

**EFFECT OF TWO-CHILD POLICY
ON CHINA'S INDUSTRIAL
LABOUR SUPPLY**

Jane DU

EAI Background Brief No. 1269

Date of Publication: 3 August 2017

Executive Summary

1. After more than three decades of birth control, China's working-age population has started to decline since the mid-2010s, generating an adverse effect on the country's on-going economic transition.
2. In response, the Chinese government implemented "conditional two-child policy" in 2013 and "universal two-child policy" in 2015 to boost fertility.
3. The two policies, however, showed little short-term effects. China's labour stock is likely to continue its current decline until the mid-2030s, indicating little impact made by the one-child and universal two-child policies.
4. The long-term effect of the universal two-child policy will eventually show in the 2040s with a projected 30 million more labour stock in 2040 and 60 million more in 2050.
5. The regional responses to the new population policies are however imbalanced. The current distribution of newborns after 2013 population relaxation shows that most neonates were born in rich areas in China.
6. For traditional labour-sending provinces, the ease in the one-child policy has made less impact on changing local fertility.
7. Hence, in 18-20 years' time, a significant part of these newborns under the two-child scheme are less likely to work in the industry as their income expectations are higher than industrial wage.
8. Although the universal two-child policy can increase China's labour stock in the future, current fertility distribution still puts a question mark on its effectiveness in relieving China's industrial labour shortage.

9. The Chinese government hence needs to consider how to use population policies to adjust the distribution of labour supply in different wage segments in China's future labour market.
10. Besides boosting labour supply, the two-child policy will have to improve the accessibility of labour for China's on-going industrial transition.