

**What political and demographic challenges will face Asia Pacific?**

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### **1. Introduction**

More than 60% of the world's population resides in Asia Pacific and it is also a hub for global economic production and consumption. The region generally enjoys political stability which has attracted investment and anchored high economic growth. However, Asia Pacific is experiencing demographic change that will have profound economic and political consequences. Conversely, political development is intimately intertwined with and cannot be separated from economic conditions, and in particular demographic changes. From having a young population and high fertility rate, many countries in Asia Pacific are likely to have an ageing population. Another important demographic phenomenon is the rising intra-regional migration. These trends will certainly add another factor to the existing political challenges facing the region. The increasing democratization, higher demands by restive minorities groups within nations and pervasive corruption can also become more difficult when coupled with these demographic developments. The onus is on governments to provide basic social safety nets as well as economic growth. Failure to deliver these needs could produce discontent, and unrest could ensue, possibly leading to political conflict. This will make heavier demands on Asia Pacific in the post-crisis period when it is expected to lead global growth and recovery.

### **2. Political challenges**

#### *i. Democratic transition and consolidation*

Asia made much progress in moving from authoritarianism towards liberal democracy, with a more participatory and transparent polity: but many think that the cost has been political instability. Authoritarian governments had liberalized political governance, transforming their economies from central control to a market-based system. The ensuing higher economic growth and better higher standard of living made their citizens want a bigger role in the development and governance of their countries. One-party states are unencumbered by messy competitive politics: in the past, if they could deliver good economic growth they could expect an easy reception from their own citizens and from onlookers overseas. Nowadays people are asking for more democracy and openness. Good governance in all areas of public life implies the dismantling of entrenched systems of patronage politics. Absolute control from the central government is increasingly being challenged: much preferred is decentralized political rule that can respond to the needs of the local population. Whatever new systems that are installed also expected to be both competent and transparent.

How each country in Asia Pacific adapts to these new demands is crucial. Too much openness may lead to political malfunction and chaos, and this may give a pretext for a

rapid return to authoritarianism under the guise of restoring stability. Today's challenge is therefore to balance openness with a cohesive and functioning political system. Whatever path a country chooses to arrive at a functional and effective democracy, it must be suited to the structure and needs of society, and developed from within, not imposed from outside. The new political and governance realities coincide with the collection of new leaders taking the reins of countries in the region. They include President Obama of the US, Prime Minister Hatoyama (Japan), Prime Minister Rudd (Australia), Prime Minister Najib Razak (Malaysia), Prime Minister Abhisit (Thailand) and President Yudhoyono (Indonesia) and these leaders will have to lead and fulfill the expectations of their people. These new leaders need build relationships and rapport among themselves as well as with other leaders in the region to promote greater cooperation for regional stability, peace and prosperity.

## *ii. Restive minorities*

Restive minorities is an issue that has gained prominence recently even though it is a long standing problem. The dissatisfaction of minorities is due to the perception that they are treated unfairly and unequally, both economically and politically. It is not uncommon for these minorities to be economically marginalized, with limited access to quality education. They are under-represented in government and business. The discontent may also have its roots in ethnicity, religion and language. Some of these minority groups are located in areas that have strategic, economic or security value. In certain cases their dissatisfaction has led to political and even armed conflict. The problem can be worsened if conflict with minority groups spills over to neighboring countries.

Some of the minority groups' calls for secession or independence are not a solution to the problem. Instead a political solution is paramount because any arms conflict could be protracted and could spread to other communities or part of the country. Economic development and narrowing the development gap is an important part of the solution and governments have begun to address this issue. Other solutions include the granting of partial autonomy that allows minority groups to share power with the central government to jointly administer their areas.

## *iii. Corruption*

While some Asia Pacific countries have improved their corruption rankings, others have deteriorated. New Zealand, Singapore, Australia, Hong Kong, Japan, Brunei and South Korea have constantly ranked in the top 40 of least corrupt countries in the world. On the other hand, there are also Asia Pacific countries that have not done well in this corruption ranking. It is no coincidence that the most competitive, efficient and developed countries in the region are the least corrupt. Corruption increases the cost of doing business and decreases productivity and this discourages investment both by foreign and local investors. Besides the direct costs, corruption deters investment because it adds to the indirect cost of doing business. Examples of these costs are: delays in getting approvals;

opaque approval requirements and processes; and the need to find partners who have connections with the stakeholders.

More importantly, corruption erodes the morals of the society, destroys the spirit of meritocracy and efficiency; instead it encourages complacency and mediocrity. Corruption can lead to severe income inequality where a small group or top echelon of society holds a disproportionately large share of the nation's wealth. Often there is not enough left over for the poorer classes to meet their basic needs. As a result, there is strain that can end up in conflicts between the haves and the have-nots.

