

U.S. Development Policy in an Aging World

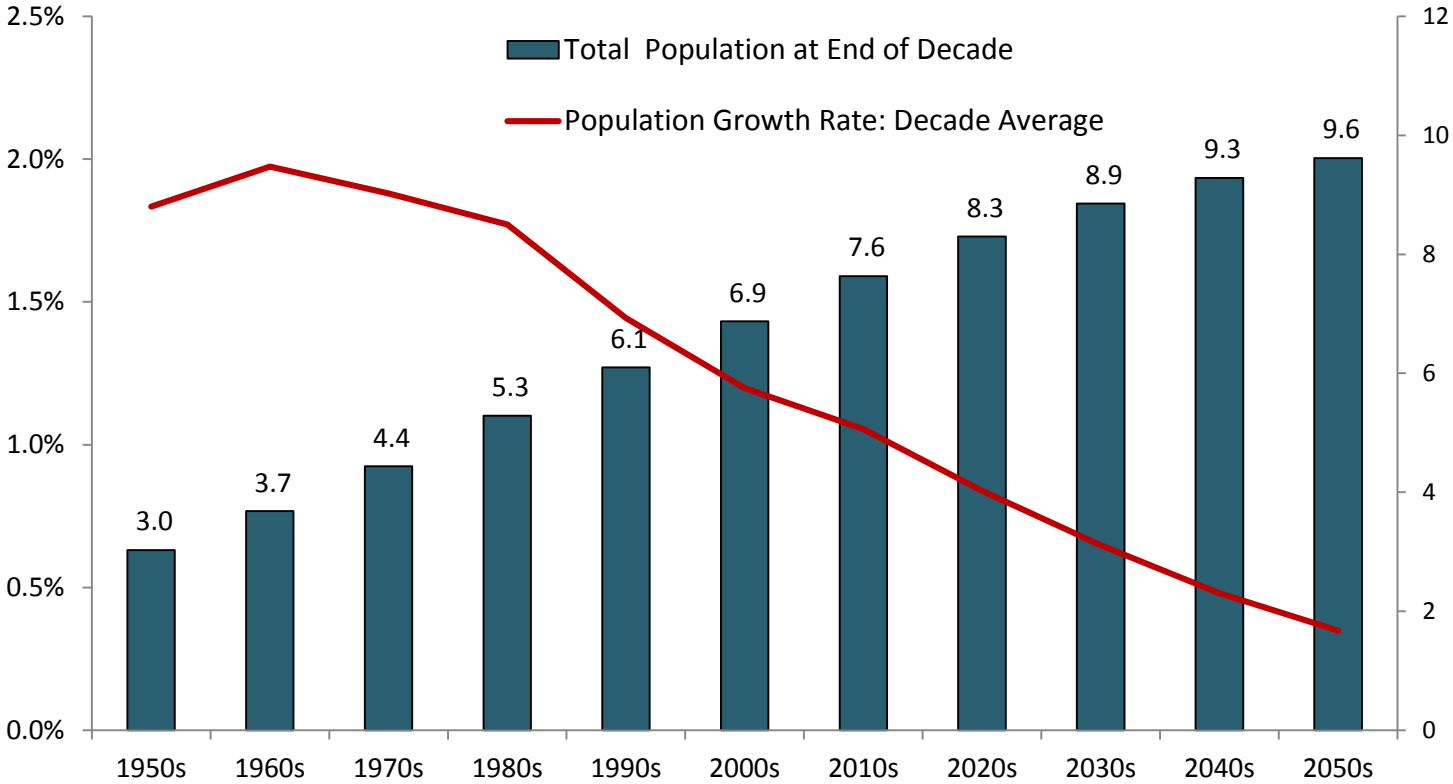
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Washington, DC
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The Demographic Transition

Global population growth is slowing.

Global Population in Billions and Global Population Growth Rate, 1950-2060



Source: UN Population Division (2011)

The developing world is due to age dramatically.

- Like the developed world before it, the developing world has now entered the demographic transition—the shift from high fertility and high mortality to low fertility and low mortality that accompanies development and modernization.
- As the transition unfolds, population growth slows and the age structure of the population shifts upward.

