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## Commentary: Twin solutions to Asia's demographic problems

Notwithstanding the vast regional and country differences across Asia, two sets of actions are favourable across the board, says a visiting professor at NUS.



What policy responses should Asia adopt to address its varied demographic challenges? (Photo: AFP)

SINGAPORE: Asia is a continent of demographic extremes. At one end of the spectrum, there are three economies that are among the top in terms of life expectancy worldwide: Japan, Singapore and South Korea. In these countries, declining fertility rate also means the share of the population that's of working-age is decreasing.

On the other side, there are countries like India and Indonesia where the workforce is still expanding, but with declining fertility rates – there is a potential demographic dividend inherent in a favourable ratio of workers to dependents.

And there is the Philippines, where the fertility rate is still high and with the workforce supporting a growing population at both ends of the age spectrum, any demographic dividend remains elusive.

East Asia has been on a path of a declining ratio of workers to dependents, while in South Asia, it is still the opposite. Sub-Saharan Africa is also starting to see a small demographic dividend. Clearly, policy responses to demographic opportunities and challenges vary according to diverse situations.

Notwithstanding the vast regional and country differences, there seem to be two sets of actions that could be favourable across the board. A combination of more open immigration policies and efforts to raise labour productivity can provide win-win opportunities.



South Korea's "silver tsunami" poses a major challenge for Asia's fourth-largest economy as the young, working age population declines and the cost of caring for the elderly escalates. (Photo: AFP/Ed Jones)

### OPENING UP TO IMMIGRANTS

For countries like Japan and Singapore with shrinking workforces, expanding managed immigration, despite their differences in immigration policies, can offer high returns. The influx of young workers can also ease strained pension systems and the burden of caring for the elderly.

In the US, 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.

The economic gains from tackling declining working-age populations with more open immigration policies would also contribute to meeting the fiscal cost of supporting ageing populations.

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.

Asian countries need to expand the coverage and benefits of social protection systems, particularly public pension programmes. The coverage and benefits of pensions are inadequate, especially for the elderly poor, and often unsustainable and in need of reform, as in the cases of China and Thailand.

“Immigration is not a one-way street.

In 2017, the remittances of overseas workers to developing countries are projected to rebound to US\$450 billion, according to the World Bank. That projection includes US\$239.6 billion for Asia, comprising US\$128 billion for East Asia and US\$111.6 billion for South Asia. Rebounding capital to the Philippines continues to remain resilient, projected at US\$32.8 billion, despite the political uncertainties in the Middle East.

#### IMPROVING LABOUR PRODUCTIVITY

Second, productivity improvements are a must. A 1 per cent fall in the supply of labour is often estimated to result in a similar reduction in percentage points of gross domestic product.



For Indonesia to address the employment needs of a young labour force, continued reforms to the product, labour and financial markets are necessary, said International Monetary Fund staff in a statement on Nov 14. (Photo: AFP/Bay Ismoyo)

High-income countries are especially vulnerable to shrinkages in working-age populations, because their pace of growth tends to be slower than emerging economies.

The latter countries can accelerate growth through the technological and policy reforms that have already been used by developed economies. Mechanisation and use of robots might provide partial solutions in selected industries, but they are by no means a panacea.

On the other side, actions that raise the productivity of the labour force would accrue high payoffs. High-income countries can aim to raise the productivity of a working-age population resulting from both lower fertility and greater immigration. Countries like Bangladesh, India, and the Philippines might continue to allow fertility rates to fall while getting the most productivity from a growing workforce.

Even where populations have been ageing, productivity growth—that is, getting more value from investments—has been weakening in Asia over the years. Countries that have managed higher productivity growth, notably South Korea, have improved the quality of spending on education and health.

Asia needs to tackle the implications for economic growth and well-being of its demographic transition. More open but well-managed immigration on the one side and actions to raise productivity of the labour force on the other are twin steps with valuable effects across the board.

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