
Population, Society, and Power

East Asia's Future

K.S. Seetharam

Japan, South Korea, and China have reached a crossroads. During the next half century, they will move from a period of workforce expansion to significant workforce contraction. At the same time, their graying populations will require the shrinking workforce to shoulder the higher costs associated with the rapid aging of their populations.

Although free-market economic policies with supportive governmental interventions were central to the region's dynamic growth in the last half century, the region's demographic changes have contributed importantly to the "Asian Miracle." The current demographic shifts will produce just the opposite. As a result of the differences in the timing and the tempo of the transition from high mortality and high fertility to low mortality and low fertility, the three countries will each experience a different set of opportunities and challenges over the coming decades—but those differences will begin to fade around the middle of the century.

For China and South Korea, the next two to three decades will be favorable for continued economic growth—whereas, for Japan, the outlook is rather bleak. South Korea will continue to benefit from an expanding work force and declining dependency ratios; its elderly population will increase only gradually. In view of its robust economy, such a situation could result in labor shortages. By contrast, China has high levels of unem-

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ployment. The challenge for China, therefore, will be to exploit the opportunity afforded by the declining dependency ratios through policies that will improve human development, generate jobs, and absorb its large pool of unem-

growth, social progress, and demographic change. Most of East Asia's population of 1.5 billion in 2003—representing about a quarter of the world total—live in China, Japan, and South Korea. The region has recorded phenomenal economic growth,

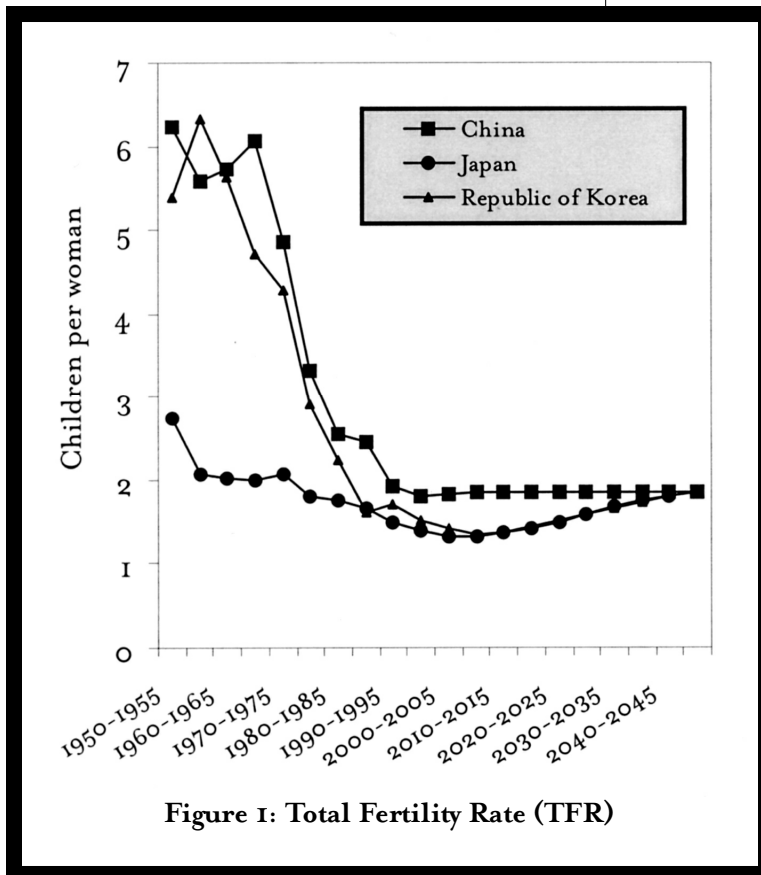


Figure 1: Total Fertility Rate (TFR)

ployed in the urban centers. The picture for Japan is different. It is already experiencing rapid population aging and a shrinking workforce that, in the absence of migration, could adversely affect economic growth and consequently the provision of social security and health care services to its elderly.

A Half Century of Progress. East Asia has been the most dynamic and vibrant region of the world since World War II, characterized by rapid economic

with the GDP growth averaging 5–6 percent annually for much of the second half of the twentieth century. This rapid growth began with the post-war reconstruction and development of Japan and continued until the early 1990s. This was paralleled by South Korea's rapid and sustained economic growth since the cease-fire on the Korean peninsula in the 1950s. With the opening of its economy to foreign investment nearly twenty-five years ago, the economy of China has also been growing at unprecedented levels. Social progress, manifested by the improved education and health status of their populations, particularly that of women, has been remarkable in these countries.

