



# Mexico and the Challenge of Global Aging

Presentation by

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# This could be the news in the year 2023.

- ❑ *The GDP of Europe has not grown for a decade.*

## Economist

**“Permanent Aging Recession?”**



- ❑ *France enacts 5th payroll tax hike in 5 years.*

## Le Monde

**“Pension Party tells Business Leaders:  
No Choice, Defense Already Zeroed Out”**



- ❑ *Japan, world's largest debtor, asks IMF for bailout.*

## Financial Times

**“Beijing Says No More Credits for Tokyo”**



# **This is the reality in the year 2003.**

**The world stands on the threshold of a great revolution called global aging.**

**Global aging could overwhelm government budgets in the developed countries, destabilize the global economy, and even overturn the geopolitical order.**

**There is still time to avert crisis. But time is running short—and the problem is worse than is generally supposed.**



# Two futures for Mexico.

❑ The developed countries fail to confront their aging challenge...

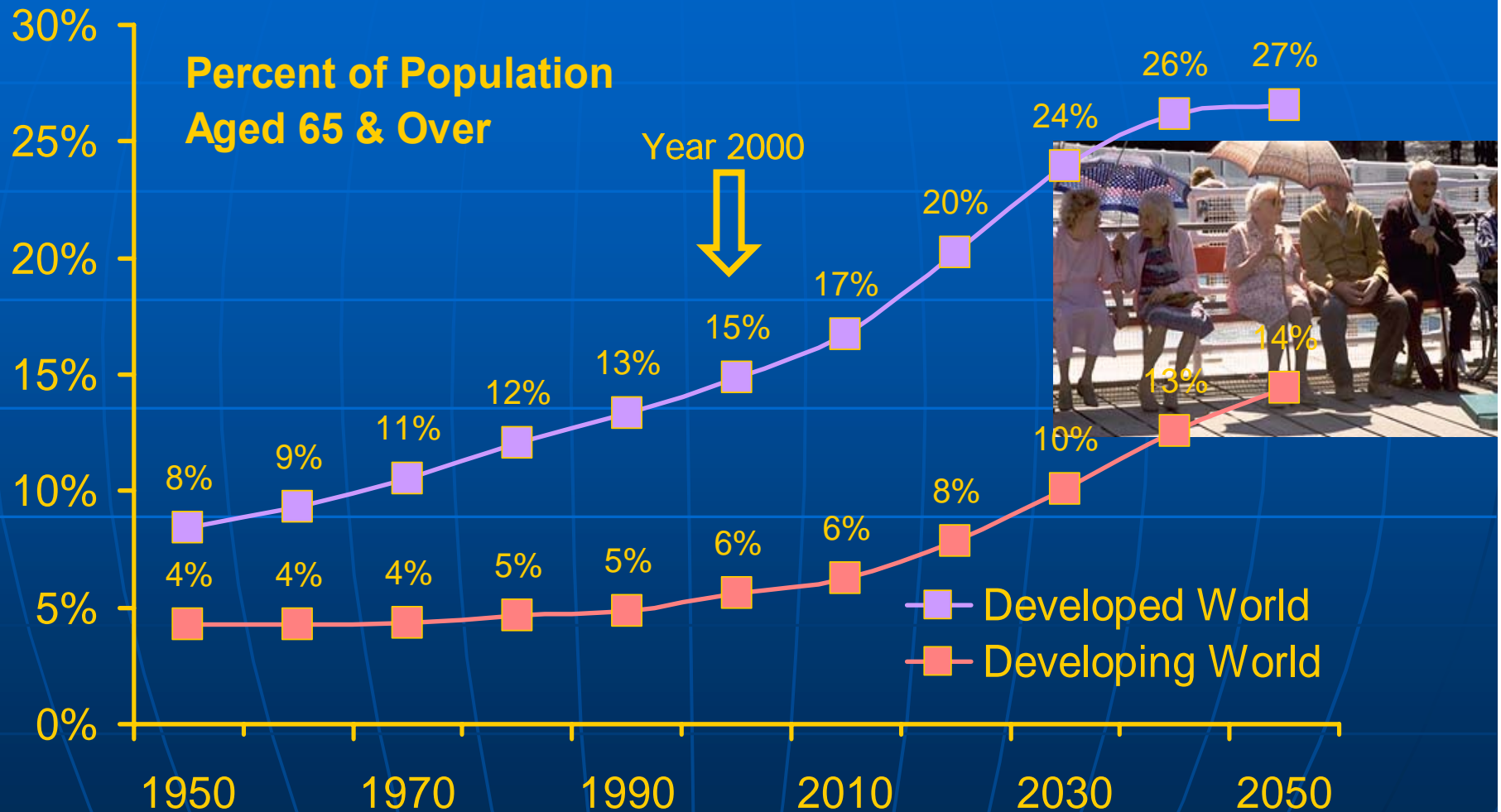
▶ Mexico could face a future of widespread capital shortages, declining export markets, and rising protectionism.