Median Age of the Population, 1975-2050

	<u>1975</u>	<u>2010</u>	<u>2030</u>	<u>2050</u>		<u>1975</u>	<u>2010</u>	<u>2030</u>	<u>2050</u>
Nigeria	18.3	18.5	19.8	23.1	Mexico	16.8	26.6	34.2	41.8
S. Africa	18.9	24.9	29.1	33.5	Turkey	19.1	28.3	35.9	42.3
Pakistan	18.4	21.7	28.0	34.7	Russia	30.8	37.9	43.3	43.1
Egypt	18.3	24.4	30.5	36.9	Brazil	19.5	29.1	37.4	44.9
India	19.7	25.1	31.2	37.2	Vietnam	18.3	28.2	38.5	45.8
US	28.8	36.9	39.1	40.0	Iran	18.1	27.1	39.5	47.2
Bangladesh	17.2	24.2	32.7	41.3	China	20.7	34.5	42.5	48.7
Indonesia	18.5	27.8	35.1	41.6	S. Korea	20.0	37.9	47.0	51.8

Source: UN Population Division (2011)

Two Forces Behind the Demographic Transition: Falling Fertility and Rising Life Expectancy

- ❑ The first phase of the transition: Declining mortality rates trigger rapid population growth.
- ❑ The second phase of the transition: Declining birthrates create a “demographic dividend.”
- ❑ The third phase of the transition: Low fertility and low mortality ultimately lead to rapid population aging and population stagnation or decline.

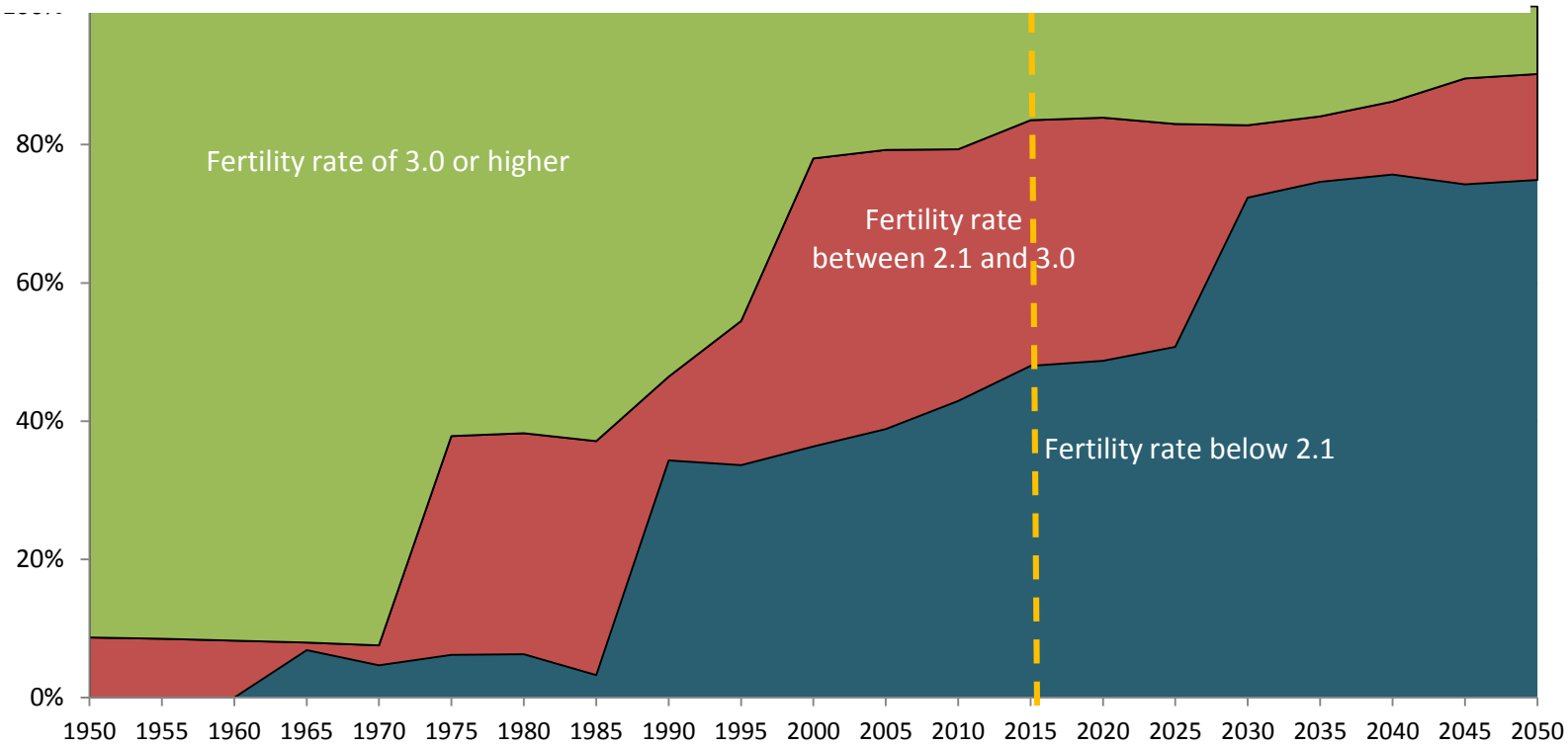
Total Fertility Rate and Life Expectancy at Birth, 1950-2010

