

# BBL Seminar Handout

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September 12, 2011

"China's Demographic Change and Implications  
for Rest of the World"

CAI Fang

<http://www.rieti.go.jp/jp/index.html>

# **China's Demographic Change and Implications for Rest of the World**

CAI Fang

Institute of Population and Labor Economics

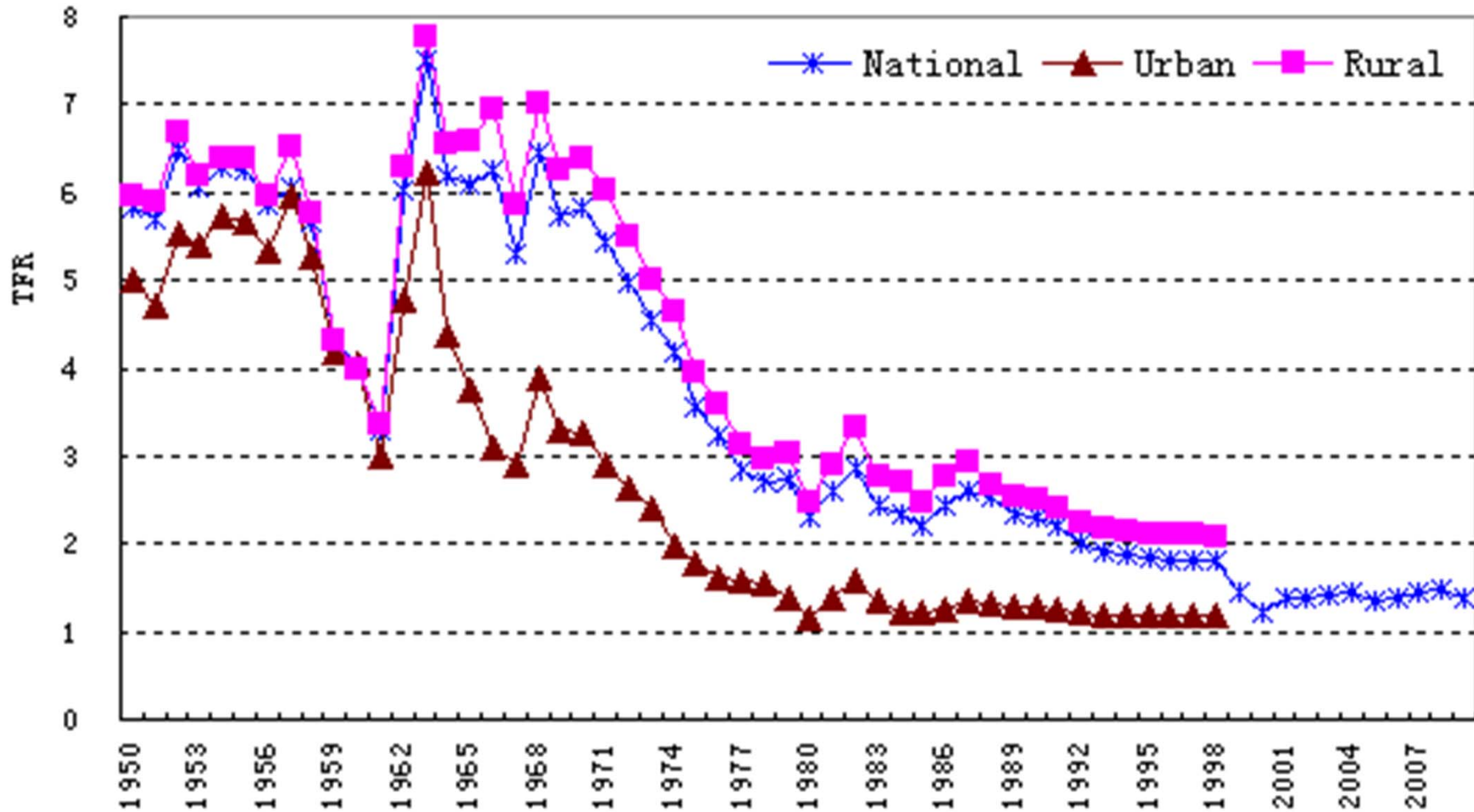
Chinese Academy of Social Sciences

# Prologue

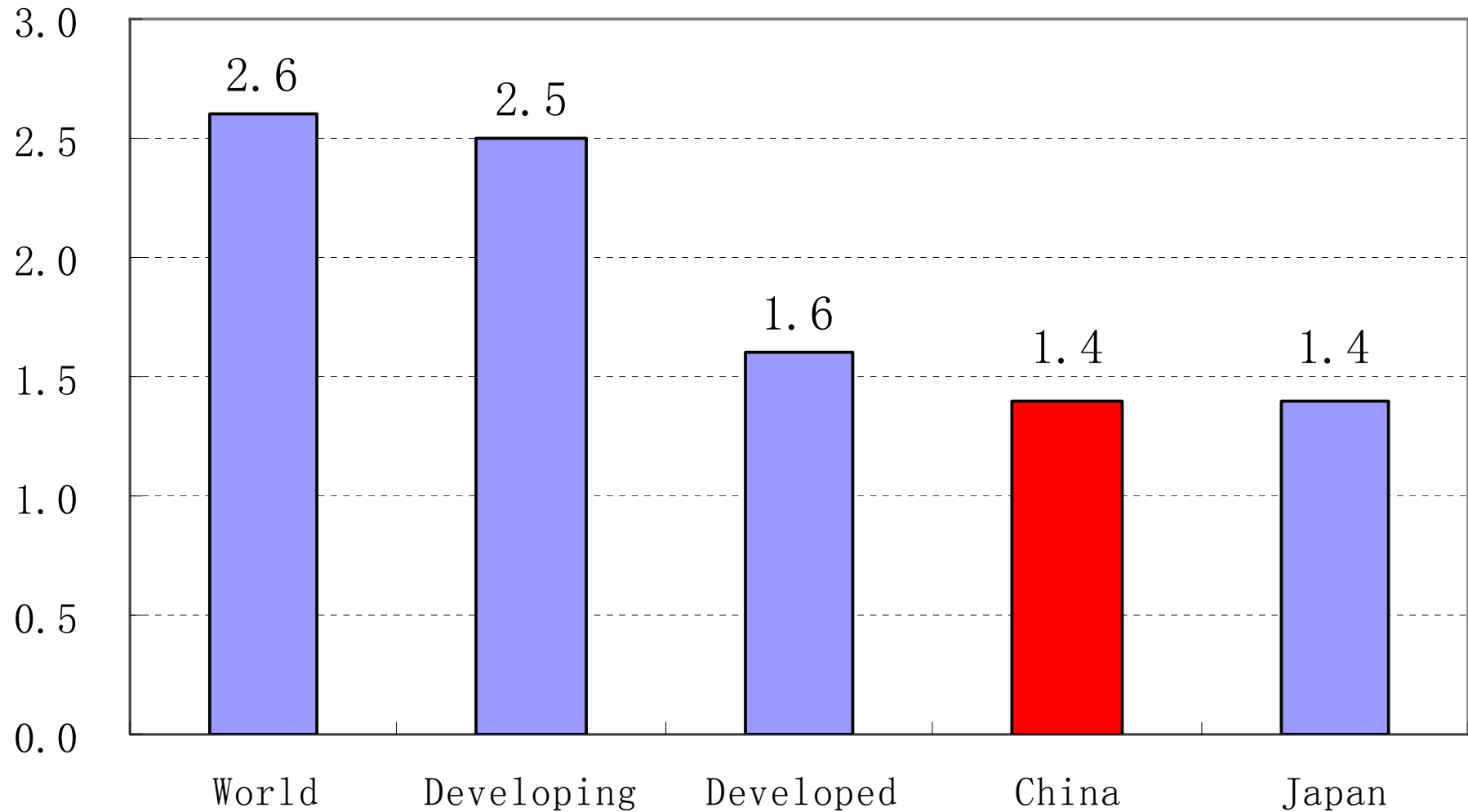
- Mainly talk about population trend & implications to China. For rest of the world, you may think of how to deal with the following trends
  1. Labor-intensive industry moves to inland
  2. labor cost hike reduces trade surplus
  3. Catching up in technology & skills
  4. Changing from producer to consumer