❑ The developed countries enact timely reforms...

▶ Mexico and the developed countries both reap huge benefits from the growing integration of their economies.



# The whole world is aging—and today's developed countries are leading the way.



# Two forces behind global aging. Force one: falling fertility.



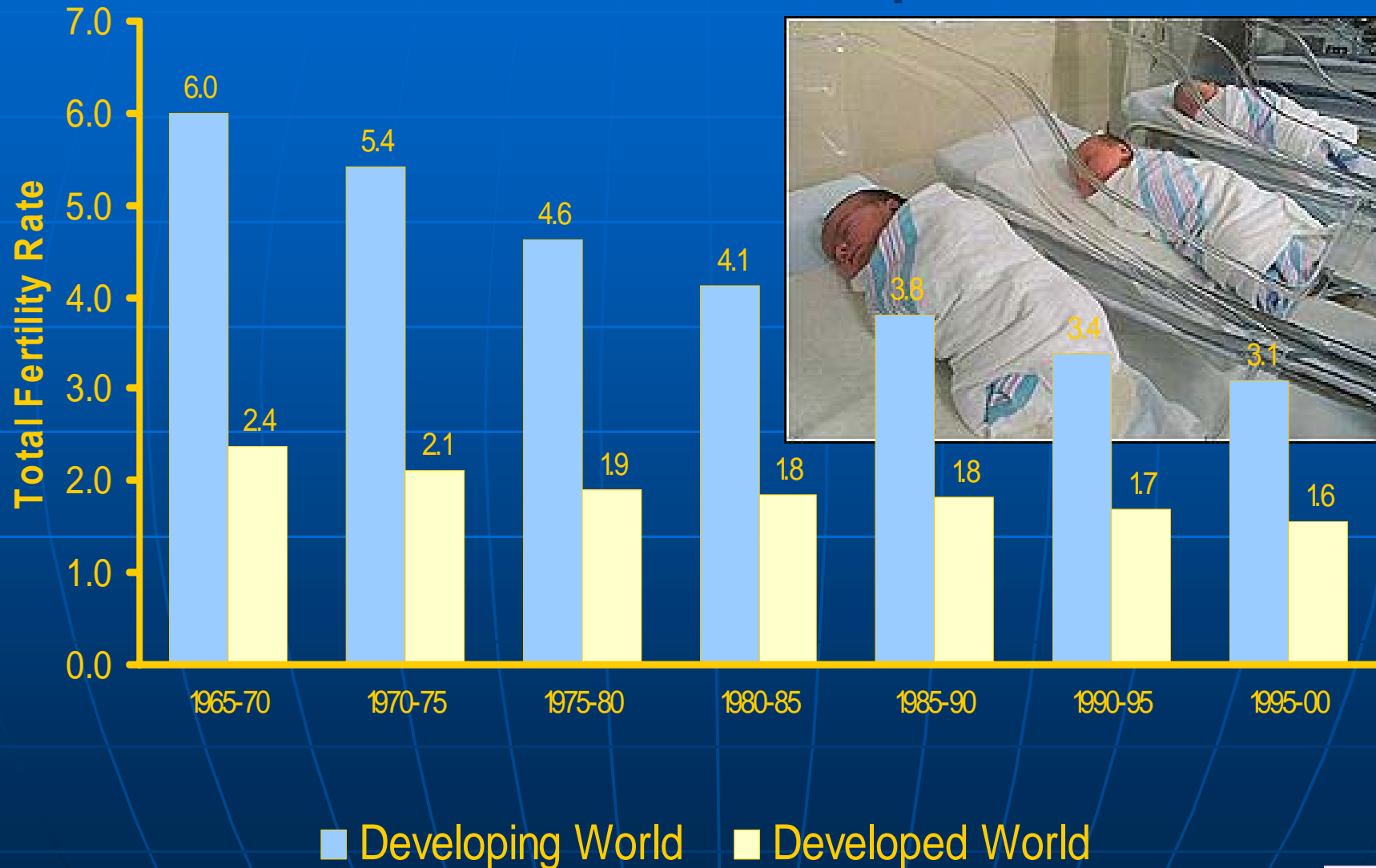
Global aging is what happens when people start having fewer babies.



Lower fertility shrinks the relative number of younger people in the population.



