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From demographic dividend to deficit

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CHINA and India are sometimes cast in a long-term contest for global economic ascendancy. At the moment it looks like a mismatch - China's economy, the world's second biggest, is four times the size of India's and its GDP per capita three times higher (at market exchange rates).

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But there one big factor in India's favour: its age profile.

In China, years of stellar economic performance have been supported by the "demographic dividend" of a huge and expanding workforce. The working-age population nearly doubled from 407 million in 1978 to 786 million in 2004, adding about 2 percentage points a year to GDP growth. But the dividend will start to fade in 2015, when China's working-age population is forecast to peak and then start to decline. That will be the result of rising life expectancy and a falling fertility rate. In 1949, life expectancy in China was just 35 years, but now it's 75. For those in big cities like Beijing and Shanghai, life expectancy has climbed to more than 80 years. Meanwhile, China's one-child policy, and rising household incomes, have triggered a dramatic slump in the fertility rate. In some cities the rate is below 1 - well below the replacement fertility rate.

As a result, the proportion of elderly people to working-age people is set to quadruple between now and 2050. United Nations projections suggest that by mid-century the proportion of China's population aged over 60 will be 10 percentage points higher than the global average. The speed of China's demographic shift is illustrated by the ratio of children to over 60s. In 1975 there were six, but by 2035 there will be just one or two.

China is not alone in its region. The Asian Development Bank's Asian Development Outlook 2011 Update, released last week, warned that many parts of east and south-east Asia are already seeing a sharp rise in the number of elderly. In Asia's most advanced countries - Japan, South Korea and Singapore - fertility rates have declined to levels below those in the US and even many European countries. In Japan and South Korea the proportions of the population aged 65 and older was 22.6 per cent and 11 per cent, respectively, in 2010, up from 7.9 per cent and 3.5 per cent in 1975. Even in Thailand, the proportion of over 65s has more than doubled to nearly 8 per cent since that period.

"Asia's population is ageing at a speed unprecedented in human history," said Changyong Rhee, ADB's chief economist.

India is one of a handful of Asian countries that bucks the trend. With about 600 million people aged 25 or less, India's demographic dividend is far from over. About 1 million Indians are entering the workforce every month and that is expected to continue for another two decades.

The ADB predicts India, along with Pakistan, the Philippines and Malaysia, will reap a demographic dividend for at least two more decades, while most major economies grapple with ageing populations. The flood of new labour means India's ratio of elderly people to workers will be half that of China's by mid-century.

The unique demographic forces at work in China mean its population will start to age before it is very rich.

"Ageing is particularly challenging in the PRC because of the real income level at which it is occurring," says the ADB.

"At \$4000, it is much lower than it was in the Republic of Korea (\$16,200), the United States (\$15,500), and Japan (\$14,900) when they had the same percentage of elderly."

Only 15 per cent of the working-age population in China has any sort of social security net. So improved measures to support the aged, such as a universal pension, are urgently needed. Across the Himalayas, India has a unique opportunity to take

economic advantage of its youthful population. But the demographic dividend could easily turn into nightmare unless meaningful employment can be found for its increasingly aspirational citizens.

While China has to find ways to look after a growing band of elderly, India must cater for its ambitious youth. The response to these respective challenges will have a major bearing on the long-term economic performance of Asia's rival giants.

This story was found at: <http://www.smh.com.au/business/from-demographic-dividend-to-deficit-20110926-1ktj8.html>