



Aging and Economic Growth Potentials in the Pacific Region

Akira Kohsaka
Coordinator, PEO Structure

May 2, PECC XVII, Sydney 2007



Aging Population

Potential risks of:

1. Economic growth slowdown
2. Stagnation of technical innovation
3. Fiscal burden through public pension and health insurance plans.

Pacific region: one of the most rapidly aging regions

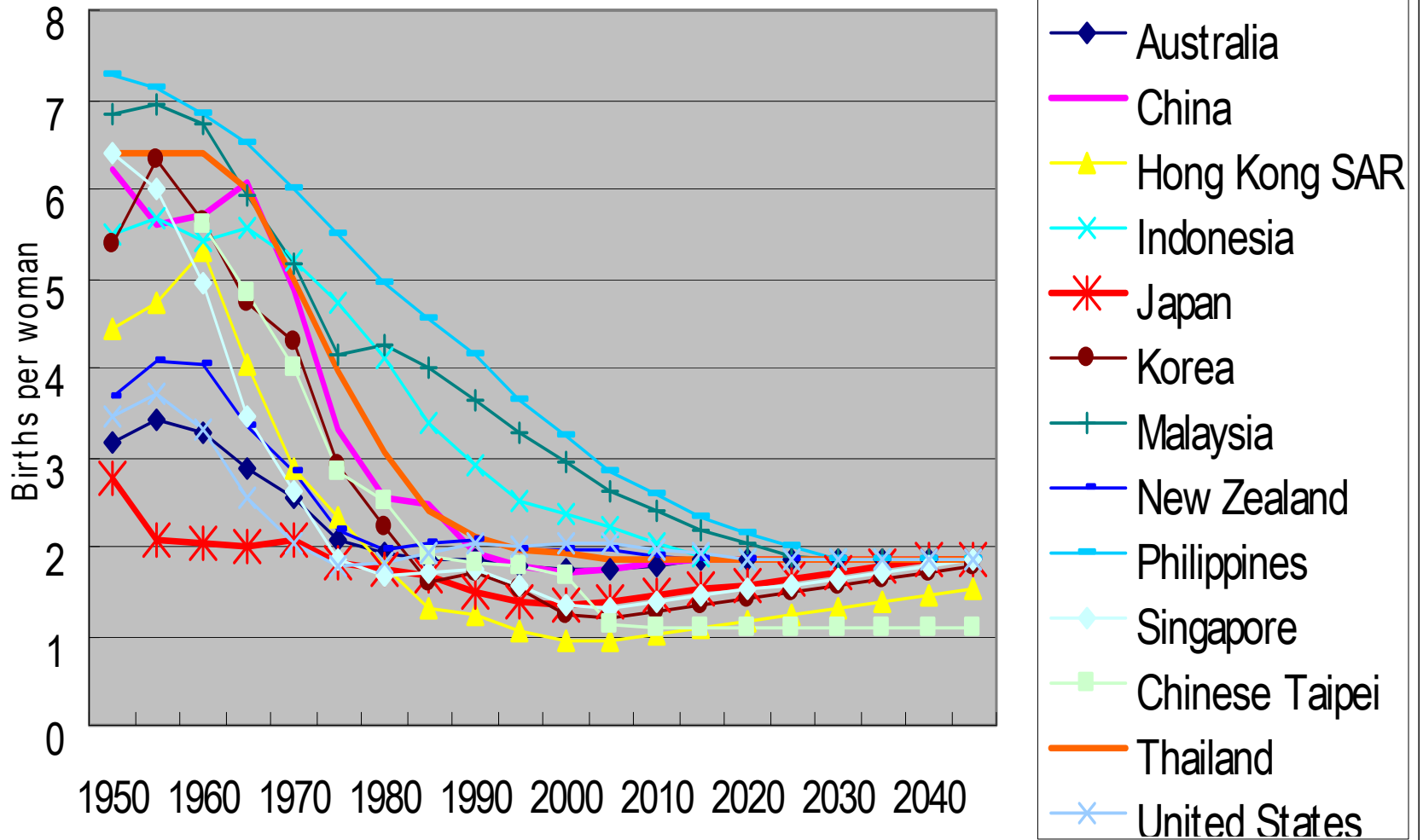


Demographic Trends

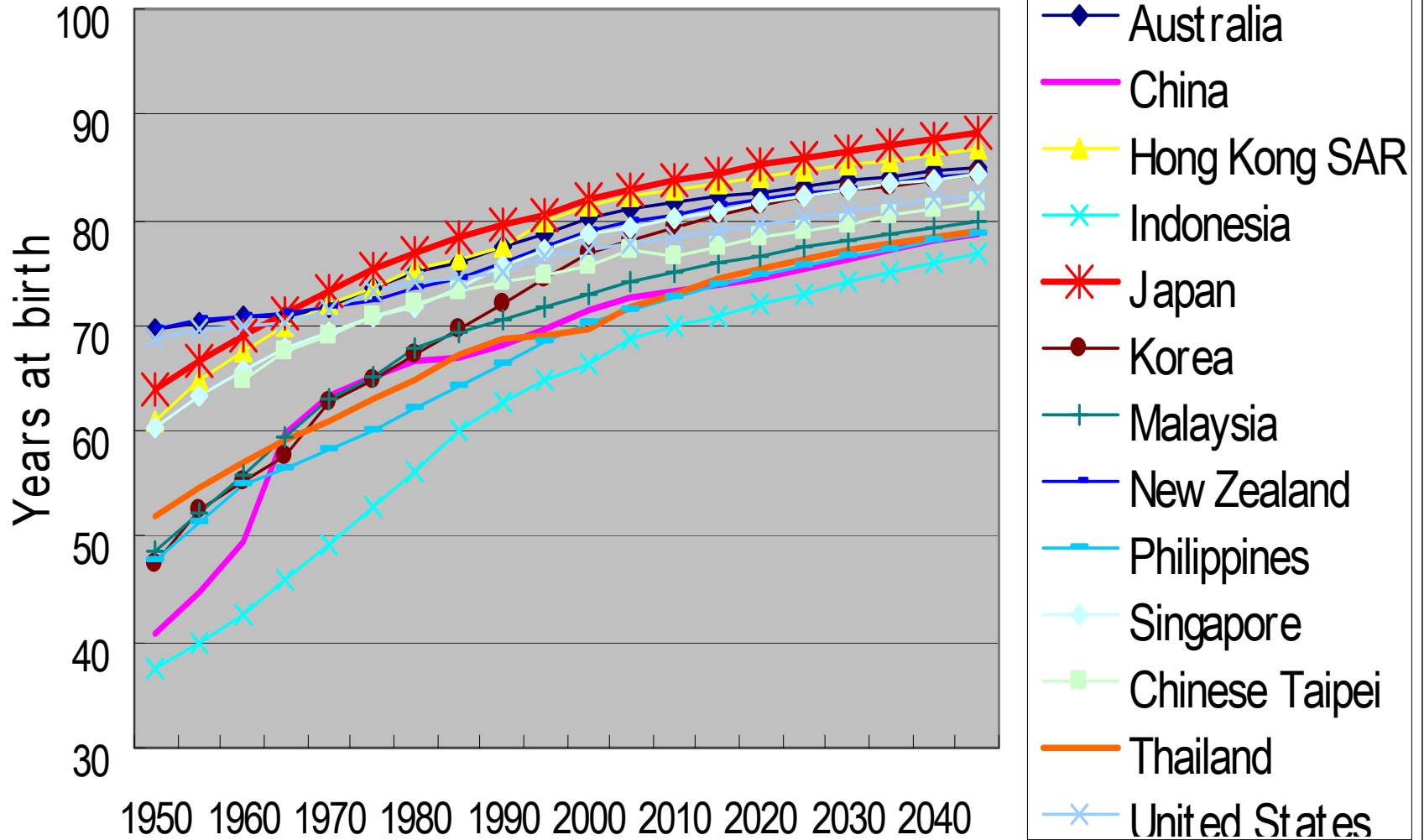
Global demographic transition, but with considerable variation across countries and regions due to very different fertility and mortality trends.

PECC region covers the most rapidly aging economies in the world.