# Fertility in the developed economies has fallen far beneath the replacement level.



Source: UN (2001)

# Two forces behind global aging. Force two: rising longevity.

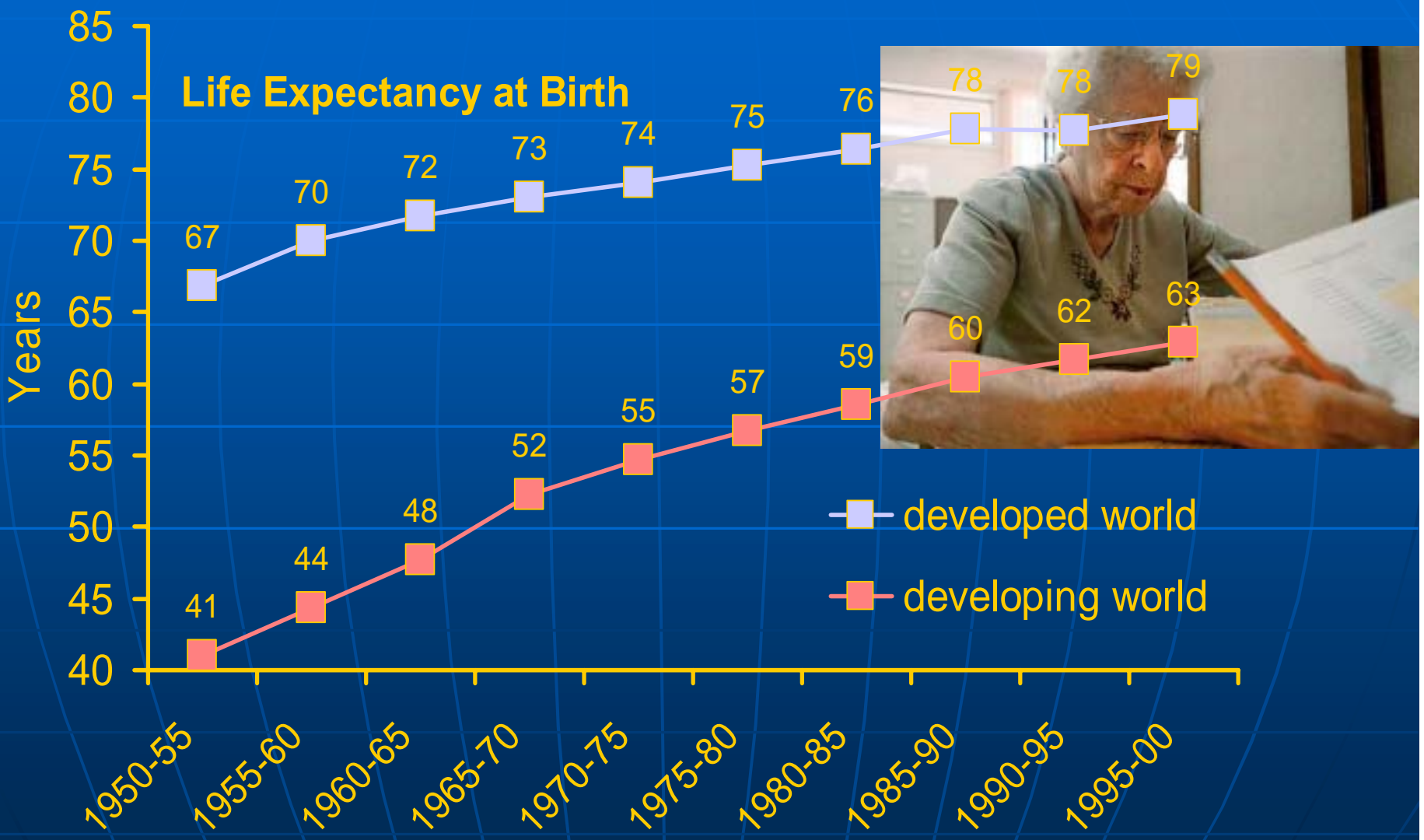


**Global aging is what happens when people start living longer.**

**Longer life spans enlarge the relative number of older people in the population.**



# Life expectancy has risen more over the past 50 years than the previous 5,000.



Source: UN (2001)



# Global aging poses five challenges for today's developed countries.

- ❑ the FISCAL challenge of rising retirement costs
- ❑ the LABOR challenge of a graying and shrinking workforce
- ❑ the GROWTH challenge of stagnant markets
- ❑ the FINANCIAL challenge of asset devaluation and capital-flow swings
- ❑ the GEOPOLITICAL challenge of demographic power shifts and tight defense budgets