# **Demographic Transition in China**

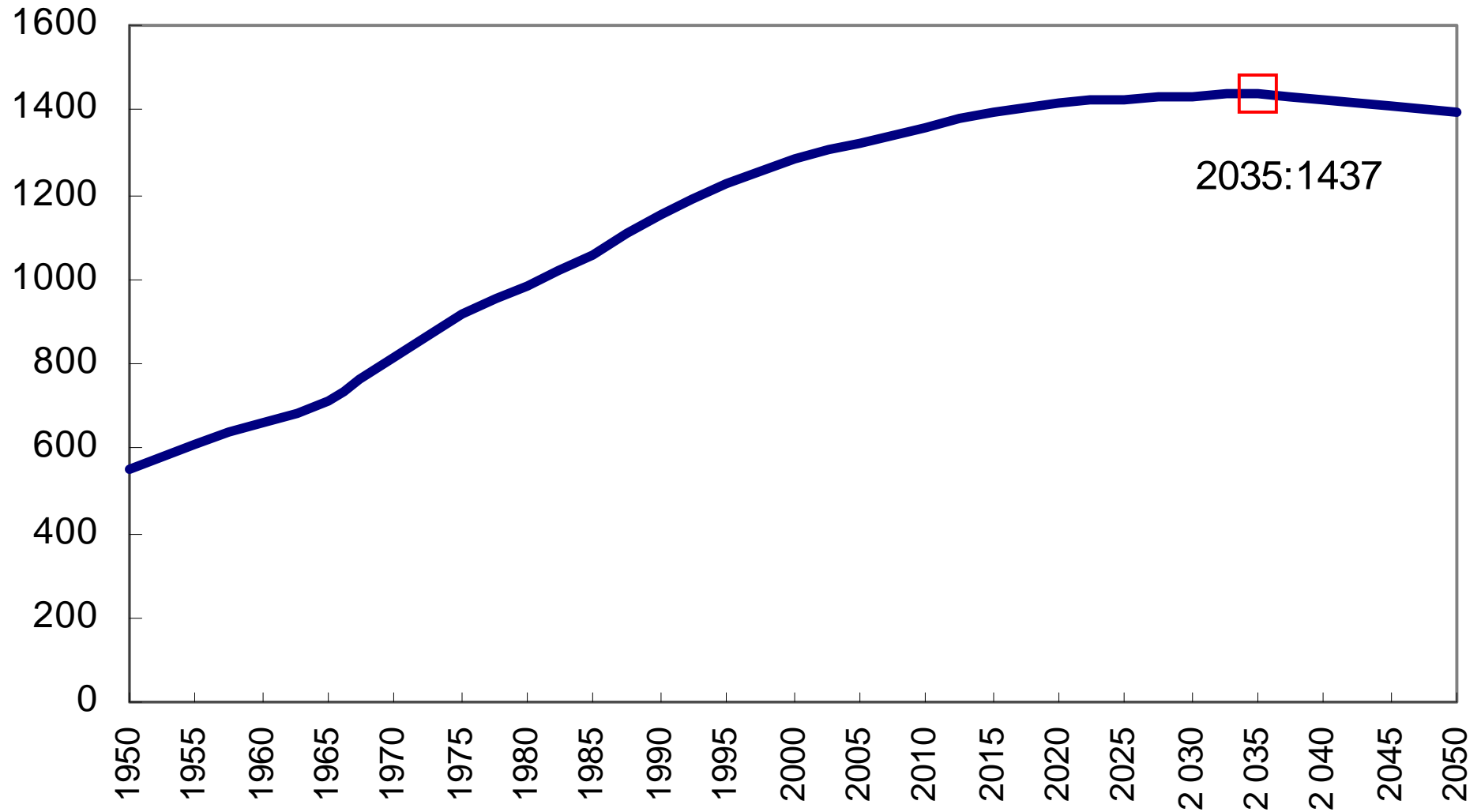
# China Demographic Transition



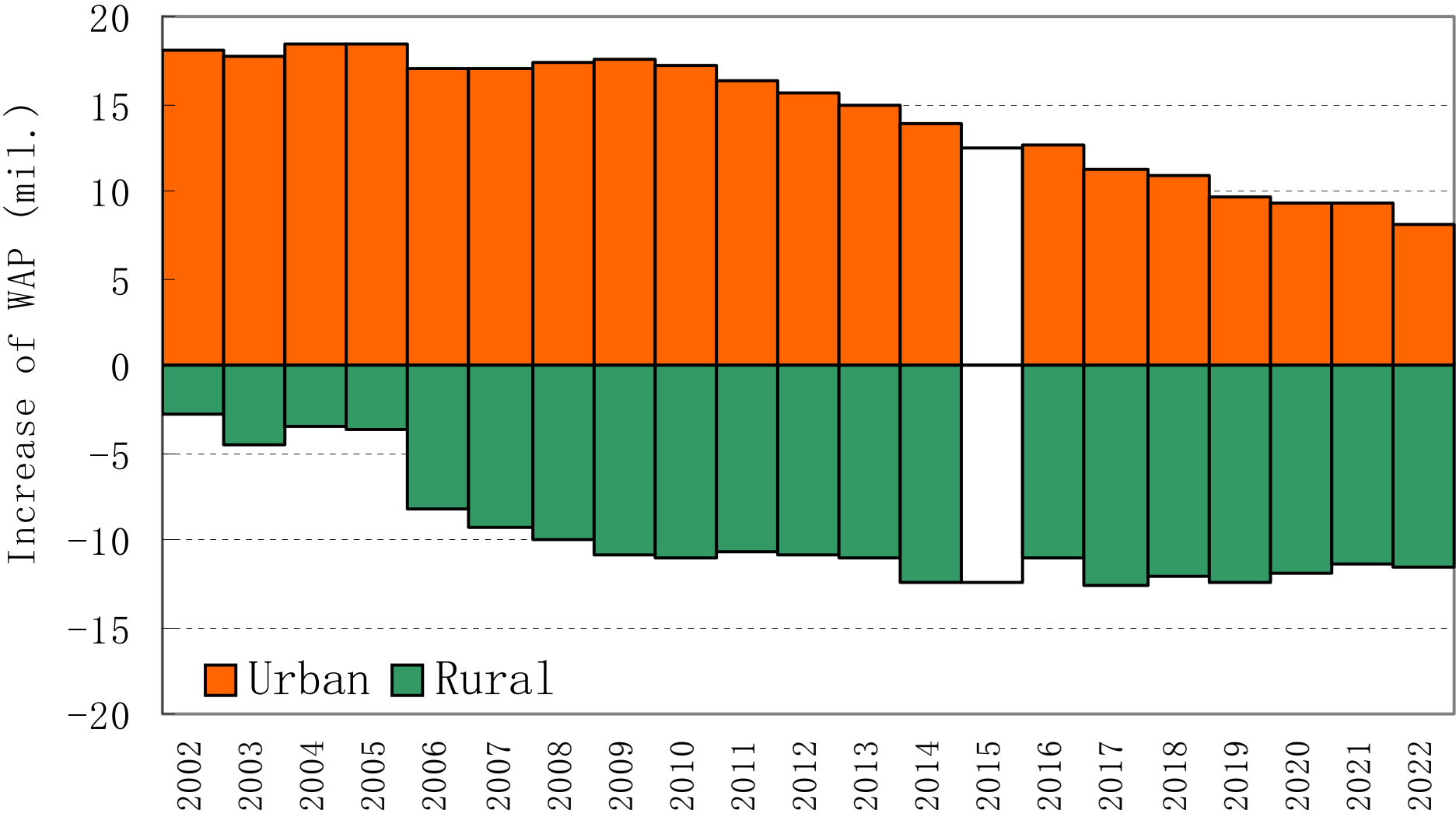
# Comparison of Total Fertility Rates



# New Prediction on Total Population

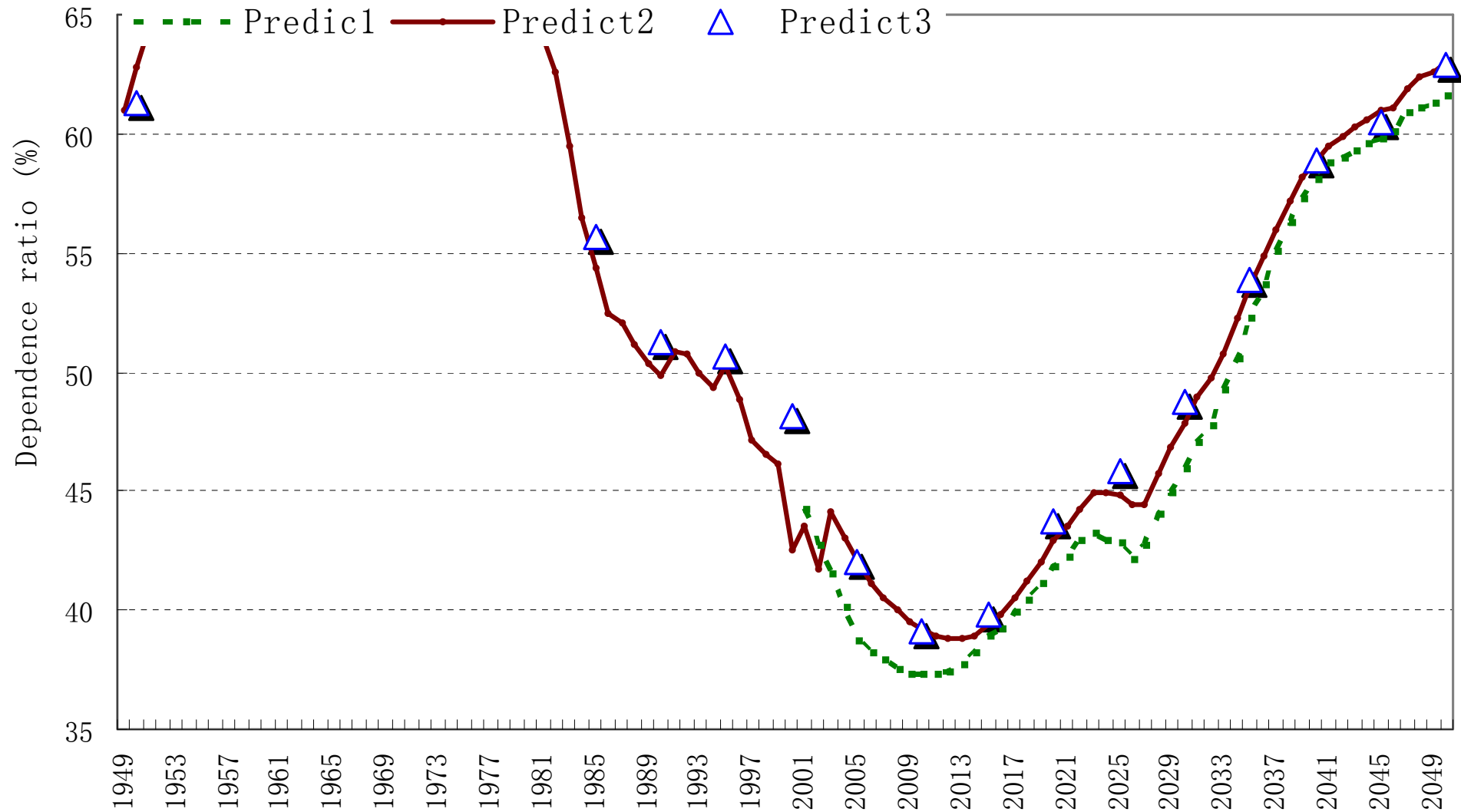


# Prediction of Working Age Population



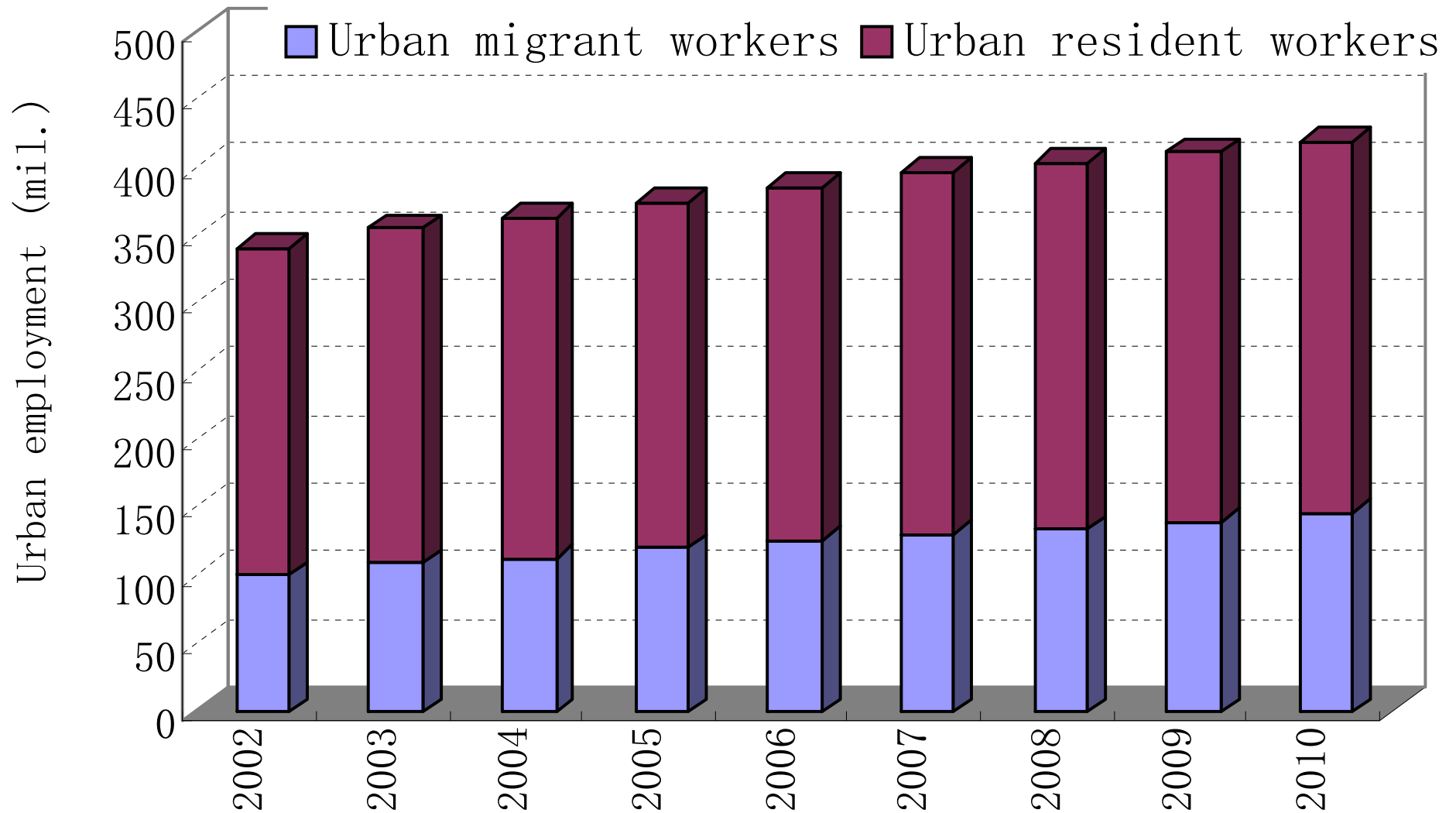


# Vanishing Demographic Dividend

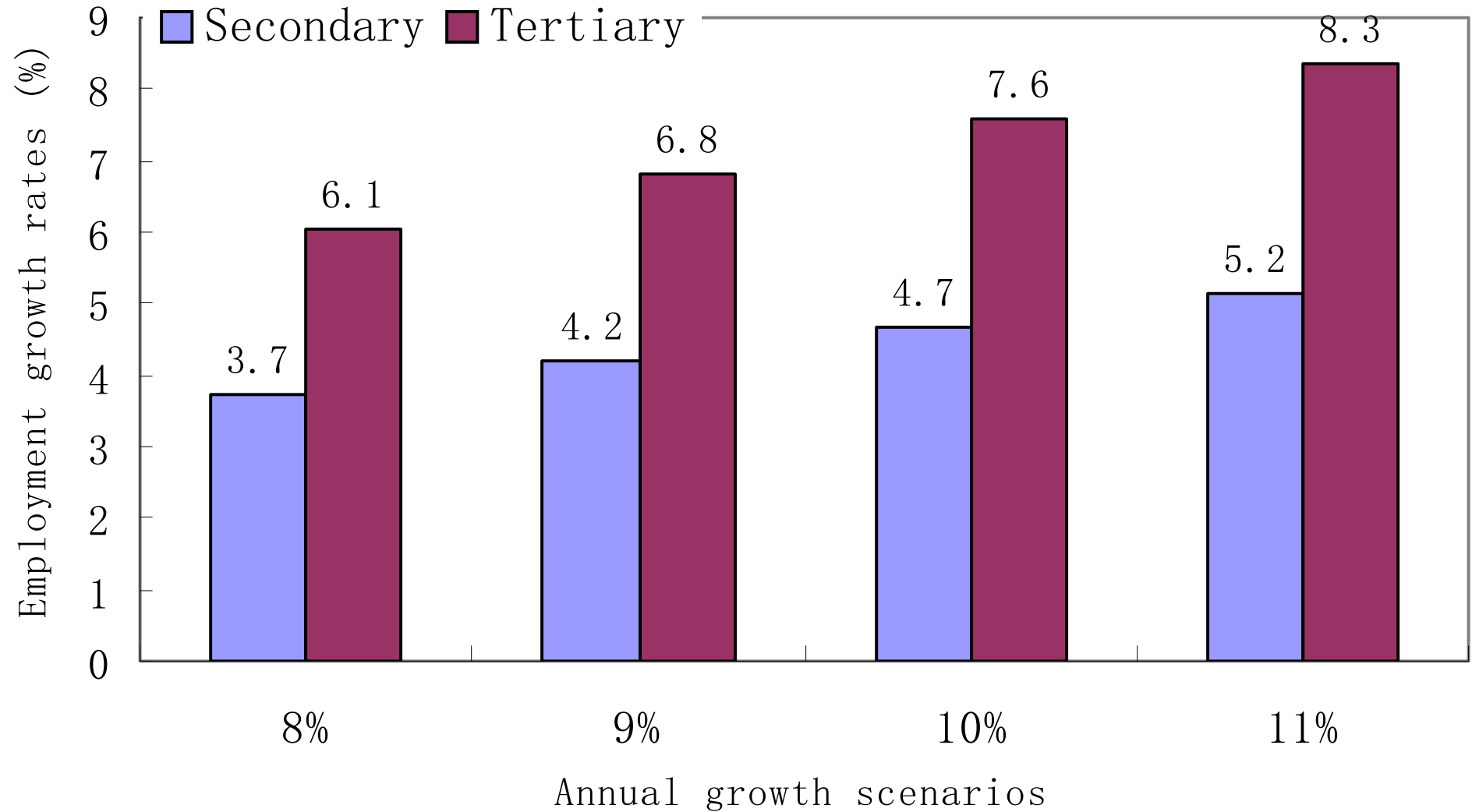


# **Labor Shortage & Wage Increase**

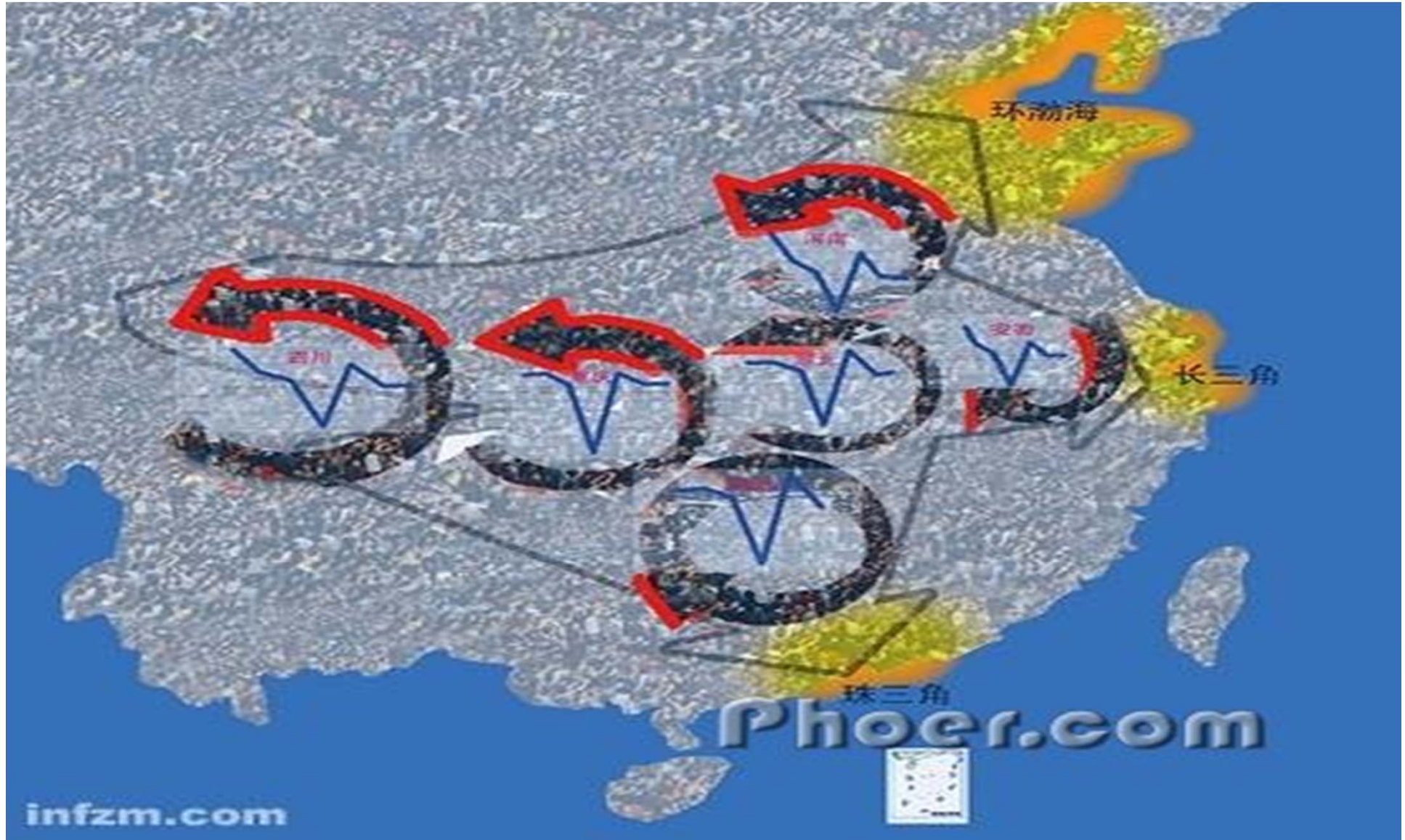
