

Population trends: Shifting demographics

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EXECUTIVE SUMMARY

While worldwide population is increasing, the overall population growth rate – contrary to what many believe – is decreasing. In fact, global population is projected to stabilize short of 10 billion people and start declining by 2050. And population increases aren't happening symmetrically across the globe, which creates significant future challenges. Some of the countries that can least afford to support a burgeoning citizenship will find their resources stretched to the limit. Their resultant youth bulge will create political, social and economic challenges. Meanwhile, some developed countries will battle declining birthrates combined with an aging population, a problem resulting in increased immigration that will further complicate policies, economic opportunities and challenges.

12 TRENDS CHANGING THE WORLD

A decade has passed since we first conducted the Global Tectonics' study that identified 12 trends that would dramatically shape the future international business environment. Though many of our predictions are coming true, certain forces – such as the growth of social media – have had a much greater impact than expected. Given the rapid change the global business climate continually experiences, we have decided to update our initial study to better equip future leaders and to revisit the trends we identified that surprisingly remain the trends that thought leaders are most concerned about today.

1. Biotechnology
2. Nanotechnology
3. Information technology
- 4. Population**
5. Urbanization
6. Disease and globalization
7. Resource management
8. Environmental degradation
9. Economic integration
10. Knowledge dissemination
11. Conflict
12. Governance



Shifts in the nature and rate of global population growth are the fourth of the major tectonic forces we expect to shape the future business environment. Across the planet, demographic trends are transforming societies, modifying economic patterns, generating new economic and social dependencies, and altering geopolitical balances. How well businesses anticipate and adapt to these challenges will mean the difference between success and failure, opportunity and disappointment.

What are the main characteristics of the population changes we can expect to see? The first and inescapable element is that the world population is rising quickly. As of August 2013, Earth's population hovered around 7.1 billion, a number expected to increase to some 8 billion by 2025 and to more than 9.5 billion by 2050, according to the United Nations' 2012 world population prospects revisions.

The overall rate of global population growth is not increasing.

Though this rise may seem incredibly significant, it is important to note that the overall rate of global population growth is not increasing. Rather, it is decreasing – and decreasing rapidly. This is the second key dimension of this tectonic force now at work. In the 1960s, when many analysts were concerned about the imminent “population explosion,” the rate of growth across the world already had peaked. Since that time, the rate has dropped by about 50 percent, from nearly 2.2 percent in 1962-63 to an estimated 1.093 percent in 2013 to a projected 0.853 percent in 2025. By the year 2049, the rate could be down to 0.468 percent.

Planning for the wrong thing

In practical terms, then, many of us were worrying about a global population explosion at a time when the highest rate of growth in global population already had come and gone. The early projections of global

population levels approaching 12 billion or even higher were way off the mark. Looking forward, accounting for these trend decreases in rates of growth, the absolute peak of global population is likely to level off sometime in the midcentury, probably at just more than 9.5 billion. Though the United Nations' 2012 revisions did show an increase in the projected 2050 population, it is still expected that after 2050, world population will begin to stabilize.

In fact, in a 2004 long-range forecast of population growth to 2300, the United Nations concluded that, with the medium scenario, the world population would stay just under the 9-billion-person range. Another estimate, from the International Institute for Applied Systems Analysis, suggests that the aggregate population level will peak in 2070 at about 9 billion people and then begin a gradual decline.

These latest projections are significantly different from many of the assumptions that have driven strategic planning decisions for decades. The revisions suggest equally significant changes in the nature and growth of markets across the world. The fact is our population is growing most quickly in those areas of the world least capable of supporting such growth.

The developing world: Younger and more populous

According to a World Population Data Sheet released in 2012 by the Population Reference Bureau, 97 percent of the most recent surge in population growth has happened in developing countries. Additionally, future population growth is expected to occur in the world's less developed countries.

For example, at present both Spain and Tanzania hover around the same total population of 47 million; however, while Spain's population is projected to remain

relatively the same, Tanzania's population is projected to grow to 138 million by 2050. On the whole, it is expected that sub-Saharan Africa will witness the "largest regional percentage increase in population by 2050," with a population that is projected to reach 2.3 billion by that time. Also, although Latin America and the Caribbean have lower projected growth rates, their combined population is still expected to increase from 599 million to 740 million by 2050.

Asia is forecasted to remain the most populous area in the world. Currently hosting more than half of the world's people, it will continue to grow, with an expected population increase of 1 billion by 2050. It is important to note that this growth largely will be determined by the individual growth of India and China, as many of the more economically advanced Asian countries, such as Japan, South Korea and Singapore, are experiencing growth rates that have slowed or become nonexistent.

While India is expected to continue to see rapid population growth, the same cannot be said for China. Most likely, China will get old before it gets rich because of government-issued controls on birthrates. According to an article written by Sergio B. Gautreaux for the *International Policy Digest*, in 2011 nearly 13 percent of the population was older than 60, an increase of 10.4 percent from the decade prior. These countries are emblematic of the overall trend that the most rapid population growth is occurring in those regions and countries least capable of supporting such growth.

The prospect of booming populations in areas of the world marked previously by geopolitical instability suggests additional complications in the future. In particular, the question arises of how well economies will be able to soak up ever-larger labor segments emerging from their "youth bulges." While the current working

population is at an all-time high in both developed and developing countries, it is expected to fall in developed countries, declining from its current 608 million estimate to about 530 million in 2050 and 504 million in 2100. Moreover, for the first time in history, it is projected that the birthrate will be less than the death rate in developed regions by 2025.

The same cannot be said for developing countries, though; in these countries, the youth population is expected to reach 3.7 billion by 2050 and 4.1 billion by 2100. Currently, the working population hovers around 2.6 billion in less developed regions. If these economies fail to develop opportunities, it will become more probable that the increasing numbers of young people will be vulnerable to social, political and religious radicalization.

