

Academic Luncheon Panel: Population Aging

Professor Yasuyuki SAWADA (University of Tokyo) and Professor Yaohui ZHAO (Peking University)

Moderated by Professor Hanming FANG (University of Pennsylvania and ABFER)

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Over the previous five decades, global health metrics have improved with economic development: humans have lived healthier and longer than their predecessors did. Asia is a prime example. With the multiple-fold economic growth, Asia's life expectancy at birth has increased by 26.7 years on average – from 45 in 1960 to 71.8 in 2018. Furthermore, better health conditions have translated into healthier and more educated older people, better productivity, and higher senior labor force participation rates. On the other hand, there has been a shrinkage in family size and a shifting of care responsibility for the aged from children to society.

Facing the difficult challenge of aging as a byproduct of the improved health standards, Asia witnesses many fundamental societal changes at the individual, household, firm, and market levels.

At its 9th Annual Conference, the Asian Bureau of Finance and Economic Research (ABFER) organized an academic luncheon panel discussion where two experts, Professor Yasuyuki Sawada (University of Tokyo) and Professor Yaohui Zhao (Peking University), discussed their perspectives on how population aging impacts our societies broadly.

Former Chief Economist at the Asian Development Bank, Professor Sawada presented his study titled *Population Aging in Asia: Achievements and Challenges*. Professor Sawada began by sharing a few achievements of Asia's demographic change. The Professor started with Asia's improved life expectancy over the past 50 years and the significant enhancement in people's health and education. The decline in the death rate means that Asia has enjoyed a round of population growth and, fortunately, demographic dividends in the last few decades. The Professor illustrated this by highlighting Japan's population dividends in 1982 and pointing toward countries such as Thailand, the Republic of Korea, and Singapore, which have recently achieved their share of population dividends. The second round of demographic dividends has its origin in the rise in people's education and health: the improved worker productivity.

However, Prof. Sawada cautioned that the tide of positive demographic dividends could reverse quickly because Asian countries are aging at an exceptionally steep and rapid pace. Using Japan as an example, he recognized that the old age dependence ratio (OADR) is rising. Nonetheless, positive adjustments are available to policymakers.

At the same time, the current above-60 population is more productive than their counterparts decades ago. That means that the current older population could have a higher labor force participation rate, which should be encouraged as higher job participation of the aged could soften the effects of aging issues.

Yet, there is an increasing concern about cognitive health situations and medical conditions such as dementia among Asia's old people.

Professor Sawada further drew attention to the consumption patterns of the older people in Japan, Germany, and Sweden, which have seen a somewhat increasing consumption trend along with aging. This means that the overall well-being of the elderly is very much protected in these countries. In contrast, many Asian countries generally have a downward sloping consumption-age profile, meaning that there is some binding constraint to finance old-age consumption in Asia – a concern for Asia’s policymakers.

Furthermore, Professor Sawada highlighted the declining trend in people’s value toward and expectations about care for the elderly in Japan in the last six decades. According to him, such rapidly changing values across Asia will pose future challenges to Asian societies.

Prof. Sawada, moreover, suggested that the public sector would have to play a key role in areas such as instituting an effective universal health care system, pensions, and long-term care for older people. Since some Asian countries still have younger populations, facilitating cross-border movement of workers and capital would also help soften the negative consequences of aging across Asia, directly and indirectly.

After Prof. Sawada, Professor Zhao discussed the *Challenges of Population Aging in China*. The Professor pointed out that China will soon cross the US in aging – interestingly around the same time that it will cross the US in GDP as well. China is also expected to cross Germany in aging around 2050 or so. She pointed out that the Chinese will soon become a very aged nation – older than the populations of many developed countries. The Professor illustrated her point by sharing that China’s support ratio – defined as the population aged between 20 and 59 divided by the population aged 60 – has shown a downward trajectory and is expected to fall to an alarming figure of 1.4 by 2055 from 4.9 in 2010.

Against this backdrop, Professor Zhao underscored two specific challenges facing China using data from the China Health and Retirement Longitudinal Study (CHARLS). Firstly, social security may become unsustainable, and, secondly, the old-age financial security and care will be problematic. These issues are more acute in rural than in urban areas. However, widespread healthy aging can reduce dependency and allow society to postpone retirement, alleviating the support pressure.

The Professor further pointed out that urban people in China retire very early, which directly implies that there is a large untapped excess work capacity among China’s urban people that can be tapped to reduce aggregate support pressure. Her data showed that 60% of women aged 60 are able to work but are not working. That figure stands at 50% for men.

Prof. Zhao then shed light on why urban people retire early relative to rural people: the rural people cannot afford to retire. Using data on wealth adequacy of the Chinese people approaching retirement age, she showed that 79% of rural people would be poor if they relied solely on social security as opposed to just 16% in the case of urban people. Based on total wealth, 22.5% of the aged in rural areas will end up in poverty, while only 3.8% of the aged in urban areas will.

Indeed, between 2011 and 2020, while poverty figures for people aged 60 and above across urban and rural segments declined significantly, 16.9% of the aged in rural areas were still in poverty by 2020 versus only 4.3% in urban areas. With a sharply reduced number of children in the past, most Chinese in their early 50s can also not count on second-generation support during their sunset years. Therefore, healthy aging, adequate social security, and public medical care will be critical for individuals and society.

On the brighter side, elderly Chinese are getting healthier than their peers from a decade ago. Prof. Zhao showed that disability among seniors has declined while their overall health has improved between 2011 and 2020. Improved education standards and an age-friendly environment have contributed greatly to these changes. Moreover, old age disability will continue to decline in the coming twenty years due to improvements in people’s and society’s healthcare practices. Still, Professor Zhao expressed concern about major risk factors like smoking. Lastly, she noted that access

to the internet could help seniors cope with many difficulties in life, especially during periods like the current pandemic.

Prof. Zhao also shared some important areas for future research. First, there is an urgent need to understand the determinants of health in old age. Second, there is the need for research that leads to policy innovations, e.g., toward initiatives that encourage later retirement, especially among urban people. Lastly, researchers and policymakers can look into how we can provide financial security to older people and meet their care needs.