

“Is an ageing population an economic burden to Asia, and what policy reforms are needed to address this demographic shift?”

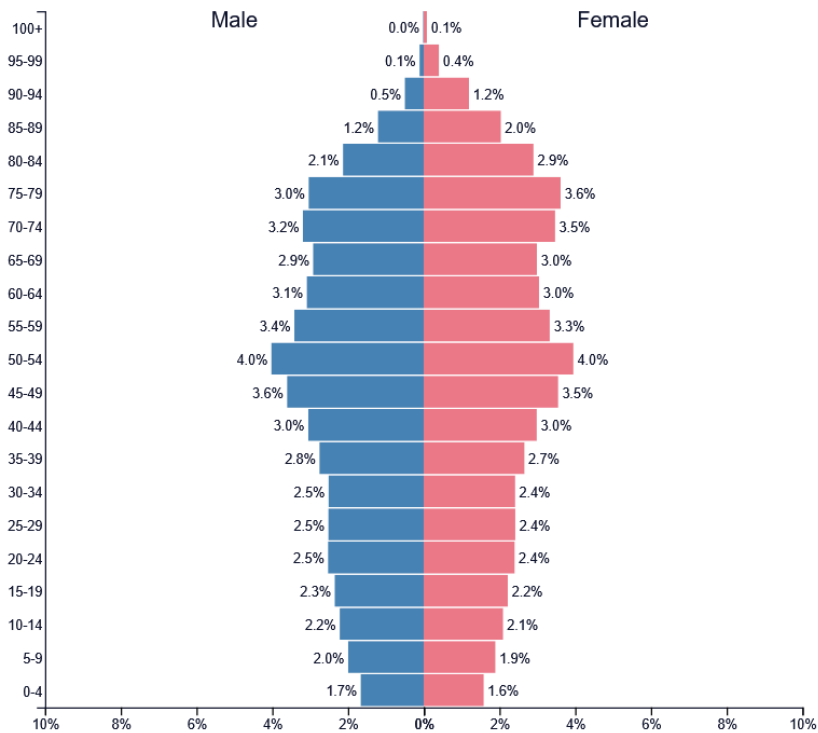
Introduction

While aging populations are most pronounced in East Asia, most notably China, Japan, and South Korea, the shift is beginning to affect other Asian nations. By 2050, nearly one in four Asians will be over 60 (UNFPA Asia-Pacific, 2021), with East Asia at the epicentre. Fertility rates have fallen—0.7 in South Korea, 1.2 in Japan, 1.0 in China (World Bank, 2023)—while life expectancy approaches 80 years (WHO, 2024), substantially increasing old-age dependency. Overall, this results in strained pensions, smaller workforces, and pressure on long-run growth.

While the economic opportunities of an aging population can offer short-term economic benefits through institutional reforms that tap into the potential of an aging population, it does not resolve the deeper structural challenges of aging societies and should not be relied upon as a long-term solution and some costs can be offset.

Drivers Behind East Asia’s Aging Population

To understand these demographic trends fully, East Asia's demographic reversal stems from policy legacies, socio-economic incentives and entrenched norms. Most notably, China's One-Child Policy embedded small-family norms (Berenson, 2015), and produced a male-skewed population of approximately 30 million excess men which reduced marriage and birthrates (Shasha, 2020). Similarly, Japan's rigid work culture and poor work–life balance penalise family formation and encourage social withdrawal (Miura & Higashi, 2017). Meanwhile, South Korea's hyper-competitive education system and persistent gender inequality make childbearing costly for families (OECD, 2024a; Thawaney, 2025). Ultimately, policy and culture have combined to lower fertility across the region.



