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Technical Deep Dive: Aging Cities
Tokyo, May 21-25, 2018

Ageing and Economic Growth in Developing Asia: Risks and Responses

Live Long and Prosper
Aging in East Asia and Pacific
Some big picture messages on ageing and economic growth in Asia

- Rapid ageing poses real current risks to growth in some countries of Asia & emerging risks in others, while younger countries have time to prepare for future ageing.

- While the risks to growth from ageing are real, some risks may be overstated or at least somewhat less in Asia than other aging regions.

- But, in much of developing Asia, there is need for policy and behavioral change to mitigate current and emerging risks: in older countries these needs are already urgent.
Channels through which ageing impacts growth

DIRECT

Aging and supply side: potential impacts on growth (augmented Solow model)
- The labor supply effect (factor accumulation)
- The quality of labor force effect (human capital)
- Effect on productivity

Aging and demand side:
- Savings behavior (life-cycle) & capital formation
- Consumption patterns (health, pensions, long-term care)

POTENTIAL “RIPPLE” EFFECTS ON ECONOMY
- Differences in the timing and degree of population aging may shape international flows of capital, trade and labor
- Other macroeconomic variables such as inflation and returns to capital may be affected
Demographic dividend has helped growth in the past in EAP - assessing future impacts, important to take a dynamic perspective

- The demographic dividend has made a clear contribution to growth in East Asia during boom period – around one third in several estimates (e.g. Bloom and Williamson) & as high as 44% for 1960-90

- Fears of a “demographic tax” on growth as countries age

- Fears of impact on fiscal resources and their distribution as countries age

It is important in discussing impacts of ageing on growth not to impose future demographics on today’s policies and behavior of individuals and firms. While the demographics are largely known, how governments and societies respond to ageing will have major impacts on how ageing affects economic growth, the fiscal situation, and other factors.
1. The labor supply effect is gone or weakening, but softening this effect, many people in Asia work beyond global “working age”, but urban withdraw earlier (% people working by age, gender & location, WB 2016)
2. The quality of labor effect – worker quality will improve, even if quantity less

Large continued gains in educational attainment predicted

<table>
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<th>Country</th>
<th>1990</th>
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<td>89.4</td>
<td>88.9</td>
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<tr>
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<td>Myanmar</td>
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</tr>
</tbody>
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Healthy life expectancy rising – though gains at risk from NCD

Healthy years of life expectancy

![Graph showing healthy life expectancy](#)
3. Are older workers less productive?

Research indicates that: crystallized abilities (e.g. verbal ability) remain high till late in life but fluid abilities do decrease over the adult life span; tacit (procedural) knowledge for everyday problem solving tends not to decrease with age; cognitive skills of older people have improved in recent decades; older workers have lower absenteeism than younger workers; job changes generally lower for older workers than younger, so training costs may be lower.

Older workers are less entrepreneurial globally, but it appears so that in EAP, it may be less acute.

Short answer is that the picture is not so clear, as is very little available research for developing Asia. But there may be policy challenges such as seniority wage systems which compromise productivity of older workers.
4. The savings channel – the starting point on household savings in Asia is distinctive

Competing impacts of ageing on savings:
- **Compositional effects** due to more retirees in total population
- **Behavioral effects** such as more savings to prepare for longer old age

**Behavioral in EAP:**
- Household savings rates are high and stable relative to other parts of the world for developing EAP, but exceptions (e.g. Thailand)
- People often save till later in life than other middle income regions and there seem to be strong precautionary savings motives (incl. for healthcare and old age due to under-developed social security systems)
- In developing Asia, savings are often not effectively intermediated into investment due to under-developed financial sectors – giving potential for a quality of savings effect in future if reformed

**EAP Research supporting manageable effects of ageing on saving:**
- Kinugasa and Mason (2007) predict that behavioral effects will outweigh; compositional effects & thus not lower savings; World Bank (2013) agrees that behavioral>compositional; Li et al (2007) find mixed effects
5. The more worrying savings effect of ageing is on government savings/deficits – pensions and healthcare

Pensions are major fiscal risk (% of GDP increase in pension spend 2014-50, WB)

Fiscal risks highly variable by initial public spending & debt levels (WB)
What does this all mean on the policy front?

- **Policies & behavioral change to supplement the workforce** (higher female LF participation; immigration; extending working lives of urban people; promoting flexible work arrangements & adapting workplaces and employer attitudes to older workers)

- **Sustaining investments in education** (with stronger emphasis on quality) and other investments to stimulate human capital formation across the life cycle, in particular early nutrition & life long learning

- **Undertaking significant pension reforms** to extend working lives, reduce fiscal pressure, avoid overly high taxes on workers but also extend pension system coverage

- **Reorienting health and long-term care systems** to address the NCD epidemic & extend healthy lives, improve cost-effectiveness of health delivery systems to reduce fiscal pressure & reduce overly high precautionary savings
The report is available at World Bank Open Knowledge Depository at www.worldbank.org

THANK YOU...