

# Foreword

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Rapid demographic change toward older populations is one of the biggest, if not the single biggest, medium-term structural challenge confronting developing Asia in the post-global crisis period. Throughout Asia, the share of the elderly in the population is rising as a result of falling fertility and rising life expectancy. Within the common region-wide trend of demographic change, there is considerable heterogeneity. Some countries, such as the Republic of Korea and Singapore, are at an advanced stage of the demographic transition while others such as India and the Philippines are at an early stage. Yet others, such as the People's Republic of China and Thailand, are in between. Diversity in the level and speed of population aging across Asian countries implies that each country faces unique aging-related challenges. Nevertheless, the demographic landscape of even younger Asia countries will be fundamentally altered by 2050, which means that all Asian countries should start preparing now for demographic change.

Broadly speaking, demographic transition poses two huge strategic challenges for Asia: (1) sustaining growth in the face of less favorable population structures; and (2) delivering affordable, adequate and sustainable old-age income support for the region's fast-growing elderly population. With respect to sustaining growth, a youthful population structure contributed substantially to Asia's rapid economic growth in the past. Benign demographics implied a working-age population and hence workforce which is large relative to the population. However, the demographic dividend is coming to an end across the region, albeit at different speeds in different countries. With respect to economic security for the elderly, traditional family-based support – that is, transfers from children to parents – played a major role in Asia's old-age income support in the past. But such support is weakening due to extensive socioeconomic changes at a time when demographic change is rendering old-age support more important than ever.

The two strategic challenges arising from demographic transition are not independent but closely interrelated. For one, sustaining rapid growth into the medium term is required to generate the fiscal resources necessary to provide economic security for the elderly. Public transfers to the

elderly are underdeveloped in Asia relative to both advanced economies and Latin America, but are expected to play a greater role in the future. In the absence of rapid growth, expansion of public transfers to the elderly is likely to generate a great deal of resistance from the younger generation. On the other hand, how the elderly finance their consumption will affect economic growth. Above all, an old-age support system which is based to some extent on private savings is more conducive for capital accumulation and growth than a system based disproportionately on public transfers. More fundamentally, allocating more resources to the elderly implies fewer resources for the rest of the population, so it necessarily involves a tradeoff.

In light of the far-reaching repercussions of developing Asia's demographic change, the Asian Development Bank undertook this study with the goal of helping the region's policymakers gain a better understanding of the challenge they face. On the basis of rigorous analysis, the study, which formed the backbone of the *Asian Development Outlook 2011 Update* theme chapter, sets forth a wide range of concrete policy options for sustaining economic growth while delivering economic security for the elderly. There are some Asia-wide policy options which are relevant for the entire region, such as building up strong national pension systems. Other policy options are more relevant for sub-groups of countries, for example policies for capturing the demographic dividend matter more for younger countries. While this study is the ADB's most comprehensive and in-depth analysis of the impact of population aging on Asia, it is by no means the only one. For example, last year we produced the book *Pension Systems and Old-Age Income Support in East and Southeast Asia: Overview and Reform Directions*. This year we published *Social Protection for Older Persons: Social Pensions in Asia and East and Southeast Asian Pension Systems: Promoting Fairness and Sustainability*.

Finally, I would like to express my deepest appreciation to all the ADB staff and external experts who contributed to this outstanding collective volume on one of developing Asia's biggest medium-term socioeconomic challenges. I have no doubt that this work will figure prominently in any future public discussions about the socioeconomic impact of demographic change on the region. I would like to thank Donghyun Park, who originated, managed and led the research project, and Arief Ramayandi and Gemma Estrada for their many intellectual contributions. Thanks are also due to Joseph Zveglic for his strategic support and guidance, and to Lagrimas Cuevas and Arnelyn Abdon for their high-caliber administrative support. This research project would not have been possible without the excellent work of the many external experts who took part in it. In

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