Fertility Rate



Life Expectancy





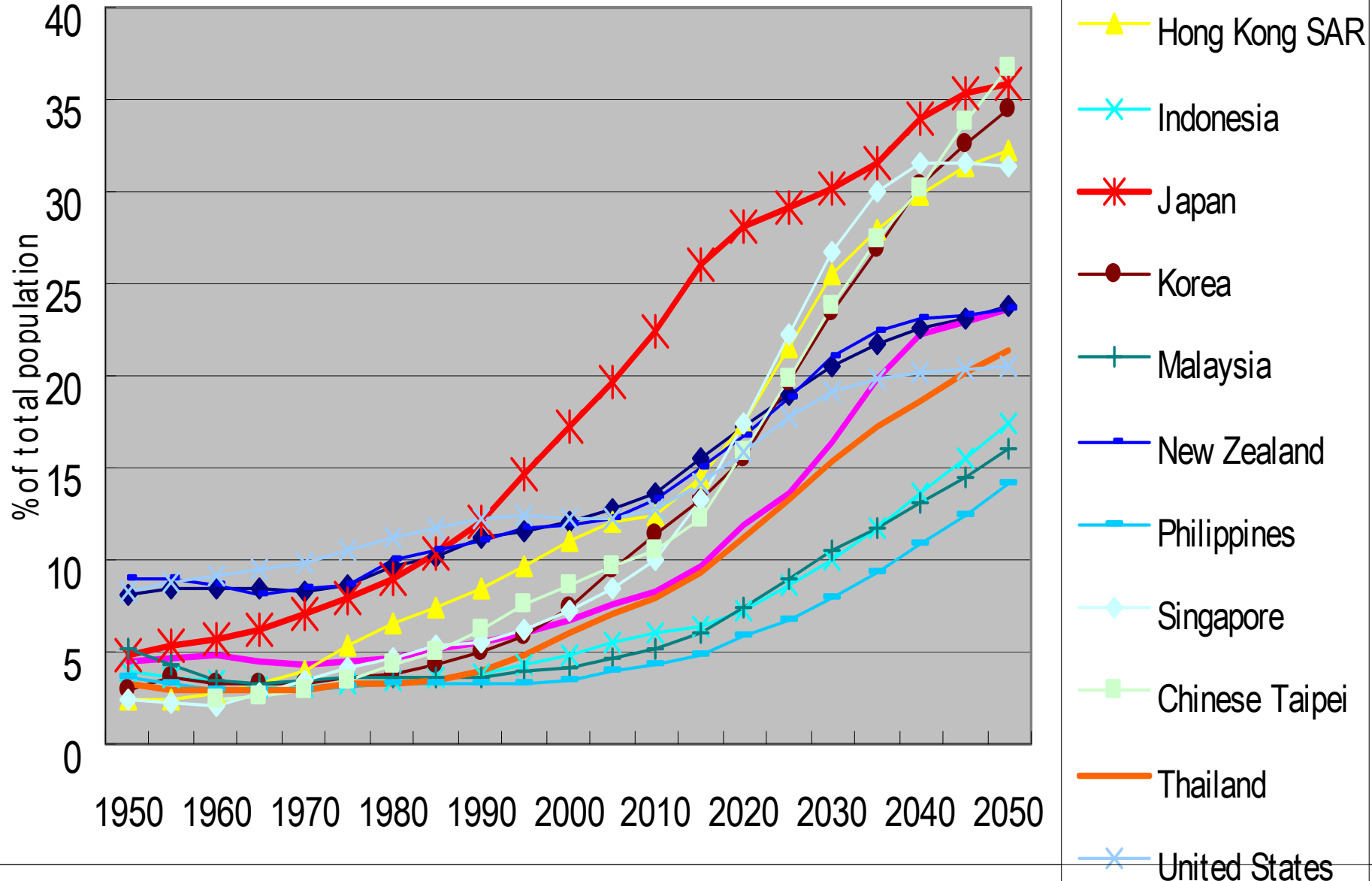
Aging Population

Population will continue to age. The elderly will increase its share.

