



AGING POPULATION AND ITS ECONOMIC IMPACT
+ IMMIGRATION

Role of G20 in Designing Immigration Policies to Support Population Aging

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Abstract

The advanced economies of the world are undergoing a demographic shift toward older societies, which may be accompanied with slowdown in economic growth. While this shift has been met with a number of policies, welcoming immigrants from younger societies remains critical to mitigate the consequences of population aging. Newcomers, however, tend to be less educated than natives. Hence, the need for skills development before departure. Existing practices of skills development have been of small scale and limited to selective immigration policies. Economies, however, need a work force with diversified skills. Thus, aging economies require low- and high-skilled labor force whose members could be economic and forcibly displaced immigrants.



Challenge

Population aging is poised to become one of the most significant social transformations of the 21st century and poised to generate regional and global imbalances for two reasons. First because of the decline in fertility rate. The world's fertility rate post World War II was 4.9 children per women in 1950-1955. Today the rate is 2.4. Projections of 2050 indicate the fertility rate will decline further to 2.3 (United Nation Population Division). On the other hand, life expectancy is increasing. In almost all parts of the world, people are living three decades longer since after WWII. Life expectancy by 2050 is estimated to be 76.9 years up from 46.9 years in 1950-1955 (United Nation Population Division). The changes in fertility and life expectancy rates set the ground for a global demographic transition into an older society: the number of population aged 60 and over was 962 million, or 12 percent of the world population, in 2017. Three decades from now, the number is projected to double and reach 2.1 billion, or 21 percent of the world population, by 2050.

The shift from high mortality-high fertility to low mortality-low fertility causes a transition to demographic tax: decreasing population share of working-age individuals. This shift could unfold in two ways. Governments' public spending on age-related programs, such as pensions and health, as a share of Gross Domestic Product (GDP) would rise. Indeed, in more developed countries, the combined spending on pensions and health could increase from 16.4 percent in 2015 to 21.4 percent by 2050. Comparatively, the government spending in less developed countries, on the aforementioned areas, will also increase from 5.5 percent to 10.0 percent. Consequently, leading to unsustainable public debts. This, in return, would necessitate either acute cuts in another spending, on education or infrastructure for example, or require a spike in taxes that could



hinder economic growth. The slowdown of the latter would make it further difficult for governments to reduce their public debt as a share GDP (Clements et al 2015). This is accompanied with greater asset accumulation together with lower interest rate. The decrease in the latter would negatively affect the acquired savings of the aging population while dissaving to meet mostly health related expenditure (Carvalho et al 2016).

The demographic shift increased the participation in the labor market either by extending age of retirement (Bloom et al 2006) or by the participation of more females (Bloom et al 2009). What is more, population aging saw more investment in human capital. School enrollment and educational attainment have improved across countries as parents invest more in fewer, but more highly educated children (Lee and Mason 2009). Additionally, automation, specifically robotics, is gaining ground to offset consequences of population aging, but positive productivity spillover of adopting robotics is limited to most responsive industries to automation (Acemoglu and Pascual 2018).

Although the aforementioned outcomes are of positive nature in aging economies, migration remains pivotal in relieving the strain of population aging and contributing to other long-term gains, such as higher growth and productivity (IMF 2016). While Immigrants' labor market outcomes are indicators of successful integration in the receiving economies, the success, nevertheless, faces hurdles. The most noticeable one is the mismatch between immigrants' skills, qualifications, and jobs in hosting economies (Aleksynska and Tritah 2013). These hurdles find root in, but not limited to, immigrants' difficulty in human skills transferability (Chiswick and Miller 2009), quality of education in countries of origin (Bratsberg and Terrel 2007), and economic conditions in destination countries (Sattinger 1993, Boeri and Jimeno 2004,



Bentolia and Bertola 1990).

Proposal

Adopt and Implement Flexible Immigration Policies

The robust economies of the industrialized countries create jobs, but the supply and demand of labor is skewed because of the raising potential support ratio.¹ With regard, the potential support ratio in African countries, on average, is 12.9 people aged 20 to 64 for every person aged 65 or above; 8.0 in Asian countries, 7.6 in Latin America and the Caribbean, 4.8 in Oceania, and Europe and Northern America at or under 4 percent. Country wise, Japan has the lowest potential support ratio in the world with 2.1. Projections for 2050 indicate that many countries, especially European ones, are expected to have below 2 potential support ratio, underlining the fiscal pressure health care systems as well as the old-age and social protection systems of many countries are likely to encounter in the near future (United Nation Population Division).