# Rapid Growth of Labor Demand



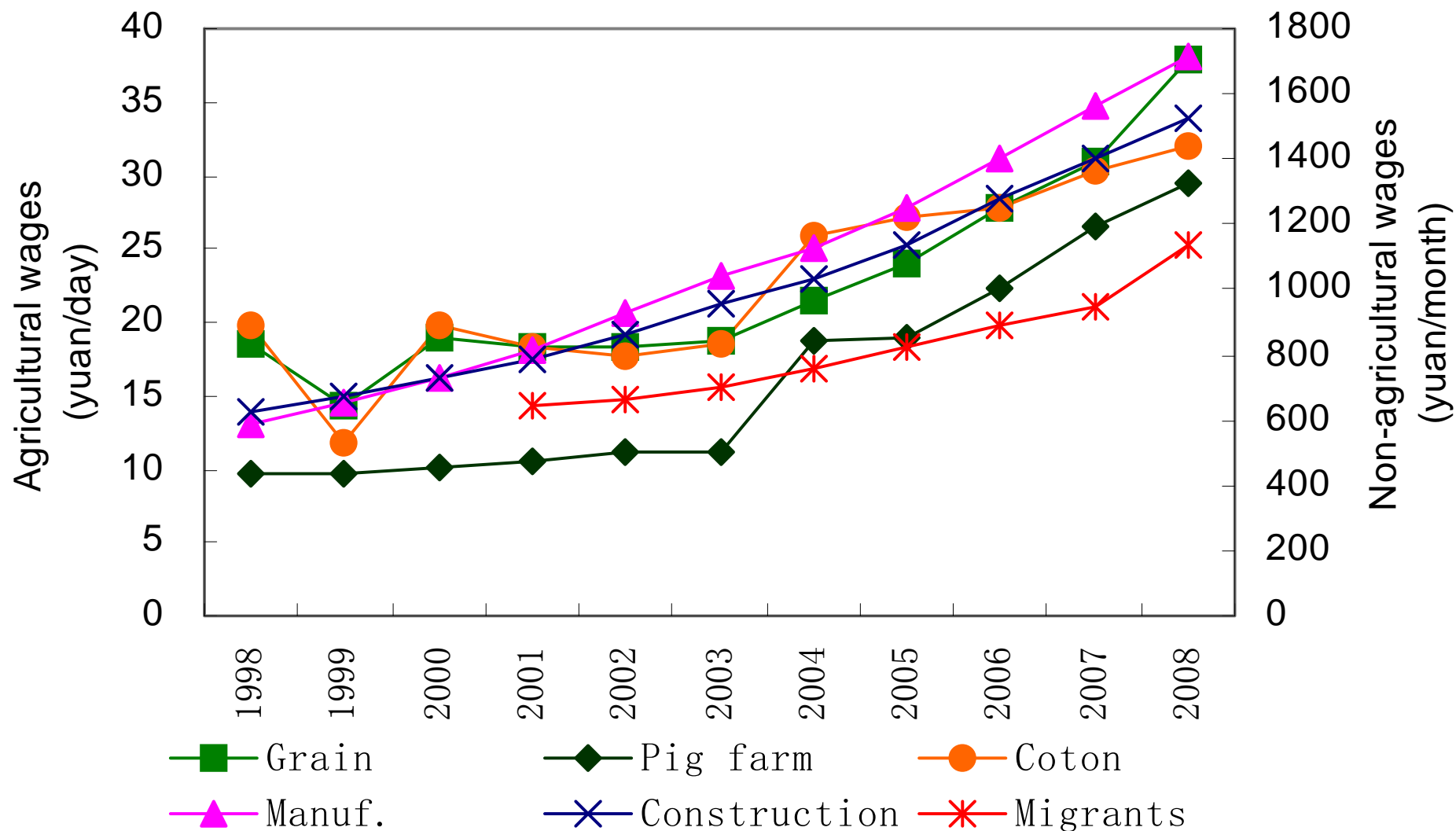
# Demand Grows Faster than Supply



# Widespread Shortage of Migrant Workers



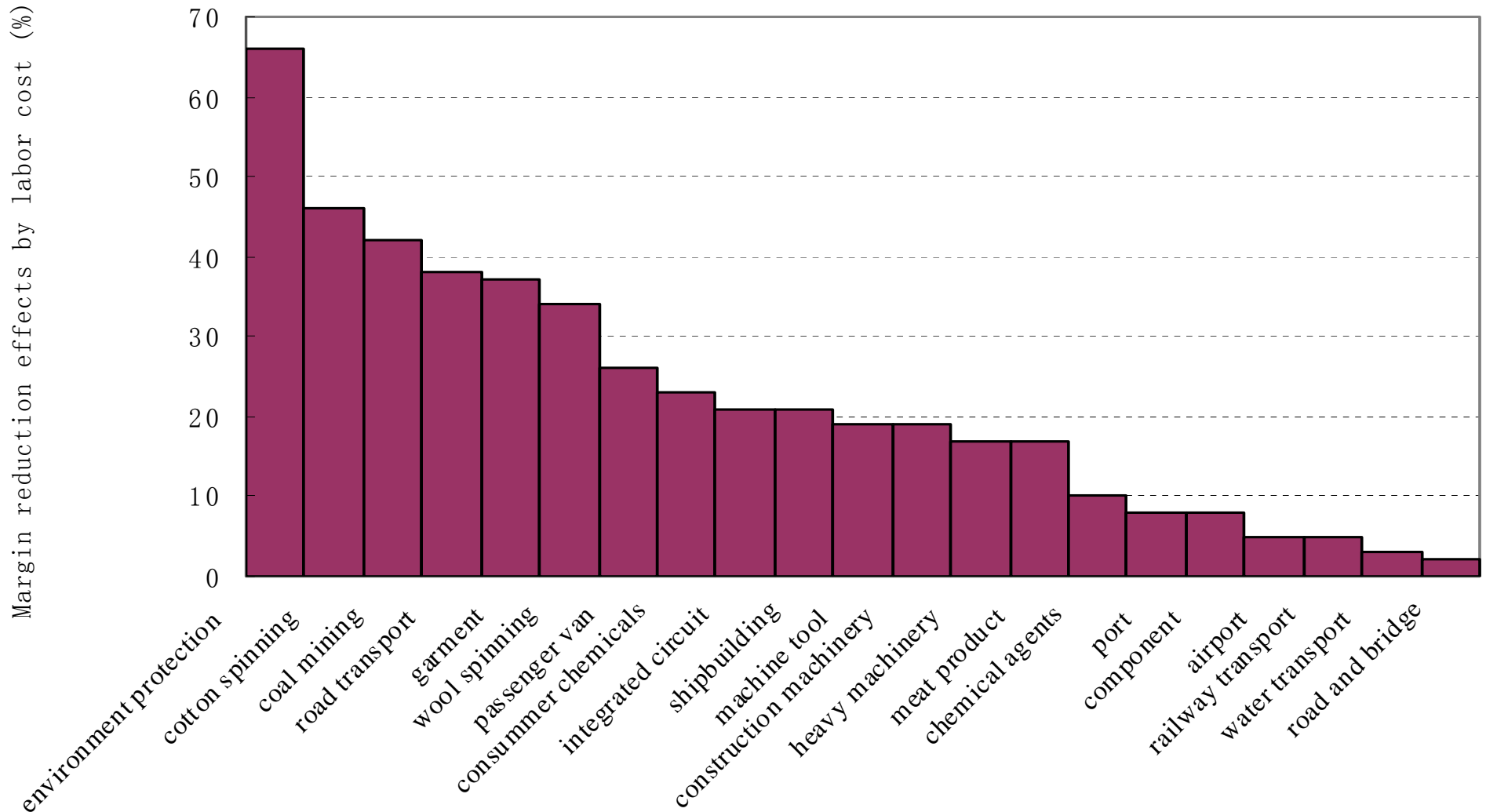
# Wages Increases in All Sectors



# Supportive Policies for Wage Increase

- Efforts on income distribution
- Widening social security coverage
- Increasing minimum wages (13% annual growth for 12th Five-year Plan period)
- Labor market institutions (collective bargaining; workers' biased judge in labor disputes)

