ARC CENTRE OF EXCELLENCE IN POPULATION AGEING RESEARCH

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Ten years to the tipping point: *Asia in the Ageing Century*

While Asia's population is expected to increase by one billion people in the next thirty years, the significant demographic story is the change in its age structure. The ARC Centre of Excellence in Population Ageing Research (CEPAR) today launched a series of research briefs examining the impact of population ageing across the region.

"There are two things we know about the 21st century – the world is ageing and Asia is emerging as an economic powerhouse. These papers examine the confluence of these two trends, which are highly significant globally as well as regionally," says CEPAR Director Professor John Piggott.

"China is Asia's - and the world's - most populous country, and one of the most rapidly ageing economies. As the world population grows from 7 billion to 9 billion people by 2050, one billion of those extra people will be in Asia.

"East and South-East Asia have a ten year window of opportunity to take advantage of the demographic dividend before their population structures change dramatically, and the proportion of working-age populations decline. Once this happens, the pressure on pension and healthcare systems will accelerate dramatically," Professor Piggott said.

Series author Rafal Chomik commented on a significant feature of Asia's demographic shift: "It is happening faster and at much lower levels of economic development than in the developed world.

"By 2040, half of Asia's extra one billion people will be over 65, and China will have a population older than either Australia or the United States.

"These briefing papers are designed to provide government and industry with insights into the impacts of population ageing and how to manage them. It highlights areas that researchers at CEPAR, and elsewhere, are currently focusing on, that will provide insight into the challenges facing policymakers and service providers," Mr Chomik said.

The issue of retirement income is a key topic addressed in this briefing paper series. Professor Piggott says: "Asia's general reliance on defined benefit schemes could potentially lead to unfunded liabilities similar to those experienced in some countries in Europe, once the tipping point is reached.

"Some segments of the population lack meaningful pensions, a feature of many developing economies in the region, which means the whole system of retirement income in Asia needs urgent attention.

"Australia is fortunate to have one of the most sustainable retirement income systems in the world, so is uniquely placed to provide leadership in the region on issues of policy development and implementation," Professor Piggott said.

The third paper in the series focuses on the impact of the demographic change on health systems across Asia.

“East and South-East Asian governments currently have the capacity to keep growing their health systems. However, they need to heed the lessons from the expansion of western health systems and better manage costs from both the demand and supply sides,” Mr Chomik said.

“With total health spending in the region worth over a trillion dollars in 2010 and demand for healthcare continuing to grow, Asian governments will have a tremendous challenge meeting and funding this demand.

“The size and growth of the market will result in opportunities for pharmaceuticals, medical devices manufacturers and consumer health, as well as for operators of hospitals and specialised facilities,” Mr Chomik said.

These three papers on ageing in Asia are part of a broader collection of research briefs produced by CEPAR. They are designed to provide insight into population ageing issues through the accumulated knowledge acquired by our researchers across the fields of economics, psychology, sociology, epidemiology, actuarial science, and demography.

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Editor’s Note: EXTRACT from *Asia in the Ageing Century – Part II - Pensions*

