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South Korea's Demographic Dilemma: Impact on Economy and Security

By Lee Sang Ok & Tan Teck Boon

Synopsis

South Korea is facing a rapid ageing dilemma with a long-term impact on its economic dynamism and national security. Innovative approaches and a new mindset will help defuse this impending demographic crisis.

Commentary

AS SOUTH Korea grapples with an increasingly pugnacious North, another major crisis looms on the horizon. According to the United Nations World Population Prospects (UNWPP), 6.4 million Koreans or 12.7% of South Korea's population were aged 65 or above in 2014. By 2026, an astounding 10.7 million Koreans or 20.5% of the population are expected to be aged 65 or above.

Considering that only 551,000 Koreans or 2.9% of the population were aged 65 or above when the Korean War broke out in 1950, South Korea had turned into an aged society within a few decades, with major repercussions anticipated ahead.

Factors Driving Rapid Ageing

South Korea's rapid ageing is the culmination of two key factors. Firstly, South Koreans are living longer. Between the end of the Korean War in 1953 and 2014, life expectancy in Korea jumped by 33.6 years from 48.2 to 81.9, according to UNWPP data. Meanwhile, the country's birth rate plunged – from 38.0 births per 1000 population in 1953 to just 9.1 births per 1000 population in 2014.

An inexorable consequence of this sharp increase in life expectancies and plunging birth rates is that at some point, total population will start to decline. Indeed, the

UNWPP projects that (from 50 million in 2014), South Korea's population will peak at 52.7 million in 2035 before declining steadily at least until the end of this century.

Crucially, South Korea's rapid demographic transition is not simply an issue of the sheer number of senior citizens in the coming years – major fiscal, economic, social and security implications for the country are also expected.

From 1995 to 2013, healthcare expenditure in South Korea rose from 3.8% to 7.2% of Gross Domestic Product (GDP), World Bank data reveals. As the population ages, healthcare expenditure is bound to rise further straining public finances as a result. Fiscal sustainability can certainly be achieved by increasing taxes and/or scaling back other government programs to finance rising healthcare expenditure. But as all policymakers know, neither would be easy.

As South Korea's total population declines, the workforce will also shrink curbing economic growth unless there are simultaneous gains in labour productivity. According to UNWPP projections, South Korea's working age population (consisting of workers aged 15 to 64) will peak this year whereas the core workforce (consisting of workers aged 25 to 49) had already peaked in 2009.

Meanwhile, OECD data indicates that South Korea's labour productivity growth has been on a downtrend since hitting a peak in 1983 tempering hopes that gains in labour productivity alone will offset the negative effects of a shrinking workforce on economic growth.

Impact on National Security

To forestall an imminent decline in the workforce, the Korean government will raise the current retirement age from 55 to 60 in 2017. It is also studying plans to raise the retirement age for civil servants from 60 to 65. By enabling older workers to continue contributing to the economy, the government hopes to sustain economic growth while reducing the tax burden on the shrinking younger population.

Apart from the lingering question of whether there will actually be enough jobs for the growing number of older workers, the younger population might also view raising the retirement age as potentially reducing their job opportunities and promotion prospects. So as South Korea ages, not only is the economy expected to cool, intergenerational tensions can potentially heat up too.

South Korea's demographic crisis also has significance for the country's national security. With only an armistice signed at the end of the Korean War in 1953, South Korea is technically still at war with the North. According to data released by the South Korean Ministry of National Defense (MND), South Korea spent on average 2.4% of its GDP on defence between 2011 and 2015.

Ageing, if it leads to a weak economy, might compel the Korean government to reduce its already modest military expenditure further. On the other hand, a shrinking population will invariably result in a reduction in military manpower. The South Korean military is mostly made up of 18 year-old male conscripts.

But as the population declines, the military's ability to draw manpower from the civilian pool will surely be affected. Indeed, UNWPP data indicates that the number of 18 year-old males had already peaked in 1991 at 465,000 and by the end of this century, the figure is expected to fall to just 176,000 – a whopping 62% fall from its peak.

“Dynamic Korea”, *quo vadis?*

To defuse the impending demographic crisis, the Korean government is looking to technology. For instance, it wants to see one robotic device in every household by 2020 to help ease the burden of elderly care and boost the country's female labour participation rate. South Korea already has the world's highest robot density in 2014 at 478 robots per 10,000 workers, according to the International Federation of Robotics, but the country is set to leverage on automation even more.

To cope with the dwindling number of young males available for conscription in the years ahead, the MND is planning to downsize from 633,000 personnel now to 522,000 personnel by 2022 while making up for the deficit with additional career soldiers. Additionally, the MND is deploying autonomous weapon systems to further reduce the military's dependence on manpower. Through the deployment of robotic sentries, for example, the MND aims to achieve its dual objective of weapons modernization and personnel reduction.

Other ministries are also taking steps – some of which were once frowned upon – to defuse the country's looming demographic crisis. High cost of education, youth unemployment and social norms that prejudice single parents are being targeted right now to raise the country's dismal birth rates.

There are also mounting calls for the country to welcome back overseas Koreans and even look to immigration to restock the population. Entrenched as it may be, the mindset in South Korea is changing and the country has demonstrated in the past an incredible ability to overcome great adversity. So when the dust finally settles, a more dynamic Korea might just emerge from this crisis.

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