

# Chinese Conundrum of Lofty Economic Ambition During Slowing Birth Rate and Aging Population

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**Abstract** - China emerges as powerful thriving economy of 21<sup>st</sup> century. Economy worked well for decades relying on reform-based approach and export led growth. It is highest populous nation of the world and holds second rank in terms of GDP valuation. It has its checkered past ranging from dynastic rule, Japanese invasion and occupation of territories, rise of communist party, turbulent cultural revolution, economic reform to appearing as second largest economy of the world since 2010. China followed one child norm since 1979 and followed stringently over decades before culminating it in early 2016. This restriction was to control burgeoning population growth. But in last couple of years, it was found that population growth diminished and ageing population became a concern for state authority. Scarcity of young productive labour force might affect productive ability of the nation which was touted for decades as factory of the world. Over the years, rest of the world depended on China for supply chain management. The solution lies with labour replacing technology in the age of automation and robotics. When export driven growth was jolted by trade war and onset of pandemic, consumption led growth might face some uncertainty with declining birth rate in China. Chinese authority allowed people to have more children since 2016 to set right demographic distortion led economic ordeal.

**Key Words:** *Aging population, Consumption led growth, Demographic challenge, Economic ambiguity, Shrinking workforce.*

## I. INTRODUCTION

China with a century old civilization, is one of the progressive nations of the world. It is 3<sup>rd</sup> largest country size-wise and second leading nation economically with GDP nominal value approximately \$14.72 billion (statistics times, 2021). The land size of China is equivalent to whole of Europe. As per IMF record China is with billion plus population and reached the mark of 1.40 billion (approx.) as of April 2021. China is communist nation and established itself as economic powerhouse of the world. Recently on July 1, 2021, it celebrated centenary for founding of Communist Party of China. There was dynastic rule since 1700 BC and the same continued for centuries and culminated with military uprising in 1911-12. There was promulgation of Republic of China under the guidance of Nationalist Party leader Sun Yat-sen overthrowing Qing emperor. He was inducted as provisional president from 1911-12 and later sustained as de facto rules since 1923 to 1925. After demise of Sun Yat-sen in March 1925, Chiang Kai-shek took over and digressed from communist party. He established Kuomintang as a nationalist party and continued till 1949 being merged with communist party in 1937. Japan invaded China in 1931 and continued its presence till its defeat in

World War II in 1945. Revolutionary communist leader Mao Zedong held the rein of Chinese Communist Party (CCP) in 1935 and ruled as supreme commander till his death in September 1976. He led communist party members in historic long march in 1934-35 to reach newfangled base in northwestern Shaanxi Province. He was influenced by Marxist theory and Leninist principles and wanted newly joined party members to get good understanding of the same during communist party expansion in 1937. But he was against of 'foreign dogmatism' followed in terms of soviet imitation and adherence to soviet directives. Mao enjoyed undisputed leadership in his rise to power when he along with comrades conducted guerrilla warfare, mobilized peasants in the rural hinterland and brought political administration to grassroot level. Twenty years long civil war ended with communist victory over nationalist and foundation of People's Republic of China on October 1<sup>st</sup>, 1949. Mao Zedong served initially as chairman of the People's Republic of China since 1949 to 1959 and later on continued as chairman of communist party till he breathed his last in September 1976. His economic strategy was by no means simplistic, the 'Great Leap Forward' measure of 1958 was directed towards industrialization promoting labor intensive industry and technological revolution. Mao was