Opportunities for regional players

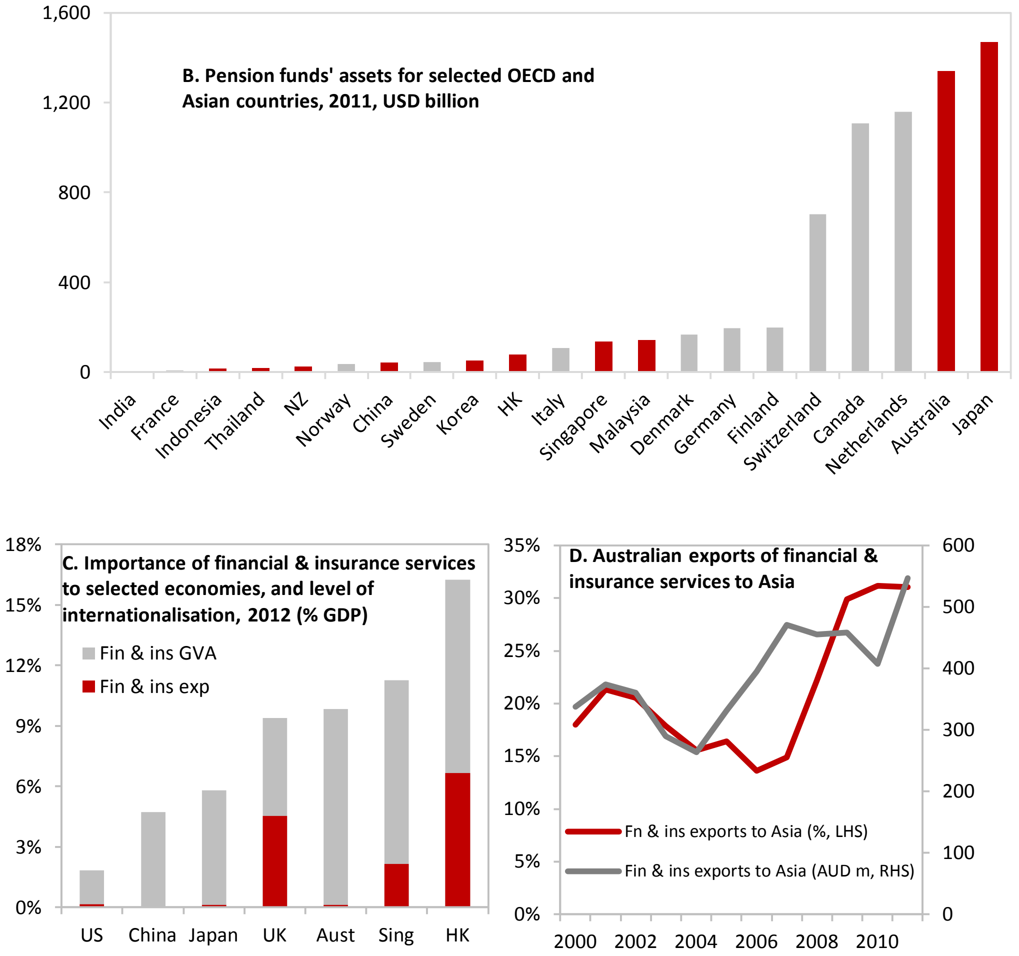
Countries such as Japan and Australia have a competitive advantage to contribute to the development of the pension and insurance market across Asia (Commonwealth of Australia, 2012 and AFCF 2009). Both countries have extensive experience in population ageing research and pension policy implementation. They have the largest pools of pension assets under management in the region (3rd and 4th largest in the world; see Figure 3.B), and a private sector “with world class asset consultancy businesses, a well developed financial advisory sector, leading edge technology platforms and strong legal and accounting services” (AFCF 2009, p11).

The financial and insurance services industry in Australia is sizeable. Along with mining it is the equal largest industry by Gross Value Added (GVA), at approximately 10 per cent of GDP; and larger relative to the rest of the economy than the UK’s financial sector. Yet, so far, as noted by the AFCF, the industry’s level of internationalisation is low – the proportion of output that is exported is less than two per cent (Figure 3.C). And this has declined by 3.5 percentage points over the last two decades, even as the size of the industry in Australia has grown by four percentage points of GDP (ABS Cat. 5368.0, ABS Cat. 5204.0).

The trends do show growing financial and insurance services exports in absolute terms. Exports to Asia have doubled since 2004 to reach A$500 million in 2011. The proportion of such exports going to the region has also increased, but mostly due to declines in other markets (Figure 3.D).

This low level of exports is, in fact, unsurprising. The data describes cross-border sales but overlooks the establishment of foreign offices – a common way of providing services to clients overseas. Some Australian banks and financial institutions have been aggressively expanding retail operations in Asia; others have taken a longer, less capital intensive strategy, which includes setting up subsidiaries or partnerships that specialise in asset management and advisory for the region's institutional investors such as public and corporate pension funds. The figures also overlook the opportunities that individuals can pursue. AFCF (2009) estimated that around 50,000 Australians are working in finance in Asia. A very large proportion expects to return to Australia. Should business be ready for it, this would provide a chance to capitalise on both region-specific skills and regional demographic trends.

Figure 3. Financial and insurance services



Source: Jackson et al. (2012); OECD Global Pension Statistics; Hu (2012); ABS Cat. 5368.0.55.004; ABS Cat. 5368.0; ABS Cat. 5204.0; Authors' calculations. Note: In panel B, Singapore and Malaysian assets pertain to provident funds and are year 2010. Panel B comparison excludes pension assets of UK and US which were US$ 2.1 and 10.6 trillion. In panel C, GVA denotes Gross Value Added of the industry.

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