



# Facing up to the Problem of Population Aging in Developing Countries: New Perspectives for Cooperation

## EXECUTIVE SUMMARY



English version is coming soon!

The study reported in this paper was conducted in fiscal 2005 as a joint research project under the editorial supervision of Dr. Toshio Watanabe, Dean, Takushoku University by three visiting researchers: Keiichiro Oizumi, Senior Researcher, Economics Department, The Japan Research Institute, Limited (project coordinator); Hirokazu Kajiwara, Professor, Faculty of International Development, Takushoku University; and Natsumi Aratame, Professor, Faculty of International Development, Takushoku University. In the preparation of this report, the authors were assisted by Tetsuo Ogawa, Assistant Professor, Chiba University, and Koji Yamada, Associate Senior Researcher, Institute for International Cooperation, Japan International Cooperation Agency. In the course of writing this report, the authors held three meetings with the pertinent officials of JICA. While the opinions expressed by JICA officials at these meetings were taken into consideration, the views appearing in this report are the sole responsibility of the authors who wrote the chapters and in no way represent any official position of JICA.

### Population Dynamics in Developing Countries: Current Situation and Outlook

Chapter 1 presented an overview of the trends in the world population in recent years. The UN Prospects on World Population indicate that the world population will keep increasing and reach 9.1 billion in 2050. However, the rate of this population growth is on a declining trend, from 1.8% in the period 1950 – 2000 to 0.8% in the period 2000 – 2050. This slowdown in the population growth is due to the global decline in the birthrate. The global Total Fertility Rate (TFR) has declined from 5.2 in the period 1950 – 1955 to 2.8 in 1995 – 2000. Coupled with the increase in life expectancy thanks to improved hygienic conditions, this decline in the birthrate is expected to accelerate the aging of the global population. The proportion of the elderly in the total population of the world, which stood at 6.9% in 2000, is expected to reach 10.5% in 2025 and 16.1% in 2050.

Even though developed countries still have a higher proportion of the elderly than developing countries, the proportion for the latter countries is expected to rise from 5.9% in 2000 to 8.6% in 2025 and to 14.6% in 2050. In absolute terms, the number of elderly people in developing countries will rise sharply from 250.3 million in 2000 to 1,144.2 million in 2050. In 2000, 59.4% of the elderly in the world lived

in the developing countries. The problem of global aging is going to be more seriously felt in the developing countries than in the developed countries.

The aging of the population will take place first in East Asia as this region has seen its birthrate fall considerably ahead of other regions of the world. Using for comparison the number of years required for a country to move from an aging society (proportion of the elderly at 7% or higher) to an aged society (proportion of the elderly at 14% or higher), most Asian countries are projected to enter into an aged society faster than Japan did.

### Population Aging with a Declining Birthrate in Selected Countries and their Economic Growth

Chapter 2 offered an analysis of the demographic transition, which involves an aging population with a declining birthrate, and economic growth in various parts of the world covering: developed countries (UK and Japan), NIEs (Korea, Hong Kong, Singapore), China, Southeast Asia (Thailand, Philippines), South Asia (India), Latin America (Brazil, Mexico) and Africa (Egypt, Kenya).

The demographic transition that began in the 19th century with a decline in the birthrate spread from the UK to other European countries and the US

and then to Japan. In the 20th century, the developing countries of Asia, Africa and Latin America also began to experience the demographic transition. The transition in developing countries occurred with a rate of population increase which was so much higher than in the developed countries that it was termed a population explosion. The population growth in developing countries, however, has slowed down considerably in recent years. While a number of factors account for this, one major reason is the decline in the birthrate, just as it occurred in the developed countries. The increase in the population and the decline in the birthrate have occurred over a much shorter period in the developing countries than in the developed countries. This temporal compression of the demographic transition moves up the arrival of an aging population with a declining birthrate that ensues once the population stops increasing. A typical example is East Asia, which is expected to become a society with an aging population and a declining birthrate in the early 21st century. The same is true for other developing countries, though this will occur somewhat later. This is a law of demographics. The very developing countries that faced the challenge of a population explosion in the 20th century are going to face the challenge of an aging population with a declining birthrate in the 21st century. To respond to this rapid change in circumstances, developing countries are required to achieve higher rates of economic growth than ever before.

It is not easy for a society ridden with poverty and unemployment to support a high proportion of elderly people in the population. A more detailed analysis of this point was made by looking into the cases of Korea and the Philippines. It was concluded that the ability of industries to absorb the workforce was the most critical factor for a developing country to take advantage of the demographic dividend and achieve sustainable growth.

