

## *Original Paper*

# The Economic Implications of China's Demographic Problems

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### **Abstract**

*China is facing a major threat that is entirely internal: a shrinking population. China's population growth is a key factor for its economic and financial expansion since the late 1970's and has allowed its gross domestic product to become the largest in the world. But in recent years, China's population has started a dangerous decline that worries its policymakers and can only get worse.*

*While China's leaders have recently introduced policies to accelerate the birthrate, many analysts feel that this is too late to reverse a perilous trend. These analysts predict that a shrinking population will affect China from an economic and financial perspective that will eventually cause it to fall from its place as a major global economy.*

*The aim and purpose of this article is to examine the economic implications of China's demographic problems.*

### **Keywords**

*Gross domestic product (GDP), One-Child Policy, Population, Two-Child Policy, Three-Child Policy*

## **1. Introduction**

China's economy has the potential for substantial amount of growth in the coming decades. The Chinese people are eager, willing, and intelligent enough to expand the country's economy in the long haul. The Chinese people are willing to learn and gather knowledge regarding finance, management, technology, marketing, and manufacturing to build their industrial and service infrastructure. While there are problems with the Chinese government, policymakers, and the leadership of President Xi Jinping, these could be the least of their concerns. A major problem China faces is the shrinking of their population.

Since 1961, China's population has grown at a healthy rate to the point where it has 1.4 billion people. While this has helped China's economy by providing an abundant and cheap labor force, it has made China the world's factory and manufacturing leader. This has resulted in the manufacturing of products

from cell phones to sneakers to clothing to electric vehicles that have been shipped worldwide at reduced prices. This has permitted China's macroeconomy to become the second largest economy in the world behind the United States and far surpassing industrial giants such as Germany. But the problem now is that due to serious missteps by China's leaders and policymakers, the country's population is shrinking. This could mean that possibly by the year 2100, China could see its population shrink to 500 to 600 million. Unless China makes some drastic moves now, the damage will be irreparable causing its economy to contract to the point where it will fall from its lofty position in terms of gross domestic product (GDP).

The aim and purpose of this paper is to examine the economic implications of China's demographic problems. This article will not only look at the current state of China's demographic situation, but also the impact this will have on the country today, in the future, and on the global economy.

## **2. Origins of China's Demographic Problems**

It could be said that China's demographic problems most likely had their origins in the reign of Chairman Mao Zedong in the 1960's. Mao felt that a higher birth rate was an integral part of a strong China and to help spread Marxism globally. The more Chinese, the greater the opportunity to have them travel around the world to make Marxism known in all parts of the world. Mao also felt that a large population was a sign to the rest of the world, especially to the capitalist nations, of prosperity and that communism was working in China. In 1953, China's first comprehensive and countrywide census was accomplished in which it recorded 601 million people (Yang, 2022). The Second National Census occurred in 1964 showing an increase in China's population to 723 million people while the Third National Census in 1982 saw 1 billion people on the mainland (Yang, 2022). But with the passing of Mao subsequent leaders reversed China's policy of growing its population. Leaders that followed Mao, such as Zhou Enlai, Li Xiuzhen, and Deng Xiaoping put into place new policies to control China's population growth (Wortham, 2023).

These leaders were extremely worried that the population growth of China in the middle part of the twentieth century would present more problems than they could handle. This included being able to feed their people, provide for necessities such as education and medical care, as well as being able to effectively govern a population expanding at a fantastic rate thanks to Mao's policies. But Mao's death in 1976 signaled the end of the Cultural Revolution and a drastic change in policy regarding population growth.

Starting in the 1970's, China's government started to put into effect measures to control the country's birth rate. One measure was the "Later, Longer, Fewer" campaign which was started in 1973 (China Power Team, 2023). The campaign enacted policies such as moving the legal age for marriage to 25 years old for men and 23 for women (Later), a three-year waiting period between births (Longer), and limiting families to having only two children (Fewer) (China Power Team, 2023). Failure to follow these new policies resulted in facing penalties. As a result of imposing and enforcing the campaign,

China saw its fertility rate, or births per woman, drop significantly from 6.1 to 2.7 (China Power Team, 2023).

