

## Generational Economy and Demographic Transition in Asia-Pacific

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### Background

An increasing number of countries in Asia are experiencing rapid fertility decline and population ageing. Some countries have responded by introducing laws and policies to increase the population size and, in some cases, control women's bodily autonomy by considering pro-natalist policies, giving financial incentives to women for having more children, limiting access to sexual and reproductive health services to reverse the low fertility trend due to fear that population decline and ageing would shrink domestic demand and workforce, limiting economic growth and competitiveness of national economies.<sup>1</sup>

There is a need to explore further the interlinkages between low fertility and population ageing with regressive and restrictive political environments limiting access to sexual and reproductive health services, to demonstrate that population decline is not always negatively correlated with economic development. Conversely, addressing harmful social and gender practices, including gender-based violence, investing in SRHR, and adequate public support policies, could improve women's economic participation and socioeconomic well-being for all.

This paper describes generational economy in the context of demographic transition in Asia-Pacific, illustrating evidence from 6 countries at three different stages of demographic transition – Thailand as having ultra-low fertility with an aged population; Philippines, Indonesia, and Vietnam as entering the 1<sup>st</sup> demographic divided; and Pakistan and Fiji having a young population. Evidence from these countries' National Transfer Account analysis will be presented to suggest the opportunities to enhance the generational economy of these countries for policy attention.

### Low Fertility and Rapid Population Aging in Asia

Population aging is one of the most significant trends of the 21st century. Today, 1 in 10 people in the world are aged 65 or over. According to the UN Population Prospects 2022, this demographic shift rapidly occurred in many Asian countries, including:

- Super aged countries (more than 20% of people over 65 yrs): Japan (30%)
- Aged countries (more than 14% of people over 65 yrs): Australia (17%), New Zealand (16%), Republic of Korea (17%), Thailand (15%)
- Ageing countries (more than 7% of people over 65 yrs): Singapore (14%), China (13%), Democratic People's Republic of Korea & Sri Lanka (11%); India, Indonesia, Iran (7%), Vietnam (9%)
- Averages: East Asia & Pacific (13%), South Asia (6%), Pacific small states (5%)

The region continues to have demographic diversity, with several countries having a small population older than 65 years and above in the next decade(s) - Bangladesh, Cambodia, Nepal (6%); the Pacific, Maldives, the Philippines (5%); Pakistan & Lao PDR (4%), PNG (3%). Moreover, we observe that an increasing number of countries in the region are aging even though the average number of children per woman has not

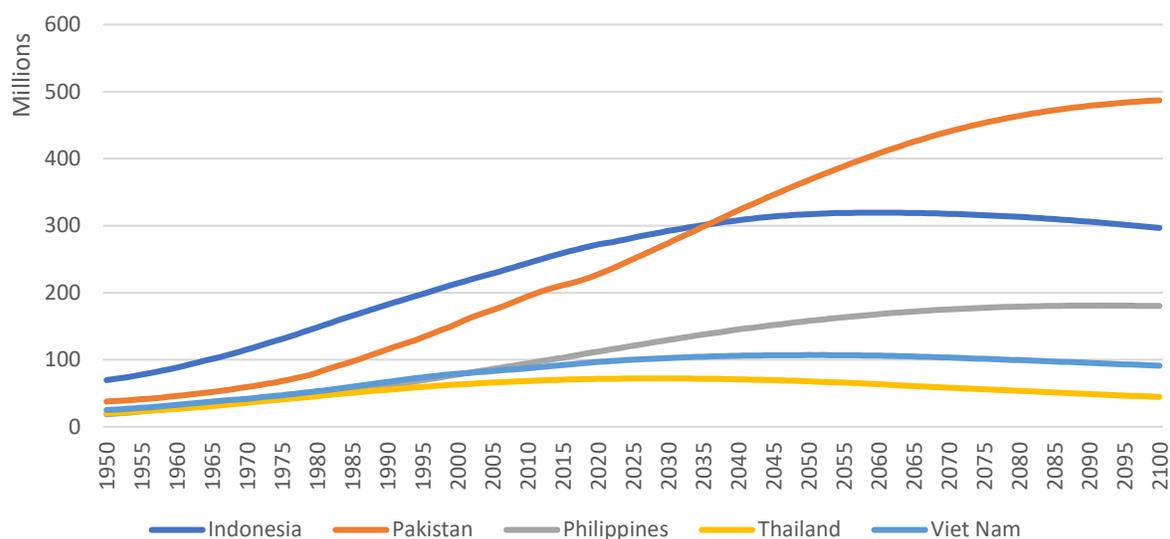
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<sup>1</sup> Population declines or even the end of population growth could end or reverse some of the economic advantages usually attributed to population growth, particularly if it is associated (which it almost invariably is) with population ageing. Economies of scale may diminish. The combination of shrinking markets and a diminished workforce can reduce profitability and productivity through declining domestic demand and rising wage pressures resulting from labor scarcity. Yet, the phenomenon also represents a generation of the population whose human capital has been deepened with better education and health (of the children), including asset accumulation (of the parents) into old age. Proper evidence-based policies must ensure rapid population decline can turn into opportunities, not a threat to the country's economy.