Therefore, and beside the abovementined outcomes of population aging in the labor market, the call for aging advanced economies remains open to adopt and implement immigrant-friendly policies (IMF 2018). Indeed, advanced economies, irrespective to the traditional position on migration, are keen on welcoming more immigrants. Take Germany for example. Europe's top economy ended 2017 with over 1.2 million job openings, the highest since the

¹ Potential support ratio: the number of people aged 20 to 64 divided by the number of people aged 65 and over. The United Nations Department of Economics and Social Affairs, Population Division



reunification of the country.² This was coupled with unemployment rate as low as 3.75 percent. There is a similar case in Japan, too. New job openings for general employment stood at 966,635 by November 2018 (Japan Ministry of Health, Labour, and Welfare). The Asian giant has also one of the lowest unemployment rates in the world: 2.2 percent at the end of 2018. In certain sectors, such as construction and nursing care, job vacancies are four times higher than job seekers. In both countries, there is a shortage of manpower. Moreover, the labor market in Germany needs around 440,000 immigrants, with various sets of skills to fill jobs which the local labor supply cannot fulfill (Lall 2019). In Japan, there is a need for 345,150 blue-collar workers.³

Experiences from the past suggest that migration tends to offer various economic gains with limited negative spillovers. With regard to the latter, there is undesired impact especially on the wages of low-skilled workers (Aydemir and Borjas 2007). Yet the overall impact of immigrants on employment and wages of natives remains limited (Peri 2014). On the other hand, immigration increases the share of working-age people in the total population, because migrants tend to be predominantly of working age (see figure 1). This effect will be the largest where migrants integrate quickly into the labor market (Aiyar et al 2016). In addition, diverse workforce suggest large benefit for income per capita for host economies (Alesina et al 2016). This is specifically a critical long-term positivity for economies undergoing aging population.

Immigrants also expand the space in the labor market for natives to move

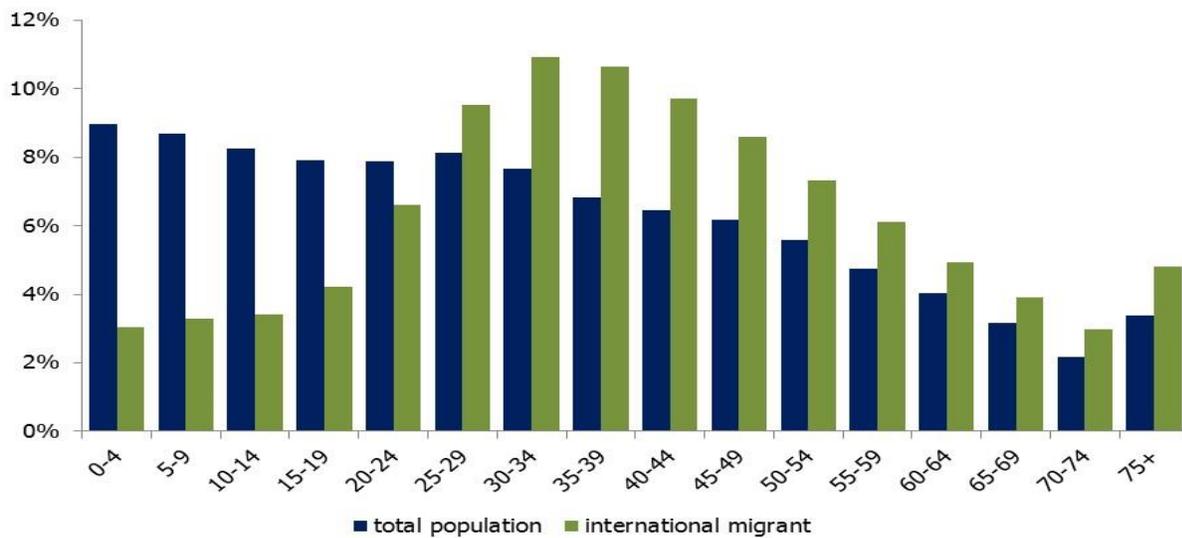
² German job vacancies hit record high in second quarter. Reuters, 2018 <https://www.reuters.com/article/us-germany-economy-vacancies/german-job-vacancies-hit-record-high-in-second-quarter-idUSKBN1KS0ZN>