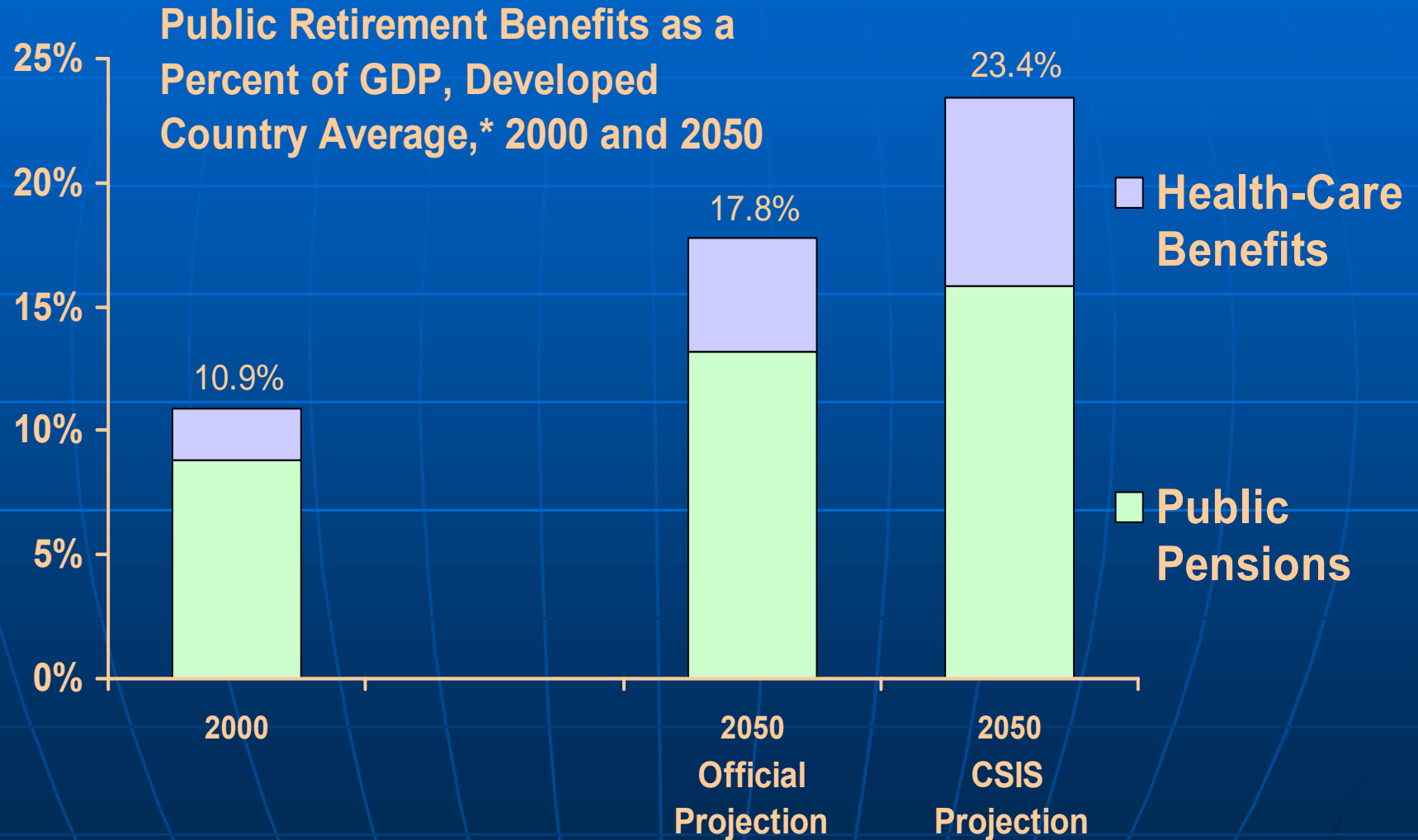


# The fiscal challenge.

- ❑ Declining support ratio of workers to retirees
- ❑ Rising cost of pay-as-you-go retirement benefits
- ❑ Large tax hikes, large benefit cuts, or exploding public debt
- ❑ Growing political paralysis over unpopular budget choices