During the same period, the region has witnessed an unprecedented transformation in its demographic scenario, characterized by rapid improvements in life expectancy and an unprecedented decline in fertility (see figure 1). The timing and the tempo of changes have varied, however, among these three countries. The transition to low fertility and mortality that began in Japan before WWII continued thereafter. The decline in fertility and mortality in China and the Republic

of Korea that began much later in the 1960s has been more precipitous, taking fewer than thirty years to reach very low levels. Continued increases in age at marriage and an increase in female participation in economic activity could further depress the already low level of fertility that is characteristic of the region.

those in the working ages declines as a result of declining fertility—for two to three more decades at most, but economic growth afforded by demographic transition has run its course in Japan.

China, Japan, and South Korea have converged toward a low-fertility, low-mortality equilibrium. However, they

East Asia's most daunting future demographic phenomenon will be aging.

The main pillars of this growth have been government-driven, free-market economic policies coupled with high rates of domestic savings. The demographic transition that followed, with or without deliberate government intervention, also contributed to this progress. Recent studies have indicated that the rise in the working age population (see figure 2) and the stability of dependency ratios that accompanied the transition to low fertility contributed to as much as a third of the economic growth in East Asia over the last fifty years.¹

The rapid economic expansion, coupled with the decline in fertility in Japan and in South Korea in the past few decades, has generated greater savings, investment, and growth, making it possible for these countries to achieve a high capital-labour ratio, improve their human capital and, consequently, labor productivity. In Japan, the process has been more gradual and took years longer, while in both China and the Republic of Korea it has been very swift (though China took longer to reach this stage). Both China and South Korea can still benefit from the "window of opportunity"—a period during which the ratio of the dependent population (children and older persons) to

remain vastly different economically. Japan with a purchasing power parity (PPP) of \$25,000 per capita is the most advanced, followed by South Korea, which has a PPP of \$16,000. Despite the phenomenal growth of China in the past two decades, its PPP of \$3,600 remains low, and poverty is high. Likewise, the labor market conditions within these countries are different. While Japan and the Republic of Korea have been experiencing labor shortages, labor supply in China is so abundant that the unemployment level is extremely high.

Diversity and Emerging Challenges. The region is entering a radically new era. Key developments will include: (1) decreasing population and labor force growth, leading to eventual declines; (2) an unprecedented increase in the proportion of the elderly; (3) a significant decline in the proportion of the working ages; (4) increased migration; and (5) a steady increase in the number of women among the elderly, the employed, and migrants. In short, the region is shifting from a period of declining dependency ratios to a period of increasing dependency ratios, from a period when the population was quite

young to a period when the population is becoming older. These trends will produce major changes in East Asian societies over the coming decades.

The population of East Asia as a whole will continue to increase slowly for another

four decades before it begins to decline. In Japan, however, the population will begin to decline much sooner. Those of working age (15–64) will decrease along the same path, although the decline will begin sooner than in the rest of the population. This will eventually result in a shrinking labor force, as long as male-

female participation rates in economic activity remain unchanged. In Japan, the percentage of the population in the working age group has already begun to decline. In China and the Republic of Korea, it will begin to do so soon.

Aging. The most daunting demographic phenomenon for East Asia in the future will be aging. The changing age structure of the population, brought about by declining fertility and mortality, will result in a rapid increase in the proportion and, within a few years, in the numbers of older persons in the population. Because women tend to live considerably longer than men, women will significantly outnumber men at older ages. With continuous improvements in life expectancy, the number of the very old will increase even faster in the not-too-distant future. Estimates by the United Nations indicate that the percentage of the population 65 years and older in East Asia will increase from about 10 percent of

