

Aging in Asia: Strategic Implications

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Strategic Backdrop

The world's population is rising relentlessly. There are, at present, around 6.6 billion people, but this is expected to grow to 8.0 billion by 2025 and 9.2 billion by 2050. Asia is home to more than half (about 57%) of all this planet's inhabitants and is therefore going to be central to these demographic developments. (Table 1)

The world population trend, however, masks three features that are critical for Asia.

The first is that fertility rates are in general falling. Fertility rates are simply the number of children born to females in a country's population. It is inversely related to economic prosperity and all its attendant effects such as greater urbanization, higher female labor force participation and later marriage.

There are, of course, stark differences in the fertility rates of developed and developing countries. Developing countries have much higher fertility rates and they decline much more slowly over time. Total fertility in the poorest countries of the world ranges from 7 to 8 births per woman compared to the richest ones where they amount to no more than 1 or 2. In some cases – and Japan is a celebrated case in point – birth numbers are not even sufficient to prevent their populations from shrinking.

It is therefore not surprising that the developing countries of Africa and the Middle East contribute most of the increase to the world's population. Asia's economic success has meant that fertility rates have not only fallen but have done so over a much shorter time than in the West.

Alongside the decline in fertility rates is increasing life expectancy. Again there are differences and exceptions in different parts of the world but people on the whole are living longer, particularly females.

The combination of lower fertility and longer life spans is what contributes to Asia's aging population. Japan is once more the most touted example of an aging society, but it is not the only one. By the mid-21st century, the elderly in China and South Korea will have more than doubled and be more numerous. (Table 2)

A direct consequence of aging is that the working-age population, which is defined as people in the 15- to 64-year age bracket, also falls. A decline in the economically active population is obviously not positive for economic prospects and must be carefully managed.

The latter gives rise to a third trend and that is immigration. Although less than 3% of the world's population have permanently changed their country of domicile, the numbers can be large. Estimates are that there are up to 200 million international migrants in the world today.

Developed countries have always been a magnet for immigrants, but in the last two decades or so, Western nations, notably Europe and the United States, have been actively courting people and migrant workers, primarily from Asia and Africa, to their shores.

Strategic Issues

The three trends mentioned have long been recognized and received a great deal of attention by Asian policymakers, private corporations and investors. They have strategic implications for virtually every public policy, commercial decision and wealth-management strategy.

Existing policy frameworks and practices in Asia already reflect demography realities to varying degrees. The latter's imperatives are simply impossible to ignore. Whether these policies are sufficient to cater to the present and the future, however, is doubtful and they will require continuous focused discussion.

So far, there are four established approaches to the problem of Asia's rapidly aging population. The first two are self-explanatory and they are, first, to simply extend the mandatory retirement age and, second, promote individual savings for old age. In addition, some countries encourage the continuation of traditional systems of family support. Others are too advanced and have no option but to establish publicly funded old age pension and healthcare systems.

There are, however, larger strategic policy issues at stake and seven specific ones that can be unbundled from the demographic picture are enumerated below.

First, and perhaps most basic, is how Asian countries can continue to be competitive and to maintain standards of living with an ever declining workforce. Growth in per capita income is directly correlated to the working-age population and inversely related to the elderly. Can foreign investment, business outsourcing and science and technology (such as robotics) mitigate these effects?

Second, how will Asia's elderly be adequately supported if the number of income earners (and therefore taxpayers) is falling? Problems of underfunded pension programs and costly healthcare systems are common throughout the developed world. Each economically active person will therefore have to bear a heavy burden to support the needs of the elderly.

Third, what will happen to Asian countries that are politically and socially closed to immigration? Northeast Asian countries, in particular, have been reluctant to allow immigration as this would change their largely homogenous societies. Many countries do not even have fully developed guest-worker policies so as not to encourage migrant labor. Can and should this continue given moves to liberalize labor markets?