	Total Fertility Rate				Life Expectancy at Birth			
	1950-55	1970-75	1990-95	2005-10	1950-55	1970-75	1990-95	2005-10
East Asia	6.0	4.7	2.0	1.6	44.9	64.5	70.1	72.9
Eastern Europe	2.9	2.1	1.6	1.4	64.1	69.2	67.7	68.6
Greater Middle East	6.6	6.2	4.6	3.2	43.4	53.9	63.6	68.0
Latin America	5.9	5.1	3.1	2.3	52.0	61.2	69.1	73.6
South Asia	6.0	5.5	3.6	2.6	39.9	50.9	61.0	66.1
Sub-Saharan Africa	6.5	6.7	6.1	5.1	37.3	45.6	49.3	52.7

Source: UN Population Division (2011)

Two in five people in the developing world now live in countries with below-replacement fertility.

Percent Distribution of Developing-World Population by Fertility Level, 1950-2050

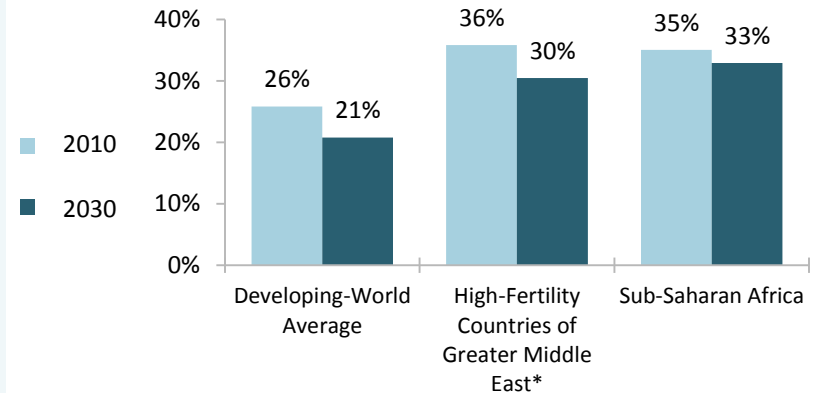


Source: UN Population Division (2011)

The Timing and Pace of the Demographic Transition.

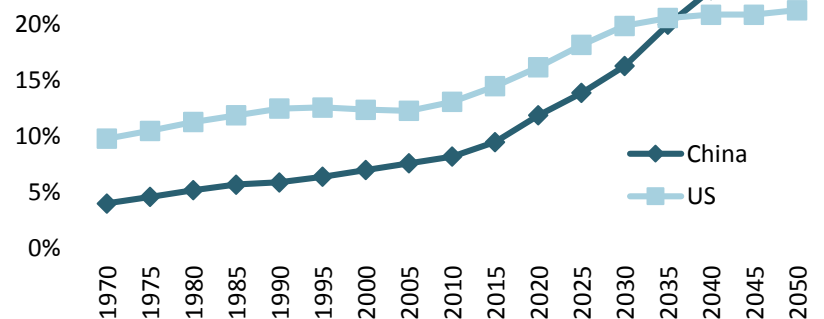
- ❑ In some regions of the developing world, including much of sub-Saharan Africa and parts of the Greater Middle East, the demographic transition has stalled in its early stages.
- ❑ In other regions, especially East Asia, the transition is proceeding at a breathtaking pace, with countries traversing the entire demographic distance from young and growing to old and stagnant or declining within little more than a generation.
- ❑ Most of the developing world, however, is now in the middle of the transition, when demographic trends are most favorable to economic and social development.