# On average, public retirement benefits are due to grow to one-quarter of GDP.



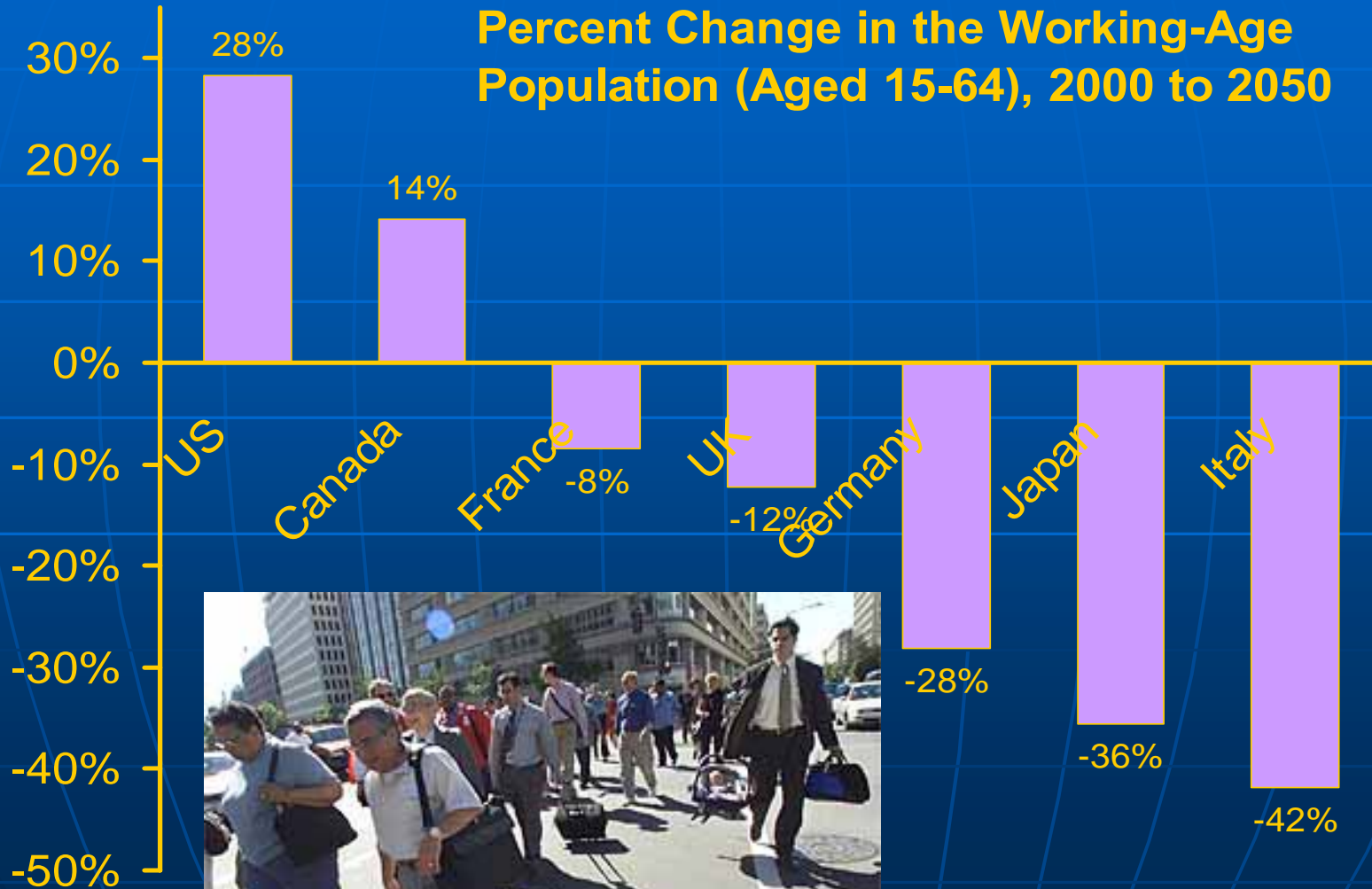
\*Figures are unweighted averages. Source; EC/OECD (2001) and CSIS (2002).

# The labor challenge.

- ❑ Shrinking workforces and labor shortages
- ❑ Aging workers and aging union memberships
- ❑ Pressure to increase immigration—and popular backlash
- ❑ Growth in cross-border outsourcing



**In many fast-aging countries, the size of the working-age population will shrink dramatically.**



Source: UN (2001)

# The growth challenge.

- ❑ Long-term zero or negative GDP growth
- ❑ Declining rates of savings and investment
- ❑ Falling demand for infrastructure (highways, housing) and capital goods (offices, mills)
- ❑ Shrinking consumer markets and growing pressure for protection and cartels



