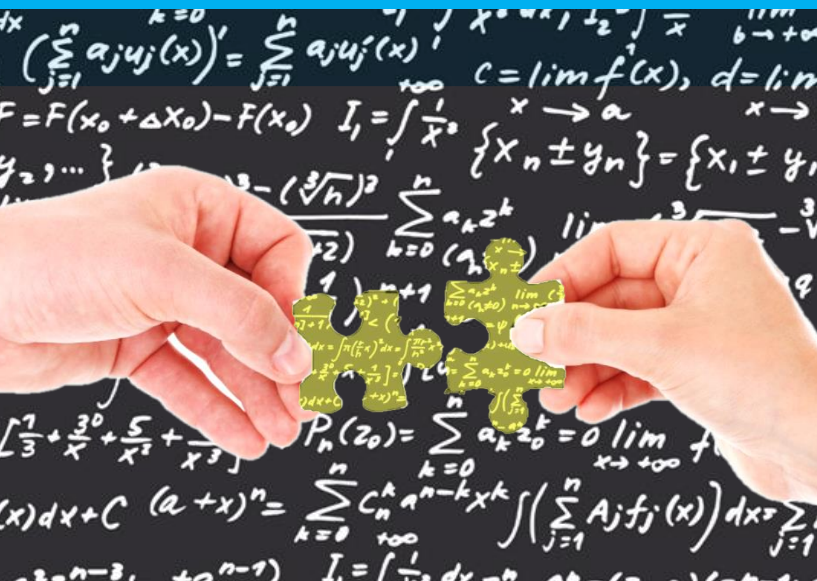
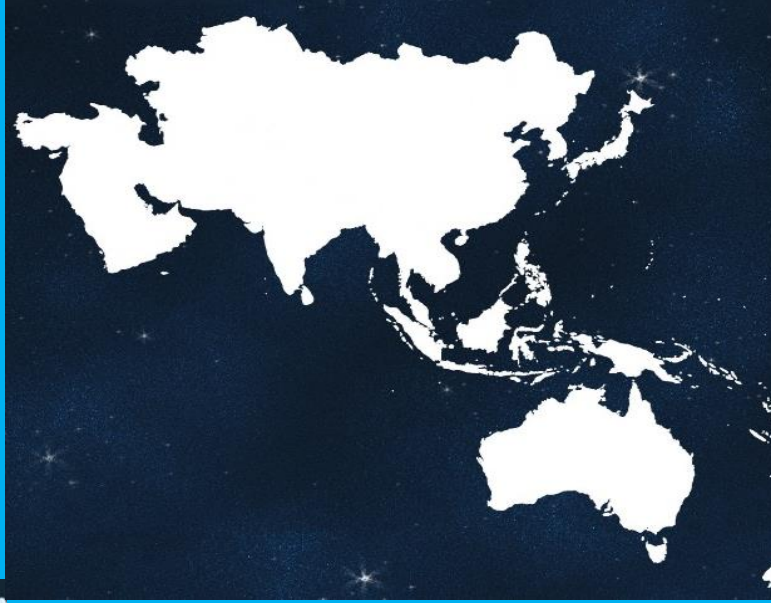




Ageing and consumer spending:

Some preliminary findings from
India and China



Surajit Deb

ASIA-PACIFIC RESEARCH AND TRAINING NETWORK ON TRADE

Working Paper

NO. 163 | 2016

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Surajit Deb^{*}

Please cite this paper as: Surajit Deb (2016), “Ageing and Consumer Spending: Some Preliminary Findings from India and China”, ARTNeT Working Paper Series No. 163, 2016, Bangkok, ESCAP.

Available at <http://artnet.unescap.org>

^{*} Surajit Deb is Associate Professor in Aryabhata College, University of Delhi, Delhi, India. The author’s email is debsurajit@gmail.com

Abstract

The health care for elderly population remains an important concern in the two populated economies of India and China. This paper provides an attempt to determine the extent of population aging in India and China and subsequently determine the ageing impacts on the aggregate as well as health care expenditures in these two countries, separately for the rural and urban areas. The respective state level (provincial) data from the most recent census information reveal wide regional differences in the levels of population aging in both India and China. The results of our cross-sectional regressions indicate statistically significant and positive impact of population ageing on the total as well as medical expenditures in both the rural and urban regions of India. In the case of China, the impact of old-age population turned out to be insignificant (statistically) on the total consumption expenditures for both the rural and urban areas. As concerns the impacts of ageing on the proportion of health care expenditure, only rural China reveals statistically significant and positive coefficients.

Keyword: Population Ageing, Life Cycle Model, Health Care Expenditures, Cross-Sectional Models, India, China.

JEL: J14, D91, I11, C21, O53

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1. Introduction

India and China with a projected median age of 26.9 and 36, and percentage of 65-plus population in the total population as 5.5% and 9.5%, respectively for the year 2015 are certainly not among the countries with a significant ageing population. In fact, both the countries - more so for India - are currently claimed to be benefiting from the window of demographic opportunities in attaining higher levels of economic growth. However, the aging process, although often predicted as a natural outcome of the demographic transition, may potentially turn vital for these two population giants due to some specific concerns. First, it is regarding the high population base in these two developing countries that together accounted for about 37 percent of the world's population in 2013. Second, the aging processes in India and China have confirmed signs of proceeding at a relatively faster rate due to the rapid decline in fertility and mortality rates over a short period of time. Finally, despite showing signs of achieving higher per capita GDP levels, both India and China are still among the developing economies and therefore would face the consequences of confronting old-age dependency at a much lower level of growth and economic development.

The demographic transition of ageing bears the potential to alter the economic growth and development process of both in India and China by affecting the size and composition of the workforce. Besides the economic aspects, there has also been focus on the wellbeing of older people and improve the quality of life of women and men as they age. The Global Age Watch Index that measures the economic and social wellbeing of older people globally by aggregating indicators chosen under four domains, viz., income security, health status, employment and education, and enabling environment has argued in its recent version that wealthy nations are in general better prepared for ageing than the poorer ones. It also argues that prosperity in itself does not guarantee protection for the old since the rising economic powers of BRICS nations rank lower in the index than some poorer countries such as Uruguay and Panama. It may be noted that India is ranked at a low 73rd position and remains at the second lowest-ranked among the five BRICS nations, with Brazil at 31st, China at 35th, South Africa at 65th and Russia at 78th position. The top four

positions on the global index have been attained by Sweden, Norway, Germany and Netherlands, respectively.

Health care issues are possibly the biggest obstacle in meeting the needs of the ageing population in these two populated economies, as both the Indian and Chinese governments are presently allocating less to health in comparison to other BRICS nations. Therefore, the expanding old-age population bears a straightforward implication for the health care expenditures due to growing needs of the elderly. It is maintained that although both the countries have made marked improvements in health measures, there exists a health disparity between the rural and urban areas of each country. Contemporary research examining the spending patterns of the elderly within the Life Cycle Hypothesis predicted a downward pressure on household saving and higher shares of consumer spending on health care expenditures. Studies based on survey data of household consumer expenditure show that the shares of housing-related services and health in total household expenditure seem to be steadily increasing with age in both the United States and European Union. If the spending pattern of the elderly indeed change and bear a negative impact on the consumer demand, then one can envisage a fall in the output growth of both the economies due to shrinking domestic demands.

In this background, the objective of this paper is set to examine the likely impacts of ageing on the aggregate consumer spending - individually for rural and urban areas - on the basis of using the regional (or provincial) data from India and China. Our analysis proceeds in the following sequences. We first examine the extent of population aging in India and China by analyzing the inherent characteristics of old-

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