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Economic impact of China's aging population

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After more than 35 years of strictly enforcing the one-child policy and facing a demographic crisis caused by a shrinking and rapidly aging population, Chinese Communist Party's (CCP) leadership made a sharp turnaround in its demographic policy by introducing a two-child policy in 2015. Moreover, in June this year it announced plans to change the law to encourage families to have a third child. The opportunity to have more than one offspring has been taken up so far by a limited number of Chinese couples due to the high costs associated with raising children, high housing prices, and relatively low levels of job stability, especially in lower-paid occupational groups. Women place more importance on career and personal development rather than having children, which is an additional important factor affecting the falling birth rate.

The changes implemented in 2015 were not embedded in systemic economic and legal solutions to support young couples in raising children. Without these solutions in place, the newly announced plans to increase the permitted number of children will not have a positive impact on the overall demographic situation. The CCP leadership announces supportive measures, but first conducts propaganda activities typical of the Leninist party and uses administrative methods to persuade Chinese people to have more children. If further easing of restrictions is not strongly backed up by supportive measures, the effects will be negligible, and the aging of the population and shrinking of the Chinese labour force will continue.

This will result in growing pressure from workers on increasing wages. As a result of shrinking workforce, the outflow of production from China observed for years, e.g., in the clothing, footwear, and toy manufacturing industries to other countries, continues, and the range of industries affected is expanding to include the automotive industry, electrical and electronic equipment manufacturing and others. The Chinese authorities are trying to fight the outflow of production by opening the market more widely to foreign investments and by forcing enterprises to locate production in China, especially in industries deemed important by the CCP.

Population aging also puts strong pressure on the pension system and other elements of the social security and health insurance systems. It may also have an additional negative impact on the dynamics of consumption growth and its role in economic growth. The Chinese authorities are trying to limit the negative effects of demographic changes by increasing the level of labour force participation. They are planning to raise the retirement age and further facilitate the movement of people from rural to urban areas by reforming the household registration system. However, the already implemented and announced solutions are likely to be limited.

China is also aiming to increase productivity to replace the loss of the labour force. A key element in this area will be increased automation in both the manufacturing and service sectors. Considering the fast-paced progress in automation of production in China, it is necessary to increase support from the state in the processes of automation of the production base in Poland, which will allow Polish companies to effectively compete with Chinese manufacturers. The development of production automation should be properly integrated into the reshaping of the economy to avoid or possibly minimise the adverse social effects.

The shrinking labour force in China and decreasing wage gap between Poland and China may be factors encouraging Chinese companies to relocate production to Europe. This process may be additionally reinforced by other factors, such as distortions in logistics processes and efforts of some Chinese companies to move their production processes closer to the European markets. Actions taken by the EU authorities to protect the EU market from unfair Chinese competition can also have some impact on the inflow of

Chinese investments. Polish authorities and relevant government agencies should intensify efforts to attract Chinese investors, especially in industries where it could be helpful to reduce dependence on Chinese imports. Polish side should be focused primarily on those industries where our country does not yet have a strong enough manufacturing base of its own, to limit the effect of crowding out existing Polish companies from the market.