# Some developed economies may soon see GDP decline even in years of full employment.



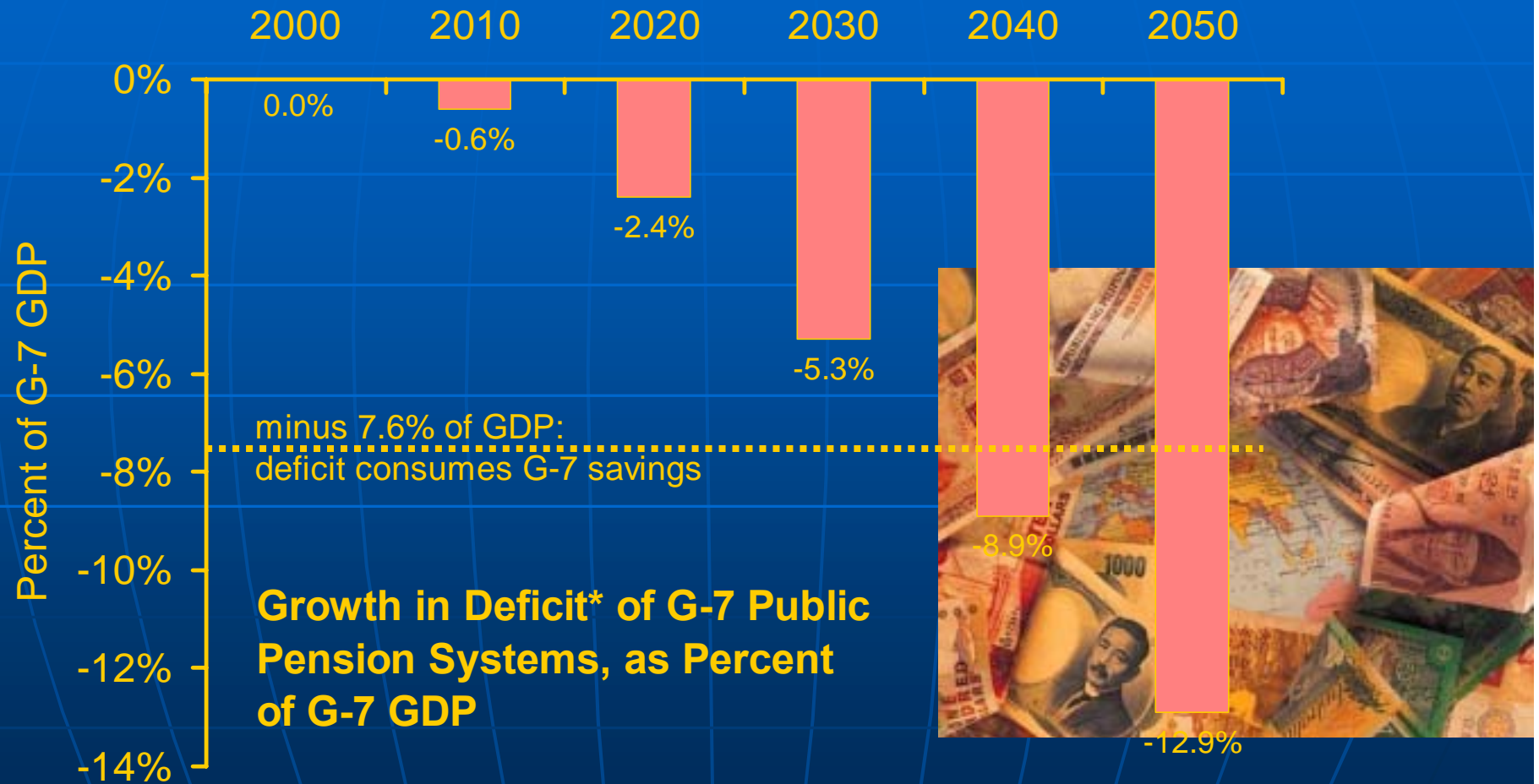
\*Assumes 1.0% annual productivity growth  
Source: OECD (2001) and CSIS (2002)

# The financial challenge.

- ❑ **Danger of “Great Depreciation” in financial markets when Boomers retire**
- ❑ **Unsustainable government borrowing to fund pensions**
- ❑ **Possible collapse of regional economic entities like the EMU**
- ❑ **Capital-flow reversals: Emergence of developed debtors (Japan? Germany?) and developing creditors (China? Mexico?)**



# Yawning public pension deficits threaten to devour the savings of the developed world.



\* Deficit = Annual cash deficit plus accrued interest on prior years  
Source: EC/OECD (2001) and CSIS (2002)

# The geopolitical challenge.

- ❑ Will youthful developing societies...
  - ▶ feel demographic pressure to expand?
  - ▶ translate faster economic growth into global leadership?



- ❑ Will aging developed societies...
  - ▶ find the resources to meet their security commitments?
  - ▶ be willing to sacrifice for the sake of the future?



# If demography is destiny, global leadership may pass from the "First" to the "Third" world.

## 12 Largest Countries Ranked by Population

1950	2000	2050
1 China	China	India
2 India	India	China
3 <b>United States</b>	<b>United States</b>	<b>United States</b>
4 Russian Fed.	Indonesia	Pakistan
5 <b>Japan</b>	Brazil	Indonesia
6 Indonesia	Russian Fed.	Nigeria
7 <b>Germany</b>	Pakistan	Bangladesh
8 Brazil	Bangladesh	Brazil
9 <b>United Kingdom</b>	<b>Japan</b>	Congo
10 <b>Italy</b>	Nigeria	Ethiopia
11 <b>France</b>	Mexico	Mexico
12 Bangladesh	<b>Germany</b>	Philippines



# The developed countries must...

- ❑ **Reduce the cost of old-age benefit systems**
  - ▶ **Scale back pay-as-you-go programs**
  - ▶ **Put in place funded alternatives—like personally owned accounts**
  
- ❑ **Pursue “out of system” strategies that boost the size of the workforce and economy**
  - ▶ **Increase employment among working-age adults**
  - ▶ **Encourage later retirement**
  - ▶ **Reward families for raising children**

# Globalization is an essential strategy for an aging world.

❑ There are great advantages to cooperation between the developed and developing worlds:

- ▶ immigration and outsourcing
- ▶ cross-border investment

❑ Bottom line: An open global economy allows young people to support old people across international borders.