completely authoritarian despot and social repression was enormous as he vehemently opposed any criticism of his policy measures although nation faced famine and starvation led death. There was Tibet annexure of China in 1959 through brutality inflicted upon Tibetan and repression of revolt by Chinese military force. China locked horn with India on several occasions. The first confrontation happened in 1962 for disputed territory in Himalayan region. The cultural revolution initiated by Mao in 1966 and it lingered up to 1976 caused tremendous social, economic and political turbulence. The longstanding tiff with US got partially mitigated with China visit by US president Richard Nixon in 1972. Post Mao Zedong period, Deng Xiaoping emerged as pragmatic stalwart leader and unleashed widespread economic reform. Diplomatic tie with US was reinforced in 1979 and one-child-norm was implemented by government to control burgeoning population growth. There was emerging sense of erroneous autarkic policy among Chinese ruling authority in mid of 80s and ripples of liberalization swept through the nation with adoption of open-door policy in 1986. Nation proceeded towards market economy and foreign investment as well as growth of private sector was encouraged all through 1990s. Tiananmen Square massacre in 1989 caused death of about 200 demonstrators who clamored against inequality, injustice, social repression. International sanctions came into effect as a fallout of horrific human right violation by Chinese authority. Dissenting voice against martial law by Zhao Ziyang led to replacement of incumbent authority by Jiang Zemin in 1989 who ascended to power as general secretary of Chinese Communist Party. Wave of reform led to inauguration of stock exchanges in Shanghai and Shenzhen in 1989. IMF declared China as 3<sup>rd</sup> largest economy in 1992 trailing behind US and Japan. Chinese currency renminbi (RMB) ended official exchange rate mechanism and ushered in free float exchange rate regime in 1994. Liberalization strategy propelled China to join trade governing body World Trade Organisation in 2001 which was operational since 1995. Chinese economy rattled when Asian economic crisis in 1997 sent a shock wave through south east Asia and cause severe economic deceleration. Relationship between leftist Russia and China was strained since Mao Ze Dong regime as there was egoistic clashes with Joseph Stalin, which exacerbated from time to time. The friendly patch up happened when both the nations joined hands through accord in 1992. Taiwan faced intermittent intimidation from China as later denied liberated status of the former. There was testing of missile, administering military drill at Taiwan Strait in 1995 and same exercise was conducted on multiple occasions and also during pandemic time of 2020. The power transfer for Hongkong happened in 1997 when British authority handed over the responsibility to China. Pro-democracy movement broke out against Chinese atrocities since 2013 and massive demonstration reverberated in island state since 2018. China is truly a menacing threat to neighboring nations with its ulterior motive of territory

expansion. Chinese patrolling and violation of maritime border caused tension in south China sea and pushed Philippine fishermen to survive with limited scope of fishing livelihood. Chinese rise in last 40 years was with unparallel economic reform, population control, development of human capital, flawless technological application and development of world class production and supply chain facility.

## OBJECTIVES OF THE STUDY

The chief objectives of the research paper are outlined below

- i. To illustrate about factors instrumental in progress of China and its evolving status as economic and political superpower.
- ii. To highlight the dilemma of growing economy due to low birth rate and increase in aging population.

## II. LITERATURE REVIEW

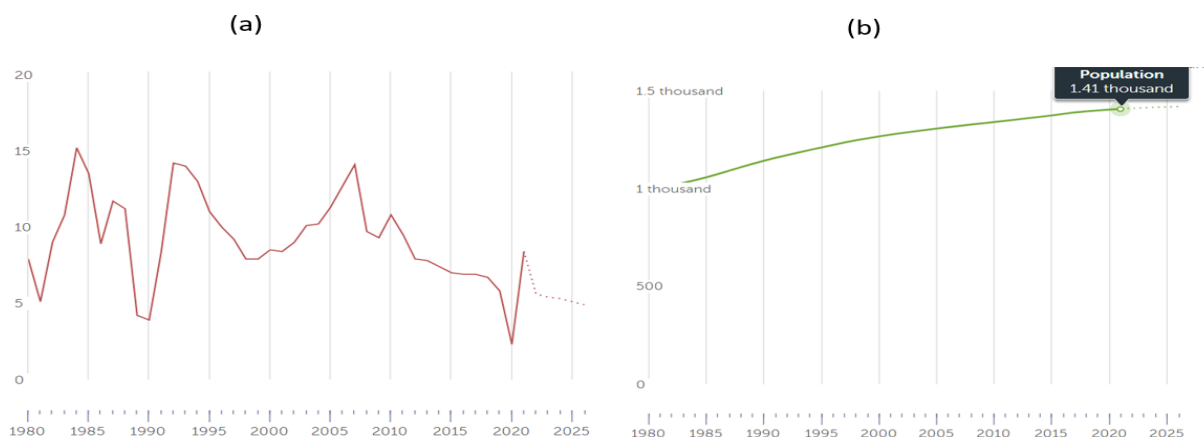
China made a splendid economic journey over decades. Economy went through instability in 2015 in meltdown situation. Economic policy put huge emphasis on development of infrastructural project since 1990. Although Chinese politburo bragged about its political wisdom and guidance for conducting economic miracle over four decades, economic progress of China mostly relied on investment and export performance. Competition among private players inculcated high-tech innovation and futuristic entrepreneurship. Millions were lifted out of poverty and many managed to secure decent standard of living over time. The transfer of labour force from low-value agricultural activities to high-valued industrial works caused dramatic improvement for economy and society (Economist, 2021). The rise of Chinese economy reflected in more than hundreds of home-grown companies made their place reserved in Fortune's Global 500 ranking. The companies that relied on domestic demand such as tech behemoths Alibaba and Tencent suffered less during economic downturn compared to companies like Huawei, Lenovo which are mostly dependent on foreign markets. Demographic data of China provided inkling that shrink in working-age population would affect economic productivity unless there is sweeping amelioration in labour productivity. Low economic growth due to decline in labour productivity of China can be averted with stimulated sales and export in overseas market. This prospect might face some road block due to China's debt factor and it would also impede export competitiveness. So, meteoric upsurge of China might face rocky future owing to its past mistake of one child policy which not only receded labour availability but impacted consumption led growth (Black, Morrison, 2019). The demographic dividend that China reaped all through 80s and 90s are slowing down in second decade of 21<sup>st</sup> century. The one child policy which was implemented in 1979 got relaxed in 2016. But young couples are not ready to have more than one child because cost of upbringing has gone high. Erudite forward thinking Chinese women are delaying matrimonial