significantly declined. If proper evidence-based policies are in place, governments can reap the benefits by harnessing demographic dividends.

Figure 1 presents selected demographic indicators from 7 countries to suggest variations of their demographic profiles in different stages of demographic transition. Thailand has become an aged country in a short period, with a fertility decline from a replacement level of 2.1 children per woman in the early 1990s to 1.0 in 2022 (NSO, MICS 2022), the proportion of the population over age 65 years has doubled transitioning from an aging country to become a complete aged country in slightly over 30 years. Meanwhile, the Philippines, Vietnam, and Indonesia will soon become aged countries in the coming decades. Pakistan and Fiji continue to have young populations and eventually will become aging countries but later than other countries.

**Figure 1 Demographic profiles of selected countries in different stages of demographic dividend**

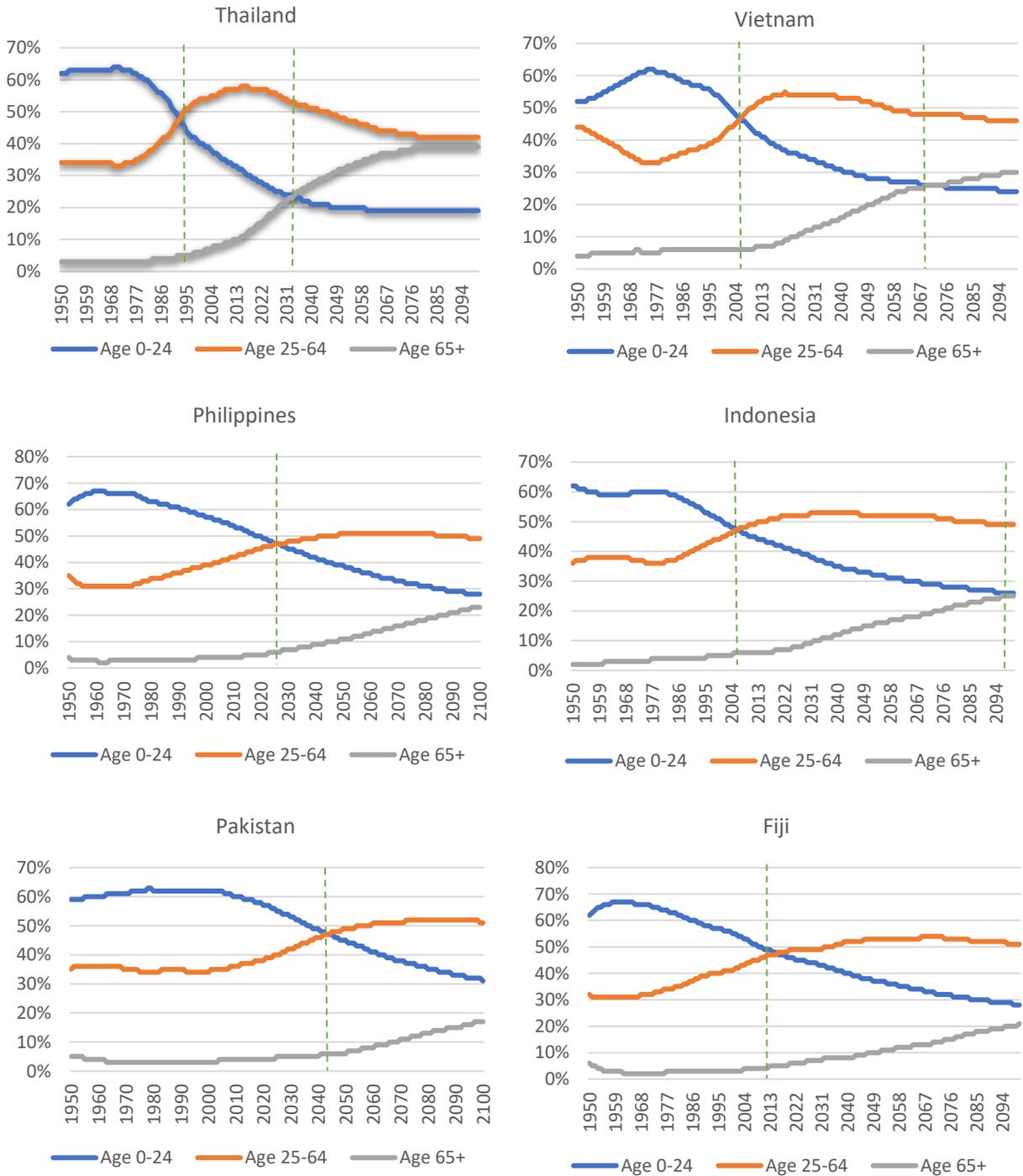


	Total population (millions)	TFR	Life expectancy at birth, 2022		% contraceptive use prevalence
			Male	Fem	
Fiji	0.9	2.4	67	70	44
Indonesia					
Pakistan	240.5	3.3	65	70	30
Philippines	1117.3	1.9	70	74	44
Thailand	71.8	1.0	76	84	75
Vietnam	98.9	1.9	70	79	66

Source: UN Population Prospects, 2022; UNFPA Asia-Pacific Regional Office, forthcoming. Demographic Dividend Atlas for Asia-Pacific

Figure 2 suggests trends in population shares by age group during 1950-2100. With the rapid fertility decline, it was projected that in a decade, the proportion of the senior population will eventually become more than the children population. It will take Thailand only slightly over three decades to have more older persons than children population. This will take 60 years for Vietnam, over 90 years for Indonesia, and longer in the Philippines, Pakistan, and Fiji. By 2060, one-third of Thailand’s population will be those older than 65 years old, the old age situation faced by Japan today.

**Figure 2 Trend in population shares by age group, selected countries, 1950-2100**



Source: UN Population Prospects, 2022

## National Transfer Account and Generational Economy

In facing the challenges of population aging, a useful perspective is provided by the National Transfer Account (NTA). They provide a coherent accounting framework of economic flows from one age group or generation to another, typically for a national population in a calendar year. NTAs are consistent with the System of National Accounts (SNA) and provide measures by single year of age of the sources of income (labor incomes, assets, receipt of public or private transfers<sup>2</sup>), and the uses of income (final private and public consumption, transfer payments of individuals to their families and government and saving). The primary aim of NTA is to understand how different generations contribute to and benefit from the economy. NTA data can be used to assess the sustainability of social welfare systems, population aging, and intergenerational wealth transfers.

Demographic dividends refer to the potential economic benefits that can arise from changes in a country's age structure, particularly during the demographic transition. This phenomenon occurs because the working-age population can contribute to the labor force, productivity, and savings, leading to increased investment and economic development. This section gives preliminary findings of the demographic dividend using the NTA analysis based on the forthcoming project of the Demographic Dividend Atlas in Asia-Pacific, which give data visualization of the demographic dividend of countries with 50 relevant indicators.<sup>3</sup>