Youth Bulge (15-24) as a Percent of the Adult Population, 2010 and 2030



*Includes Afghanistan, Iraq, Mauritania, Palestine, Sudan, Somalia, and Yemen

Elderly (Aged 65 & Over), as a Percent of the Population, 1970-2050



Source: UN Population Division (2011 and 2013)

Demography and Development

The Promise of the Demographic Dividend

- ❑ When fertility first falls, the decline in the dependency burden and growth in the working-age population tend to boost per capita GDP.
- ❑ The demographic shift may also encourage higher labor-force participation, higher savings, and greater investment in human capital.
- ❑ The dynamic is called the “demographic dividend,” and it explains between one-third and two-fifths of the growth in living standards in East Asia since the mid-1970s.

Dependency Ratio of Children (Under Age 20) Plus Elderly (Aged 65 & Over) to Working-Age Adults, 1975–2050

	1975	1990	2010	2030	2050
East Asia	113	80	55	59	79
Eastern Europe	74	68	53	69	83
Greater Middle East	136	127	89	73	71
Latin America	128	106	78	69	74
South Asia	124	109	81	66	66
Sub-Saharan Africa	137	143	130	108	89

Source: UN Population Division (2011)

Working-Age Population (Aged 20-64), as a Percent of the Total Population, 1975–2050

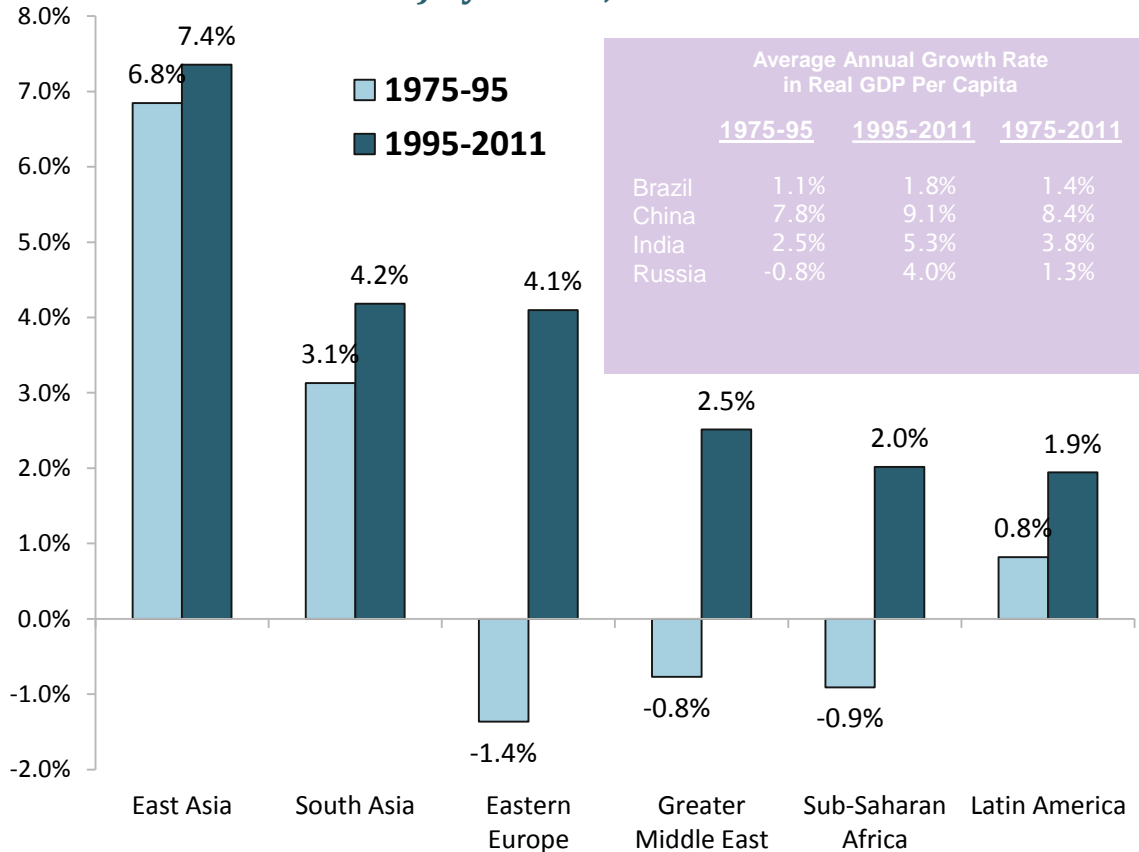
	1975	1990	2010	2030	2050
East Asia	47%	55%	64%	63%	56%
Eastern Europe	58%	60%	65%	59%	55%
Greater Middle East	42%	44%	53%	58%	58%
Latin America	44%	49%	56%	59%	58%
South Asia	45%	48%	55%	60%	60%
Sub-Saharan Africa	42%	41%	44%	48%	53%

