

# China's Hidden Economic Time Bomb

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Global Research, October 23, 2019

Region: [Asia](#)

Theme: [Global Economy](#), [History](#)

*The China government statistical agency just released economic data showing the poorest GDP growth in almost 30 years for China. The problem goes far deeper than recent effects of the US-China trade war or the impact of calamities such as African Swine Fever that have decimated the nation's pig herds. The underlying far more serious problem is an emerging disaster that few are willing to discuss openly.*

Since about 2017 China's population has begun to feel the real impact of the ill-conceived One Child Policy imposed by the Communist Party in 1979, some 40 years ago. This slow-growing problem, once seen as benefit, is undermining the entire basis of the China Economic Miracle. The question is whether Beijing can make the transition to an ageing population without major social and economic dislocation.

On October 18 the China State Statistics bureau released Third Quarter GDP which came in at 6.0% compared with 6.2% the previous quarter. While there is great skepticism as to how honest the reporting is, the fact the government must announce a slowing growth at all suggests the situation in reality could be far worse.

The true data on China's economy remain opaque. In December 2018 the Shanghai University of Finance and Economics published its annual transparency survey on the 31 provincial-level regions. The average score was just above 53%. The study concluded, "[Unfortunately,] the general level of transparency in China's local governments remains [poor](#)."

A more direct indicator of the health of the economy comes from actual trade data. Bloomberg reports that auto sales in China have fallen for the 15th month out of 16 months in September. It's the "worst slump in a generation", according to Bloomberg. As well, sales of new homes and apartments in Beijing, Shanghai and other major cities fell dramatically to lows of 2014.

The deeper issue is not the transparency of official economic data. The deeper issue is whether the China Miracle, the remarkable rise from a Third World level backwardness in less than three decades, is entering a structural crisis that will impact not only China's economy. The recent data on new car sales and new home buying could be an ominous indicator that the China boom years are coming into a drastic slowing with huge consequences not only for China but also for the world.

## Golden Era Peaks

Like no other economy in modern history, China's remarkable economic rise has been facilitated by an extraordinary short-term demographic blessing. That blessing has begun to turn into a curse.

In the 1980's as China officially opened its economy to Western factories and investment, China had what seemed to be an endless pool of low wage labor power from the countryside to build its roads, new cities and assemble its goods in factories of the likes of Nike or VW or Apple to be shipped to the world. In 1987, the early days of China's economic miracle, 64 percent of the population were of working age, and only 4 percent were aged above 65. That meant a huge surplus of workers to feed China's low-cost manufacturing boom. This drove the average 10-11 percent annual GDP [growth](#) seen between 1987 and 2007.

So long as globalization with the rules of the newly-created World Trade Organization encouraged the outsourcing of manufacture to China with its huge work force and ultra-low wages, China was booming like no other.

In 1979, alarmed at a population that had been increasing from 1950 to 1978, at a 20 percent annual natural population growth rate, the Communist Party imposed a draconian One Child Policy. Deng Xiaoping as part of the Four Modernizations, set a goal to keep the population at 1.2 billion by 2000 as part of the formula for quadrupling China's GDP within the same [period](#).

The longer term economic consequences of that policy were not to emerge until some three decades, roughly a generation later, around the time, significantly, of the 2008-9 world economic crisis. A case can be made that the rising wages in China's manufacturing sector, occasioned by the first shortages of manpower beginning around 2007-10, were more a factor for the severity of the world financial crisis at that time than was merely the US real estate market.

China's turn to what Deng Xiaoping called "Socialism with Chinese Characteristics" after 1979 was in fact a state-controlled turn to western companies and investment to take advantage of China's seemingly unlimited low cost labor. That labor mostly came from those born prior to 1979, before the One Child Policy. A worker in his mid-20s in 1980 was in his 50s by the time of the 2008-9 crisis in the West. Demographic change is a slow process and could be overlooked in the boom years before 2008. Now, in the past decade, manufacturing wages across China are rising and the population born under the One Child era are notably fewer, adding to recent rising wage pressures.

