



## East Asian economic development: Two demographic dividends<sup>☆</sup>

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### ABSTRACT

Countries throughout the world are experiencing changes in their population age structure, but they are particularly rapid in East Asia. During the last part of the 20th Century the region benefited from an increased concentration of population in the working ages. Population aging is now the increasing rapidly with potentially adverse economic effects. The evidence presented here shows that population aging can lead to a second demographic dividend because population aging may lead to rapid capital accumulation. This appears to have occurred in East Asia because public support systems for the elderly are smaller and because family support systems are in decline.

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## 1. Introduction

In the 1960s, the populations of East Asia and the rest of the developing world were growing quite rapidly, and many viewed this population growth with alarm. The governments of China, South Korea, Taiwan, Singapore, Thailand and Indonesia pursued policies designed to reduce rates of childbearing and slow population growth in the belief that to do otherwise would seriously impede development efforts. Among the countries of East and Southeast Asia, only Malaysia pursued a pro-natalist course.

The view that population growth slows economic growth was greeted by considerable skepticism in academic circles (Kelley, 1988). Economists were undoubtedly influenced by the neoclassical growth model which implies that population growth has a relatively modest effect on the level of per capita income during transitions and no effect at all on the steady-state growth path (Solow, 1956). Moreover, simple empirical evidence bolstered the view that population growth was of secondary importance. In a bivariate comparison, population growth and growth in per capita income appeared to be entirely independent of one another (Kelley, 1988).

Evidence that is now emerging suggests that policymakers may have had it right and the academics may have had it wrong. Repeating Kelley's simple but provocative exercise, Fig. 1 plots growth in per capita income against growth of population for the 1960–2000 period. Assessed over this longer time period, there is a clear negative correlation between population growth and economic growth.

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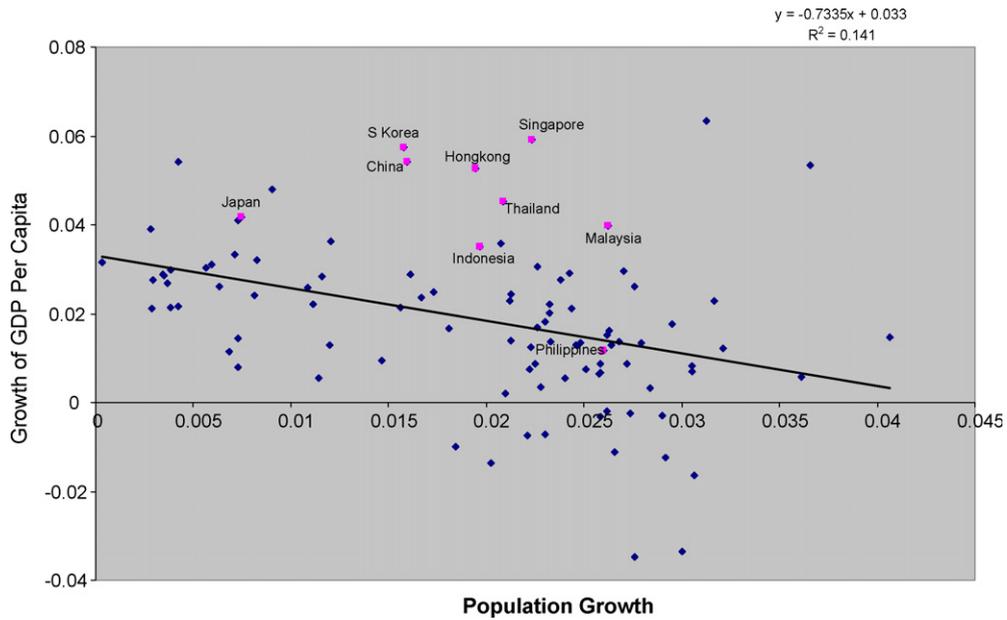


Fig. 1. Population growth and economic growth, 1960–2000.

East Asia's experience is also broadly consistent with the view that population matters (Bloom & Williamson, 1998; Mason, 2001b). The East Asian countries adopted strong family planning programs, fertility rates dropped rapidly, population growth slowed and economic development accelerated.

Broad characterizations and simple statistical associations will only take us so far, however. The statistical relationship shown in Fig. 1 may be spurious or the causality may go in the other direction and, in fact, population growth may have slowed as a consequence of rapid economic growth. Moreover, Fig. 1 suggests that slowing population growth explains only a modest portion of East Asia's economic success as the East Asian countries lie well above the regression line.

Neo-Malthusian studies of population and development have typically been concerned about the effects of fixed or inflexible resource constraints of one form or another. In contrast, most contemporary studies emphasize the role of the age structure. The potential significance of the population age structure is immediately apparent from Fig. 2, which shows estimates of the age profiles of labor income and consumption for Taiwan in 1998 (Mason et al., 2008). The most striking feature of this chart is the extended period of life during which humans consume substantially more than they produce, roughly balanced by an extended period during which humans produce more than they consume. Enormous intergenerational reallocations of economic resources are occurring in Taiwan and in all other human populations, present and past, as well (Lee, 2000; Lee, Lee, & Mason, 2008).

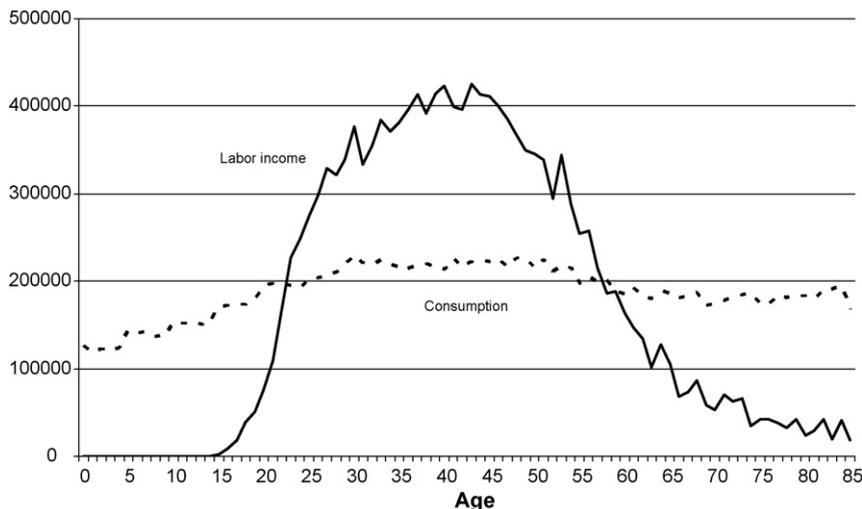


Fig. 2. Consumption and labor income, Taiwan, 1998 (NT\$).

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