³ Japan to regularly release figures for foreign workers by region and sector under new visa system. Japan Times, 2018 <https://www.japantimes.co.jp/news/2018/12/20/national/japan-regularly-release-figures-foreign-workers-region-sector-new-visa-system/#.XFFbjVUzbIU>



upward in often performing more complex tasks that promote skill upgrading and hence foster efficient specialization. This is case in Turkey. The sheer influx of Syrians created higher-wage formal jobs and enabled occupational upgrading of Turkish workers who now enjoy higher average wages (Del Carpio and Wagner 2015). Furthermore, immigrants increase the participation in the labor market, particularly among highly skilled native women when there are lower-skilled female labor migrants (Jaumotte et al 2016). Additionally, immigration increases demand, which is likely to boost consumption in the short term and investment over the medium term (Alesina et al 2016).

Figure 1: Age distribution of the total population and international migrants



Source: United Nations Department of Economic and Social Affairs

Immigration may foster innovation in the form of introducing new goods. Estimates indicate that a twofold increase in the migration stock is associated with a 60 percent increase in the likelihood of exporting a new product within ten years after the arrival of the migrants (Bahar and Rapoport 2016). What is



more, the relationship between immigration, investment, and trade appears to be strongly positive (Hatzigeorgiou 2010).

Moreover, advanced economies, for being the favored destination, are keen on selective immigration policies. This approach could attribute to increasing immigrants' education to meet entry criteria. Hence, improving immigrants' skills (Bertoli and Brücker 2011). Yet one consequence is disproportionate concentration of skilled immigrants, not only in advanced economies, but also among them. Indeed, the OECD countries are home to two-third of skilled immigrants and among them, the U.S., the U.K., Canada, and Australia are the top destinations (Citi and Oxford 2018). Any given economy, nevertheless, does not run only on the skilled individuals. History shows that the United States has hosted close to half of all high skilled migrants to the OECD and one-third of high skilled migrants worldwide (Kerr et al 2016). Yet sectors like agriculture, home health aides, and personal care aides are not in the interest of locals and employers are in need for workers to fill the job vacancies (Wilkinson 2018).

Develop Forced Immigrants' Skills in Hosting Economies

Although migration can make an important contribution to labor force growth, its role in counterbalancing the effects of population ageing will depend on the capacity of countries to match labor needs to migrants' skills. In this regard, more needs to be done to better use migrants' skills and to adapt labor migration management systems to employers' needs.

There have been a number of initiatives, mainly driven by the private sector, and in certain cases with governmental support, for skills development while



targeting new hires in immigrants' countries of origin. There is, for example, technical training programs in the sectors of maritime and construction in the Philippines and Bangladesh respectively. Other initiatives also include training in nursing for Mexicans to work in the United States and for Tunisians to work in Germany, and a training scheme in geriatric nursing for Vietnamese. These programs did not only offer skills development, but also language and cultural orientation courses. The successful candidates received skills recognition certificates, which allowed migrants to work in the destination countries under special visa programs and the finances were covered by either the private sector or under private-public partnership (Clemens 2015).

Recommendations

The mobility of humans in today's world is driven by regional and global economic imbalances. Advanced economies enjoy budget surplus due to asset accumulation and low interest rates that further empower the already powerful, and consequently, generating generational inequalities within the national economies. In the face of this, less advanced economies struggle with budget deficits, which motivate millions to look at the brighter economic side elsewhere.

Thus, and due to the aforementioned imbalances, it would be of mutual benefit to channel some of the surplus existing in the advanced economies to create a global wealth fund. The latter could flush capital in certain investments along the lines of Sustainable Development Goals (SDGs), by targeting destinations where younger generations of locals and others could counter balance the envisioned consequences of the demographic shift.