Fourth, can Asian countries that are aging afford to continue losing the contributions of their citizens to the West through immigration? The effects of brain-drain on economic development may have been overstated, but there is no doubt that losing scarce knowledge workers will carry with it a high cost. What sorts of policies should be put in place to minimize these losses?

Fifth, what policies should the labor surplus countries of Asia

TABLE 1

Asia's population, 2002-2025

| Country | Population (mil.) | | Average growth rate (%) | |
|-------------|-------------------|-------|-------------------------|-------------|
| | 2002 | 2025 | 1990 – 2000 | 2020 – 2025 |
| India | 1,051 | 1,351 | 1.8 | 0.9 |
| Indonesia | 218 | 273 | 1.5 | 0.8 |
| Malaysia | 24.1 | 31.3 | 2.2 | 1.1 |
| Philippines | 78.7 | 107.1 | 2.2 | 1.1 |
| Singapore | 4.1 | 4.9 | 2.9 | 0.5 |
| Thailand | 63.4 | 72.1 | 1.4 | 0.6 |
| Vietnam | 80.6 | 105.5 | 1.7 | 1.0 |
| China | 1,293 | 1,471 | 1.0 | 0.3 |
| South Korea | 48.1 | 52.1 | 0.9 | 0.3 |
| Japan | 127.3 | 120.9 | 0.3 | - 0.3 |

Source : United Nations Population Division, 2006

TABLE 2

Elderly population in selected Asian countries (percentage of people aged 65 or older)

| | 2005 | 2010 | 2020 | 2030 | 2040 |
|-------------|------|------|------|------|------|
| Japan | 22.9 | 26 | 32.2 | 34.4 | 39.0 |
| South Korea | 9.4 | 11.3 | 15.6 | 23.4 | 30.3 |
| Singapore | 7.1 | 8.3 | 14.8 | 22.5 | 23.4 |
| Thailand | 6.8 | 7.7 | 10.6 | 14.6 | 17.2 |
| Malaysia | 4.0 | 4.4 | 6.3 | 9.0 | 10.6 |
| China | 6.6 | 7.0 | 10.2 | 13.9 | 18.6 |
| Philippines | 3.4 | 3.8 | 5.1 | 6.9 | 9.1 |
| Indonesia | 4.9 | 5.3 | 6.3 | 8.8 | 11.8 |

Source : United Nations Population Division, 2006

adopt? These are countries that still have growing populations but are unable to generate sufficient employment. Ironically, by exporting their excess labor overseas, they may be further reinforcing weak and low value-added domestic economic structures. How then should they chart their development paths?

Sixth, can Asian countries be geopolitical powerhouses in the future with aging and declining populations? Japan's influence in the world is largely predicated on its manufacturing and technological prowess as well as its financial capabilities. China relies on its size and its rapid economic growth. Both could run the risk of declining influence relative to others with much younger populations such as India and Brazil.

Seventh, can nation-states remain viable at all if their populations decline and age? Quite apart from the question of global power, one might ask whether it is feasible for states to remain political entities if they lose the ability to adequately provide for and govern their people. There are, of course, such states today that continue to exist, but indebtedness and poverty are never far from their doorstep.

Strategic Directions

Asia's aging problem is unlikely to be addressed in piecemeal fashion and in isolation from other countries in the region and the world. Above all, countries need to clearly map out their economic

growth strategies and, having done so, link these to social policies that meet the evolving needs of their populations.

Unfortunately, many countries appear to be too concerned with the problems of the "here and now" to plan for their societies two or three decades down the road. Yet not to do so could be sowing the seeds for a humanitarian disaster in future.

The elderly are also not as marginalized and disempowered as before. They tend to be politically and socially active well into their golden years, meaning that the governments of the day may well pay a price as well.

Given its acute situation, Japan's holistic approaches constitute one best practice method for dealing with an aging population. Whether these are relevant and can be emulated by other aging countries is another question. **JS**

Editor's note: The views and opinions expressed in this article are the authors' own.

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