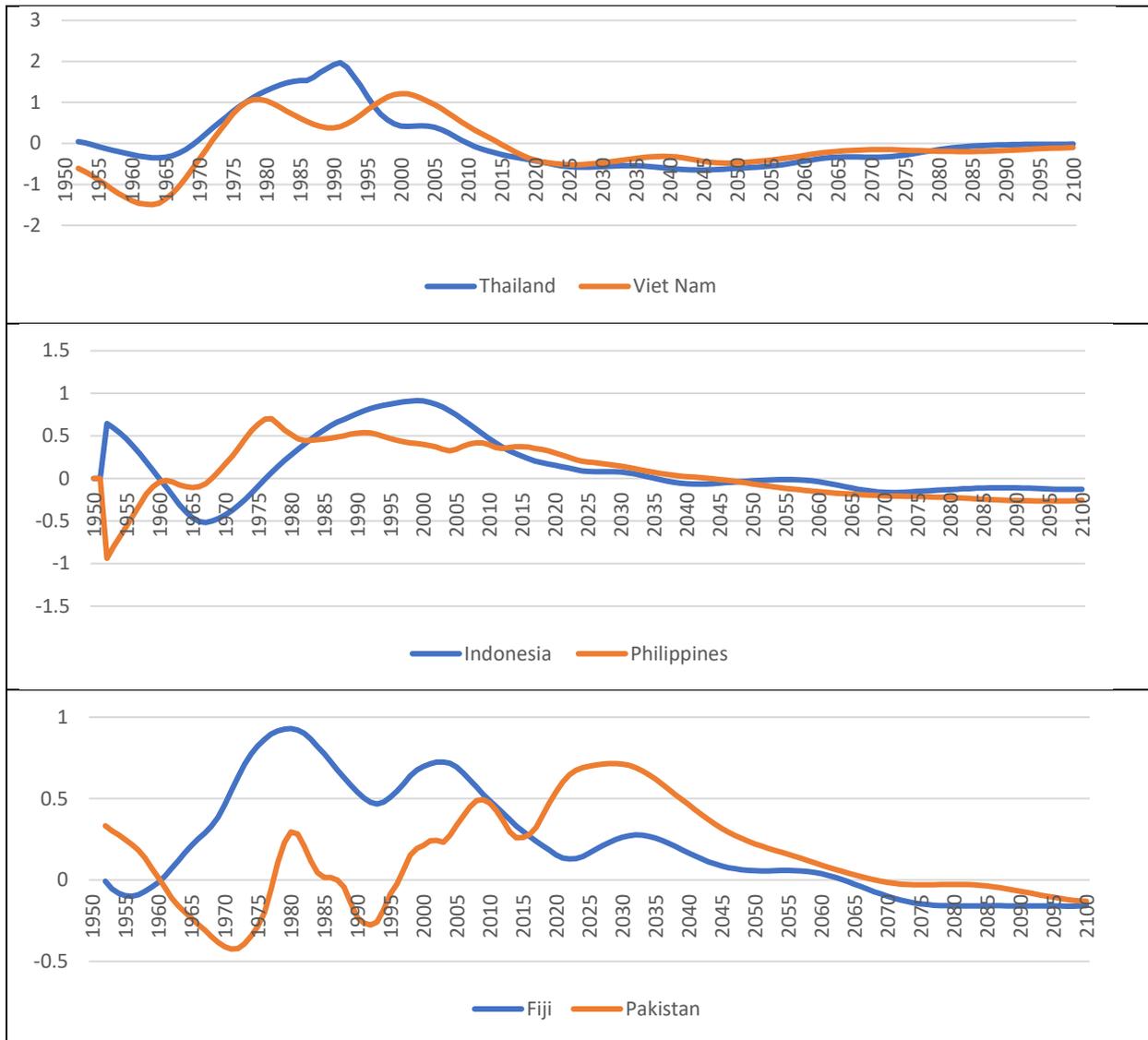
Figure 2 suggests that Thailand and Vietnam, as aged and aging countries, have already ended their demographic dividend in the early 2010s, having a youth bulge as older persons are taking. During the post-dividend phase, the decline in support ratio is projected to depress economic growth by as much as 0.5 percentage points per year in the next three decades. The Philippines entered its first demographic dividend during the 1970s to end in 2045, but the youth bulge yielded limited economic growth at most 1 percentage point per year. Similarly, Indonesia's demographic dividend started in 1975 and ended in 2035 with limited contribution to economic growth. With a young population, Pakistan entered its 1<sup>st</sup> demographic dividend in the 1990s, ending in 2060. Similarly, Fiji entered the dividend earlier in 1965 and ended in 2060.

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<sup>2</sup> Private transfer means a transfer of funding support from 'family' in one generation to another. It is not a transfer by a private sector.

<sup>3</sup> The 2<sup>nd</sup> demographic dividends using the NTA estimates are available. The analysis is not yet available to be presented in this report.