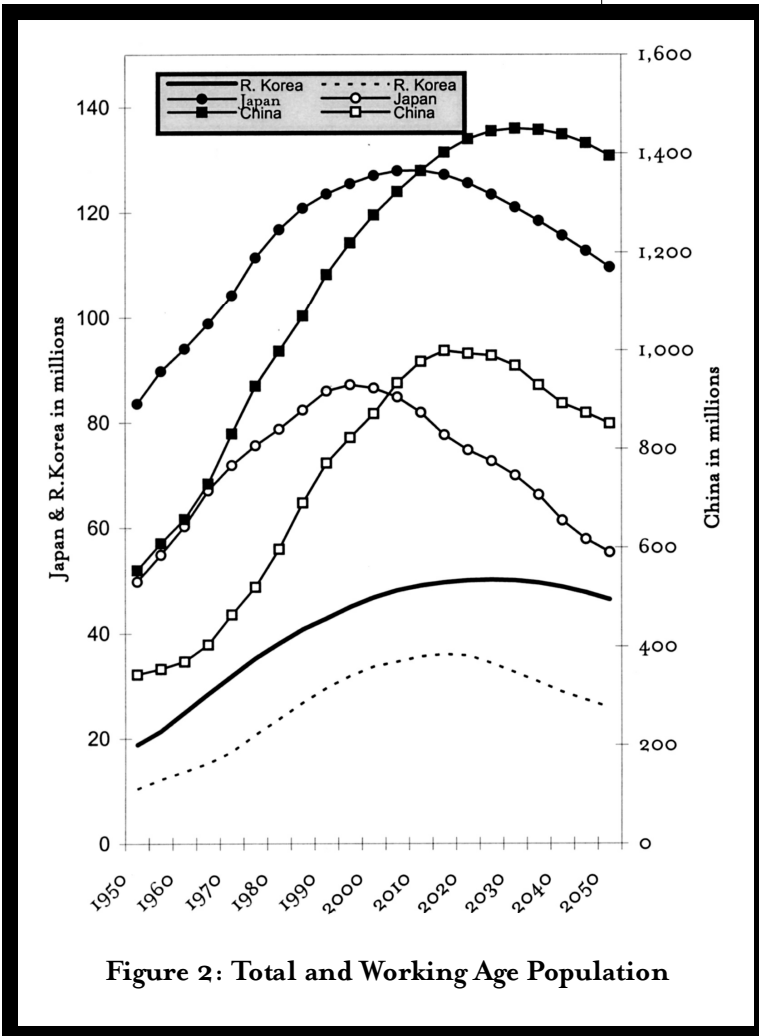


Figure 2: Total and Working Age Population

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the total population in 2000 to 25 percent by 2050 (see figure 3).² This will occur simultaneously with a decline in the working age population from 70 to 60 percent of the total. In Japan, older persons will exceed one third of the total population, while those of working age will decline to one half within the next

50 years. Although the long term trend for China and South Korea is similar to that of Japan, they will continue to benefit from the expansion of the working age population for the next two to three decades.

The implications of the above trends for economic growth, savings, and investment, as well as for social needs including pension schemes and health care, will be staggering.³ In a region where the responsibility for caring for the elderly rests on females, increased female participation in economic activity will severely diminish traditional social safety nets. This is particularly detrimental given the increasing incidents of lifestyle-related afflictions, such as AIDS and lung cancer.⁴ For Japan, the threat is acute and of immediate concern.

Migration. With globalization, characterized by increased international trade, flow of capital, and improved transportation and information exchange, migration is bound to increase with time. Migration corrects for labor market imbalances; in addition, it tends to keep a population "young." Yet, migration policies are exceptionally restrictive in these three countries. South Korea restricts migration, but it is beginning to consider various new options for relaxing these controls—though it may fall short of granting residence and other rights, such as those the migrants to the United States and Canada enjoy. China, on the other hand, will not face a labor shortage for quite some time. Indeed, it can maintain and even accelerate economic expansion in the coming decades through further investments in human capital and better

utilization of labor through policies supportive of migrants to urban areas.

Japan has severe restrictions on the number of migrants permitted to work

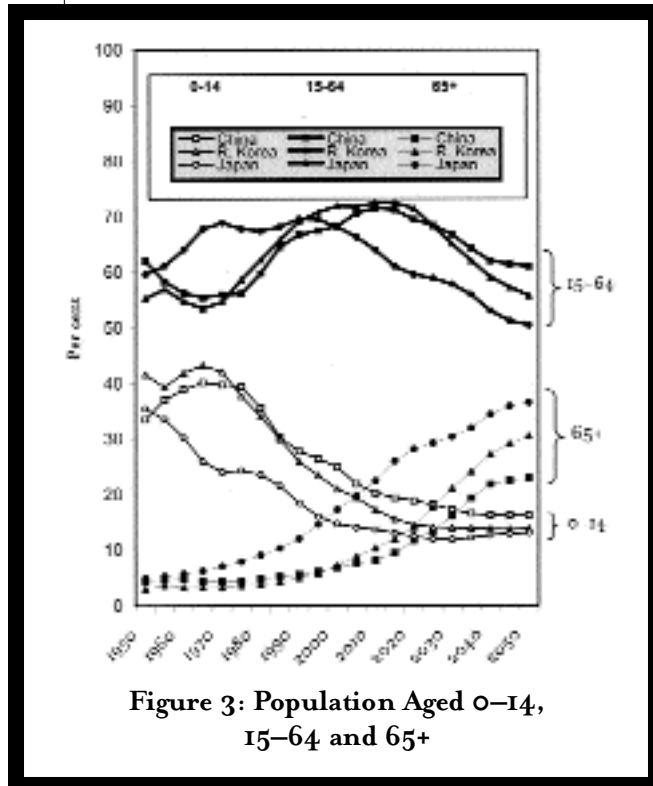


Figure 3: Population Aged 0–14, 15–64 and 65+

and seek residence, and remains largely a closed society. Nor have the Japanese migrated in large numbers and assimilated with other cultures to make a significant impact on Japanese society. As a result, Japan, more than China or South Korea, finds it more difficult to allow assimilation into its society, thereby stifling migration-inducing policies. Without increased migration, Japan will lose out on the benefits countries such as Canada and the United States have enjoyed—increased fertility rates and a stable, if not growing, workforce. While estimates of the replacement migration required to keep the age structure in balance are staggering, Japanese failure to

