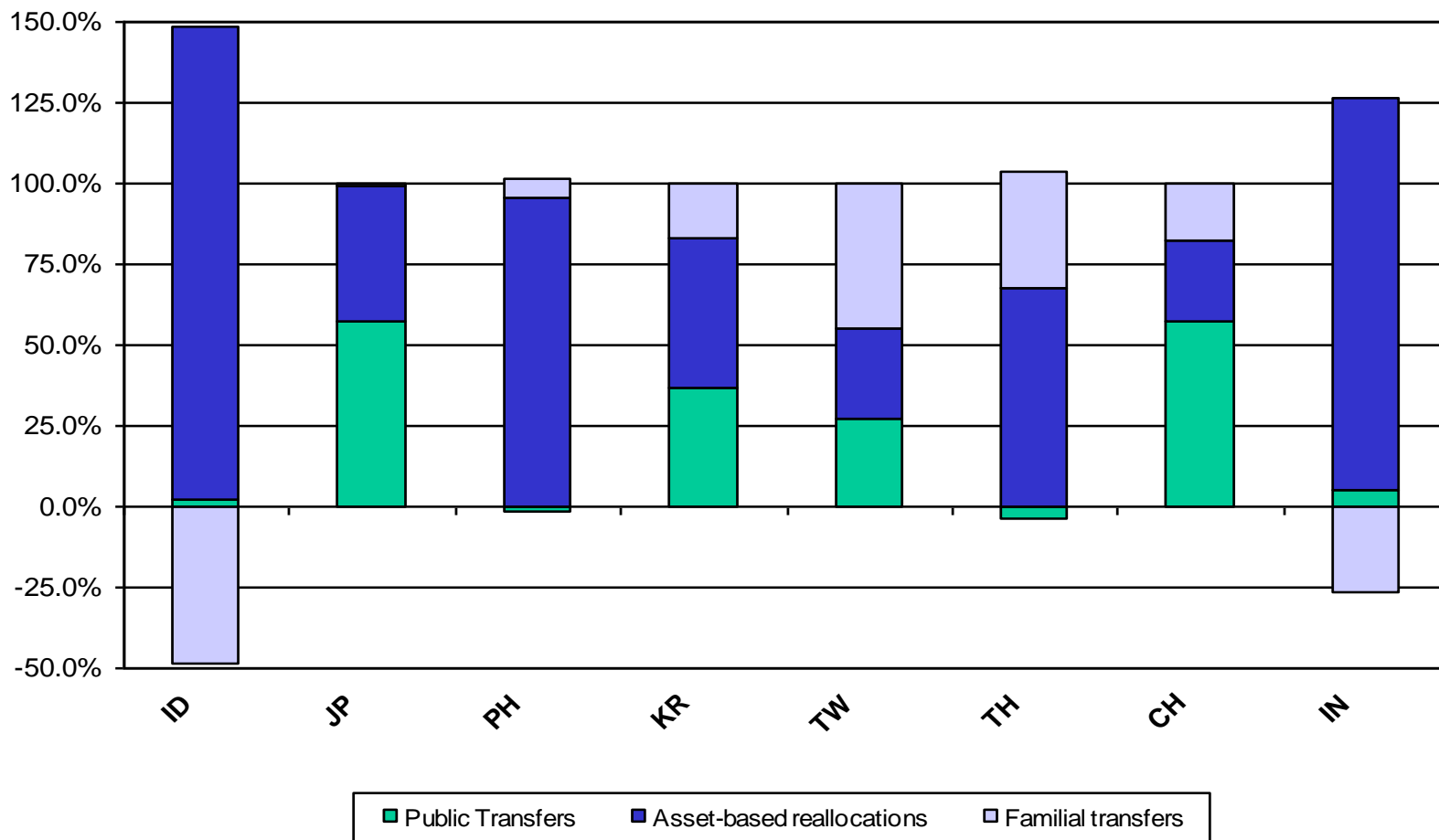
- Complex system of institutions and mechanisms reallocate resources from surplus ages to deficit ages.
- There are two basic age reallocation mechanisms.
 - Transfers --- no quid pro quo, private and public
 - Asset-based reallocations --- acquire asset in one period to finance consumption in another period
- Important contribution of NTA is to improve our ability to measure reallocation of resources to deficit ages.
 - Asset-based reallocations, or savings, are important in Asia.
 - Private family transfers remain important in some countries.
 - Public transfers are somewhat less important.

Family support is declining in Asia, but public transfers are underdeveloped

Support system for people ages 65 and above, selected economies



Relative importance of different forms of old-age income support



Policy options for sustaining growth in the face of population aging

- One strategy emphasizes investment and physical capital accumulation.
 - Link between age structure and capital accumulation depends on nature of old-age income support system.
 - If the needs of the elderly are met largely through lifecycle saving, this can give rise to “second demographic dividend”.
 - Such capital deepening can dominate the negative impact on the support ratio – i.e. ratio of workers to retirees.
- Another strategy is to scale up investment in human capital
 - But a key issue here is effectiveness of human K investment
- The two strategies are not mutually exclusive.