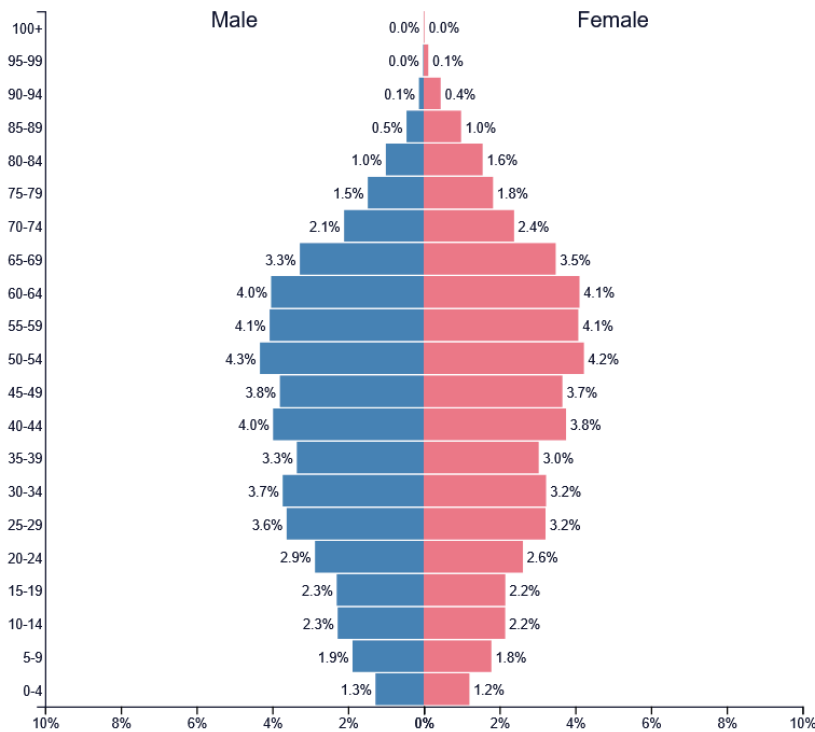


Figure 1. Population Pyramids (2024) Top: China; Middle: Japan; Bottom: South Korea

Source: UN Population Division via PopulationPyramid.net

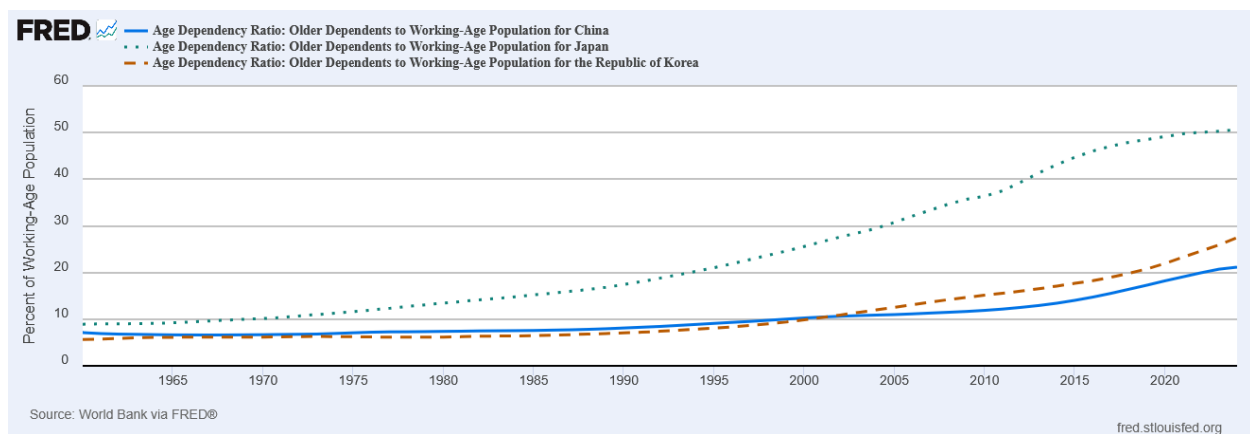


Figure 2. Old Age Dependency Ratio of East Asia. Source: World Bank via FRED

The population pyramids of 2024 (Figure 1) starkly illustrate the structural consequences of these demographic trends across East Asia. China's pyramid shows a dramatically narrowed base

due to the One-Child Policy's legacy, with particularly sparse cohorts under age 30 creating future workforce shortages. Japan's severely inverted structure reveals the largest population segments concentrated in the 50-70 age ranges, demonstrating an advanced aging crisis. South Korea displays the most acute fertility collapse, with extremely thin younger cohorts that will struggle to support the substantial middle-aged population as it ages.