These youth bulges can be expected to have a dual economic impact in Latin American, sub-Saharan Africa and Middle Eastern countries. In many of these states, large young populations will result in increased unemployment, resource scarcity and enhanced demands for infrastructure, housing, education and basic services. Increases in the relative size of the working population, though, will also attract labor-intensive industries and bolster economic growth. Many companies, such as Levi Strauss and Co. and General Electric, among others, have already moved many operations to India, China and South America, where reduced labor costs bolster profitability.

Some countries, such as India and China, have employed their vast pools of labor to reach higher levels of economic development. But as both India and China become increasingly developed, their wages rise, and so companies already have started to move to areas with even lower labor costs. Nonetheless, if these less developed countries, such

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as Egypt and other Middle Eastern nations, are unable to provide jobs for their youth, they will continue to face political instability and unrest in the near future.

Depopulation and the developed world

In contrast to the rapid growth we can anticipate in parts of the developing world, many developed countries will encounter stagnant population growth or even experience population contractions.

In the former category of slower growth, we can put the United States,

which by virtue of its immigration inflows can look to avoid some of the more pronounced pressures affecting other developed economies. In the latter category, countries like Japan, the Western European states, and the Eastern European new independent states of the former Soviet Union will encounter profoundly different situations. To varying degrees, each of these countries faces the prospect of depopulation, as they shrink at an anticipated aggregate rate of some 350,000 people per year.

According to the Population Reference Bureau's 2012 Fact Sheet,

“Europe’s population is projected to decrease from 740 million to 732 million by 2050.” For countries like Russia, their populations could be cut in half by the end of the century thanks to low birth rates, decreases in life expectancy and an aging population. Japan is already experiencing challenges, such as economic stagnation, because of its low birth rate, which is currently at 1.39 children per woman (a rate of two is needed to maintain current population levels). Its population peaked and began to age a few years ago. Even more alarming, in the next

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25 years, Japan's elderly population is expected to rise from one in four people to one in three.

The upshot is that over the next 25 years, the developed countries as a group will drop in relative size, from an aggregate 20 percent of world population to around 15 percent. A decline this significant clearly has serious implications for business and economic trends in countries around the world. In Organization for Economic Cooperation and Development (OECD) countries, declining and aging populations will put a high premium on advancements in healthcare, medical facilities, retirement facilities and insurance – along with a host of other geriatric-specific services. The burden of social security, healthcare benefits and retirement costs likely will bring into question retirement age and the need to meet workforce demands.

A graying planet

The next and third key dimension of this tectonic force is the graying of humanity. Our population is growing old and growing old quickly. By 2050, it is expected that 2 billion people will be 60 years or older, representing nearly 25 percent of the world's population. This would mean that the percentage of older people would double what it was at the start of the century.

In Japan, the proportion of elderly people relative to the working population is already the highest in the world. As stated previously, Japan's proportion of elderly people is expected to reach one in three people during the next 25 years. Italy faces a similar decline, in both the collapse of its labor force and loss of productivity. Even in the United States, where aging will be tempered by immigration inflows and by a higher birthrate, the population older than 65 already represents one in eight Americans. By 2030, it is projected that there will be twice as many elderly people in America than

there were in 2009.

On a whole, what will this mean to business? First, this trend will have a significant impact on the nature of economic activity, the rate of economic growth, the growth of markets, the demand for goods and services, the flows and volumes of capital, the availability of labor, consumer tastes and preferences, and the use of natural resources and "strategic" resources, including food, water and energy. Institutions across the board, from the largest governments to the most far-reaching corporations, will need to adapt to aging populations across the planet. How prepared is your organization to adapt to – just to name a few of the changes this tectonic force implies – aging labor pools, rising fiscal pressures from strained pension systems, rapidly changing consumer preferences aimed at ever older age segments, and new lifestyles geared to the old?

Second, the prospect for new intergenerational frictions in many societies, especially those with a rapidly diminishing worker-to-retiree ratio, is significant. How will governments confront the difficult choice between sustaining welfare and pension systems that have been in place for decades and offering younger workers the same kind of lifestyles and social privileges that their parents have? Business could play a significant role in mediating these differences by soaking up labor pools of older workers, by deploying new technologies that enable higher productivity at older ages and by linking labor groups across countries.

Third, these trends all suggest that demographic change will have a significant impact on the broader geopolitical balance. For example, will spending on old age crowd out the capacities of governments, especially in Japan and Europe, to maintain strong capabilities in national defense and foreign policy? For that matter, what role will problematic

fiscal decisions have on stifling government investment in research and development? The geopolitical outcome will affect the risk premiums that corporations attach to doing business in less stable parts of the world. It also could have implications for more systemic scenarios in which instability cuts into global output growth.

The new business environment

Though children long have been regarded as the future of the world, in light of this global tectonic, we need to think in broader terms.

Many countries can expect to see an influx of immigrants. Currently, legal and illegal immigrants already account for more than 15 percent of the population in more than 50 countries, and immigration from countries where population growth fuels unemployment likely will increase.

Current trends indicate, however, that the absorption rate of immigrants into developed economies will be lower than the population growth rate in developing countries of origin. This scenario will most likely result in the implementation of stricter immigration laws, more border patrols, and an increase in the number of illegal aliens. Lesser developed countries also will have to work to keep their best-educated and most productive workers from relocating to other countries, a process referred to as "brain drain."

Developed countries must weigh negatives against the potential benefits of immigration, which can relieve problems created by a disproportionately large elderly population. While children still are the bulk of our future, the intermediate reality is that longer lives, declining fertility, shifting social patterns, and wider stratifications all will translate into a fundamentally different business environment across the planet. ❖

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