encourage migration will only bring about continued economic stagnation, if not precipitous economic decline.⁵ Solutions such as investment overseas or programs to resettle older persons abroad

consequences for the region's economies and societies. Japan's economy, which has stagnated during recent years, could in the future record at best only modest growth, mainly through increasing pro-

Japanese demographic problems will contribute to South Korean and Chinese economic expansion.

could provide only a temporary reprieve, because populations of many of the receiving countries (e.g. Thailand) will themselves begin to age soon and will be looking for investments abroad to keep their economies from contracting.

Women. Women's status and participation in economic activities and decision-making will increase in the future in these countries. Women in East Asia have benefited from development, as reflected by their improved health and educational status relative to that of men. Yet, East Asian societies, by and large, remain male dominated. The extremely high sex ratio at birth (on the order of 115 or more boys to 100 girls as opposed to the normal range of 105–107 boys to 100 girls) in China and South Korea is another manifestation of this deep-rooted preference, which could have disastrous consequences for family and society.⁶ As the new cohort of males and females enter their reproductive years, there will be a considerable shortage of women—a trend that will be aggravated as the age at marriage and the proportion remaining unmarried among women rise and women have fewer and fewer children.

Policy Implications. Unless addressed through effective new policies, future demographic trends could have major

ductivity as a result of improved human capital and technology, as well as returns from investments abroad. Further improvements in Japan's human capital are unlikely because the population of Japan enjoys high levels of education, health, and nutrition. The application of new and emerging technologies will entail significant investments in training and retraining an aging work force. And, investment in the aged will not yield the benefits as investment in a younger population would, such as that which contributed to the "Asian Miracle." An aging population will also aggravate the deteriorating fiscal conditions of the Japanese economy.⁷ Furthermore, investment abroad not only will face competition from other newly industrialized economies in the region, but also will yield lower than anticipated returns from such investment.⁸

Japan will face more and more labor shortages unless women respond to the increased demand for labor. Options such as increasing the retirement age would fail because new technologies demand a workforce that is both young and qualified. Moreover, the lower wages demanded by younger workers would remain more attractive to employers. Japanese women, though well educated and qualified, may not respond to the

demand for more labor unless a fundamental change occurs in their attitude toward work, particularly after marriage, and their employment becomes essential for families to maintain an acceptable standard of living.

The current generation of young women is discouraged from seeking employment because they can rely on income transfers from their parents in the form of support for establishing a home, as well as inheritances. Yet, this situation is likely to change radically in the future as savings diminish with the aging population. Labor will become more expensive, and exports less competitive. Health care costs and other social service benefits will skyrocket as a result of increased longevity and the need for institutional care at a time when women, the traditional care-givers, will be forced to seek outside employment.

An aging population will also contribute to “deflationary trends” in the Japanese economy. As in Italy, Spain, and other countries of Europe where populations are declining and aging, Asian land and property prices could begin to fall, particularly in rural areas, as a result of contracting demand.

Relatively large Japanese demographic problems will contribute to South Korean and Chinese economic expansion. Given its large population size and enormous domestic market, China is poised for rapid economic expansion. This will be aided by the demographic “window of opportunity”—if China is able to craft forward-looking policies on education, health care, migration, and employment, in particular that of women. Inevitably, this will lead to a shift in the regional pow-

er structure away from Japan to China.

Japan will have to recognize this demographic imperative and will have to consider policies to encourage migration.⁹ Failure to do so would lead to the continued stagnation of the Japanese economy. As the *New York Times* has opined, restrictive migration policies in aging populations could lead to “long-term economic suicide;” nor do they bode well for society as a whole.¹⁰ While the prospects seem favorable for South Korea and China in the near future, these countries too must recognize the inevitability of rapid population aging and an eventual decline in their labor force. In order for these economies to remain dynamic, they must support policies that encourage migration or reverse the declining trend in childbearing. Such policies would slow the societal aging process and create a more heterogeneous, multicultural population that will remain economically vibrant into the distant future.¹¹

The failure of these societies to deal with demographic problems would have a substantial impact on Asia’s other economies as well. A downturn in the Japanese economy would have a significant adverse impact on investments and trade among other countries of the region. It could also have adverse impacts on the economies of the United States and Europe, though some of this would be countered by the emergence of China as a major trading partner.

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NOTES

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