alliance. The fertility rate of Chinese women is stood at 1.3 in 2021 which is far less than expected 2.1. These factors are having some bearing on economic, social and political consequences. The augmentation of aging population is another challenge China is saddled with. Consumption led growth can materialize in China if per capita income and purchasing power is sufficient. Use of new age, self-reliant, automated technology can neutralize impact of labour force scarcity if govt. deftly delivers agile policy measure (Joshi, 2021). Like many advanced economies China is dealing with receding fertility rate. Govt. of China is in fire-fighting mode to address demographic difficulty is current period. It relaxed birth control to encourage couples for more children, extended childcare service, increased retirement age. China would have to invest more to develop its pension system but it would be a drain on exchequer. The reduction in birth rate in China would affect its previous status of being ‘labour intensive powerhouse’ of the world and it would have to struggle hard to keep GDP growth rate blistering high. Time has arrived for China to back up university graduates to fulfill the need of competitive labour market. However, the shortage of manpower is high for factory-based work and harvest activity in agriculture than white collar corporate or govt. work. China has advanced in robotics and deployment of robots in manufacturing which can trigger GDP growth to some extent (McGregor, 2021).

### III. METHODOLOGY

The research was both analytical and exploratory. There was extensive study of secondary data and information. Due care was taken to search relevant description from reliable sources. Articles and research papers published in well-known publication was rummaged through. There was combination of positive and normative economic approach in narratives. The descriptive data driven process and graphical presentation was made to substantiate analysis and interpretation. There were subjective and objective factors checked and weighed to figure out their influences in

Diagram I: (a)China’s Real GDP growth (Annual percent change); (b) Population of China(in million)



Source: IMF Datamapper, April 2021

triggering or restricting economic progress of China. There was epistemological journey integrated in research process in which somewhat overlooked facts were brought to light and elaborated on. It appeared revealing that shrink in labour force participation can affect productivity and at the same time need for technological alternative became obvious to fuel the fire of growth. As China has celebrated centenary to commemorate establishment of its communist party with funfair, it has arrived at critical juncture to leverage its potential resources to keep its growth momentum alive. But data driven exercise of the research clarifies that the task ahead would not be easy for Asian economic superpower. Research revealed the volume of work lying ahead for Chinese govt. to correct its demographic setback. There was effort to delve deeper on given topic to get the reality on ground. There is scope for further study and research on economic growth driven by labour force participation.

### The pressing concerns of China

China made a spectacular economic progress since 1980 with implementation of praiseworthy economic reform. It helped to lift about 800 million people out of poverty. Economy zoomed past Japan to hold coveted second rank in 2016. It is expected that by 2030 China would beat USA to establish its economic leadership. It is already an economic superpower and its influence in world economy has caused worry for western economic behemoths. But China has its own difficulty which may derail its economic aspiration. In 2020, population growth has reduced by 20 percent. Young couples in bustling cities are caught in long working hour to maintain standard of living. Couples caught in hectic schedule show no tendency to expand family as they wish to relax and enjoy in spare time. Grueling corporate schedule provides less scope for family planning. This is impacting birth rate and availability of labour force for productive work. The diagrams below show the economic performance in real GDP term and population trend over the years.

