

# CHINA ECONOMIC UPDATE JULY 2021



## One, two, three: Can China counter its demographic drag by raising its birth rate?

NAB Group Economics

China's family planning policies (introduced in the late 1970s) slowed population growth as the country industrialised – contributing to a stronger rate of growth across the early 2000s. However, this demographic dividend was a transitory effect, with China now suffering from a demographic drag as its population ages and its total workforce falls. The latest easing in population policies are intended to address this drag, but it remains unclear whether the change will be effective.

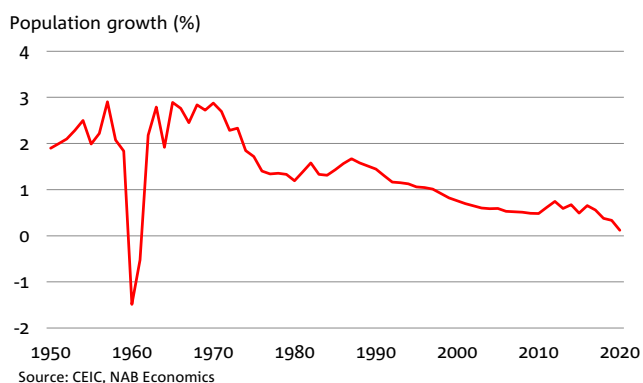
### POPULATION GROWTH STALLING, WORKING AGE RETREATING

China's latest national census was completed in December 2020, however the release of the results was delayed from its original early April schedule until May 2021. Two weeks prior to its release, a report in the Financial Times suggested that the census would show a decline in China's population – citing an anonymous source close to the research – which would have been the first fall recorded since the impact of famine in 1961.

It is worth noting that this claim was quickly denied by China's state-owned media, who stated that the reported decline was based on a statistical error. The subsequent release showed a modest increase in the population to 1.41 billion in 2020 – up around 0.1% from 2019, which remained the weakest outcome since 1961.

### ANNUAL POPULATION GROWTH

**Growth stalled in 2020 – weakest since early 1960s**

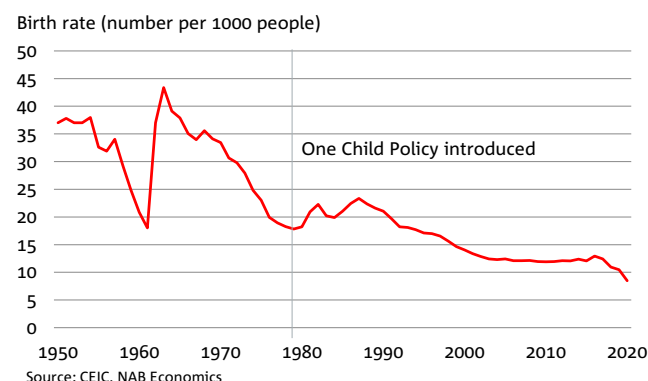


Critics argue that local and/or provincial governments have incentives to over-estimate their populations, as this could increase their access to funding from Beijing.

Irrespective of the precision around China's population data, the trend clearly points to the impact of long running family planning policies on the country's birth rate. The One Child Policy was introduced in 1979, contributing to a downward trend in the country's birth rate until the policy was eased in late 2015. Between the early 1980s and the early 2010s, the birth rate declined from an annual average of over 20 births per 1000 persons to around 12 births per 1000.

### CHINA'S DECLINING BIRTH RATE

**Birth rate fell to all time low in 2020**

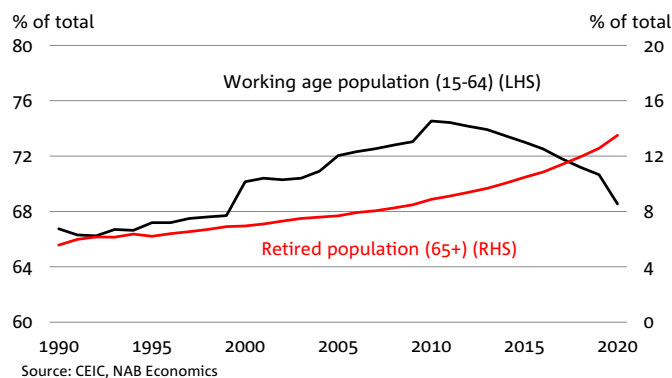


Over this period, China's economy benefited from a demographic dividend – as the share of the population made up by productive, working aged people increased over time, with comparatively few older or younger people to support. However, this

trend peaked in 2010, as the total number of retirees exiting the workforce exceeded new entrants for the first time. Between 2010 and 2020, the share of the working age population declined from around 74.5% to 68.5%, while retirees (defined here as over 65 although China's actual retirement age is typically younger) rose from 8.9% to 13.5%.

## CHINA'S DEMOGRAPHICS

### Share of working age population has fallen since 2010



If the low birth rate trend continues, China's total population will peak in the near future. The 2019 edition of the UN Population Prospects forecasts a peak in 2031, however Bloomberg Economics argue that it could occur before 2025.

## FAMILY PLANNING POLICIES HAVE BEEN RELAXED

As the impact of these demographic pressures became clearer over the past decade, exemptions to the One Child Policy were increased. The policy formally ended at the start of 2016 – when all couples in China were permitted to have two children, however various provinces had already relaxed the policy over the preceding few years.

That said, the formal end of the One Child Policy resulted in a small increase in China's birth rate in 2016 – rising to 12.95 births per 1000 people, the highest rate since 2001. However, the upturn was short lived, with the birth rate falling in each of the following four years, most notably in 2020 – when it fell to an estimated 8.5 per 1000 people – the weakest outcome in the history of the People's Republic of China – albeit it is worth noting that this result was likely negatively impacted by the COVID-19 pandemic, with a similar fall in births noted in the United States and parts of Europe.

In late May, China's Politburo announced that it would allow every couple to have up to three

children as well as implement support policies to “improve the population's structure.” At this stage it is not clear what these support policies entail, nor is it clear if the change to three children is immediate (according to Bloomberg, the Politburo meeting was looking at policy measures for the current five year plan period, ending in 2025).

Any initiative that does not provide direct incentives to support an increased number of children is unlikely to be successful – as demonstrated by the minimal and short-lived birth rate increase following the relaxation to the Two Child Policy. In recent years, surveys of potential and actual parents have cited the high costs of housing and raising children, including childcare and education, as well as a single child being a cultural norm, as reasons not to have more than one child.

## CONCLUSION – CAN THIS POLICY SHIFT BOOST THE BIRTH RATE?

With the right mix of policy support, it may be possible to reverse the long running decline in China's birth rate. This may include tax incentives for larger families, subsidises for larger houses and education expenses as well as greater support for families, including funding for maternity and paternity leave as well as childcare.

China's social safety net is quite limited, and this has proved to be a constraint on consumption during the country's recovery from COVID-19. There has been limited impetus to address these issues, and it is not clear that Chinese authorities would be willing to introduce such sweeping social reforms.

Even if the Three Child policy is successful, it will take close to two decades before any impact is evident in China's workforce. While the working age population is generally considered to be 15 to 64, aspirations for China to produce higher value-added goods and services will require a more educated workforce – pushing a greater proportion of workforce entrants past twenty years of age. Based on the 2019 UN Population Prospects, China's working aged population will fall by over 8 percentage points in the twenty years to 2041 – meaning that there is little prospect of addressing demographic drag over the medium term.

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