**An Aging Population with a Declining Birthrate and Economic Development in Developing Countries**

Chapter 3 discussed the influence of changes in the demographic structure upon economic development.

Countries that have high rates of population increase must implement policies to harness this demographic pressure, in addition to measures for the promotion of further economic development.

Countries that have successfully lowered the birthrate are able not only to escape from the trap of a low-income equilibrium, but also acquire the “potential” to achieve high economic growth. This is called the “demographic dividend” and it is obtained through an increase in labor inputs and domestic savings. In order to give the demographic dividend full play, it is necessary to develop human resources consistent with the changes in demographic structure, improve the industrial infrastructure and develop the financial system.

**Rate of the aging of the population in East Asia (medium variant estimate)**

|             | Number of years  |                   |                 |
|-------------|------------------|-------------------|-----------------|
|             | Elderly ratio 7% | Elderly ratio 14% | Doubling period |
| Japan       | 1970             | 1994              | 24              |
| Korea       | 1999             | 2017              | 18              |
| Hong Kong   | 1983             | 2014              | 31              |
| Singapore   | 2000             | 2016              | 16              |
| Thailand    | 2005             | 2027              | 22              |
| Malaysia    | 2019             | 2044              | 25              |
| Indonesia   | 2019             | 2041              | 22              |
| Philippines | 2026             | 2049              | 23              |
| China       | 2001             | 2026              | 25              |

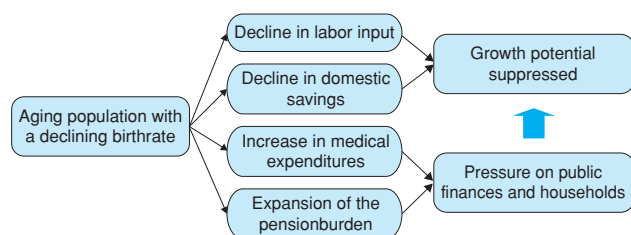
Source: The World Population Prospects, UN

The effect of the demographic dividend is not uniform throughout its duration. Developing countries in particular face the problem of an aging workforce in the latter half of the demographic dividend period. As can be seen in the cases of China and Thailand, many of the baby-boomers are still today engaged in agriculture in the countryside with less educational opportunity. To strengthen international competitiveness and alleviate the negative impact of an aging society, it is critically important that developing countries implement measures to raise the productivity of their middle-aged and elderly population.

Countries that have completed the period of the demographic dividend suffer from the limited availability of labor inputs, a reduced domestic savings rate and other effects of the aging of the population. Moreover, they have to bear the increased burdens of the aging of the population, including pension and health care costs. The size of such additional burdens will largely depend upon the type of social security system the country implements. In case of China and Thailand, social security systems covering the entire population are discussed. Close attention should be paid to the burden that the state coffers will need to carry in the future. The budgetary constraints of developing countries make it necessary to design their social

security system by seeking an optimum combination of “the universal model”, “the social insurance model” and “the market-oriented model”. In addition, since the issue of support for older persons is simultaneously an issue of poverty, a multi-faceted approach is required, including the continuation of government public assistance and the introduction of a community welfare perspective to take advantage of the traditional mutual assistance functions of local communities.

#### Impact of an aging population with a declining birthrate upon the macro-economy



Source: Author

### Aging of the Population in Asia and Japan's Community-based Welfare

In Chapter 4, an attempt was made to extract from Japan's “community-based welfare”, some exemplary cases that might be useful as a reference point when the policymakers of the Asian developing countries consider how to provide the minimum life security to their elderly citizens.

The author first reviewed the history of community-oriented welfare in Japan, presented an overview of the relevant legislation, and described the background that has led to the establishment of the concept of “community-based welfare.” It was also demonstrated that Japan's community-based welfare system is not only maintained and reinforced by a formal system of long-term care insurance, but is also supplemented by informal organizations and actors.

In Thailand, the Philippines and Indonesia where the field studies were conducted, the elderly population is increasing steadily. Care of the elderly is still regarded as a family or local community matter in these countries. However, the ties among family members and relatives appear not to be as strong as before, signaling the possibility that care for the elderly could become a major social problem. Japan's community-based welfare seeks to build a welfare community in which the elderly members can lead a self-reliant

life. However, this is by no means trying to revive traditional community life. The Japanese scheme tries to achieve this ideal through the partnerships between government agencies, the family, the residents in the local communities, NGOs and private businesses, rather than relying only on the family and traditional social ties in the community. An argument is made for the introduction of this Japanese concept and experience by the policymakers of other countries, even though the specific conditions of these countries must be carefully taken into account.