Source: UN Population Division (2013)

Challenge 1: Leveraging the Demographic Dividend

- The demographic dividend opens up a window of opportunity, but does not guarantee economic success.
- Leveraging the dividend requires sound macro policies, a business friendly regulatory environment, and massive investments in infrastructure and human capital.
- Although economic growth has accelerated in many emerging markets since the mid-1990s, none are on track to replicate East Asia's economic performance.

Average Annual Growth Rate in Real GDP Per Capita (in 2005 PPP Dollars) by Period, 1975–2011



Source: World Development Indicators, World Bank, 2012, <http://databank.worldbank.org/>; Angus Maddison, Historical Statistics of the World Economy: 1-2008 A.D., Groningen Growth and Development Center, February 2010, <http://www.ggdc.net/maddison/>; and UN Population Division (2011)

Most of the developing world is failing to close the income gap with the developed world.

Real GDP Per Capita (in 2005 PPP Dollars), as a Percent of G-7 Average, 1975-2011

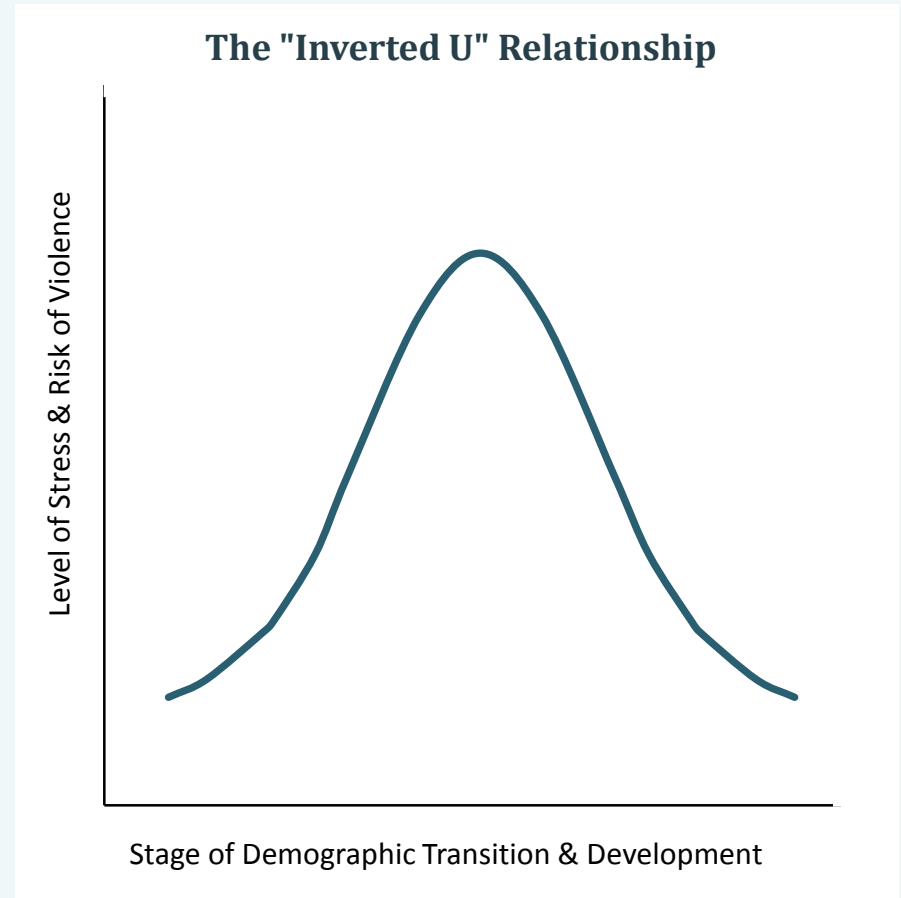
	1975	1980	1985	1990	1995	2000	2005	2011
East Asia	4%	5%	6%	7%	9%	11%	15%	24%
China	2%	2%	3%	4%	6%	8%	11%	20%
East Asian Tigers	28%	33%	39%	49%	63%	67%	74%	89%
Eastern Europe	45%	42%	40%	39%	21%	21%	27%	33%
Greater Middle East	30%	29%	23%	18%	16%	16%	17%	20%
Latin America	35%	35%	29%	26%	26%	25%	25%	29%
South Asia	5%	5%	5%	5%	6%	6%	7%	10%
Sub-Saharan Africa	10%	8%	7%	6%	5%	5%	5%	6%