But there were those policymakers who felt more needed to be done. This resulted in a new population control policy implemented by Chairman Deng Xiaoping in 1979. The CPC (Communist Party of China) Central Committee submitted *An Open Letter to All Members of the Communist Party and Communist Youth League on the Issue of Controlling the Population Growth*. The letter was a policy directive requiring couples to only have one child, otherwise known as the “one-child-per-couple,” or “one-child” policy (Feldman, Jiang, & Li, 2013). The gist of *The Letter* was to have every party member, its leaders, and essentially all others in China to incorporate family planning as part of the country’s national policy. In essence, the policy restricted the number of children in a family to only one. To implement this restrictive policy, the Chinese central government used severe tactics that included financial fines and penalties, evictions, limitations to public services for a second or third child born into a family, and forced abortions and sterilizations (China Power Team, 2023). Civil servants having more than one child were quickly forced to leave their jobs (Yang, 2022). There were also other governmental policies implemented such as “no-birth periods” from May to August 1991 in the counties of Guan and Shen in the province of Shandong province. This resulted in the forced abortions of all pregnancies in what became known as the “Childless Hundred Days” (Fong & Wang, 2022).

For individuals who closely abided by the “one-child” policy they were rewarded with privileges in China’s welfare system. Also, ethnic minorities such as Mongolian Chinese families were permitted two children and Tibetan Chinese did not have any restrictions on children at all.

The practice of forced abortions and sterilizations met with global criticism and condemnation by human rights organizations as violations of basic human rights. Chinese officials ignored these criticisms in order to meet and enforce the central government’s goals for lower birthrates.

The one-child policy took some time to effect China’s population growth. For example, there were exceptions to the policy. One exception was for rural families who did not have adequate savings or a pension plan for their old age. The rural families needed many children not only to help work the land but also for support and assistance in their later years. Also, rural couples whose eldest child was a female were allowed to bear another child (Feldman, Jiang, & Li, 2013). Another exception were couples, rural or urban, who themselves were only children (Goldstone, 2023). But the one-child policy proved to be more effective than Chinese policymakers thought would happen.

China has seen its rate of birth drop sharply from the 1970’s to the present day. In 1970, there were 5.8 births per woman in China, while in the 1980’s the rate dropped even further to 2.1 per woman, while in 2015 it was 1.5 births per woman (Worthman, 2023). This low fertility rate of 1.5 children per woman has come to be regarded as the norm of “one and done” (Goldstone, 2023). With China achieving a fertility rate of 1.16 in 2021, it had finally reached its 40-year goal of a “one-child” policy (Goldstone, 2023). The CPC published an article in 2013 that the “one-child” policy resulted in

preventing approximately 400 million births since it started in 1979 and thereby, “remov[ing] the fuse of a great population explosion” (Yang, 2022).

But the problem has metastasized into something even worse. China’s population seems to have peaked in 2022 and is starting to shrink.

### 3. Current State of China’s Demographic Situation

China’s current situation is beginning to turn worse. In 2022, China’s population fell for the first time since 1960-61 when the Great Famine occurred. China’s National Bureau of Statistics reported in 2022 that the country’s population fell by approximately 850,000 resulting in a 1.41175 billion Chinese (Master, Zhang, 2023). This turning point arrived a decade sooner than was expected by China’s policymakers and analysts worldwide. Making matters worse is that China’s birth rate in 2022 was 6.77 births per 1,000 people, which was a drop from a rate of 7.52 birth in 2021, resulting in the lowest birth rate in China’s history (Master, Zhang, 2023). This was the fifth consecutive year that China’s birth rate has fallen and it brings its fertility rate to approximately 1.15 which is significantly below the replacement rate of 2.1, one of the lowest globally (Normile, 2022).

The low birth rate will probably result in China’s population declining even further than was originally anticipated. Estimates state that due to its low birth rate China’s population will decline to 1.39 billion by 2029, 1.34 billion in 2040, and dropping even further to 1.25 billion in 2050 (Kwok, 2023). In terms of sheer numbers, there were only 12 million babies born in China in 2020 which was the fewest number of newborn children since 1961, the year of the Great Famine (Roberts, 2021). The low birth rate combined with China’s declining population have impacted the nation in various ways.

