

**CHINA'S CHANGING LABOR FORCE  
AND IMPLICATIONS FOR  
ECONOMIC GROWTH**

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## **Executive Summary**

1. The year 2012 marked the first year of a decade-long decline of China's working-age population. Gone is the era of "demographic dividends", which had been highly favorable to economic growth.
2. Massive migration of surplus rural labor has shifted a great proportion of working-age population from rural to urban areas and from inland to coastal regions. The reallocation of human resources had allowed the coastal and urban areas to gain most from the demographic dividends and cope better than other regions with an aging population.
3. The supply of rural surplus labor is now drying up and China is quickly reaching or may even have passed the "Lewis turning point", spelling the end of Chinese cheap and abundant labor.
4. For many years, China has been an overachiever in human capital development relative to its per capita income and its labor force has a distinct advantage of high labor participation rates, particularly for women. The age structure of the labor force has so far had positive impact on productivity growth.
5. However, the labor force's education level still lags behind that of high performing countries like South Korea and Singapore by 15-25 years. Labor productivity growth has meanwhile exhibited signs of diminishing returns to school education.
6. The median age of Chinese population is now about 35 years old, passing another turning point. International experience suggests that rising median age of population correlates with faster productivity growth before it reaches around age 33 but its further rise beyond this threshold age would correlate with slower productivity growth.

7. To curb the pace of economic slowdown, China needs to moderate the decline of labor participation rates by having better protection of rights for women and elderly workers, raising official retirement ages, and improving vocational education.
8. A more effective approach to maintaining growth momentum is to raise labor productivity. At this stage of development, the low hanging fruits of imitation and short-cut innovation are becoming scarcer for China. Further productivity growth will increasingly depend on entrepreneurship and original innovation.
9. Meanwhile, industrial restructuring is needed to answer the aforementioned challenges. In the long term, to maintain an active labor force, the Chinese government has to revamp its population policy. The recent decision to reform its decades-long one-child policy is just a first step towards achieving a replacement level of fertility rate by the mid-century.