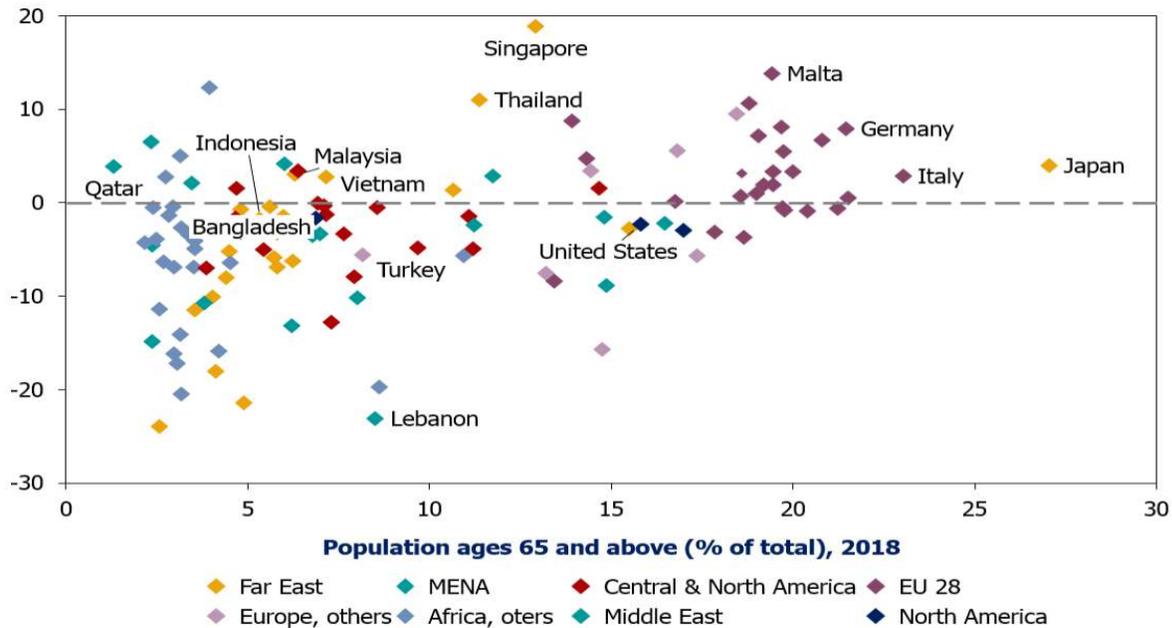
Appropriate to the purpose, the global wealth fund could consider the abovementioned skills development schemes as a springboard initiative. The latter, as an upscaled version of what had been discussed, could target, as an example, fairly globalized economies with an intake of sheer number of immigrants for better responsibility sharing. Moreover, the platform for the initiative would be the Made by Refugees (MBR) Special Economic Zones (Kadkoy et al 2017). Thus, generating a number of outcomes.

The G20 should develop the MBR framework as a commercially viable business model for the Multinational Companies (MNCs) and local Small and Medium-sized Enterprises (SMEs) and go beyond the corporate social responsibility programs. For SMEs that sub-contract orders from MNCs in refugee hosting countries, the MBR would bring greater transparency and accountability from local firms that employ refugees. As such, creation of decent jobs through establishing MBR Zones would help prevent exploitation of refugees, including children.

The G20 could utilize the saving surplus of population aging (see graph 2) to invest in developing the already existing infrastructure of MBR Zones. The investment of the G20 countries would be proportionate in amount to the labor shortages present in the national economies, while taking into consideration the costs of resettling immigrants and the sophistication of the skill sets to be developed. Therefore, calculating the cost of employing one more immigrant (Düşündere et al 2018). In parallel, the G20 should create a closer dialogue with the private sector to create Public-Private Partnership (PPP) and to secure procurement contracts for the companies in the Zone. Hence, the return of the investment would be relative to the invested capital.



Figure 2: Current account balance (% of GDP), 2018



Source: World Bank, UN World Population Prospects (2017)

The G20, and by following this path, would turn the forced immigrants in refugee hosting countries to skilled immigrants, politically and publically more acceptable, who are prepared to fill the vacancies in the needed economies. Hence, safeguarding the pensions of the elders as newcomers would be economic contributors through paying taxes. Effectively and gradually motivating the central banks in respective national economies to raise the interest rate and consequently protect the savings of the elders.

The G20, through MBR initiative, would act on responsibility sharing while developing the skills of forced migrants. Forced displacement immigrants tend to seek safety in neighboring countries, leaving very few hosting countries with the task of accommodating millions (UNHCR 2017). Therefore, the MBR initiative would correspond to the durable solution proposed by United Nations High Commissioner for Refugees (UNHCR) by offering local integration through



the jobs created in the Zone in the hosting economies; offering resettlement opportunities for the trained forced immigrants after being equipped with the necessary skills to effectively participate in the economy of the destination countries; and contribute to skills upgrading for when the forced immigrants decide to repatriate and take a role in rebuilding their home countries.

Finally, jobs created through MBR Zones would be good jobs (i.e., formal employment opportunities in line with modern occupational safety and health standards); sustainable jobs (i.e., they would require profitable business models for the operating companies); and inclusive jobs (i.e., they would be directed at both host and refugee communities to ensure a fair distribution of generated income from the MBR initiative).

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