Source: World Development Indicators 2012; Maddison, Historical Statistics of the World Economy; and UN Population Division (2011)

Challenge 2: Mitigating the Stresses of Development

- ❑ Societies undergo tremendous stresses as they move from the traditional to the modern. When plotted against development, most of these stresses describe an inverted-U—meaning that they become most dangerous midway through the demographic transition and the development process.

- ❑ These stresses include:
 - Contact with the global marketplace and culture
 - Urbanization
 - Environmental degradation
 - Growing income inequality
 - Growing ethnic competition
 - Religious extremism



Challenge 3: Preparing for the Coming Age Wave

- The developing world's age waves will be arriving in societies that are not only less affluent than the developed countries, but which have not yet put in place the full social protections of a modern welfare state.
- A humanitarian aging crisis of immense proportions may loom in the future of some developing countries if they fail to construct adequate old-age safety nets.

Elderly (Aged 65 & Over), as a Percent of the Population, 1975-2050

	1975	2010	2030	2050		1975	2010	2030	2050
Nigeria	3.2%	3.4%	3.6%	4.9%	Mexico	3.8%	6.3%	11.7%	19.9%
S. Africa	3.2%	4.6%	7.8%	10.1%	US	10.5%	13.1%	19.9%	21.2%
Pakistan	3.7%	4.3%	6.0%	10.4%	Brazil	3.8%	7.0%	13.7%	22.5%
India	3.4%	4.9%	8.3%	13.5%	Vietnam	4.8%	6.0%	12.8%	23.1%
Egypt	3.4%	5.0%	8.7%	14.2%	Russia	8.9%	12.8%	19.1%	23.1%
Bangladesh	3.5%	4.6%	7.6%	15.9%	Iran	3.2%	5.2%	10.3%	23.5%
Indonesia	3.4%	5.6%	10.5%	19.2%	China	4.6%	8.2%	16.5%	25.6%
Turkey	4.1%	6.0%	11.4%	19.6%	S. Korea	3.5%	11.1%	23.3%	32.8%

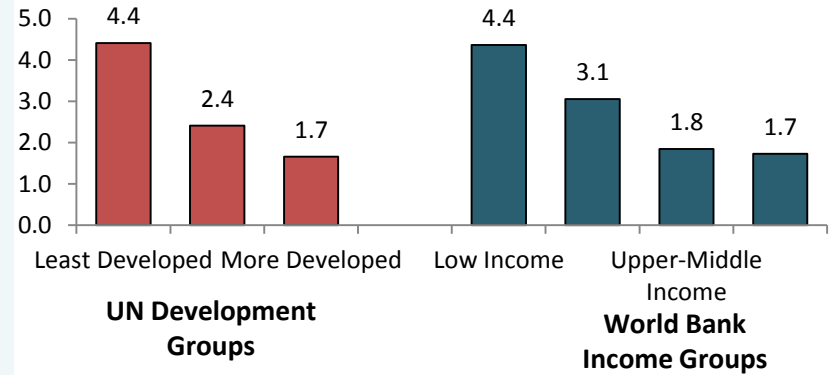
Source: UN Population Division (2011)

**Seven Lessons
for U.S. Development Policy**

Seven Lessons

1. *The demographic transition is a prerequisite for development. Countries where the transition stalls and fertility fails to decline do not develop successfully.*
2. *Most of the developing world has entered a new demographic era in which the nature of development assistance needs is fundamentally changing.*
3. *The United States has a vital interest in ensuring the successful development of middle-income countries as they move through the demographic transition.*