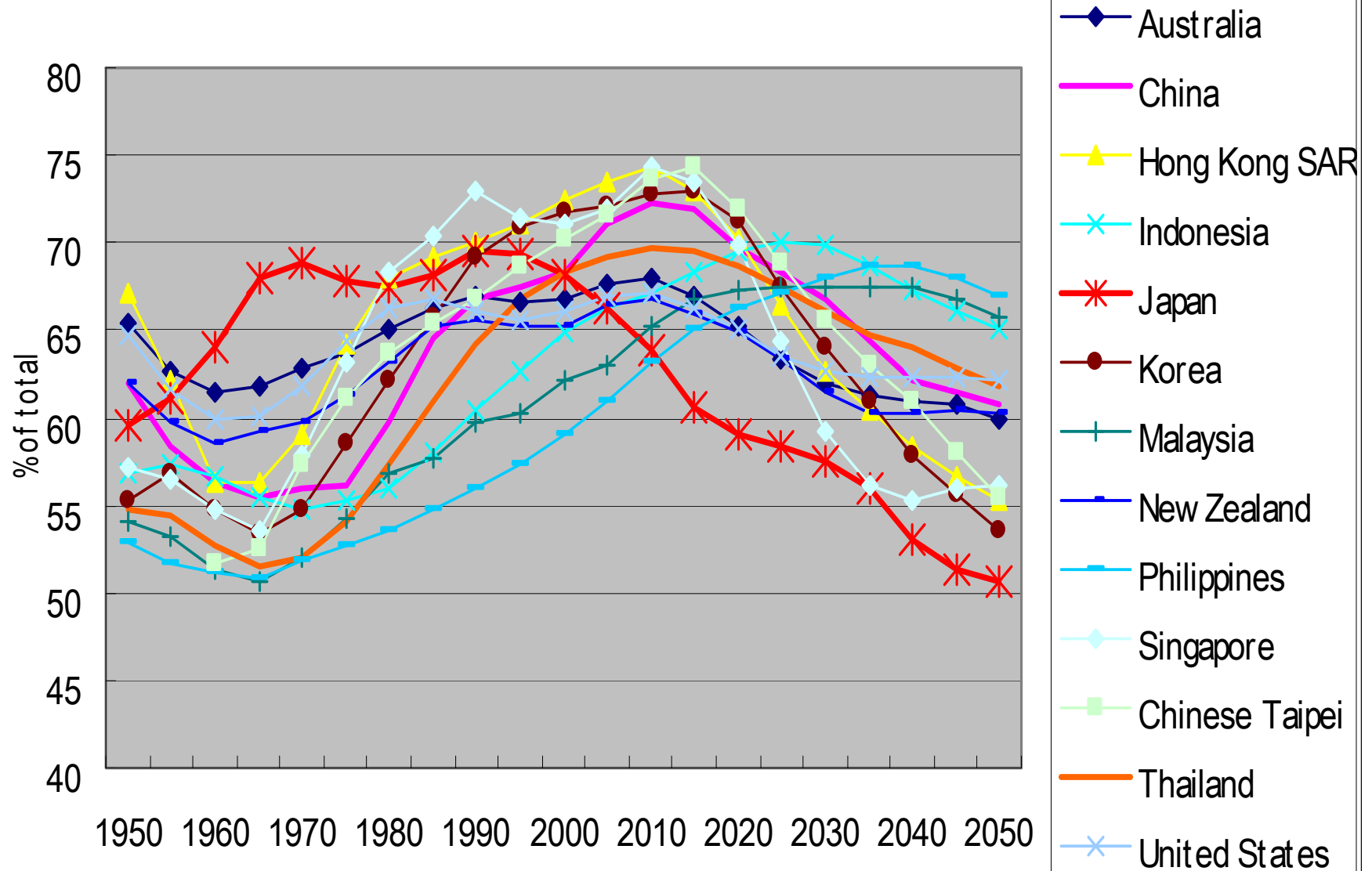
Hong Kong, Korea, Singapore and Taipei are joining the fastest aging club by 2040. Then Australia, New Zealand and the United States, being caught up with by China and Thailand by 2050.

Working population share will reach its peak by 2015 except for Indonesia, Malaysia and Philippines.

Elderly Population (65- years old)



Working Population (15- 64 years old)





Impact of Aging on Economic Growth

Timing and speed of demographic changes are significantly different across economies. Hence the age composition of populations differs greatly.

Economic growth comes from labor supply, capital formation and productivity growth. Demographic changes affect the three channels directly and indirectly.