These structural imbalances reflect the historical demographic transition captured in Figure 2. Japan was the early mover in aging, with its old-age dependency ratio rising more than 40% since the 1960s as low-fertility cohorts entered retirement. South Korea's dependency ratio surged after the 1997 Asian Financial Crisis, as parents invested heavily in education to buffer against economic insecurity (Yoon, 2025). China's aging accelerated more gradually as cohorts born under the One-Child Policy reached retirement, but the trajectory shows inevitable rapid acceleration ahead.

Resulting Economic Burdens

Having established the demographic drivers, the aging population in East Asia presents mounting fiscal and productivity challenges that threaten long-term regional stability.

Beginning with China, the region's largest economy illustrates these mounting pressures. China's manufacturing dominance, accounting for over US\$4 trillion value-added in 2024 (World Bank, 2024), faces labor constraints. The working-age population has declined by 12.6 million since 2015 (World Bank, 2022), consequently posing a threat to its export-led growth model. As a result, GDP growth is projected to decelerate to 3.3% by 2029 due to aging and slower productivity (IMF, 2024).

Japan presents an even more severe scenario. It holds the highest old-age dependency ratio among major economies, exceeding 50% in recent years and projected to surpass 70% by 2060 (OECD, 2025). Consequently, this demographic weight drives rising pension and elderly-care obligations, placing disproportionate strain on working-age citizens and diverting public resources from productivity-enhancing investments. Government forecasts indicate social

security spending will climb from 21.5% of GDP in 2018 to around 24% by 2040 (OECD, 2024b), thereby contributing to projected GDP stagnation of 0.5% annually (IMF, 2025).

Most dramatically, South Korea's total fertility rate fell to a record low of 0.7 in 2023 (World Bank, 2023), which has driven the steepest projected rise in old-age dependency (Figure 2) in the region. The accelerated demographic contraction is projected to reduce labor inputs by 27.3% between 2023 and 2050, thus lowering potential growth by roughly 0.67% points annually (IMF, 2025b). The compressed time frame magnifies both the fiscal and productivity pressures seen in its regional peers, ultimately leaving limited room for gradual adjustment.

The Silver Dividend: Potential and Limitations

Despite these challenges, the idea of the "silver dividend" argues that aging populations can generate economic benefits through increased labor force participation among older workers; this approach offers only partial relief rather than a comprehensive solution. Park and Shin (2025) demonstrate that silver dividend effects do substantially help—their analysis of 166 countries shows that increased elderly labor participation nearly fully offsets demographic deficits from shrinking working-age populations, particularly in countries with high life expectancy, advanced human capital, and trade openness.

However, the dominant channel through which aging undermines economic growth is the slowdown in Total Factor Productivity (TFP), how efficiently a country uses capital and labor to increase output, which extended working lives cannot address. Even when older workers remain in the labor force, the broader innovation and productivity challenges persist, leaving economies vulnerable to sustained growth decline. Moreover, silver dividend benefits remain conditional on institutional characteristics that are unevenly distributed across Asia. While advanced economies like Japan and Singapore may harness these effects, developing Asian nations often lack the healthcare systems, flexible labor markets, and human capital necessary to enable productive aging.

Rather than depending on silver dividend effects alone, Asian economies require comprehensive policy interventions that address both labor shortages and the underlying productivity challenges that older workers cannot resolve (Park and Shin, 2025).

Examples of Impactful Policies

While East Asia faces rapid ageing, certain European nations like France and Sweden maintain relatively stable birthrates through targeted policies, offering transferable insights.

France combines tax-based family measures and childcare support to reduce the cost of childbearing. Its *Quotient Familial* system adjusts taxable income by ‘shares’ to preserve progressivity while recognising family size. Childcare tax credits cover 50% of out-of-home care expenses, capped at €3,500 per dependent child per year (OECD, 2024c). These measures form a comprehensive family policy package that helps sustain France’s relatively high fertility of 1.7 in 2023 (World Bank, 2023).

Sweden incentivizes equitable childcare through 480 days of parental leave per child, including 90 “use-it-or-lose-it” days per parent to encourage shared responsibility (Campa, 2024). This supports high female labor participation (~90% ages 25–54) and a fertility rate of 1.4 in 2023 (OECD, 2023; World Bank, 2023).

