

**CAN CHINA CONTINUE TO REAP
ITS DEMOGRAPHIC DIVIDEND
IN ECONOMIC GROWTH?**

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Executive Summary

1. The recent labor shortages in China have taken many people by surprise as China is known for its huge labor supply. Apart from the labor shortage phenomenon, the recent 6th National Census figures show a continued decline of young people aged 0-14 and a rapid expansion of the elderly aged over 65. Is China's demographic dividend drying up soon?
2. Demographic dividend refers to a rise in economic growth during a period when the working age population grows more rapidly than the dependent population. Typically, the window of opportunity for a country to reap its demographic dividend lasts for 30 to 40 years.
3. It is estimated that demographic dividend contributed 15 to 27% to China's GDP growth from 1980 to 2000. Other definitions, however, estimated the window of opportunity in China to be about 40 to 50 years. The number of years left from now ranges from 4 to 26.
4. In the period 2010-2030, China's working age population will remain largely unchanged in size, and its dominance over the dependent population is likely to stay as well. The slight decline of 4.1% in total labor force should not have any significant impact on the economy.
5. However, China's labor force is getting old, with its mean age going up from 37.6 to 40.7. The recent labor shortage is partially explained by the falling number of new entrants.
6. China has been successful in capitalizing on its demographic dividend over the last few decades by promoting employment, savings and human capital accumulation. This could be attributed to the reform and open-up policies that have been introduced by the government since the late 1970s, exactly at about the time when China was experiencing its demographic window of opportunity.

7. Currently, China can still maximize its demographic dividend by promoting employment and raising productivity while the window of opportunity stays open. Relevant policies and targets have been made to China's 12th Five-Year Program (2011-2015) to this end.
8. Added value can be generated further in three ways: enhance human capital building among new labor market entrants, accelerate the transfer of rural labor to non-agricultural sectors, and capitalize on the potential of the second demographic dividend.
9. As the dependency ratio will rebound eventually, China will do well to pay attention to the possible social implications of an aging labor force and an aging population. One of the recommended options is to relax the tight birth control policies as early as possible.