# Profit Drop Caused by 20% Increase in Labor Cost (SWS, 2010)



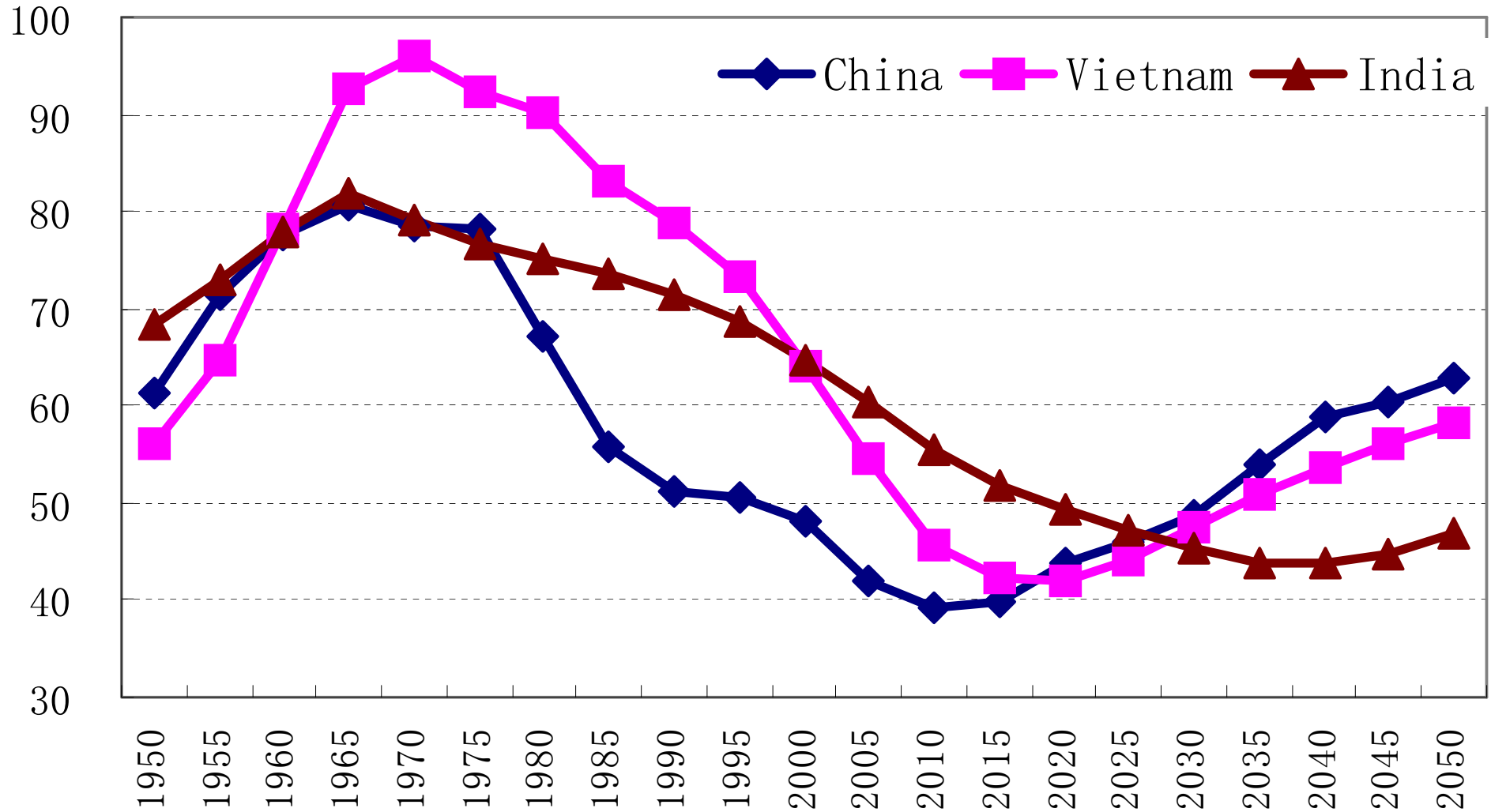


# Impact on Trade Surplus

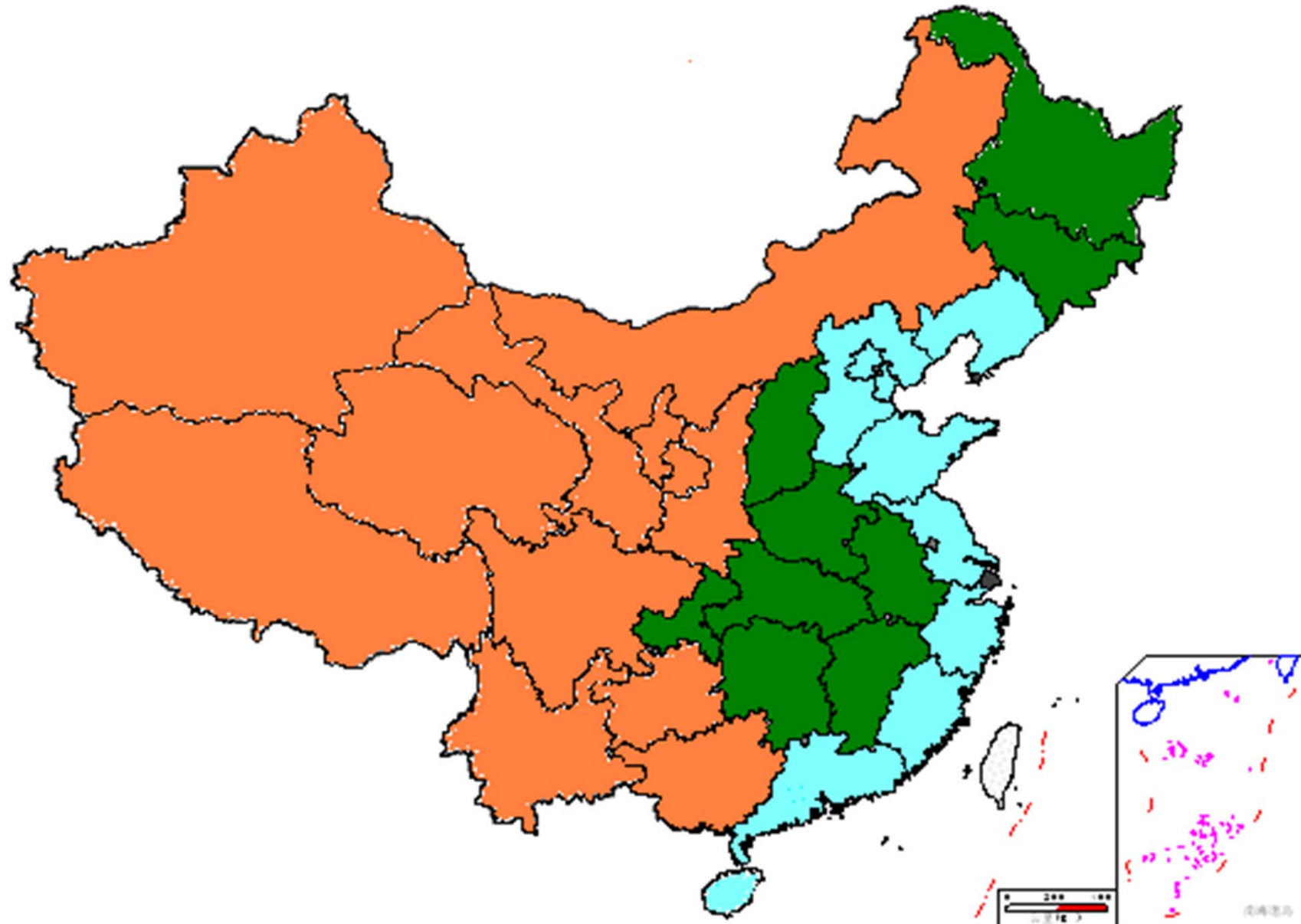
- According to economist at Deutsche Bank, increase in labor costs in labor-intensive manufacture will generate similar effect as RMB appreciation. It is estimated that demographic factor will contribute half of the trade surplus reduction. In 2016, there will be no more surplus but deficit