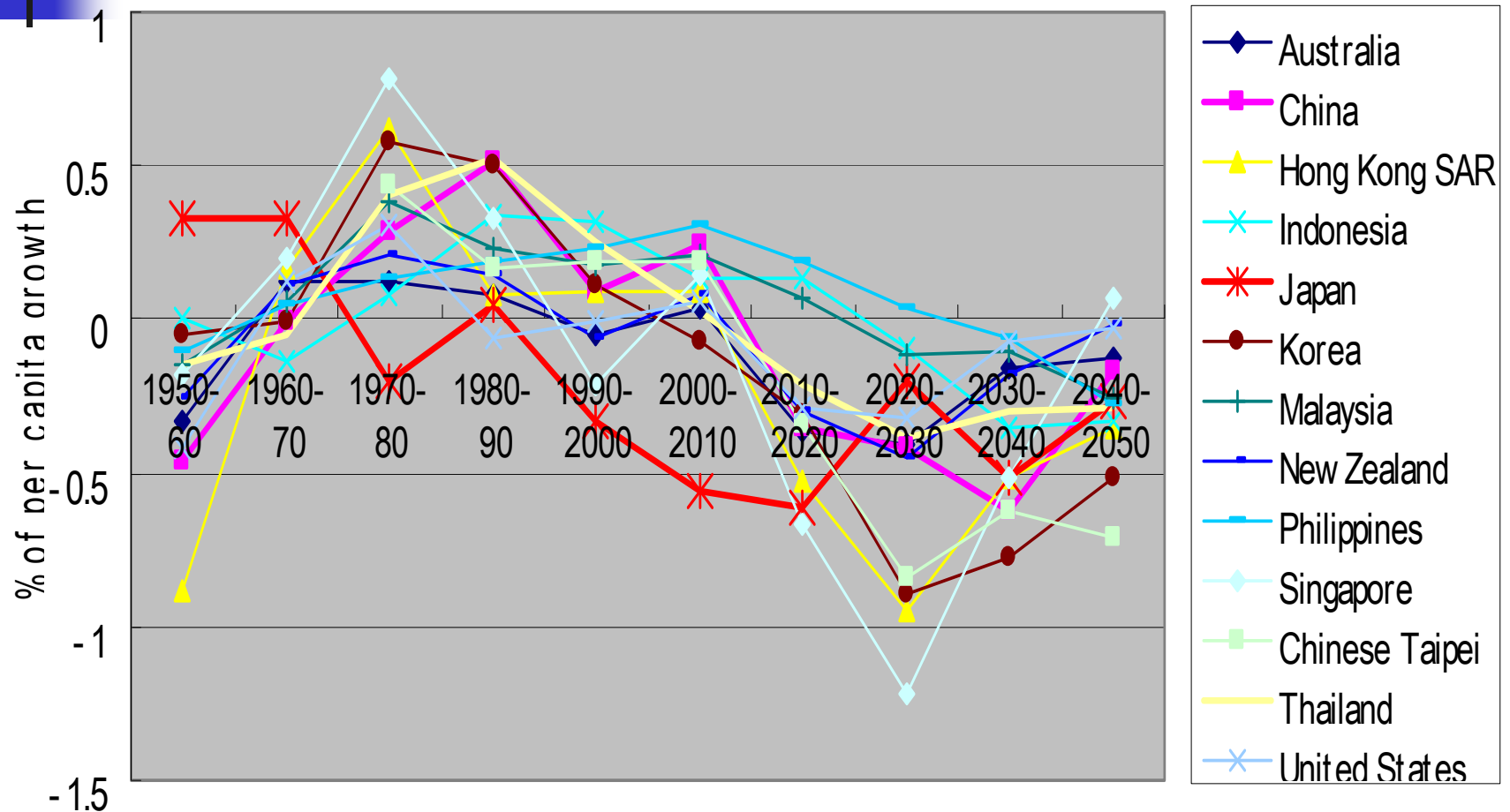
Benchmark

Estimates of the Impact

IMF [2004]: Growth regression using a 115-country panel data set for the period 1960–2000.

Per capita GDP growth is correlated positively with changes in the relative size of the working-age population, and negatively with changes in the share of the elderly.

Figure 5. Estimated Demographic Impacts on Per Capita Economic Growth





Benchmark Implications?

Positive impacts of demographic changes on growth during the latter half of the 20th century.

This positive impacts mostly end by 2010, and negative ones would start toward 2050.

Both positive and negative impacts be larger in Hong Kong, Korea, Singapore and Taipei than the others, and the negative impacts would be sharper and more acute than the positive ones.



How to Cope with Possible Economic Slowdown?

To enhance *labor supply, saving/investment, and productivity*

Labor supply: *Increase labor market participation rates, permit more immigration, raise the retirement age, increase fertility rates*

Capital formation: *Fiscal consolidation, pension reforms, stable macroeconomic framework*

Productivity: *structural reforms to reduce the impediments to competition, to improve labor market and price flexibility, to upgrade human resources*



Missing Links

Individual effects: regional and country differences

General equilibrium considerations: endogeneity, simultaneity, causality

Time effects: globalization, institutional developments



To Sum Up (I)

Prior empirical studies tend to understate country differences and time effects as well as possible future adjustments.

Straightforward application of those parameters to future projection tends to exaggerate negative demographic impacts.

Even so, the estimated negative impacts on per capita economic growth in the PECC member economies appear modest.



To Sum up (II)

Since the present dramatic population aging is unprecedented, it will inevitably bring serious economic and political challenges.

Note, however, that life in aging, capital-intensive and culturally diverse countries in itself is part of our ultimate goals and that there seems no strong reasons for significantly negative impacts of aging on potential economic growth in the PECC region.