Improving the standard of governance is vital if corruption is to be weeded out. Good governance includes a fair and free process of selecting a government, that government's capacity to formulate policies and the effectiveness of those policies, its implementation capability and the quality of its institutions. Transparency in government policy formulation and implementation can also be facilitated by reducing to a minimum the exercise of discretionary power. In this way, the resources will be used for optimum benefit. The private sector must also play a part in combating corruption by refusing to bribe and by whistle blowing if necessary.

### **3. Demographic challenges**

#### *i. Ageing*

Asia is in a profound demographic transition. UNDP estimated that from 1950 to 2000 the population of Asia multiplied by a factor of 2.5, rising by almost 2.2 billion in absolute numbers. In North East Asia, the working-age population was about 57% of the total population in 1970 and will reach a peak of 72% in 2010. This population explosion is due to high birth rates in some countries, and because of declining mortality and improvements in life expectancy in almost all countries. However, Asia will very soon enter a reversal of its demographics, with its working-age population declining rapidly after 2010.

To date the population explosion has been buffered or was neutralized by four decades of changes in childbearing patterns. Since the early 1970s, the Total Fertility Rate (TFR) has declined and in some countries it has fallen below the population replacement level. The Asia Pacific's TFR fell from 5.4 children per woman in 1970 to 2.3 in 2007. The decline in the total fertility rate has been caused by a combination of factors including the government's family planning policy (e.g. China's one child policy), changed social norms (erosion of the extended family support system) and modernization (urbanization, higher female work participation rate and late/non-marriage) and higher cost of raising a family (education, medical).

Both East Asia's high income economies (Japan and the newly industrialized economies namely Singapore, Korea, Hong Kong and Taiwan) and some middle-income developing

economies (China and Thailand) will experience rapid ageing of their population. Japan's old-aged dependency ratio (ODR) will double from 0.25 in 2000 to 0.5 in 2025. Likewise during the same period, Hong Kong's ODR will rise from 0.10 to 0.36, Singapore's from 0.10 to 0.35, Korea's from 0.10 to 0.29, Taipei, China's from 0.15 to 0.27 and China's from 0.10 to 0.20. Other high income economies in the Pacific will not be immune: Canada's ODR will rise from 0.18 in 2000 to 0.33 in 2025, Australia from 0.18 to 0.30 and the United States from 0.19 to 0.28.

Countries with an ageing population will face a number of socio-economic challenges. An aging population will not have enough people of working age: they are needed to grow the economy and to support the older segment of society. If the working population gets smaller relative to the older cohort, there will be less saving and fewer financial resources available for investment. That is because a larger portion of the national wealth is needed for the elderly, in particular to operate the state pension fund. As the proportion of the recipients relative to the contributors rises, the state pension funds may be paying out more than the current contributions. To manage that shortfall the government may have to cut other services or investment.

The public healthcare system will also have to do more if the proportion of aged rises. However, caring for the aged may spur the development and expansion of new services industries and the employment of more health-care workers. Probable growth areas are healthcare, property development targeted on the special needs and lifestyle of the aged, and financial services.

## *ii. Migration*

Countries within the Asia Pacific have experienced growing labor migration among themselves. These movements reflect the economic changes within the region and have been both temporary and permanent. Countries with high economic growth or that have an ageing population will attract labor. Net recipients of immigration in other parts of the world include countries that have a long history of immigration - United States, Canada, Australia and New Zealand. Net immigration inwards can now be seen in relatively developed East Asian countries - Japan, South Korea, China, Singapore, Hong Kong and Taipei, China. Philippines, Indonesia, Vietnam and China are at present labor exporting countries. There are also countries that are both receivers and exporters of labor - Malaysia and Thailand.

Labor mobility patterns are continually changing and getting more complex and multidimensional. There are separate drivers and results for permanent and temporary migration, documented and undocumented migration, and high skilled and low skilled migration. Women are becoming more significant in many migration flows and in some sectors they dominate -house helpers and healthcare givers.

In response to, and to facilitate these trends, the migration industry has grown in scale and significance. Organizations involved in the industry include employment agents, travel providers, middlemen. Many government officials are needed to regulate the employment, entry and exit of their fellow citizens and of the guest workers.