# **Whither Labor-intensive Industries?**

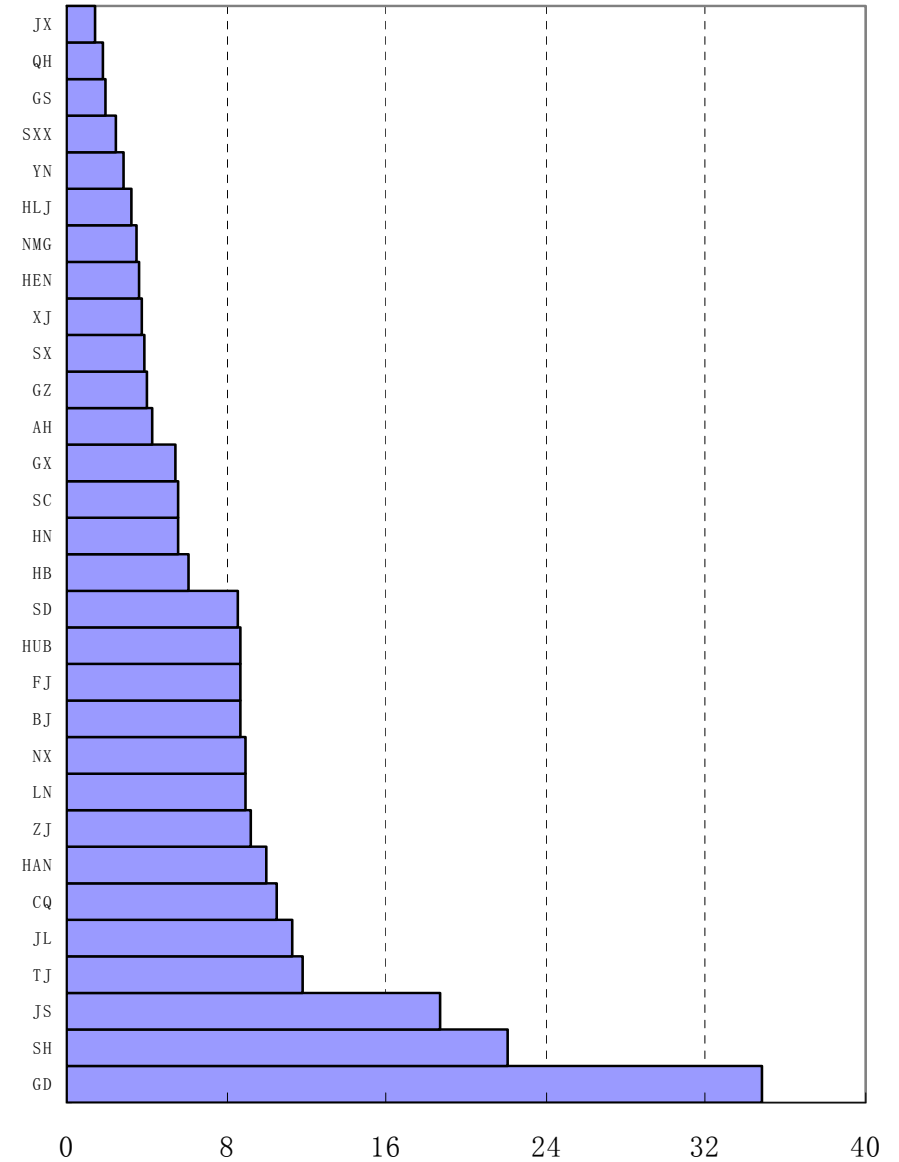
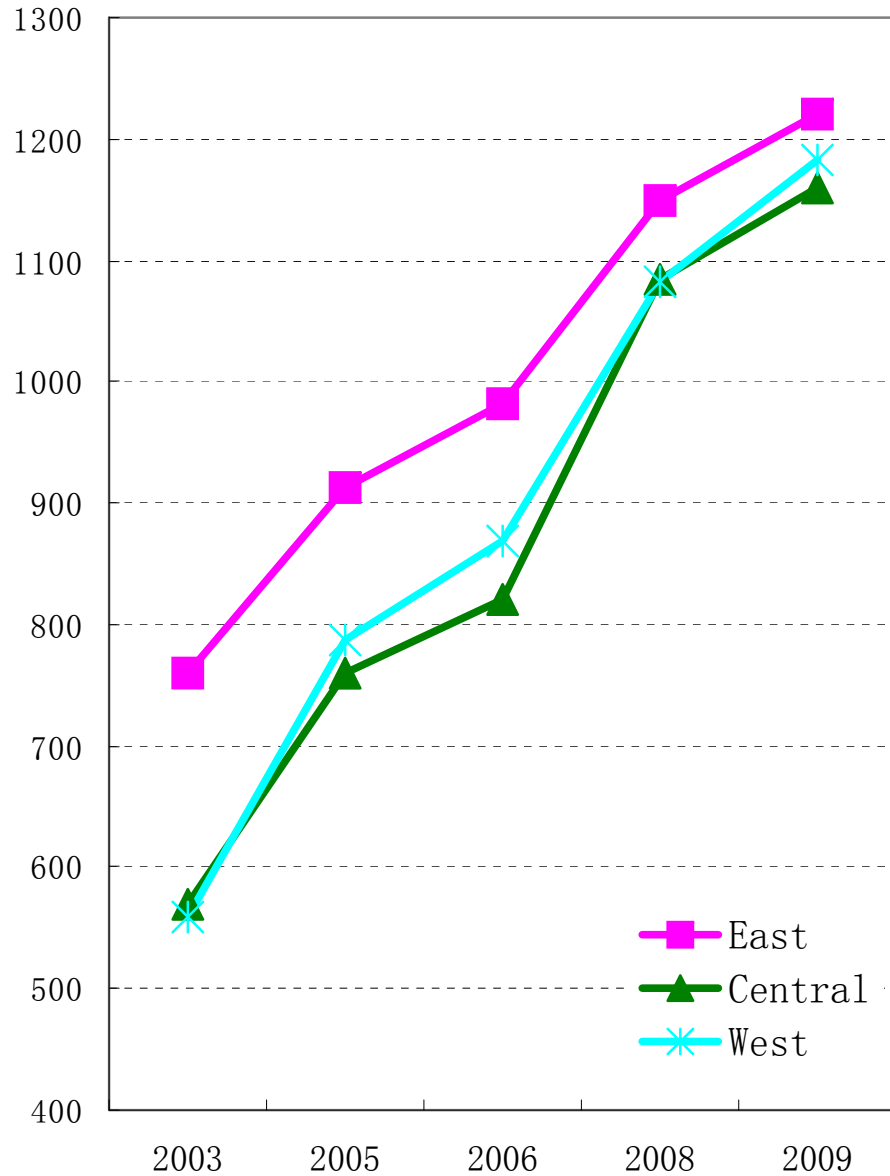
# Neighboring Countries as Destinations



