

# »» Ageing in developing East Asia requires broad policy responses



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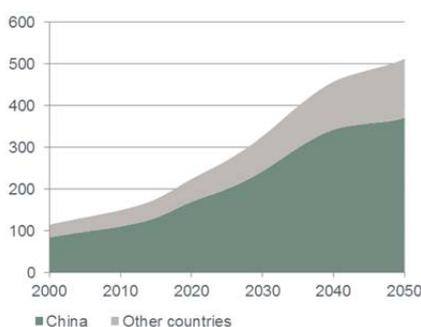
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Demographic change is an important topic, not only in advanced economies but also in developing countries. In developing East Asia, which comprises developing and emerging countries, ageing is a clear trend. It puts a damper on these countries' economic growth and creates great challenges for other reasons, too.

## Demographic trends: developing East Asia is ageing

The region has experienced enormous population growth in the past decades, and this process will continue in the foreseeable future as well. Two crucial demographic trends, however, have emerged. Since the year 1960, the birth rate has dropped sharply from 5.9 children per woman to currently 1.8 children, while life expectancy has jumped from 45 to 74 years. The causes for this were both the mandatory one-child policy in China and the positive advances in health care, education and prosperity. The consequence we see now, however, is that the number of aged people has increased from 115 million in the year 2000 to currently 185 million.

**Figure: Senior-age population (65+) in developing East Asia (millions)**



Source: United Nations, Population Division, own calculation

By the year 2050, the aged population

will have reached 513 million (see figure). Ageing is currently not as pronounced in all countries of the region as in Singapore or China, for example. But sooner or later it will also become a major challenge in societies that are still young, such as Laos and Cambodia.

## So far, demographics and prosperity are positively correlated, but more and more problems are emerging

Years of economic growth since 1990 have brought developing East Asia a 14-fold increase in per-capita income and a massive reduction in poverty. One major cause of this success was demographic development. The growing availability of labour as a production factor was successfully transformed into economic growth, also referred to as the "demographic dividend". Another significant development trend in East Asia is urbanisation. Whereas fewer than 30 % of people were living in cities in 1990, today it is more than 50 %. Division of labour and innovation thrive particularly well in cities, but they also transform social structures away from the extended family living under one roof in rural areas. Moreover, unemployment and informal employment remain widespread despite the economic boom, and social systems are inadequately prepared for an ageing society. That is why the World Bank warned in a recently published study that "Developing Countries in East Asia ... are getting old before getting rich".<sup>1</sup>

## Policymakers must take decisive steps

The governments in developing East Asia have definitely recognised the issue, but have not yet addressed it comprehensively. Labour market policy must

aim to employ as many people as possible for as long as possible and with high productivity. This can be done by increasing labour force participation (especially of women), extending people's working life, raising educational levels (which, among other things, makes it more attractive to perform a better-paid job for a longer period of time) and opening national labour markets to immigrants.

The need to increase financial security during old age is urgent. In many places, only public servants currently have access to pension insurance. Funded pension insurance schemes have conceptual advantages, but take decades to build up. Major challenges include the integration of the still large informal employment sector and the promotion of private retirement arrangements. The government has to fill the gap in the short to medium term, putting a strain on the budget.

Similar considerations apply to the policy areas of health and aged care. What is particularly difficult is that individual health costs increase with age and the demand for services shifts as age-related diseases such as diabetes etc. increase, adding a completely new dimension to aged care (not least as a result of the change in social structures mentioned above).

## Conclusion

Ageing in developing East Asia is not a stroke of fate. Policymakers have a crucial transformative mandate – most of all in countries that have not yet come under severe pressure from demographic change. ■

<sup>1</sup> World Bank: Live Long and Prosper: Aging in East Asia and Pacific. Washington, DC 2016, page 9.