

Demographic crisis in Asia

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THE world is getting older. With declining fertility rates, many countries in the world are faced with an ageing society and slowing population growth, and in some cases, shrinking demographics.

This trend, spurred by various factors such as lifestyle choices and education levels, is particularly prevalent in advanced as well as major economies in Asia.

And it has far-reaching consequences on growth and financial markets.

For one thing, it could lead to labour shortages and lower productivity in the affected country.

For another, it could lead to a drastic change in domestic consumption pattern and potentially lower consumer spending while exerting pressure on public finances.

As Joseph Cherian, Asia School of Business deputy chief executive officer and professor of practice in finance, puts it, pay-as-you-go social security programmes will suffer as these will not be sustainable.

"Liabilities (payouts to retirees) will far exceed assets (income from the working population). Under such a scenario, defined benefit pension programmes would also have to convert to defined contribution savings programmes," he points out.

He adds: "Productivity will decline unless labour migration, a politically sensitive topic in many countries, or technological advances, can fill the gap. A stop-gap solution is to upskill the elderly, keep them healthy and allow them to work longer."

"As countries produce fewer goods in an increasingly wealthy world, the excess demand will cause inflation to rise and the cost of living will go up."

Citing academicians, Cherian notes that the stock market's golden age of capital appreciation – at least for the last 30 years – is due to baby boomers' massive contributions to the economy and capital markets, increasing household wealth tremendously.

"Baby boomers are roughly between 60 and 78 years old now, which is roughly the non-working period of their life-cycle. A natural corollary to the decline in population growth would be that the past stock market premiums would be just that – of the past," he says.

Ageing faster

According to McKinsey Global Institute (MGI), Asia was largely in a demographic sweet spot in the era of markets, which spans from 1989 to 2019.

It points out that between 1990 and 2022, 55% of global growth in the working-age population was in Asia and the region's working-age population grew faster than its overall population during this period.

However, parts of Asia are also ageing rapidly, it says, pointing to China, Japan and



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South Korea, which already have – or will have – by 2050, some of the world's most elderly populations.

"In advanced Asia and China, 34% and 30% of the respective populations will be elderly – almost double the shares in emerging Asia (16%) and India (13%). Across the region, the dependency ratio is seen increasing from 47% in 2022 to 58% in 2050," MGI says.

It notes that advanced Asia and China are ageing twice as fast as the United States and the European Union.

"It took the United States and the United Kingdom more than 50 years for the median age to rise from 30 to 40. In South Korea, it took 15 years, in Japan 22 years and it is expected to take 23 years in China," MGI argues.

"Overall, the population in the region aged 64 or above by 2050 will be larger than today's by an estimated 425 million – or the populations of France, the United Kingdom and the United States combined," it adds.

Shrinking population

While China, Japan and South Korea are notably facing a population decline and ageing at an increased pace, India is still experiencing healthy population growth and, in fact, it overtook China as the world's most populous country in 2023, according to estimates by the United Nations.

Recent data showed China's population had shrunk two years in a row in 2023. According to its National Bureau of Statistics (NBS), the country's overall population fell 2.08 million to 1.409 billion last year, after declining 850,000 in 2022 – the first drop since the Great Chinese Famine in 1959-1961.

In total, the world's second-largest economy saw its population decline by about three million over the last two years. Some analysts suggest the trend is accelerating, especially in view of the country's declining birth rates.

Report by the NBS showed that only 9.02 million babies were born in China in 2023, down from 9.56 million in the preceding year. The country's birth rate last year at 6.39 births per 1,000 people, down from 6.77 in the preceding year, was the lowest since the founding of

Communist China in 1949.

A projection by the Shanghai Academy of Social Sciences indicates that China's total population would shrink to only 525 million by 2100, with the working-age population is likely to fall to just 210 million – a mere one-fifth of its peak in 2014.

The decline in China's population could potentially put downward pressure on consumer spending, as its market size shrinks, and upward pressure on government spending to support the economy, as well as on wages due to tightening labour market.

These could weaken the country's economy, whose huge market size has been a key growth driver for the global economy over the past few decades. As such, this will in turn present challenges to global growth.

In the face of demographic challenges, China's government has introduced various incentives such as tax deductions, longer maternity leave and housing subsidies to encourage more births.

Record low

Similarly, South Korea has invested billions of dollars in various programmes, such as cash bonuses, over the years to incentivise families to bear more children to support population growth. However, this has borne little results.

To address its demographic crisis, South Korea has adopted a more open immigration policy, allowing more foreign workers to fill the gap.

According to *Reuters*, South Korea's demographic crisis has become the top risk to economic growth and the social welfare system, with the country's population of 51 million on track to halve by the end of this century.

Citing data from Statistics Korea over the week, the news-wire points out that South Korea's fertility rate, already the world's lowest, continued its dramatic decline in 2023 to a record low of 0.72 from 0.78 in 2022. That is far below the rate of 2.1 per woman needed for a steady population and well behind the rate of 1.24 in 2015.

Since 2018, South Korea has been the only Organisation for Economic Cooperation and Development member with a rate below one, defying the billions of dollars spent by the country to try to reverse the trend that led the population to decline for a fourth straight year in 2023, *Reuters* reports.

Meanwhile, in Japan, a projection by the National Institute of Population and Social Security Research indicates that the country's total population would likely decline by about 30% to 87 million by 2070, with four out of every 10 people aged 65 or older.

Preliminary government data showed the number of babies born in Japan last year fell 5.1% to a record low of 758,631 from a year earlier, *Reuters* reports, adding that was the eighth straight year decline.

Ageing pace in advanced Asia, China twice as fast as Western nations

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The number of marriages, on the other hand, fell 5.9% to 489,281 – the first time in 90 years the number fell below 500,000 – foreboding a further decline in the population as out-of-wedlock births are rare in Japan.

Japan chief cabinet secretary Yoshimasa Hayashi was quoted as saying that the declining birthrate is in a “critical situation”.

“The next six years or so until 2030, when the number of young people will rapidly decline, will be the last chance to reverse the trend,” he said.

Mindful of the potential social and economic impact and the strains on public finances, Prime Minister Fumio Kishida has called the trend the “gravest crisis our country faces”. He has also unveiled a range of measures and incentives to support child-bearing households late last year to mitigate the demographic crisis facing the country.

Labour market mismatch

According to Jeongmin Seong, a partner at MGI, Asia will experience a big labour market mismatch because the working age population is shrinking.

At present, the region is already facing increasingly low productivity.

The key question is how to drive a productivity revolution across Asia and solve this mismatch, Seong says in a recent podcast organised by McKinsey & Co.

“In advanced Asia and China, the pace of ageing is twice as fast as that of western economies. The good news is that other countries in Asia such as India, Indonesia and Vietnam still have a younger population.

“Yet, there exists a big productivity gap between old and young Asia. For example, India’s productivity within

tech is only one-eighth of that in advanced Asia,” he notes.

One solution to address the problem is to “move people to where jobs are”, Seong argues.

“The cross-modal migration in Asia has been very limited. The stack of migrants as a percentage of the total population in China, Japan and South Korea is only between 0.1% and 3%.

“Therefore, a more workable solution is to move jobs to where people are. To achieve this, Asia will need a productivity revolution including reskilling, upskilling and automation across the whole region,” he explains.