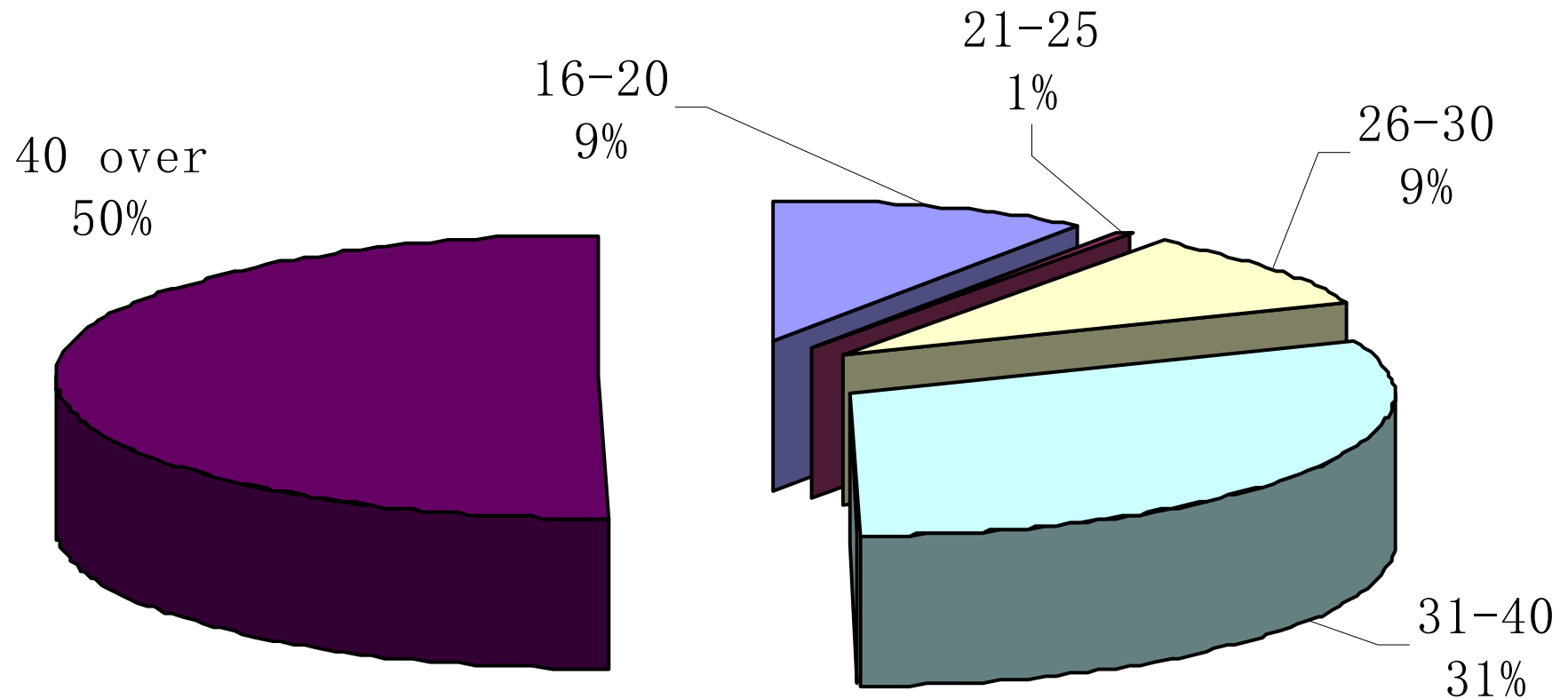
# Most Likely, Regional Flying Geese



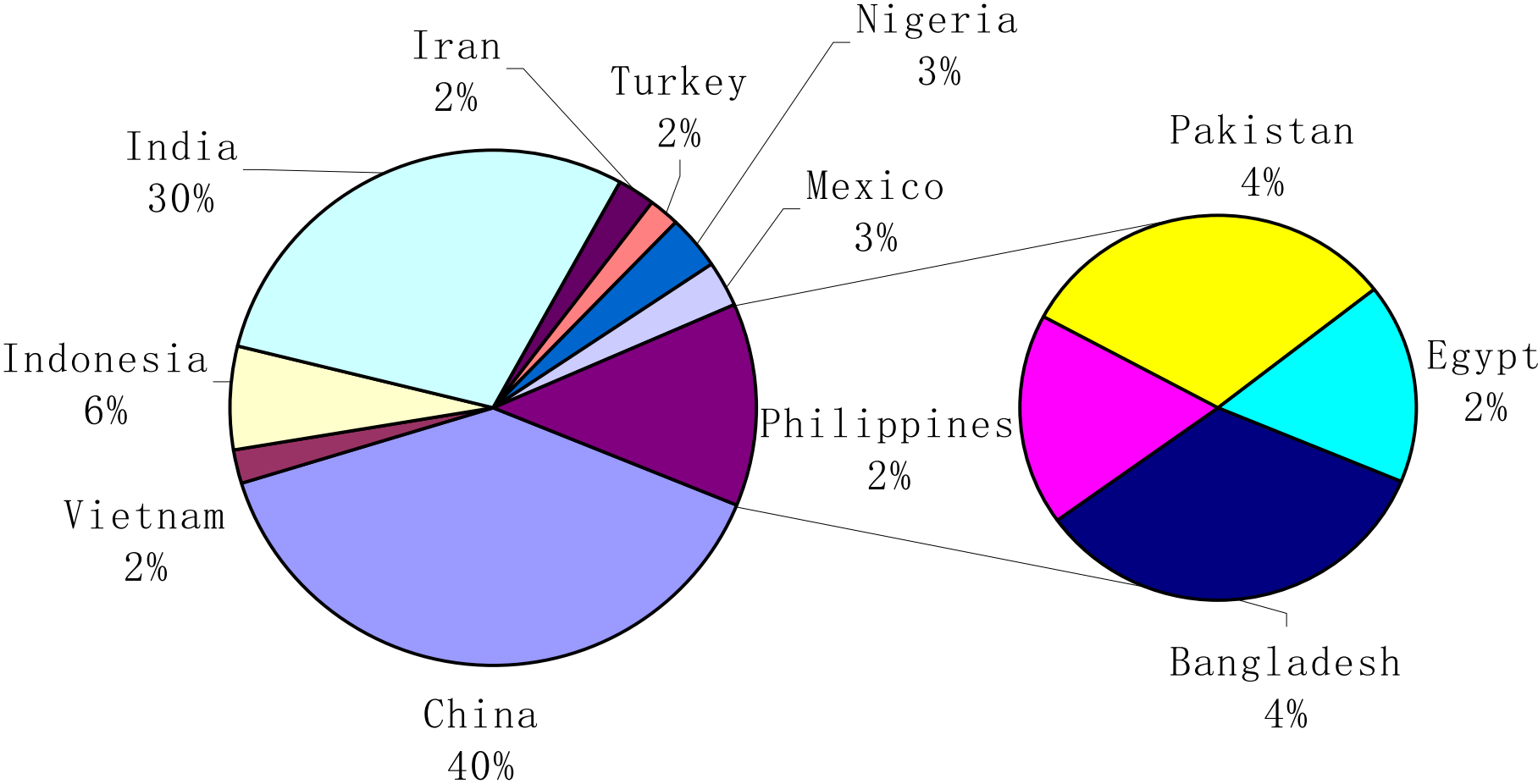
# Wages Differentials Will Exist



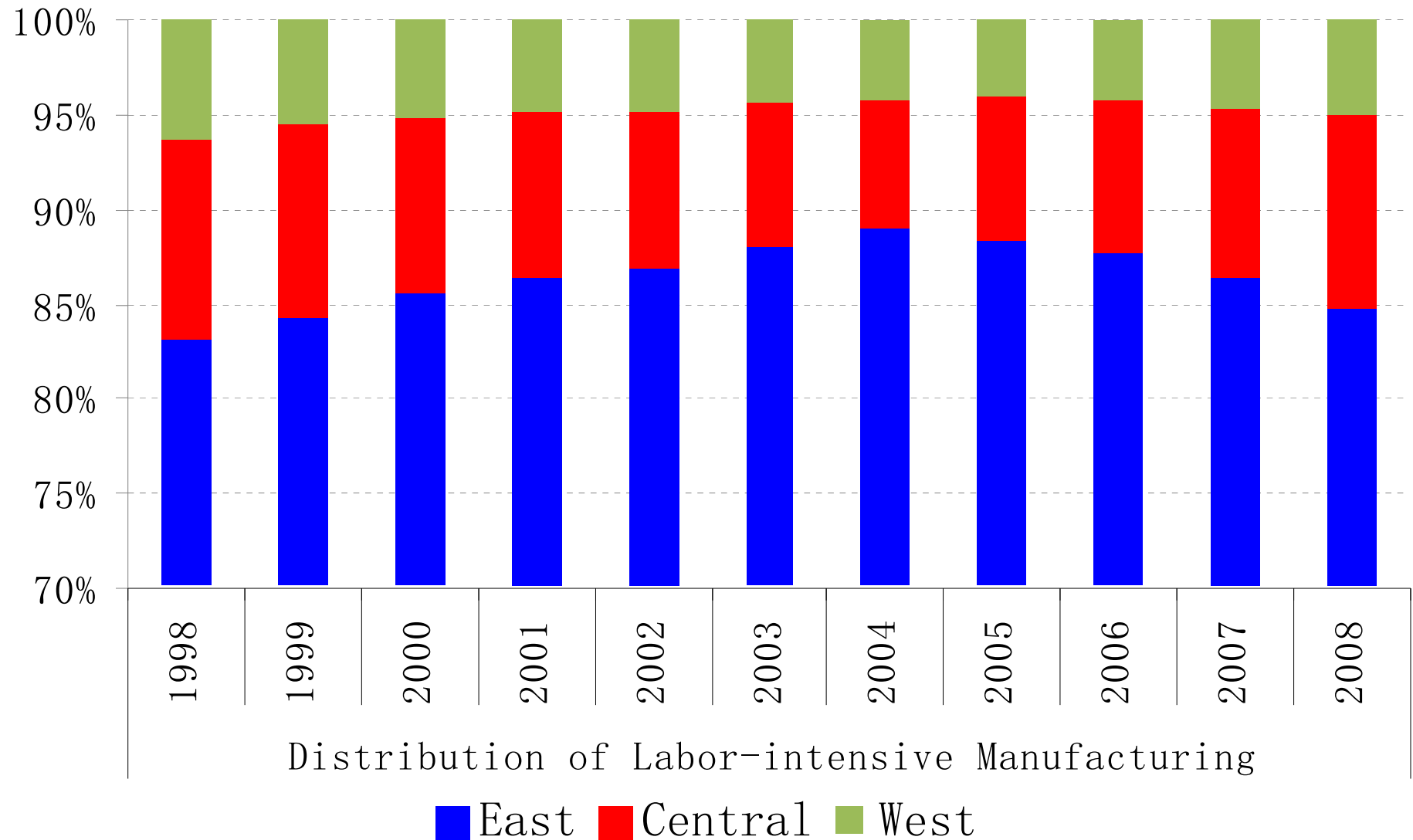
# Age Structure of Agricultural Labor



# It Takes Time for Newcomers to Pick Up



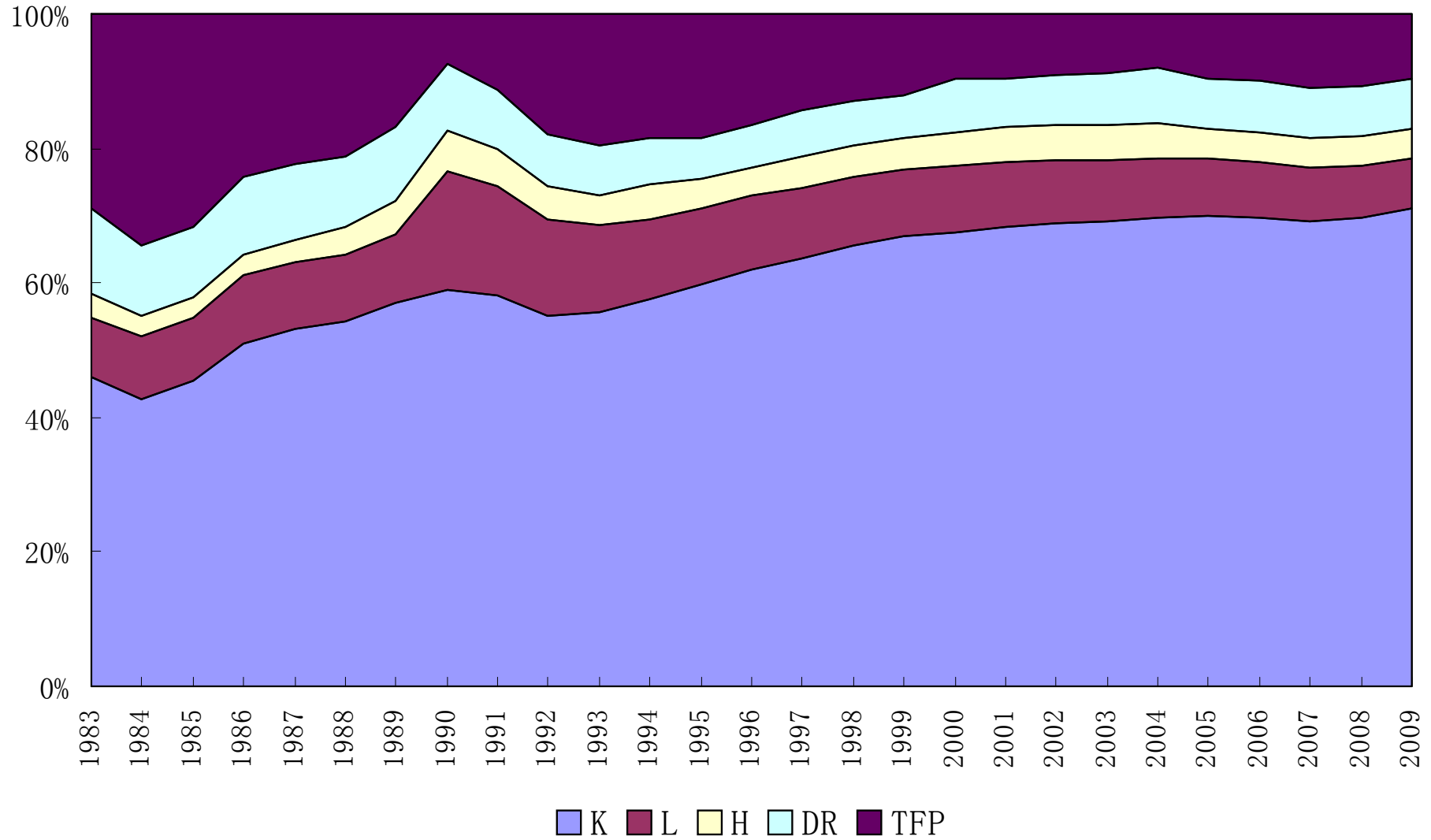
# Industrial Transfer Has Happened





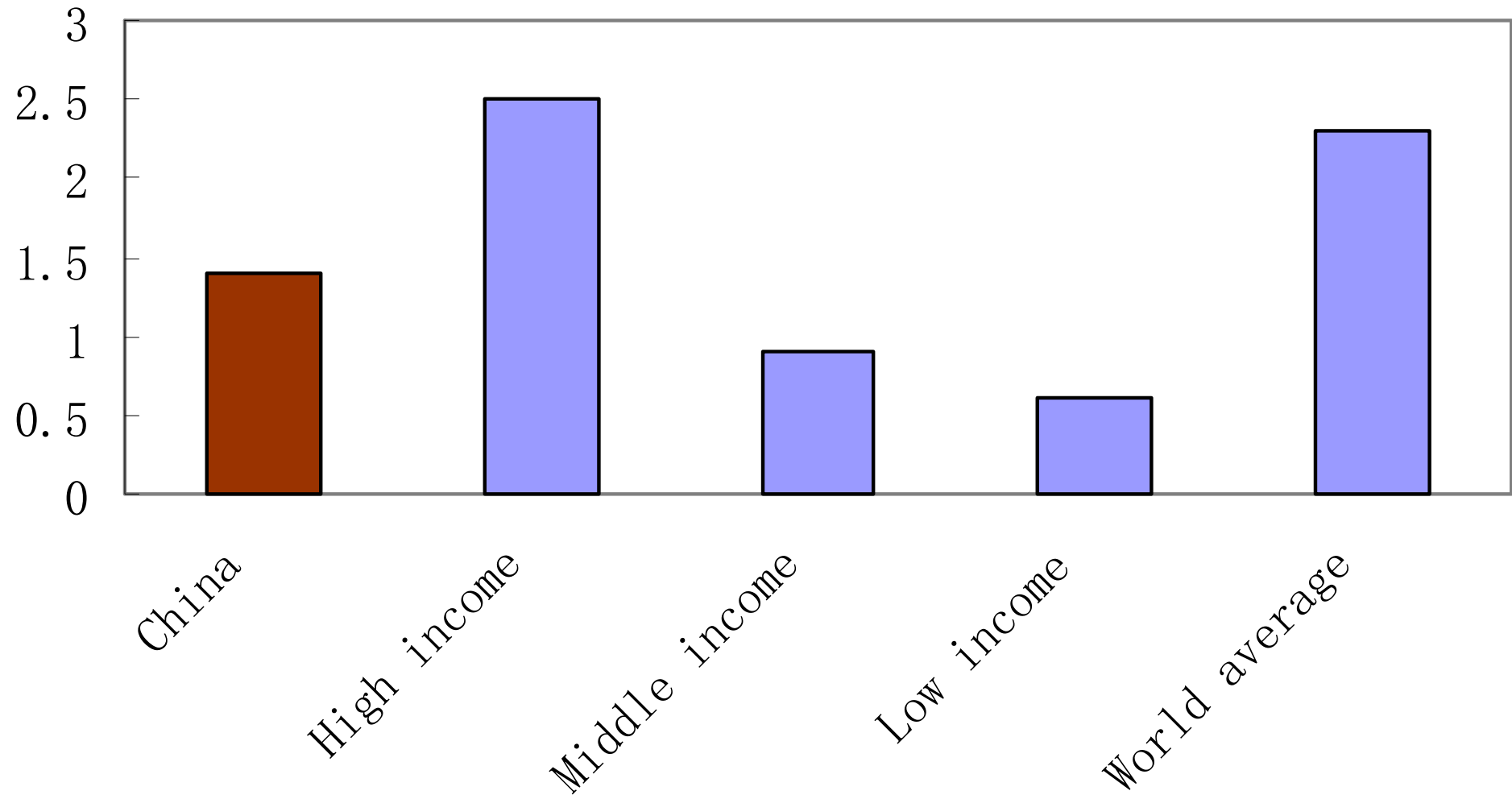
# **Upgrading and Catching up**

# TFP: Sustainable Source of Growth



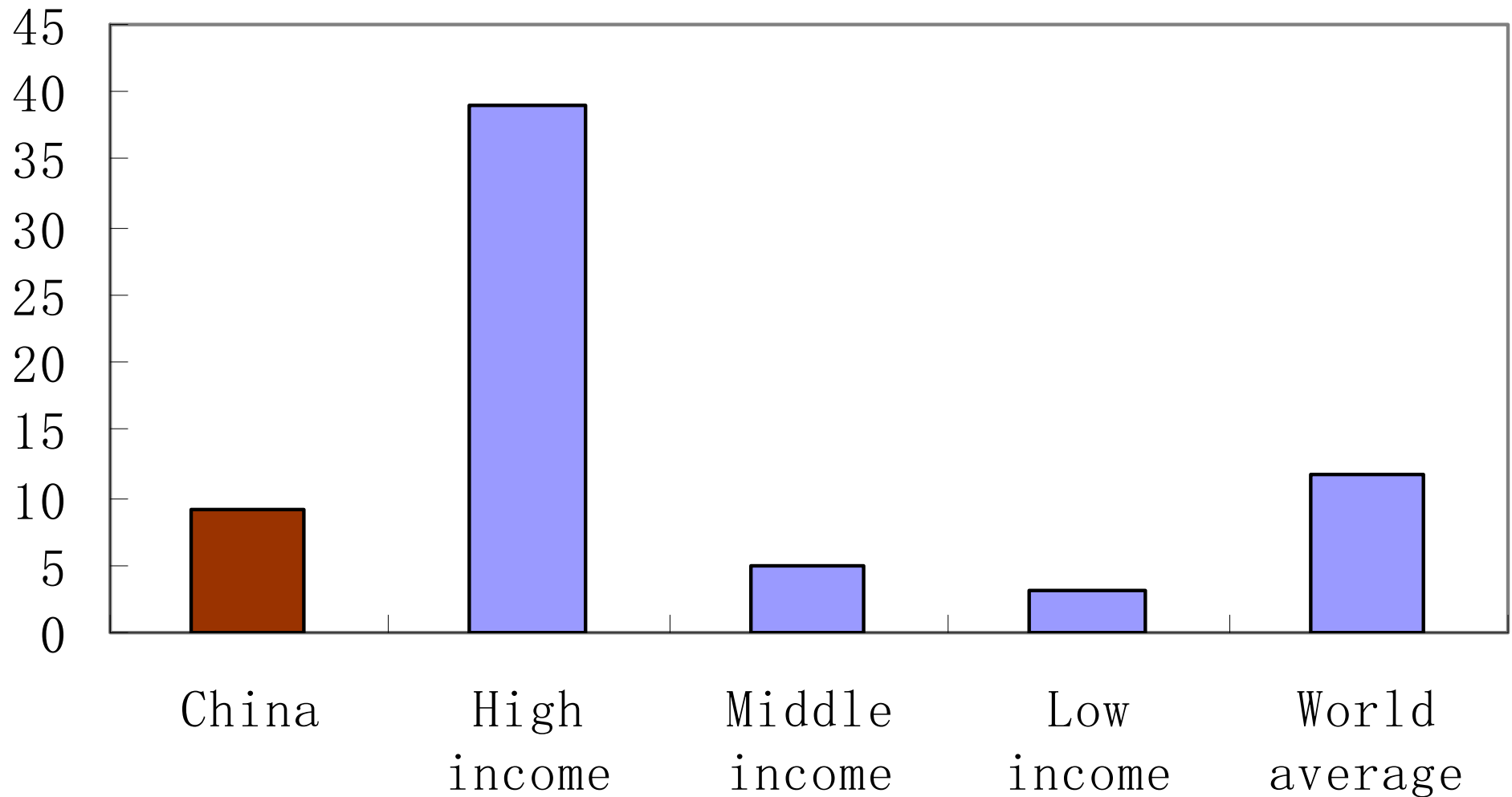