# While its population is still young and growing, Mexico needs to...

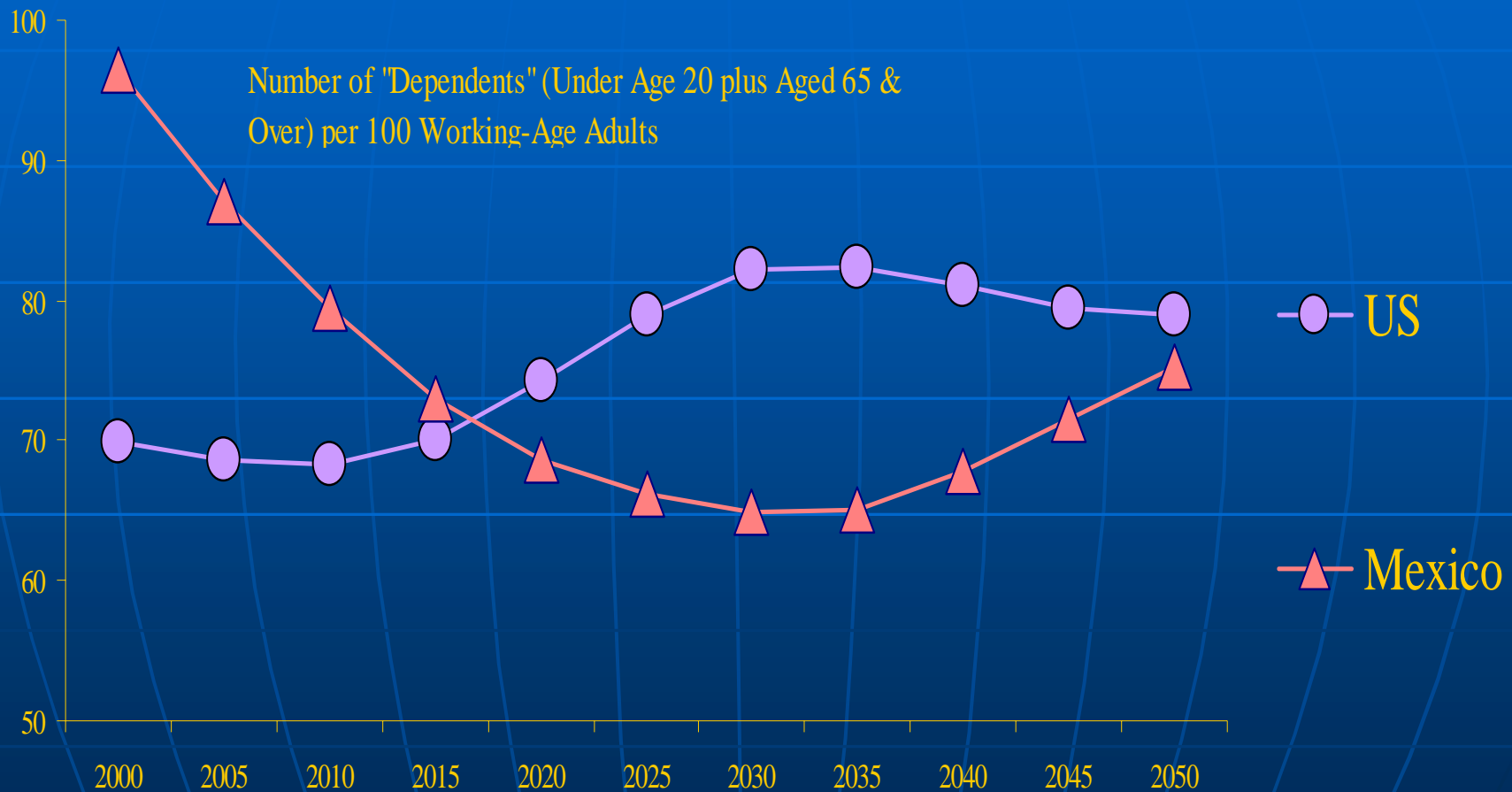
- ❑ Complete the reform of labor markets and capital markets that it began in the 1980s

- ❑ Invest heavily in modern infrastructure and an educated workforce

- ❑ Prepare for its own age waves that looms just over the horizon



# Mexico's demographic dividend: Declining dependency ratios.



Source: UN (2003)