First, there is the drastic decline in China’s working age population. Working age population consists of individuals from the age of 16 to 59 who can be part of the labor force. In China, the situation is bleak since the number of workers between the years 2010 to 2021 has fallen by 40 million to approximately 880 million (Roberts, 2021). The Chinese central government estimates that there will be a decline of 35 million more workers between the years 2022 and 2027 (Roberts, 2021). This will hurt China’s macroeconomy since it is regarded as the world’s factory and it needs workers to make products which will be exported and contribute to the growth of its GDP. This shrinkage in China’s working age population started in 2014 when it peaked and projections show that it will shrink to less than one-third of this peak by the year 2100 (Peng, 2022). It is also expected that members of the labor force who are between the ages of 20 to 29, which is currently about 200 million will shrink to approximately 150 million (Whyte, 2018).

Secondly, China’s elderly population will start to rise substantially. There is the old saying that “China is becoming old before it becomes rich.” This could be very true in the next fifty years. Forecasts by the Chinese government have the number of elderly reaching 400 million at the conclusion of the year 2035 which is an increase from 240 million in 2018 (Facts and Details, 2021). China’s population is getting older at an alarming rate that worries China’s leaders and policymakers. This aging of China’s

population has been occurring gradually over the years and has reached a point that like a dangerous boulder going downhill, it is gaining momentum that is impossible to stop. In 1982, China had approximately 49.28 million people exceeding age 65 (4.9 percent of the population), while in 2000 it increased to 88.27 million (7.10 percent), and in 2010 it climbed to 118.92 million or 8.92 percent of China's population (Wortham, 2023).

A key reason for the increase in China's elderly population is that due to medical advances and better access to lifesaving medicines, people can live longer. In one way this will allow China's elderly to enjoy their golden years, but if there are not enough babies being born that will eventually replenish the workers who are retiring from the nation's workforce, the country is heading for an economic disaster by the year 2100. This will most likely lead to China having a higher percentage of elderly than either the United States, India, Vietnam, or Russia by the year 2030 (Davis, 2014). Due to the advances in medicine and health in the past fifty years, life expectancy in China has increased by over 66 percent from 40.8 to 71.5 years between 1955 and 2005 (Kaneda, 2006). This will lead to what is regarded as a "super-aged society" by 2040 in which 22 percent of China's population will be age 65 or older while 20 percent is regarded as the conventional threshold for this age group (Eberstadt, 2021). The United Nations has predicted that by 2050 the life expectancy in China will increase to 83.8 years (Kwan, 2023).

A third impact on China of the low birth rate combined with its declining population has been policies instituted by the central government. Starting with Chairman Mao, China has attempted to control its population since the communists took control in the late 1940's. Under Mao, the perception of a strong country was a large population. The more people, the stronger and mightier the nation. But once Mao died, subsequent leaders changed the policy of a large population and instituted the one-child policy. Now that China's population is taking a downturn, policy has changed once again. In 2016 the "two-child" policy was instituted in which couples and families were encouraged to have more babies. China's leaders felt the two-child policy was not effective in quickly reversing the shrinking population problem. This led to China's policymakers instituting the "three-child" policy in 2021 with the idea of accelerating the birthrate. However, not only has the policy not had the immediate impact policymakers had hoped for, but it has come under attack with angry disapproval from China's people. Many of Chinese are angry at the central government for the lack of support programs that could greatly assist families in not only having more babies but also in raising them up. China's families are having a very difficult time raising one child due to the high cost of living in the nation's cities, long working hours professionals endure at their jobs, and lack of help in dealing with elderly parents. Many of today's Chinese are the product of the one-child policy and do not have siblings to help them with their parents or to assist in raising more children. The Chinese government wants more children to be born and can implement as many policies as it wants. The problem is that if there is no social programs nor monetary assistance from the central government to have these children, then there is no incentive nor any legitimate reason why Chinese families or women in their childbearing years would want to have babies.

#### 4. Economic Impact of China's Demographic Problems

China's declining population and population growth not only will have a severe impact on their nation but also on the world economy. The problem is that China is not a high or even middle-income nation and that it needs not only a growing population but a young generation who will replace older workers. Having fewer babies and eventually less young people, will result in lesser workers and a huge population of retirees and older people who will need care, attention, and a growing amount of financial and economic resources that will not contribute to China's long term growth. China will be heading for an economic disaster since its pension funds will become depleted and health care system faces the problem of being overburdened and overwhelmed in the next fifty to hundred years.