# Gap in Innovation: R&D Expenditure

R&D as percent of GDP



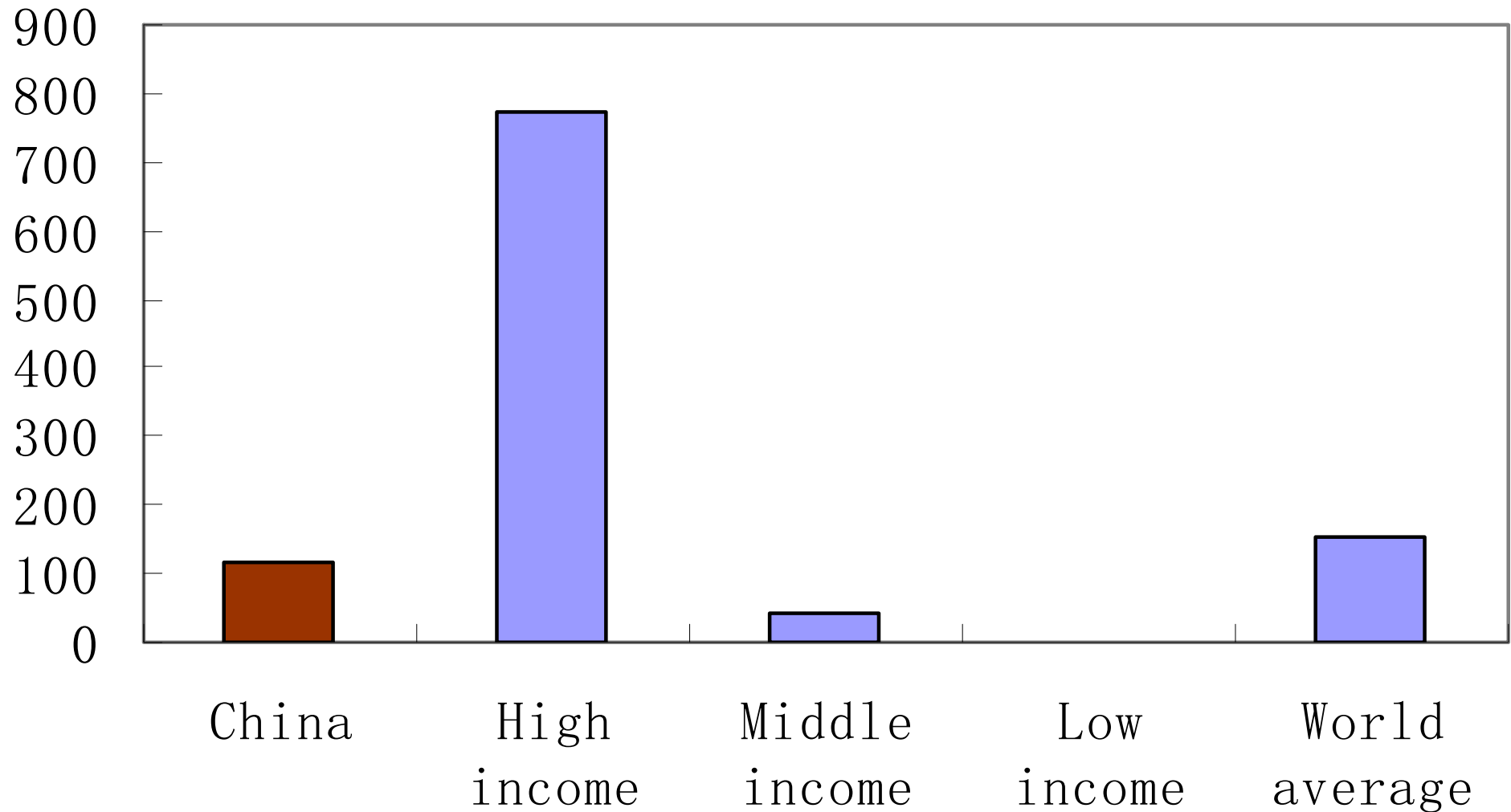
# Gap in Innovation: R&D Personnel

R&D staff per 1000 people

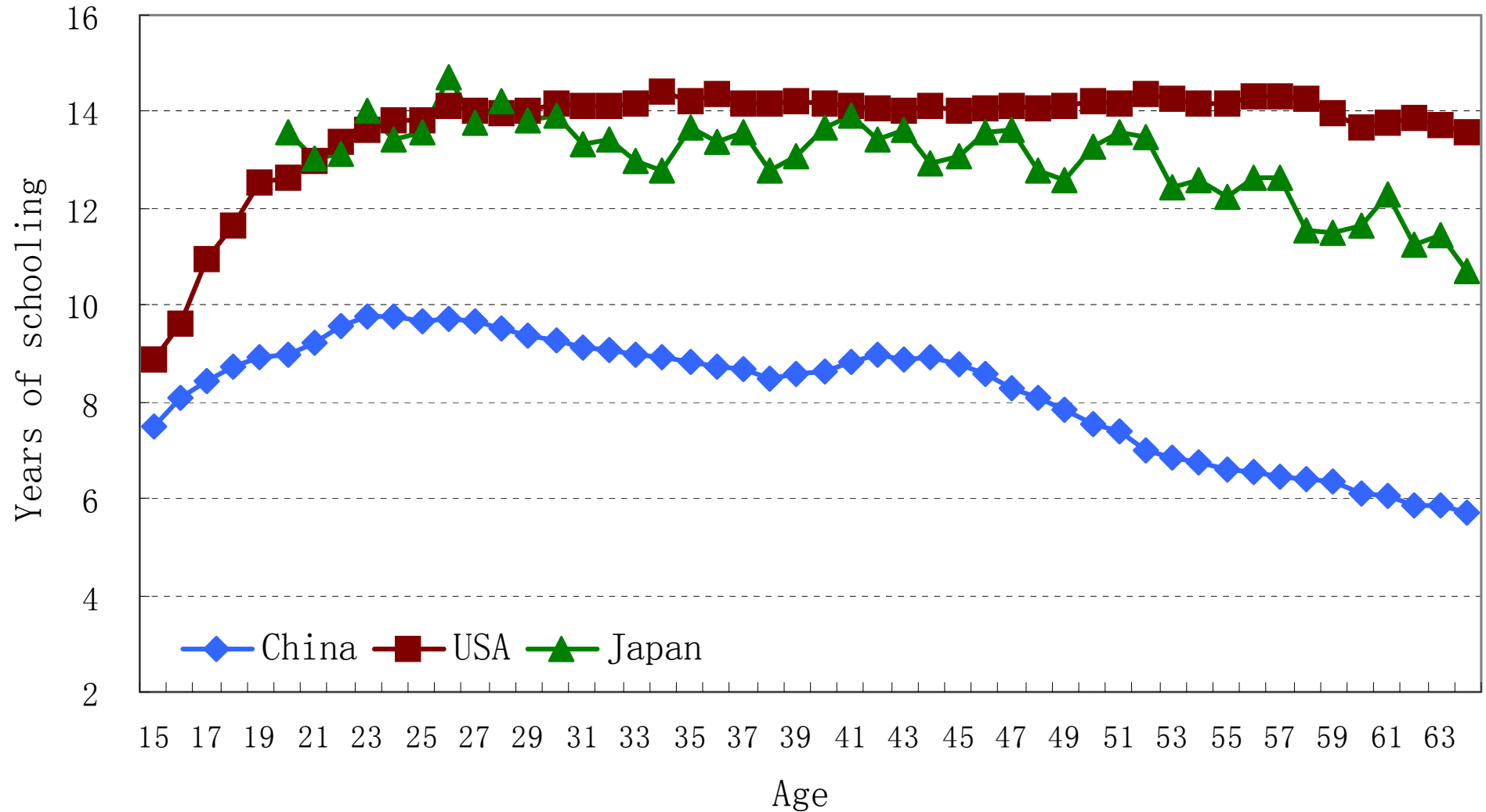


# Gap in Innovation: # of Patents

Patents per mil. people



# Huge Gap in Human Capital



# Advantage of Backwardness

- Two definitions for globalization: (1) global expansion of trade, (2) globe-wide flows of knowledge/ideas
- China ends the former and begins to utilize the latter
- Implication for advanced countries is how technology can be bound with FDI