In the diagram 1a, it is evident that double digit growth rate between 2005 to 2010, plummeted sharply in later years. It went down further in 2020 due to outbreak of COVID 19 which impacted majority of sectors. Export oriented growth faced a severe jolt as trade restrictions were imposed across the world to contain spread of virus. Lockdown order and social distancing measure receded economic activity and China barely managed to register 2.3 percent GDP growth rate in 2020. It is somewhat good performance as rest of the economies whether developed or developing, were mostly saddled with negative growth rate. There was brightened prospect of economic environment with exemplary work by medical fraternity and healthcare service providers and massive vaccination for Chinese citizens. As per IMF estimation, real GDP growth rate for China can reach 8.4 percent in 2021 with normalization of economic and business activities and reinvigorated export drive to capture pent up global demand as COVID restrictions are eased. But trade war started between China and USA in 2018 didn't show any sign of neutralization even during pandemic and under administration of new president Joe Biden who took the office in US in January 2021. As majority of the world believed that lethal virus emanated from wild animal lab of Wuhan district in China and China didn't take precautionary measure on time which could have saved millions of lives, skepticism is high about continuing trade relationship with China. There is search for alternative source for unimpeded supply chain as pandemic made countries cautious about having trust on China. Practice of self-reliance, protectionism and inward-looking approach by several economies would not play sonorous tune for export driven China. The doubtful global sentiment about Chinese policy program can cast a shadow on its future growth. The saving grace would be domestic demand as Chinese consumer base is robust with billion plus population. In recent time a cause of worry has emerged due to depleting population growth in China. In the diagram 1b, population trend is presented. As per IMF estimate, Chinese population has reached 1.41 thousand million as on April 2021. It goes without doubt that China has highest population and millions were lifted out of poverty since economic reform of 1978. But there is a cringe in the forehead of policy makers as population growth rate has slowed down despite removal of one child norm in October 2015. Chinese population growth rate which was 2.8 percent in 1970 has declined to 0.4 percent in 2019. It would cause reduction in supply of labour force for Chinese economy. There is probability of productivity slowdown and truncated economic output in coming years. It could be addressed by rise in automation, robotics and other self-operating labour replacing technologies. But nation will have to bear the burden of aging population. As per census statistics of 2020, about 264 million people are at 60 year or above which amounted to 18.7 percent of population and it went high from 13.3 percent in 2010. As per predictive analysis, the superannuated population would reach 300 million in 2025 and further increase to register staggering

400 million by 2033. Although China formalized social security system in late 1990s and continued in 2000s, there were a smaller number of people who remained real beneficiary of this welfare measure. The non-working aged people are dependent on family for old age support. This phenomenon put strain on younger members and they refrain from brining new child to family. China is caught in trouble of rising aging population and decreasing fertility rate and birth rate. Support for aging population will drain China's financial resources. In the wake of pandemic oriented restrictions, China is opting for consumption led "high quality growth". The silver lining of population de-growth is wage rate improvement, hike in per capita income, reduction in unemployment rate, gender equality and more participation of women in workforce. In consequence, it will enrich quality of life in China. Application of automation and artificial intelligence will assist to overcome labour force deficiency for progressive economy. It is too early to predict whether this labour replacement technology would auger well or not.

#### IV. CONCLUSION

China is economic superpower and political powerhouse in 21<sup>st</sup> century. It's military strength and technological competency is comprehensive. Recently Chinese communist party celebrated centenary to commemorate its achievements over several decades. China made astounding economic progress since liberalization-based reform was undertaken in 80s and 90s. In the glorified moment of Chinese communist party, one can trip down the history lane and reminisce about great leap forward in 1958, Tibet annexation by China in 1959, victory over India in a battle in 1962, test of nuclear bomb in 1964, propagation of cultural revolution 1966-76, Hongkong takeover in 1997, beating Japan in GDP value to secure second largest economic rank in 2011, imposition of security law in Hongkong in 2020. The Chinese aggression is a grave concern for neighboring nations in Asia. The relentless encroachment in South China Sea, Taiwan Straits, Japanese water territory and land grab tendency towards Nepal, Bhutan, India, Philippines caused worry for nearby nations. The Chinese vow to annex Taiwan as it is viewed as renegade province by former could be a flash point between US China relationship. There is tension in global geopolitical firmament owing to China's flexing of military and economic mussels. It is detrimental for trade relation, cultural exchange, multilateral system and diplomatic discussion. China is already troubled with swelling debt, trade war related loss and pandemic driven economic slowdown. The global mistrust on China due to its cyber espionage, biological warfare, military intrusion can backfire its futuristic outlook. Demographic difficulty of China is not easy to overlook as it has economic implications. In 1979, China had to impose 'one-child-policy' to contain population growth and in second decade of 21<sup>st</sup> century, China is worried about shrinking youth populace. There is fear that decline in population growth can jeopardize economic

ambition of China. Scarcity of young labour force will affect labour intensive sectors and drag down economic productivity. Modern city-based jet-set life and grueling work pressure do not spare enough time for family expansion for young couples in Beijing, Shanghai, Shenzhen or other mega city. There is acute need of facilities such as childcare support, tax concession, financial subsidy, paid leave etc. to propel young couples for more children. Surge in aging population would enhance social liability and make a dent in govt exchequer. This is one of the weakest points of Chinese economy. Extensive use of automation and artificial intelligence can grease economic engine and keep economic journey sustaining.

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