These cases illustrate structural policies beyond mere subsidies, stabilizing fertility and maintaining workforce participation. Across Asia, similar structural policies could help mitigate ageing while preserving labor-market engagement.

Suggested Policies for Asia

The economic and social pressures of an aging population demands proactive responses. Europe's stabilisation policies and East Asia's cautionary experiences provide a blueprint for governments to sustain fertility, preserve labor participation, and protect long-term productivity.

Governments can reduce childbearing costs through targeted measures. Measures similar to France’s *Quotient Familial*, combined with child tax credits and related benefits, can relieve financial stress for families and encourage higher birth rates.

Beyond financial incentives, sustaining workforce participation is critical, especially for export-driven economies. East Asia demonstrates the risks of shrinking labor supply; Korea's low fertility rates and China's declining workforce illustrate how quickly the base of contributors erodes. To avoid this, Asian governments can extend retirement ages, expand flexible work, and invest in re-skilling older adults (Park & Shin, 2025). Coupling these with technology adoption and healthcare investment will maintain total-factor productivity even as demographic pressures intensify.

Governments can also introduce generous parental leave systems like Sweden, potentially balancing family responsibilities between both parents. This could be implemented in Asian nations where uneven childcare burdens deter fertility.

Population aging affects Asian economies at different speeds, but policy learning can be accelerated. While advanced economies like Japan and Singapore face immediate aging crises requiring comprehensive policy responses, middle-income countries like Thailand and Malaysia have moderate policy windows, and younger economies like the Philippines and Vietnam can still implement preventive measures. Regional platforms such as ASEAN+3 could coordinate family-support initiatives and align labor strategies, through technology transfers and research exchanges that help developing economies adopt proven demographic solutions. Specifically, regional labor mobility agreements could allow surplus young workers from countries like Vietnam to support aging societies like Japan while gaining advanced skills, creating mutual demographic benefits. This differentiated yet coordinated approach leverages Asia's demographic diversity as a strategic advantage rather than treating the region as homogeneous.

These integrated measures demonstrate that ageing is manageable through comprehensive policy responses. By combining fiscal support, labor activation, social equity, and regional cooperation, Asia can mitigate demographic risks while sustaining growth and competitiveness.

Limitations of Suggested Policies

While these policy interventions offer pathways to mitigate demographic pressures, their effectiveness faces significant constraints that Asian governments must acknowledge, particularly given Asia's economic and cultural heterogeneity.

European-style family support systems require substantial public expenditure that many Asian economies cannot sustain. For developing Asian economies with limited fiscal space and competing infrastructure needs, replicating such generous schemes may prove financially unfeasible. Moreover, aging populations simultaneously increase healthcare and pension obligations while shrinking tax bases, creating a fiscal squeeze that limits policy room for maneuver.

Policy transplantation often fails when it conflicts with deep-rooted cultural norms and Asia's cultural diversity compounding this challenge, unless locally adapted. Sweden's gender-neutral parental leave succeeded within an egalitarian social context, but similar policies may face varying degrees of resistance across Asian societies with different gender role expectations, family structures, and social values. South Korea's persistent low fertility despite various government incentives illustrates how cultural expectations, competitive education pressures, work-life imbalance, can override financial inducements, yet the specific cultural barriers differ significantly between East Asian, Southeast Asian, and South Asian contexts.

Demographic policies face inherent timing problems while requiring substantial institutional capacity. Fertility-boosting measures take decades to impact workforce size, while population aging accelerates rapidly. Even successful interventions cannot reverse existing demographic momentum, meaning optimal policies may arrive too late for fast-aging societies. Additionally, comprehensive systems require trained personnel, infrastructure, and regulatory frameworks that take years to develop, particularly challenging for countries with weaker governance structures.

Conclusion

Asia's demographic transition presents a policy choice, not an inevitable destiny. East Asia's experience demonstrates the economic costs of delayed response, while European examples prove that proactive institutional reforms can mitigate aging's burden. For developing Asian economies, the window for preventive action remains open but is rapidly closing. Success requires comprehensive policies combining financial support, labor market reforms, and regional coordination—adapted to local contexts but implemented with urgency. The demographic dividend that fueled Asia's growth is ending, but sustainable development remains achievable if governments act decisively while demographic windows permit.

(1776 words)

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