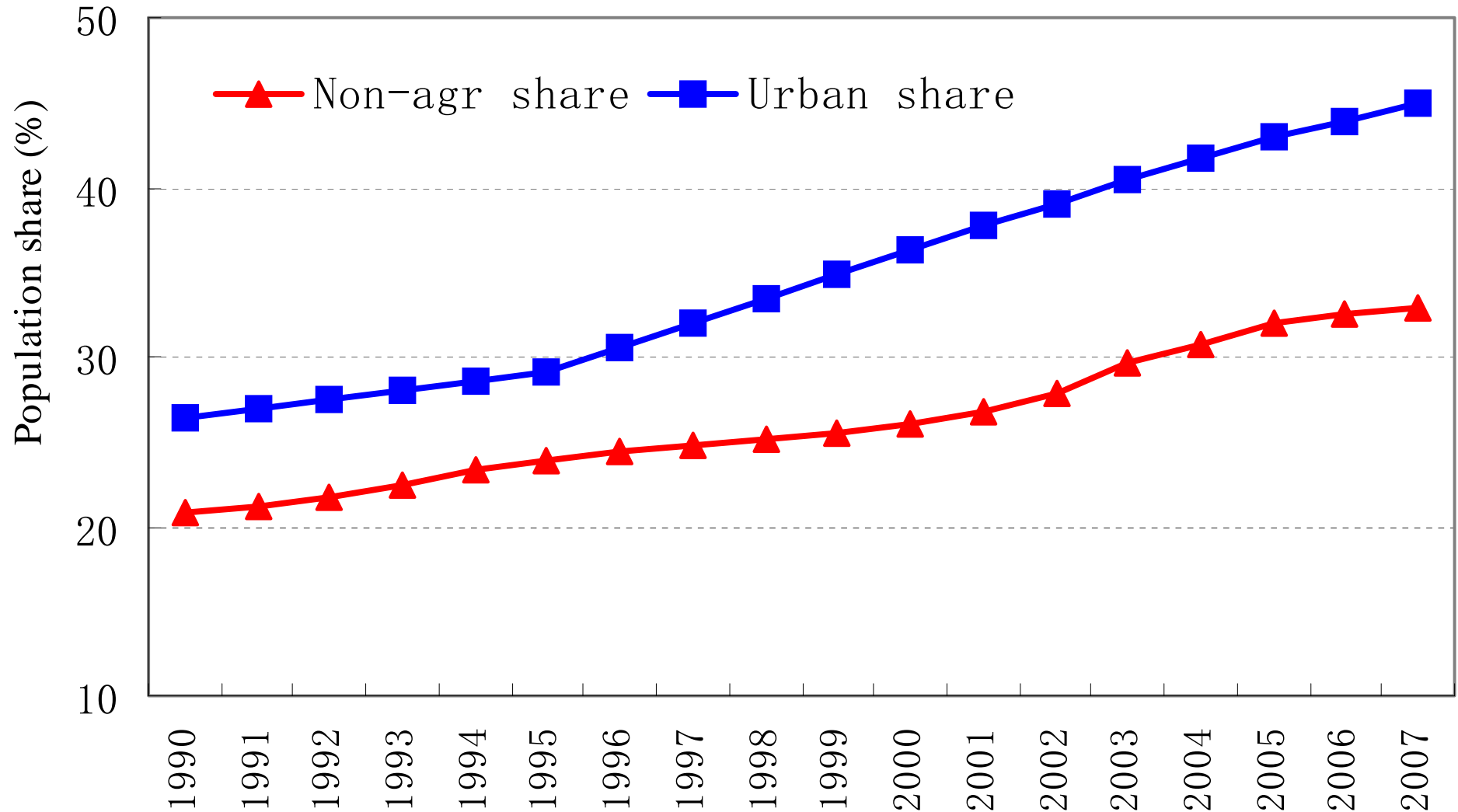
# **Migrants: Next Giant Consumer**



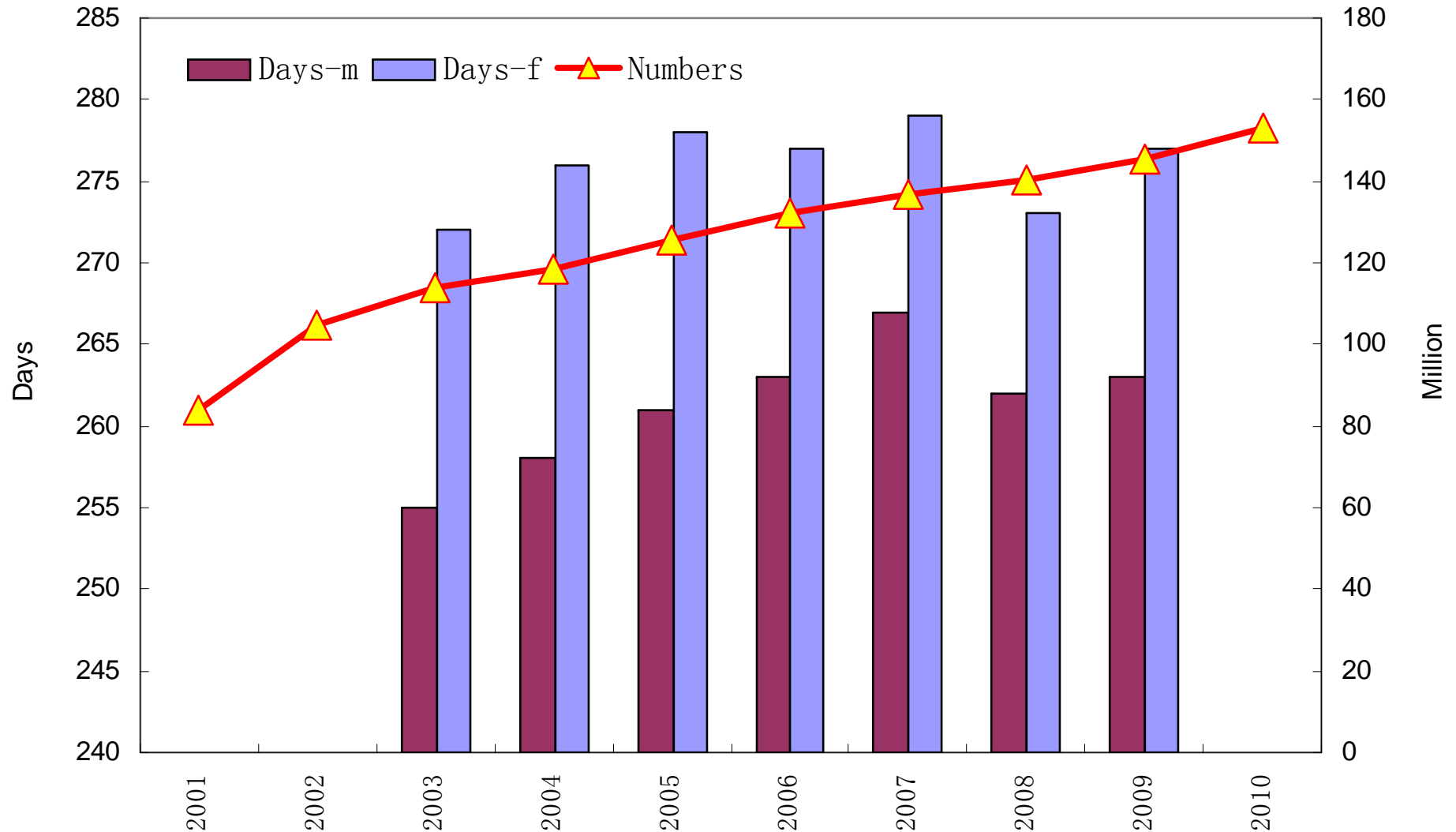
# Size and Composition of Migrants

- Migrant workers left home township for 6 months increase to 160 million in first half of 2011 and 2/3 are new generation (born after 1980s), who are better educated, earn more and consume more

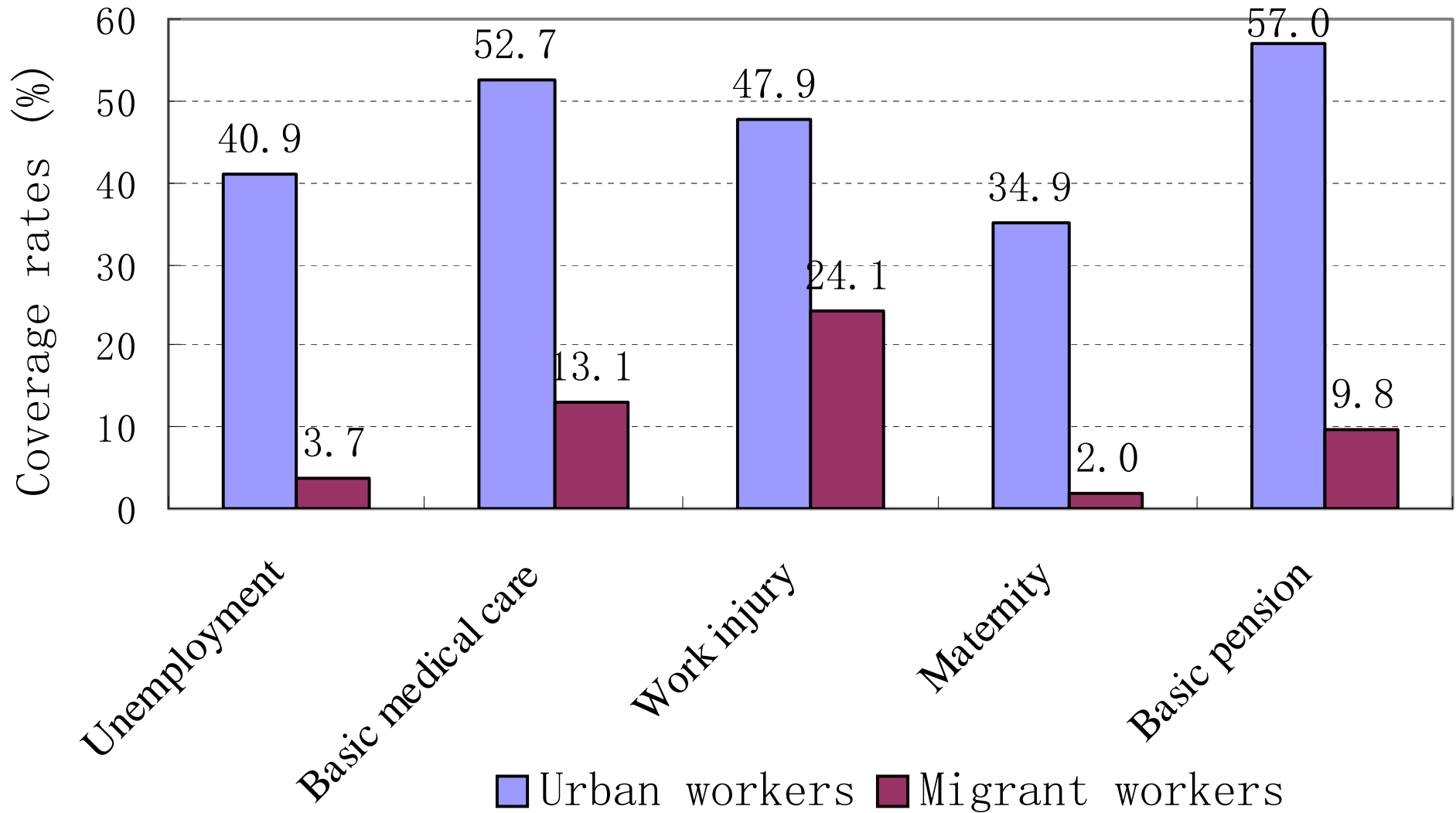
# Incomplete Urbanization



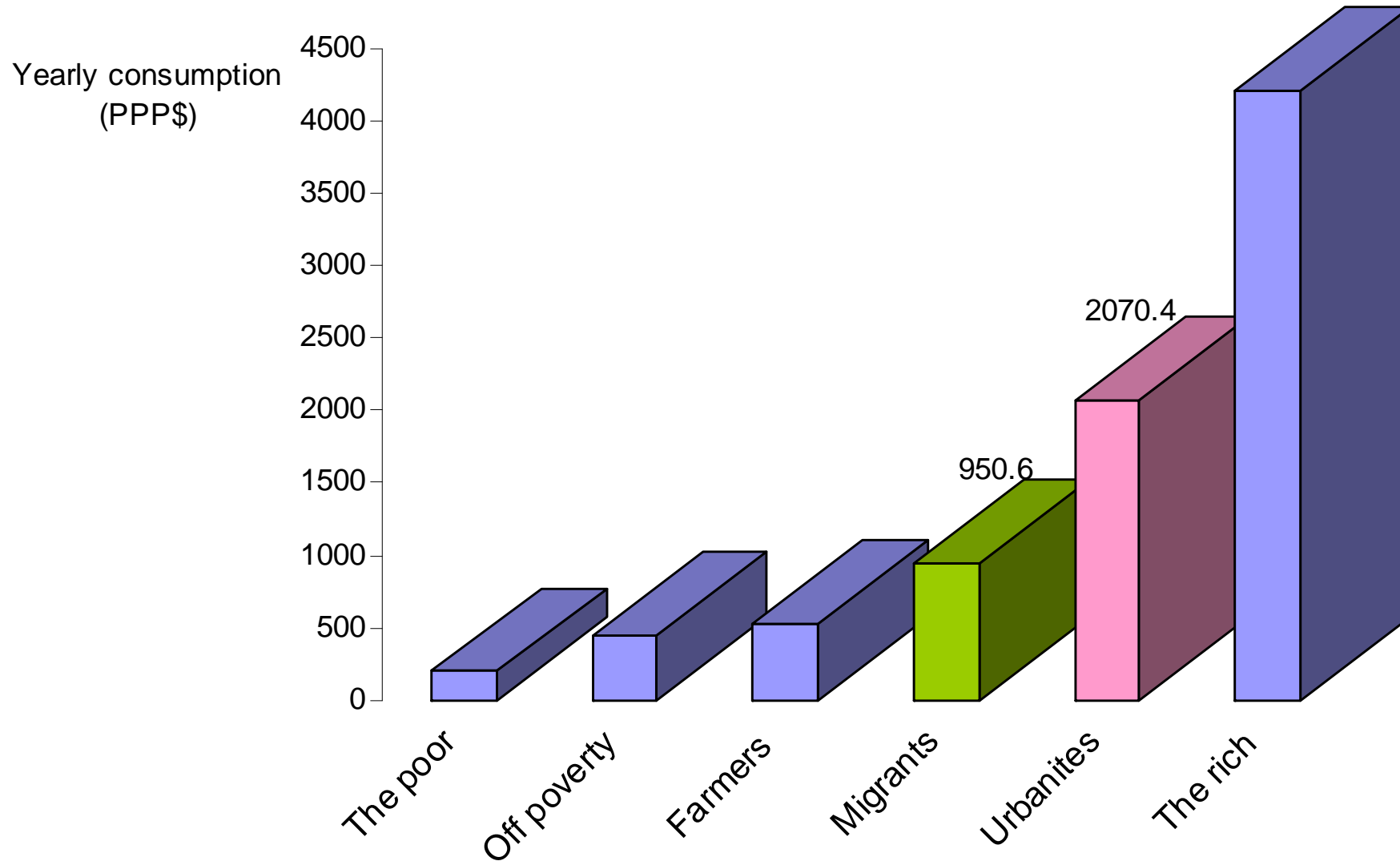
# Migrants' Insecure Employment



# Low Coverage of Social Security



# Institutional Potential of Consumption



**Thank you!**