Pension assets relative to labor income, Asia

	Low income profiles			High income profiles		
	2010	2030	2050	2010	2030	2050
Asia-Pacific Countries	1.6	2.4	3.0	1.1	1.6	2.0
Developing Member Countries	1.2	2.1	2.7	0.8	1.4	1.8
Central and West Asia	0.9	1.3	1.9	0.6	0.9	1.3
East Asia	1.4	2.4	3.0	0.9	1.6	2.0
South Asia	0.9	1.3	2.0	0.6	0.9	1.3
Southeast Asia	1.1	1.9	2.5	0.8	1.3	1.6
Pacific Island Nations	0.7	1.0	1.4	0.5	0.7	1.0
Non-DMCs	2.9	3.7	4.4	1.9	2.5	3.0

Concluding observations

- Demographic change is perhaps the single biggest structural shift facing Asia in post-global crisis era.
- While there are differences, demographic change is a region-wide trend with region-wide ramifications.
 - Even younger countries such as India and Philippines are set to experience a substantially grayer future.
- How well Asia tackles the two aging challenges will hold the key to whether Asia can maintain its success.
 - The two sometimes come into sharp conflict

Concluding observations

- Asia must overcome a number of structural obstacles to meeting the two challenges.
 - Underdeveloped financial systems
 - Rigid labor markets
- Sheer speed and scale of Asia's demographic transition adds a sense of urgency to preparing for aging.
 - 2050 may seem distant but today's policies will influence the ability of today's workers to prepare for their retirement
 - Those policies will also determine economy's ability to sustain growth in the face of aging
 - Younger countries should make full use of their breathing space

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- Overview: why does population aging matter so much for Asia? – Lee, Mason and Park
- Population, wealth and economic growth in Asia and the Pacific – Lee and Mason
- Impact of population aging on Asia's future growth – Park and Shin
- Population aging and aggregate consumption in Asia – Estrada, Park and Ramayandi
- Economic lifecycle and support systems – Lee and Mason

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- Demographic change, intergenerational transfers and social protection in PRC – Chen, Eggleston and Li
- India's demographic dividends – Ladusingh and Narayana
- Population aging, economic growth and intergenerational transfers in Japan – Ogawa, Lee and others
- Summary of key findings and main policy recommendations

Key findings

- **Asia is going through a demographic transition.**
- **There is a great deal of demographic diversity in the region.**
- **Many countries will continue to experience the first demographic dividend.**
- **Demographic dividend is set to diminish over time.**
- **Over time, Asian populations will become increasingly concentrated at older ages where labor income is quite modest.**
- **Population aging could serve as a drag on economic growth over the coming decades.**

Key findings



- **The demographic dividend will give way to a demographic tax in a growing number of Asian economies.**
- **Population aging will put a heavy strain on public transfer systems.**
- **Population aging will lead to a substantial accumulation of pension assets in Asia.**
- **Asian economies vary quite widely in their old-age support systems, but there are patterns that are unique to the region.**

Key findings



- **Many Asian countries are changing their old-age support systems.**
- **As the support system changes, each component will have a big impact on the other components.**

Main policy recommendations

- **Population policy**
 - ▣ **Societies in advanced stages of the transition should consider pursuing pro-natalist policies to revive fertility rates**
 - ▣ **Economies in the middle of the transition should carefully reassess outdated population policies that may lead to exceptionally rapid population aging**
 - ▣ **Economies in the early stages of demographic transition (or just younger ones) may need to retain population policies that seek to limit population growth.**

Main policy recommendations

- **Capturing the demographic dividend**
 - ▣ **Younger Asian countries should adopt appropriate policies and institutions to reap the demographic dividends.**
 - ▣ **Younger Asian countries can learn valuable lessons from older Asian countries.**

Main policy recommendations



- **Overall economic reform**

- ▣ **Asian governments should better inform the general public about demographic trends and their implications for economic growth and old-age support.**
- ▣ **Key economic reforms will be critical.**

Main policy recommendations

- **Old age support**

- ▣ **Developing Asian countries must build up strong national pension system**
- ▣ **Governments should help individuals to make sound financial decisions for retirement.**
- ▣ **Increases in public transfers to the elderly must be kept sustainable and should not significantly weaken the incentives of individuals to save for old age.**

Main policy recommendations

- **Elderly and female labor force participation**
 - ▣ **Old-age dependency must be de-institutionalized.**
 - ▣ **Population aging strengthens the case for training and re-training older workers.**
 - ▣ **Population aging strengthens the case for promoting female participation in the workforce.**

Main policy recommendations

- **Regional cooperation and integration**
 - ▣ **Demographic diversity supports more open and free cross-border movements of workers.**
 - ▣ **Demographic diversity supports intra-Asian financial integration.**

Main policy recommendations

- **Capitalizing on Asia's advantages to prepare for the demographic transition**
 - ▣ **Younger countries should start to prepare their economies and old-age support systems for a much greyer future.**
 - ▣ **Asian governments should use their fiscal space adjust for a greyer future.**