

RIETI BBL Seminar Handout

“Secular Stagnation:
Is Asia also at risk?”

December 19, 2018

Speaker: Dr. Thomas Helbling



Sustaining Economic Growth in Asia

Challenges from Demographics and Trade



Thomas Helbling
International Monetary Fund
Asia and Pacific Department

Prospects and Challenges for Sustained
Growth in Asia

Tokyo, Japan

December 19, 2018

Asia and (Secular) Stagnation

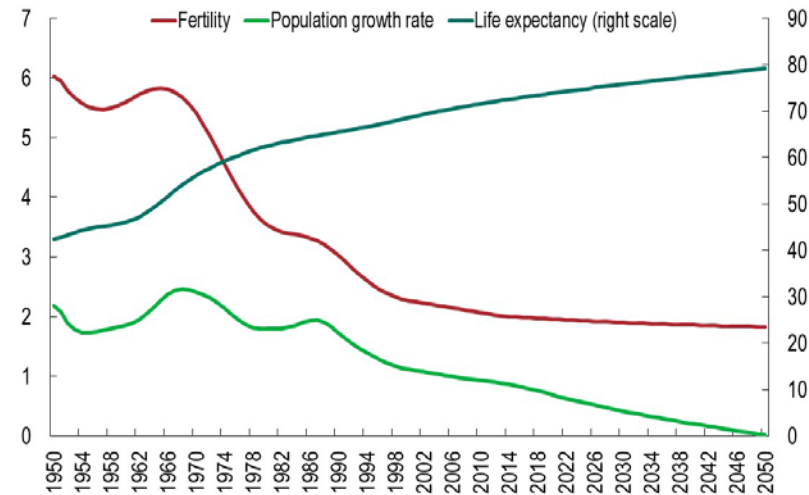
- Typically, Asia is not associated with the (secular) stagnation hypothesis, given continued high growth.
- Book: Symptoms of (secular) stagnation have also been present in Asia.
- Spillovers vs. home-grown factors behind stagnation:
 - Global trade growth slowdown: spillover (with spillbacks). Chapters 5, 16, and 17 in the book.
 - Broader spillovers from lower trade growth
 - Demographics: a home-grown headwind to growth.
- Nominal interest rates: the ZLB and related real interest rate adjustment problem (next presentation).
- Need a new growth model for Asia.

Changing Demographics: Reversal of the Demographic Dividend

- Demographic transition:
 - Some countries in Asia are aging fast—especially compared to the experience in Europe and the United States.
 - Declining population growth; in some countries in Asia, population expected to start shrinking over the next two decades.
- Implications:
 - Ratio of the working age population in the total population is declining in post- and late-dividend countries (2015).
 - Shrinking working age population in post- dividend countries (2015).
 - **Reversal of the demographic dividend**

Asia: Fertility, Life Expectancy, and Population Growth

(Percent on the left scale; Year on the right scale)



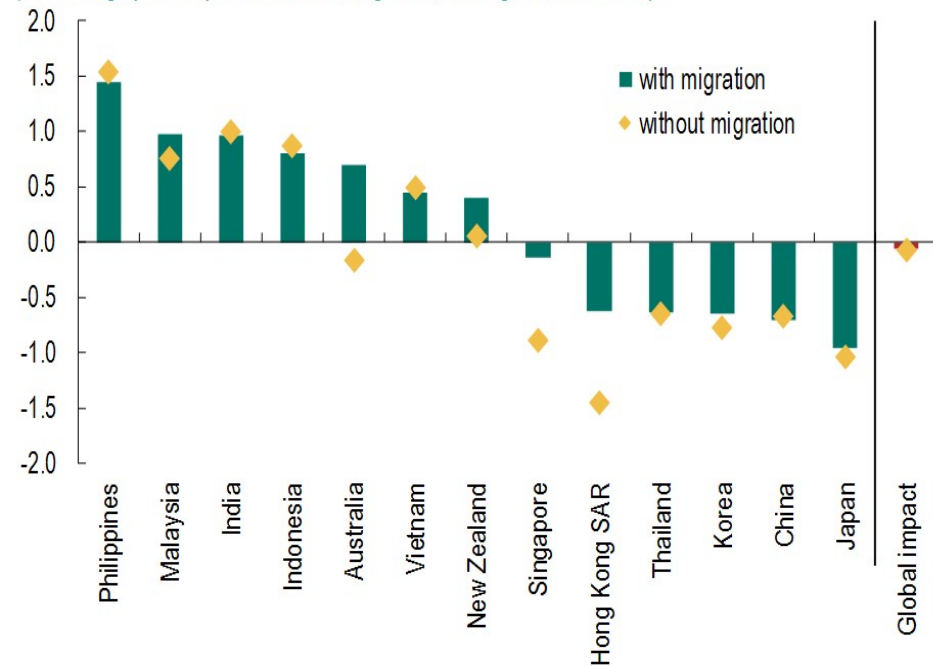
Source: IMF staff estimates based on United Nations, *World Population Prospects: 2015 Revision* (medium-fertility scenario).