The present impact of China's declining population is starting to be felt. The country is experiencing a shrinking working age population in which there are fewer younger workers to fill China's factories and farms. This will mean that China's economy, which depends heavily on manufacturing products and then exporting them overseas will not be able to fulfill orders from their customers around the world. China has become the world's factory in which it makes a huge number of consumer products. But if Chinese factories cannot fulfill these orders, then foreign customers will start to shift their manufacturing operations to countries such as Mexico, Vietnam, and into Africa that have a growing workforce and lower wages (Hong, 2023). By having manufacturing operations and factories shift to other countries, whether around the world or even to other parts of Asia, China's economy will start to experience a serious decline in its GDP. It also means that unemployment will start to rise and that Chinese consumers will not be able to purchase the remaining goods it manufactures, from Nike sneakers to Apple smartphones.

China needs to become a consumer-based economy, now and in the long run, so its workers can purchase the products they make. But that means having enough Chinese workers to churn out these products, having a well-paying job, and then being able to purchase all the items they can. China also needs to have a growing workforce who have good paying jobs to purchase the glut of apartments that have been built but are empty. There is also the concern that with a declining population there will be the underutilization of China's massive infrastructure development in which the central government spent billions of yuan to modernize and expand.

Another financial and economic impact of China's declining population is that its state pension system derives contributions from today's labor force and not on savings or investment plans such as individual retirement accounts that exist in the United States. The problem China is facing is that one generation pays for the retirement funds of the older generation who were not encouraged or incentivized to put money away for their retirement. The problem becomes only worse when in the future a declining younger workforce must financially support an ever-increasing senior population whose life expectancy is getting longer. These workers will be obligated to make larger contributions to the state pension fund to support the growing number of China's aging population. China's healthcare system will face similar problems since the elderly rely on the state run program. The increasing

number of elderly will only put massive pressure on China's welfare system which, while it will help improve the quality of life, may not bring growth to the nation's macroeconomy in the long run.

The dilemma of China's declining population will also have an impact on the global economy. Many companies have invested billions of dollars in the Chinese economy as a long-term investment in which they will be able to sell products and services to what they thought was a growing market. In the latter part of the 20<sup>th</sup> century, many foreign companies thought that China's population would continue to grow at pre-existing levels and would be a huge market for consumer goods. These companies thought that all they had to do was plant their flag in China's major cities, have a little patience, and eventually see the profits roll in. They also perceived China as a vital source of cheap and plentiful labor that would allow them to open manufacturing plants and ship their finished products around the world. But with Covid-19, political tensions between the United States and China, the imposition of tariffs by the Trump Administration, a slowdown in the Chinese economy, and a projected declining Chinese population in the next seventy-five years, these companies have had to reassess their plans. They must seek out other parts of the world in which they can sell their products and services, and make goods at a cheaper rate.

This will also mean that if foreign companies cannot sell their goods or services in China, or make products there then the global economy could slow down in a dangerous way. As Roland Rajah, director of the Indo-Pacific Development Centre at the Lowy Institute has stated, "Beyond the next year or so however, the ability of the Chinese economy to be the engine of global growth that it has been in the past looks increasingly in question" (Sullivan, 2023).

## **5. Conclusion**

China's demographic problem will most definitely impact its standing from an economic, financial, and political perspective.

From an economic perspective, China's biggest and most important resource is its people in terms of the size of its population and how they have helped the economy grow. Because of China being the most populous country, it has become the world's factory. This has allowed it to grow its GDP, provide cheap goods to the rest of the world, and become an investment many foreign companies see as providing a good long-term return. But without a growing population that has many young people, China will be hurt as a global powerhouse.

From a financial perspective, being the world's factory has permitted exorbitant amounts of funds to enter China's coffers to the point where it can assist other nations that need money for development. But again, being the world's factory means having a large population that can turn out volumes of products and goods to sell globally and cheaply.

From a political perspective, having a large population allows China to spread its influence globally and make friends rather than enemies. But if there is a declining population, it becomes that much more difficult for China to allow it to become an influencer on the world stage.

In sum, unless China can somehow stem the problem of a steadily declining population soon, it will suffer severe economic, financial, and political problems that will mark its end as a world power. It will then be regarded as a nation that had the potential to be the most powerful in the world, but never realized that potential due to a shortage of a very important resource: *People*.

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