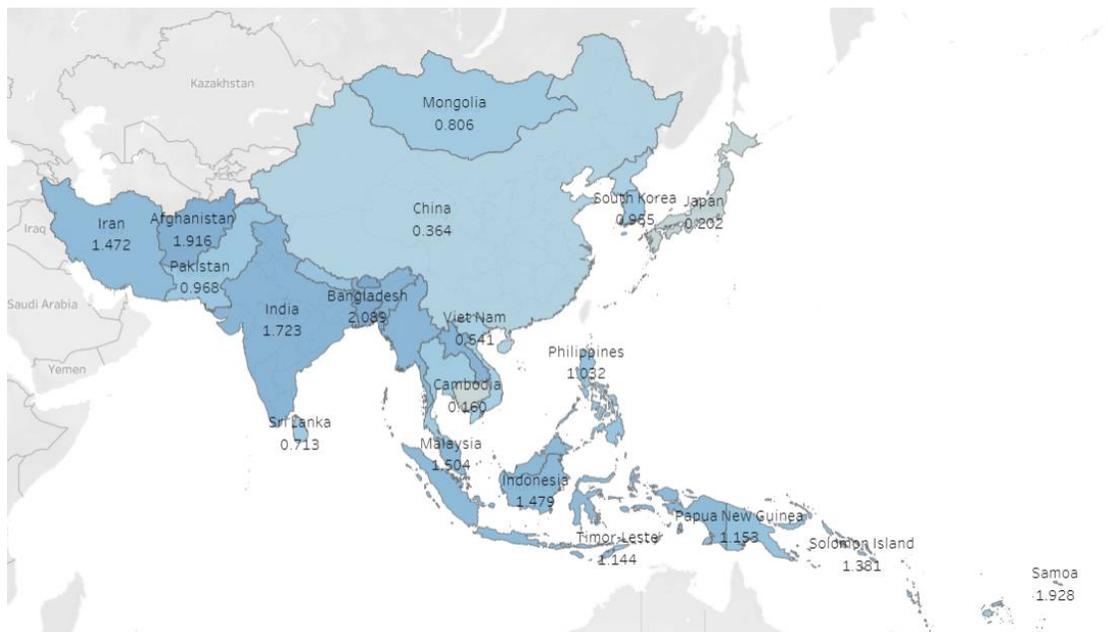
**Figure 2: The demographic dividend profiles of selected countries, percentage points of economic growth per year, 1950-2100**



Source: Demographic Dividend Atlas in Asia-Pacific. UNFPA Asia-Pacific Regional Office, forthcoming

Yet, demographic dividends are not automatic. Realizing the demographic dividends requires appropriate policies and investment in education, health, and employment opportunities to harness the potential of the growing working-age population. While effective human capital development and job creation can increase productivity and innovation, propelling economic growth, the figures below suggest the country's variations in achieving demographic dividends potential. For instance, from Figure 3, the 1<sup>st</sup> dividend raised economic growth by as much as 1.7 percentage points per year in India, while in Japan, which is in the post-dividend phase, the decline in the support ratio is projected to depress economic growth by 0.2 percentage points per year.

**Figure 3 Demographic Dividends by countries in Asia-Pacific, percentage points of economic growth per year, 2022**



Source: UNFPA Asia-Pacific Regional Office. The Demographic Dividends Atlas for Asia-Pacific (forthcoming)