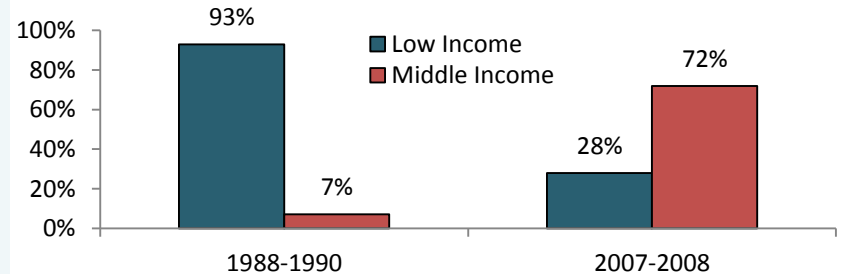
Fertility Rate by Development Group and Income Group, Average for 2005-2010



* Excludes least developed countries.

Source: World Development Indicators 2012; and UN Population Division (2011)

Percent of the World's Poor* Living in Low-Income and Middle-Income Countries, 1988-1990 and 2007-2008

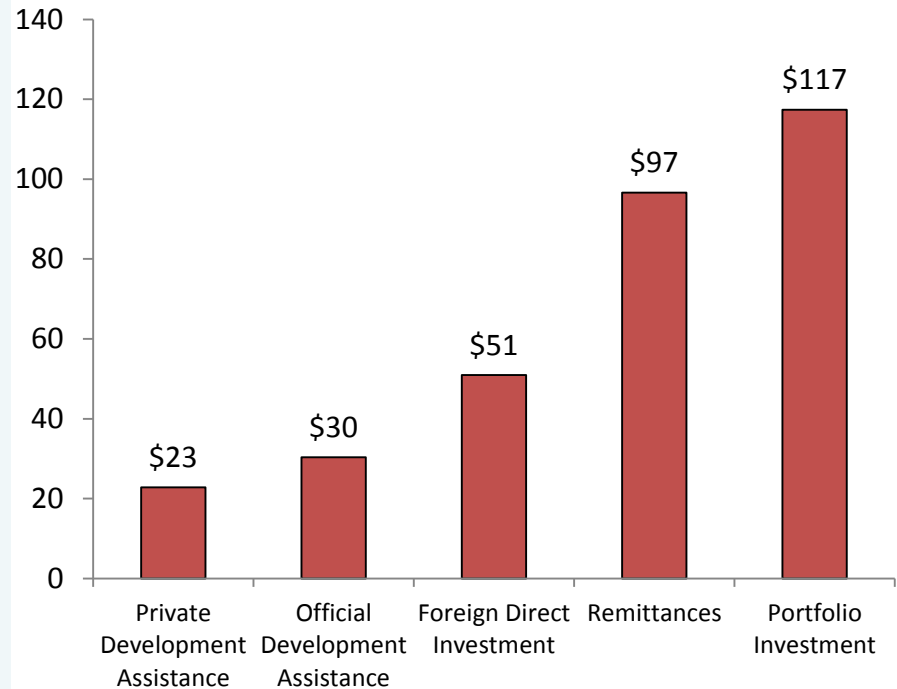


* Poor is defined as having an income (in PPP Dollars) of less than \$1.25 per day.
 Source: Andy Sumner, *Global Poverty and the New Bottom Billion: What If Three-Quarters of the World's Poor Live in Middle-Income Countries?* Institute of Development Studies (September 2010)

Seven Lessons

4. *Meeting development needs in the new demographic era will require a new and more comprehensive formulation of U.S. development policy.*
5. *The experience of East Asian countries, which have already successfully leveraged their demographic dividends, offers important lessons for development policy.*
6. *Demography provides a roadmap that can help the development community anticipate and prepare for emerging new development challenges.*
7. *Aging is the ultimate development challenge of the twenty-first century.*

Net U.S. Financial Flows (in Billions of Dollars) to Developing Countries, by Type, in 2010



Source: Detailed Aid Statistics, OECD, 2012, <http://stats.oecd.org/> and Bilateral Migration and Remittances 2010, World Bank, 2010, <http://econ.worldbank.org>

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