As China's manufacturing has moved up the value-added chain as part of its development strategy of Made in China, wages have risen significantly. The Economist Intelligence Unit estimates that from 2013-2020 average manufacturing labor costs have risen on average 12% a year. Today average factory wage costs in China are some three times that of India and far higher than in Indonesia or Vietnam.

At the same time as higher skilled labor is needed for China's fast-developing manufacturing base, especially under the mandates of the Made in China 2025 transformation to a world high-tech economy, the size of the overall workforce, once considered nearly limitless, has begun to decline. China's labor force peaked in 2015 and has begun shrinking, albeit slowly at first. That decline now is pre-programmed to accelerate as the pre-1979 workforce reaches retirement age and is not replaced in equal numbers after 1979 due to the drastic decline in births. According to Deutsche Bank estimates, the work force will shrink from 911 million in 2015, to 849 million in 2020, and to 782 million in 2030. Barring a dramatic change in birth rates, beginning about 2025 China's overall population will begin a slow but accelerating decline as well.

In 2017 China had a fertility rate well below population replacement levels of 2.1 needed to sustain population size. Slowly realizing the long-term implications, in 2013 the Communist Party moved to slightly lift the limit to two children for some families, and by 2016 to 2 children for all. Even if the result had been as hoped, it would take at least a generation to change the dynamics. However, the policy has yet to produce any major increase in birth rates for a complex of reasons.

### Ageing Shift

Not only is China's labor force declining and wages rising, China's overall population is ageing faster than any comparable country, owing to the combination of rapid economic growth and the limits on children over the past four decades. With improving living standards in rural areas the longevity of the population has improved significantly. Life expectancy in China [increased](#) from 43 years in 1960 to 75 years in 2013.

China is ageing faster than almost any other country because the number of new births has been blocked while those born are living far longer. By 2016 China had the lowest fertility rate in the world—1.05 according to China's 2016 State Statistical Bureau data. Social changes encourage young women to postpone marriage and pursue careers, while rural practice encourages male over female births, all of which drive fertility rates lower.

China's elderly population (over sixty), 14 percent in 2016, will grow to 24 percent of the population by 2030, and will reach 39 percent of the population by 2050. At that time, China's dependency ratio—the number of people below 15 and above 65 divided by the total working population—is projected to increase to 70 percent, up from 37 percent in 2015. This means a dramatically smaller working-age population with the responsibility of providing for both the young and old. In other words a shrinking relative number of working age taxpayers is facing the growing number of elderly retirees. To avert social unrest the government must somehow undertake huge costs to provide for the elderly.

Traditionally, younger Chinese have taken care of their elderly parents but now, with significantly fewer working children to care for the older retirees, the government will be forced to secure some improved form of social benefits, health care and income support at a time trade surpluses are declining and state debt soaring. At the same time young families are under pressure to increase family size which increases family costs as well. An estimated 23 percent of the elderly in China today cannot take care of themselves, while in 2010 only 43 percent of elderly males and 13 percent of elderly females received any financial pension. While Japan became rich before its population aged, China will not. Ageing of China is a social ticking time bomb.

While all this might sound similar to problems faced by many countries such as Italy or Germany, given the scale of China's role in the world economy and the dramatic shift in just a few years from what was called a "demographic dividend" —acceleration of economic growth following a decline in birth and death rates—to what might be now called a "demographic disaster," China is unique.

It becomes clear that the urgency with which Xi Jinping and the Party leadership is promoting its Belt, Road Initiative, as well as Made in China 2025, as an attempt to achieve a near impossible economic feat. Yet the demographic shift is here, while the hoped-for dividends from the BRI and Made in China2025 look far remote at this point. The sharp declines in recent months in domestic consumption for cars and housing could in fact be far

more alarming than a mere cyclical downturn. It could well be the first signs of the negative global economics of the huge China demographic shift now unfolding.

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## Seeds of Destruction: Hidden Agenda of Genetic Manipulation

Author Name: F. William Engdahl

ISBN Number: 978-0-937147-2-2

Year: 2007

Pages: 341 pages with complete index

List Price: \$25.95

Special Price: \$18.00

This skilfully researched book focuses on how a small socio-political American elite seeks to establish control over the very basis of human survival: the provision of our daily bread. "Control the food and you control the people."

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