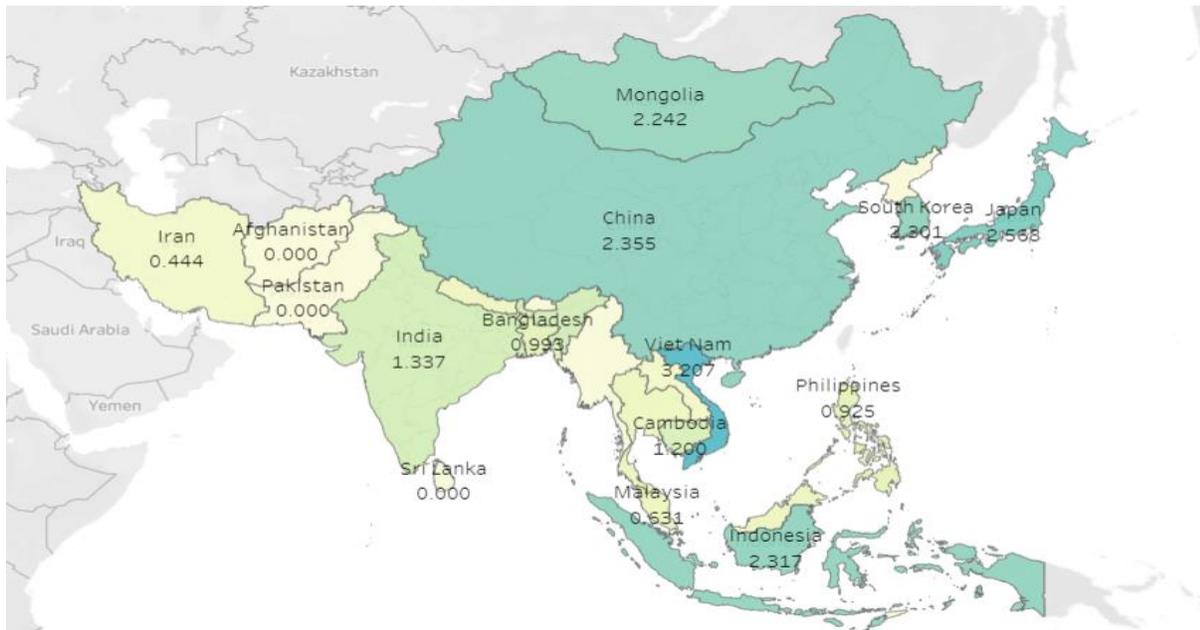
Figures 4 and 5 suggest variations in public and private education spending for children and youth as a percentage of the labor income of the working population. While Japan spent 7% of the labor income of adults (aged 30-49 years) on public education spending and 2.5% on private education spending, India spent less on education, taking 2% and 1.3% on public and private education spending of the labor income. Comparison across countries on their human capital development suggests how countries could harness their demographic dividend potential during a short period of the demographic dividend.

**Figure 4 Public education spending for children and youth, 3-26, 2009-2018 (as % of labor income of 30-49)**



Source: UNFPA Asia-Pacific Regional Office. The Demographic Dividends Atlas for Asia-Pacific (forthcoming)

**Figure 5 Private education spending for children and youth, 3-26, 2009-2018 (as % of labor income of 30-49)**

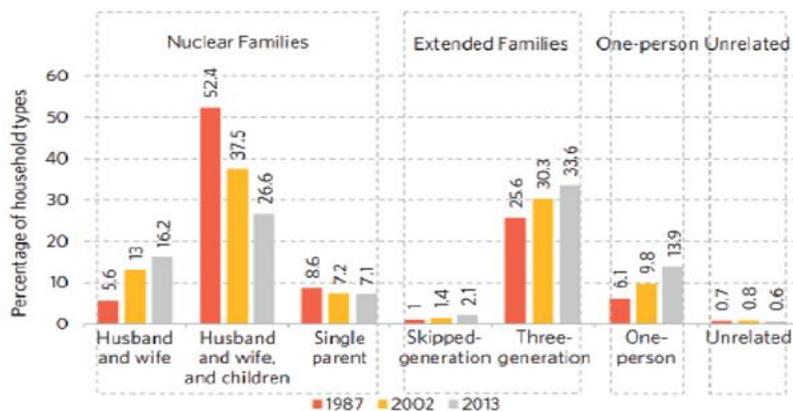


Source: UNFPA Asia-Pacific Regional Office. The Demographic Dividends Atlas for Asia-Pacific (forthcoming)

### Asian Families Are Changing

Rapid fertility decline and population ageing have led to changing family living arrangements. As shown from the evidence in Thailand, single-person families have doubled, with a family size of 3.1 persons per household, while double-income families with no children have tripled in the past two decades. At the same time, extended families were rising, with family members from three generations living together. The changing family living arrangements in Asia have implications for social protection and family welfare support, which often time women’s contributions to childcare and old age support are unrecognized with no economic considerations.

**Figure 6: New types of families are surpassing older models in Thailand**



Source: UNFPA Thailand, 2019. ICPD25 Population and Development Report.

In conclusion, with all its potential, the region needs political will and collaboration of diverse stakeholders at community, sub-national, national, and regional levels in preparing for sustainable ageing. Declining fertility eventually leads to a labour shortage in which the labour needs may prompt reforms to encourage older persons in the labour market. Many older persons have the capacity and an interest in continuing to work beyond retirement age. Towards financial security for older people, especially those without children or other relatives to support them, it is important to encourage saving from an early age which could be in form of financial capital or asset accumulation.

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