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A major demographic challenge East Asia faces is the longer life expectancy in the region and the resultant decline in the size of its working-age populations. People are living longer, to an average of 75 years in 2015 compared with 49 in 1960, and three of the 10 economies with the longest life expectancy worldwide – Japan, Singapore and South Korea – are in the region. PHOTO: REUTERS

Ageing, economic growth and well-being in East Asia

Population issues should be higher on national agendas, with policies to expand managed immigration and strengthen social support for the elderly.

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For The Straits Times

East Asia's demographic shifts have enormous implications for its future prosperity. Reflecting the region's vast human development, people are having fewer children and living longer. As a result, the share of populations in working years is shrinking, making it harder to sustain the strong economic growth the region has enjoyed for decades. Longevity is also challenging the delivery of decent welfare support for the elderly. East Asia's demographic challenges should be far higher on national agendas than they are. Expanding managed immigration while strengthening formal social protection for the elderly offer the best policy responses.

Decades of economic success have helped lift life expectancy in East Asia, to an average of 75 years in 2015 compared with 49 in 1960. Three of the 10 economies with the longest life expectancy worldwide – Japan, Singapore and South Korea – are in the region. The size of working-age populations has declined in Japan and Singapore, and it will only be a matter of time before this happens in China.

By one estimate, a one percentage point drop in the growth of the workforce cuts one percentage point from economic growth. High-income countries are especially vulnerable to shrinkages in working-age populations, because their pace of growth tends to be slower than that of emerging economies. These countries can accelerate growth through the technological and policy reforms that have already been taken by developed economies. The implication of Singapore's demographic shift is already showing in its challenge to meet growth projections of 2.5 per cent for this year and the next.

Singapore's fertility rate is the lowest in the world. But simply encouraging families to have more children to increase the working-age population is unlikely to yield the desired result. Efforts by Japan and some European countries to encourage higher fertility rates did not work. And for Asia as a whole, already grappling with severe urban overcrowding and acute resource constraints, higher fertility rates and a bigger population will further overwhelm capabilities to use scarce resources sustainably. The Philippines – a country with a high fertility rate – is an extreme case in point.

LABOUR FLOWS

Some degree of automation is going to be inevitable to address declining working-age populations, but this is not the big fix. Japan's large-scale use of automation helped tackle labour shortages in its manufacturing sector. But a problem with automation is that it can be quickly deployed also in lower-wage sectors and economies, stoking unemployment. It has also been shown to be less effective in education and healthcare, where personal interaction is at least as important as output delivery.

A better way forward is greater openness to labour immigration to fill crucial gaps. For ageing societies, the influx of young workers can also ease strained pension systems and the burden of caring for the elderly. In the United States, over a third of the immigrants are skilled and meeting the country's economic needs. And it was immigrants who founded Google, Intel, PayPal, eBay and Yahoo, companies that have created thousands of jobs.

Yet immigration, even in economies with acute labour shortages, is becoming increasingly unpopular. The resistance is partly grounded on economic fears that immigrants will displace local workers. But this could be overcome if it is shown that immigrant workers contribute to the better economic performance of a sector or the country, as studies in the US have shown. The concerns are also over social and cultural cohesion, which need to be managed with country-specific approaches.

Canada has one of the longest-standing and largest managed labour migration systems in the Organisation for Economic Cooperation and Development, the club of wealthy nations. The country has gained economically from immigration to fill skill gaps and is doing an outstanding job in assimilating immigrants into society. The immigration process involves intensive orientation of new entrants provided by a network of government and non-government partners, and a transparent, point-based system for getting into the country that credits skills rather than an applicant's nationality.

And immigration is not a one-way street: In 2015, the remittances of overseas workers to developing countries was nearly US$450 billion (S$615 billion), three times official development assistance.

The economic gains from tackling declining working-age populations with more open immigration policies would contribute to meeting the fiscal cost of supporting ageing populations. Here, East Asia has far fewer formal channels of income support than the West, and the main source continues to be private savings rather than public pension programmes. Because healthcare for the elderly is becoming increasingly costly, it is often subsidised, as in Singapore's hybrid healthcare model. East Asian countries need to expand the coverage and benefits of social protection systems, particularly public pension programmes. Across East Asia, the coverage and benefits of pensions are inadequate, especially for the elderly poor, and often unsustainable and in need of reform, as for example in China and Thailand.

PENSIONS AND SAVINGS

Expanding the coverage and benefits of public pension programmes will require deft management, because overly generous benefits could backfire by triggering a wave of early retirements and act as a disincentive to continue working. In pre-austerity Greece, the retirement age for some professions was only 55. Expanding public pension programmes can increase pension payments, government debt and fiscal imbalances, as in Argentina and Brazil in the 1990s. A lesson for East Asia will be to carefully decide on the types of pensions and healthcare benefits to expand and for whom, and how to provide them efficiently.

Scandinavian countries score highly on the success of their pension programmes. Denmark has excellent coverage under its basic public pension schemes, with well-defined contributions and benefits. Sweden has made pension programmes sustainable by anticipating emerging demographic trends, building them into pension commitments, and making highly profitable use of the contributions.

On the flip side, workers need to be encouraged to save. Ensuring adequate savings for old age among the young is a problem in countries where the costs of post-school education and resulting debts are rising. East Asia's situation may be different on how student debt is structured, but there is a case for encouraging savings for retirement with tax breaks, employer matches and inflation adjustments. A priority here is deepening the financial sector and instruments, which would have statutory effects on saving and the deployment of saved funds.

While populations have been ageing, indicators of productivity growth – getting more value from investments – have been weakening in East Asia over the years. Countries that have managed higher productivity growth – notably South Korea – have improved the quality of spending on education and health.

East Asia needs to tackle the implications for economic growth and old age security of its demographic transition. More open but well-managed immigration and broader public pensions complemented by financial reforms to deploy savings should help sustain more adequate workforces matched by a more secure elderly population.

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