Demographic Dividend

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In the early 1970s, two nations with very similar GDPs – Thailand and the Philippines – diverged. Thailand began a national program to provide its citizens with voluntary access to contraception, while the Philippines did not. By 2010, Thailand had 68.1 million citizens, while the Philippines had 93.6 million.

In 2008, Thailand's gross domestic product was $273 billion, while the Philippines' was $167 billion. Per capita, Thailand's GDP was $4,043, while Filipinos settled for $1,847. In 2010, only about one in 10 Thais lived in poverty, while more than one in four Filipinos did. This result isn't limited to these two countries. Nations with the highest birthrates tend to be the poorest, while the richest nations on Earth have birthrates near or below replacement.

The relationship between changes in population size and economic prosperity is complex. But there is one set of demographic changes that most experts agree can yield major economic benefits. The result of these changes is known as the "demographic dividend" or the demographic bonus.

The demographic dividend happens when a nation's fertility rate rapidly declines following a period of high birth rates and rapid population growth, such as what happened when Thais gained access to contraception. This leads to a larger working-age population and a smaller number of young people. The benefits can last more than five decades and can be just the boost economies need to transition from developing to the developed world. Many economists and demographers argue that the demographic dividend played a major role in the rise of the "Asian Tiger" economies, including Thailand, Hong Kong, Singapore, and South Korea, and Taiwan.

How Does the Demographic Dividend Work? At the early stage of the demographic dividend, fertility declines. With each person of working age supporting fewer young people – both at the household and national levels – rapid economic growth can happen if the right investments are made in infrastructure, employment, and human capital, such as health and education.

In the best-case scenario, per capita income grows rapidly at the same time that GDP expands. This period is called the first dividend. Eventually, lower fertility reduces the growth rate of the working-age population, while improvements in life expectancy (and momentum from high fertility in the past) lead to an increase in the elderly population.

A second demographic dividend is also possible. After the first demographic dividend ends, there are more elderly people in the population than ever before. If appropriate economic policies have encouraged them to accumulate wealth, they can fund much of their retirement independently, without the aid of public assistance or their families. This boosts capital because working-age adults can focus on their careers rather than taking care of elderly relatives.

Thailand: a Demographic Dividend Success Story Thailand is well known for its successful family planning efforts, which aided in its transition from a poor agricultural society to a major economic success. Thai¬land slowed its population growth mainly by expanding access to voluntary family planning services. Between 1970 and 1990, contraceptive use increased from 15 percent to over 70 percent, and the country's total fertility rate declined from 5.5 to 2.2 children per woman. Today, that rate is 1.6 – on par with the most developed countries. In 1970, Thailand's population was very young, represented by the wide base of the age pyramid (figure 1). By 1990, the age structure had shifted (figure 2), reflecting the lower fertility rates of the previous two decades. By 2010, the working-age population (ages 15-64) had increased dramatically compared to the population under the age of 15.

Through policies and investments that targeted infrastructure, population, rural development, and industrialization, Thailand was able to grow economically during its demographic window of opportunity, and thus reaped the full dividend. Thailand is now attempting to develop strong savings and financial systems and to increase investments in higher education and research, in order to ensure economic growth for decades to come.