### Recommendations with a Focus on Countermeasures to deal with the Problems of an Aging Population

Chapter 5 discussed the future course of Japan's assistance, based on the reviews made in the preceding chapters.

The aging society that emerges as a result of economic development is an issue that needs be addressed through initiatives taken by the country itself. However, “aging in the developing countries,” which is characterized by the progress of aging while still at the stage of a low income society, has a high risk of jeopardizing the life of the elderly since the issues related to the aging of the population are aggravated by the problem of poverty. This risk should be avoided through foresighted policy measures, and overseas assistance has a major role to play in helping to develop the human resources, funds and technologies to put such measures in place. East Asia is highly likely to be the first region of the world to experience a dramatically rapid aging of its population. Japan has accumulated considerable experience and learned lessons as a developed country with a uniquely rapidly aging population. There are high expectations for Japan to extend assistance to its East Asian neighbors in relation to the aging issue.

There are several important points that must be taken into account when considering aging-related assistance and cooperation among the countries in the immediate future. Firstly, aging countries should be encouraged to gain a deep understanding of the realities of an aged society and to establish self-reliant problem solving processes in advance. Secondly, we should provide opportunities and fora for all the stakeholders, policy-makers, opinion leaders, academic researchers, private sectors and civil societies in East Asian countries, including

Japan, to “think together and walk together” concerning the issue of the aging of the population. There is a lot for Japan itself to learn from the experience of other countries in the fora. Thirdly, the Japanese experience should once again be compiled and systematized so that it could be shared with the other countries in the above-mentioned fora. This could also help Japan to design its assistance and cooperation programs effectively. Fourthly, when we consider the technical assistance in this area, we should design it in the context of a larger comprehensive framework of social policies for an aging society with full regard to social and economic considerations, instead of highlighting a specific issue which is only a part of the whole

landscape. Fifthly, we should focus on the design and implementation of the policy measures that are conducive to maximizing the benefits of their demographic dividend until the arrival of an aging society.

Naturally, individual assistance projects must be formulated with close attention to the political, economic and social realities of the recipient country. Of particular importance in such an endeavor will be a good understanding on the part of the recipient country’s local communities, who will be the real frontline actors in the implementation of any policy measures for the aging of their population.



## Also available!

### **Development of Japan's Social Security System** — An Evaluation and Implications for Developing Countries — July 2004

Japan’s experience to establish its social security systems while the society was dramatically changing in the prewar and post-war period could provide useful lessons with both positive and negative aspects. This kind of experience contains many suggestions for developing countries considering their prospective economic growth. This handbook can be utilized as a reference in technical transfer programs for developing countries in the field of the social security development.

#### ■ Characteristics of Japan’s Social Security Systems ■

Until the end of WWII, more than half of population was employed in businesses in the primary sector, and Japan could be virtually classified as a developing country when assessed on the basis of its industrial structure. In those days, Japan began to develop its social security systems which modified and modeled after those already introduced in the West. This situation is unique to Japan, since Western nations began to deal with this issue only after their economic power had reached a certain level.

Major characteristics of Japan’s experience concerning point, which have particular significance for the present developing countries, are as follows:

- (i) Japan was the first nation to have made active efforts to develop its social security system when the country still had a huge informal sector population (farmers/self-employed workers).
- (ii) Japan promoted a government-led social security system in which the government itself became the insurer for employed workers as well.

#### ■ Evaluation of Japan’s Experience on SSNs ■

Such Japan’s experience should be evaluated as unique implications in the context of the design of social security systems in the late comer countries, and regardless of whether they are negative or positive, they offer insightful original examples that are useful for studying themes such as the development of social security in the latecomer countries, as well as social security in non-Western countries. Moreover, Japan established a universal insurance framework based on the above system at a relatively early stage of economic development, which consequently contributed substantially to its subsequent economic growth. Through the analysis of Japan’s social security systems, Japan’s experience could be considered more as a model for developing countries.

#### ■ Future Issues to be Examined ■

Despite the fact that we believe it is important to address the Japan’s experience, we have not analyzed enough how much Japan’s social security systems are relevant to Southeast Asian countries. However, it has come to the fore as one of the most important tasks to evaluate and share the experience with other Asian countries, understanding the significance of developing their social security systems in accordance with each country’s economic situation. Now our major challenge is to expand communication with other Asian countries through mutual feedback toward the research studies on evaluation of Japan’s experience in the field of social security.



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