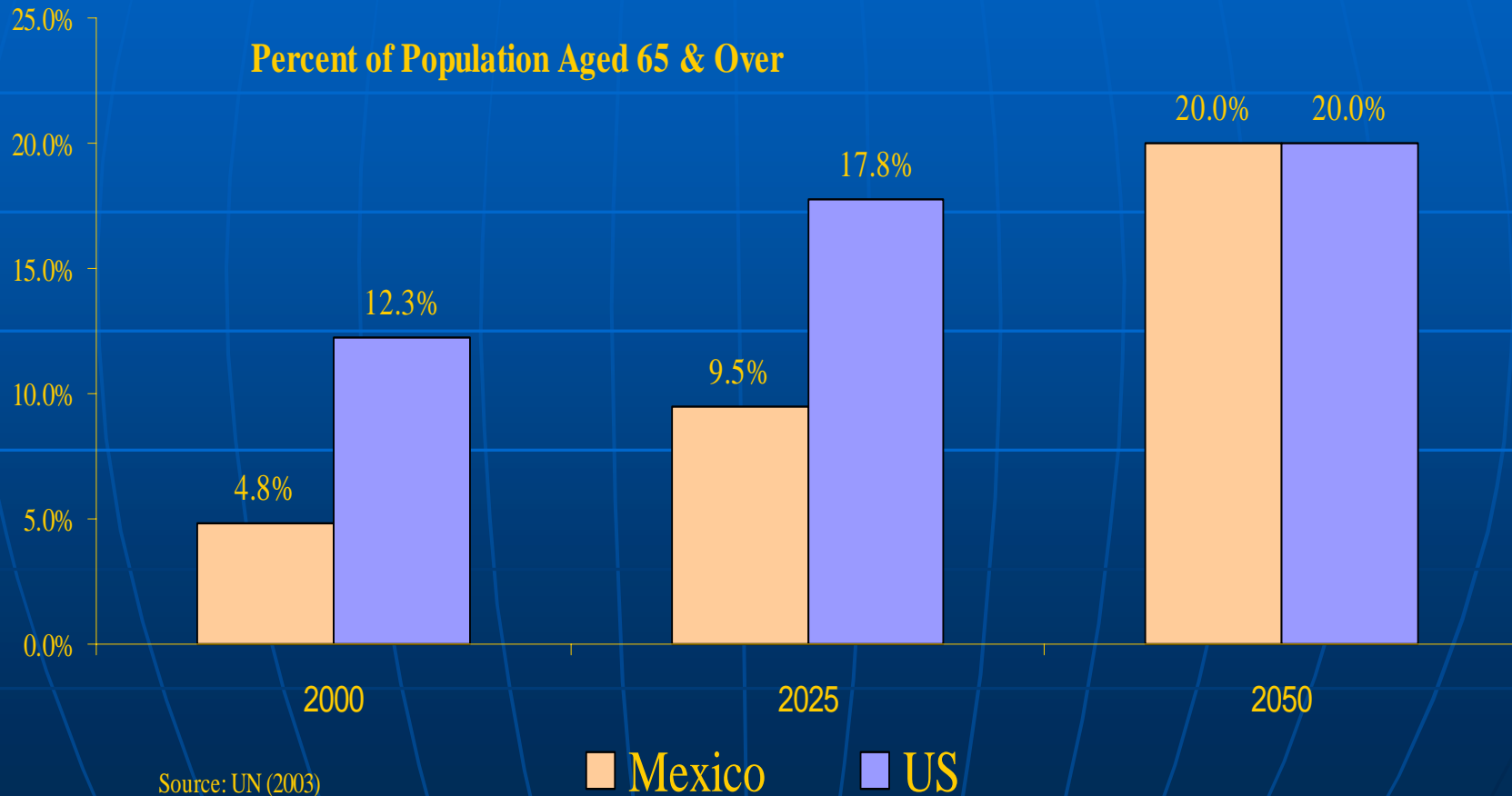
# Mexico's demographic dividend: A fast-growing working-age population.



Source: UN (2003)



# Mexico will grow old in its turn.



# Mexico enjoys considerable advantages in confronting the aging challenge.

- ❑ No large unfunded liabilities for pay-as-you-go retirement systems
- ❑ Strong extended families that serve as informal care networks for the elderly
- ❑ Time to learn from the mistakes of its older and more affluent neighbors



# Mexico must overcome a large disadvantage.

**The United States and the other developed countries got rich before they grew old.**



**Mexico may confront an old-age dependency burden equal to the United States—but with one-third the per capita income.**





**We live in an era defined by many challenges,  
from global warming to global terrorism.**

**None is as certain as global aging.**

**And none is likely to have such a large and  
enduring effect on the shape of national  
economies and the world order.**