The following are the key emerging migration challenges for the region:

- Rising undocumented migration, in some cases refugees. For example, it is estimated that in 2004, there were 6.3 million undocumented workers in the US, forming about 4.35% of the labor force and 30% of all foreign workers (Hugo and Young, 2008<sup>1</sup>). In some cases undocumented migrants are not given the proper treatment and often they are taken advantage of, both in their home and host countries;
- Countries are encouraging (and some even competing) to attract skilled foreign labor while discouraging low skilled workers;
- Increasing numbers of temporary migrants including seasonal workers and intra-company transfers and trainees. A clearer procedure should be established to facilitate this type of temporary migration which can bring enormous benefit to both the sender and receiver countries. Another important group of temporary immigrants are foreign students. As more and more countries are promoting their educational services, this category of immigration is expected to increase. Similarly, students should be allowed to gain work experience in the host countries after graduation and before returning home;
- Social impact of labor migration cannot be underestimated because if it is not handled well, it can cause social tension and instability. Tension over immigration can rise in particular between migrants and the lower segment of the society as need for imported labor increases; they compete for space, services and economic opportunities.
- If national borders are porous, it is difficult to effectively control immigration and emigration. In such situations, countries should have a clear policy and firm control of inflow of immigration to avoid creating social tensions.

#### **4. What do these challenges mean to Asia Pacific?**

Demographics will emerge as a key factor that determines economic growth, prosperity and political stability in Asia Pacific. A rapidly ageing Asia Pacific will see its working population shrink with resultant lower economic growth. For some countries “they will get old before they get rich”. The challenge facing many countries in the region is how to ensure that the economy will continue its high growth rate, and maintain political stability when the ageing population and the quest for higher value added activities will result in

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<sup>1</sup> Hugo, G and S. Young (eds.), 2008, *Labour Mobility in the Asia-Pacific Region*, Institute of Southeast Asian Studies for Pacific Economic Cooperation Council and the APEC Business Advisory Council, Singapore.

increased migration inwards. These demographic trends can have a profound effect on society and politics. Nations may not be able to provide a full social safety net or may even have to withdraw some benefits such as permanent employment or cradle-to-grave benefits because financial resources are channeled to an ageing population, with little left for investment. This situation can turn into political discontent since the working population may have to shoulder a heavier financial burden. Similarly, labor migration, if unplanned can create migrant communities who are not assimilating well with local society, thus causing tensions. Since migration involves cross-border issues, regional countries should work together to ensure that it is well managed and that all countries benefit. Thus, managing and maximizing demographic factors is an essential strategy for growth. Countries should strike the right balance between demographic imperatives and development priorities so that the resulting political changes can reinforce economic growth.

An ageing population may also shape the political economy of the region. The presence of a large migrant group from any one given country, especially if they form a significant proportion of the workforce, will definitely affect the bilateral relationships between that country and the host country. Both countries must work together to ensure that any issues arising from the presence of these workers are solved quickly and will not adversely impact the bilateral links.

Countries that are presently at a high level of development and income and facing an ageing problem, may be unable to sustain their high growth if their shrinking domestic workforce is not compensated with an inflow of foreign workers. Through immigration, countries can compensate for labor and skills shortage which will deter industries from relocating and this will ultimately bring growth. On the other hand, emerging countries with a larger and younger population have better prospects for high growth especially if they are at the “take-off” stage of development. Those with a large population will also have an advantage as a consumer market and this will attract investment, thus fuelling their growth. Indonesia, Thailand, Philippines and Vietnam have this double potential as production location and market.

### **Selected issues for consideration**

- a) How to promote growth and ensure political stability with rapid and significant demographic changes and under an increasing robust democratic system that demands more transparency, efficiency, openness and fair treatment to all;
- b) Adequate pension and health schemes are very necessary for ageing societies. For this purpose, financial market reforms are needed in order to develop and deepen capital markets to offer financial facilities for the aged. Likewise, financial market reforms are also needed to deal with increasing migration, cross-country. In this case, the portability of pension systems should be considered to ensure that workers will not lose benefits when they move to other countries;

- c) Governments should create an enabling environment that can increase female labor participation while preserving their work-life balance so that the total fertility rate will not drop below the population replacement rate;
- d) Ageing population and expanding migration highlight the importance of human capital as a source of economic growth. Shrinking workforce requires higher productivity and greater flexibility. Skills are critical assets that allow workers to seek better jobs wherever they are available. Thus, governments and the private sector must be able to meet the rising demand for education and skills training and for continuing on-the-job training. Young people in Asia will demand more access to education. The question is: how to increase access to education at an affordable price? Provision of education will require large investments at all levels; and
- e) Skilled workers are very much sought after and their migration is encouraged. But even so, they face many hurdles before and after they migrate. The lesser skilled or unskilled workers encounter even bigger challenges – from a myriad of regulations, the many “immigration industry” participants, high costs and lack of protection of their rights as immigrants. Asia Pacific governments should cooperate and establish a system for migration of low skilled labor that is free from these problems.