Demographics: From Tailwind to Headwind to Growth

- The demographic dividend has contributed importantly to growth and convergence in Asia.
 - Direct benefits for growth per capita from high growth in working age population.
 - Indirect effects: higher saving and investment; higher productivity growth.
- Reversal of demographic dividend will weigh on growth, everything else equal.
- But:
 - Demographics is not destiny, and the growth impact will depend on many factors.
 - Some Asian economies (will) still enjoy a demographic dividend.

Asia: Baseline Growth Impact of Demographic Trends

(Percentage point impact on real GDP growth; average over 2020-50)



Sources: IMF staff projections based on Amaglobeli and Shi (2016); United Nations, *World Population Prospects: 2015 Revision* (medium-fertility scenario); and Penn World Tables 9.0.

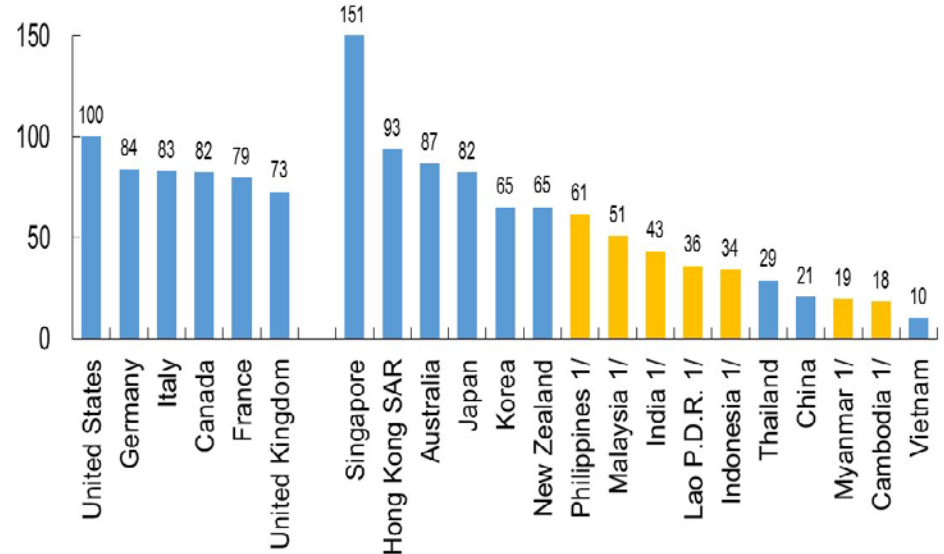
How much of a Headwind?

- The speed of the reversal of the demographic dividend can be influenced by several factors:
 - Migration.
 - Labor force participation, especially female participation
 - Fertility partly depends on economic factors (e.g., cost of child care)
- Growth impact overall will also depend on other mitigating factors:
 - Effective labor matters: human capital development can make a difference.
 - Capital deepening (e.g., automation).

Policy Considerations

- New challenge: Asia may grow old before becoming rich.
- Policies can lower the speed at which the demographic dividend reverses.
- Other policies:
 - Education and human capital
 - Saving and investment
- Supporting the elderly
 - Many countries in Asia have limited social welfare systems
 - Planning for greater needs in health and income (pension) support

Per Capita Income Level at the Peak of Working-Age Population Share
(Purchasing power parity based; in percent of U.S. per capita income at each country's peak year)



Sources: IMF World Economic Outlook database, and IMF staff calculations based on United Nations World Population Prospects: 2015 Revision (medium-fertility scenario).

Note: 1/ Based on IMF staff projection. For Malaysia, the income level relative to the United States is calculated from the April 2017 WEO projection for 2020. For the Philippines, India, and Indonesia, the income levels are calculated by applying the projected PPP per capita income growth rate in 2022, starting from 2023 and up to the year in which the working-age population share is projected to peak, respectively.

The Slowing Trade Growth and Asia

- Secular stagnation can spread through spillovers, including lower import demand in source countries.
 - Rebalancing from external to domestic demand to mitigate spillovers.
- Very rapid trade growth in the 1990s and 2000s before the global financial crisis also coincided with increased capital mobility and widening global imbalances.
 - Widening external imbalances were the flipside of accelerated export-led growth in some Asian economies.
- In addition to trade spillovers, constraints on external imbalances (e.g., lower risk appetite) since the global financial crisis have also constrained trade growth.

From Export-Led to more Domestically-Driven Growth in Asia

- Final demand in advanced economies is unlikely to be the strong source of growth for exporters in Asia it was before the global financial crisis.
 - Prospects for traditional export-led growth and development seem more constrained.
- Boost domestic sources of growth, including domestic innovation systems (Chapter 4).
- Pivot away from advanced economies outside Asia. Foster regional trade in Asia, which is and remains the economic powerhouse of the global economy.
 - Foster intra-industry trade and regional supply chains.
 - Develop infrastructure; Harmonization of rules and procedures.