

# China's Demographic Crisis: What Does It Mean For The Future Of Global Economy?

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The rise of China as an important player in international politics cannot be decoupled from its meteoric economic rise since 1978. Capitalising on its vast pool of labour resources, low wages along with investment friendly policies and state subsidies, China emerged as the manufacturing platform of the world post-Deng Xiaoping's 1978 policies of reform and opening up. The possession of a vast population, as exemplified by the Chinese case, becomes pertinent in calculating a country's overall power, of which economic might becomes a pertinent component.

However, all of this is set to change given the fact that China's population is rapidly declining. As revealed by the National Bureau of Statistics, China's population has fallen for the first time in 60 years with the national birth rate hitting a record low of 6.77 births per 1,000 people. Statistics of 2022 reveal that even seven years after scrapping China's one China policy, the country has now entered an era of negative population growth. The demographic crisis in China will have profound consequences for the world since China is an important node in the global supply chain of several key industrial products.

In trying to understand what has caused the demographic crisis, it is pertinent to mention that for the first time since Mao Zedong's failed experiment of the Great Leap Forward of the 1960s which led to famine and death; in 2022, deaths in China outnumbered the

number of births. The Commissioner of the National Bureau of Statistics, Kang Yi stated that Covid-19 death figures had not been counted in the overall death figures for 2022.

Decades of one-child policy led to the only child born in a particular family to bear the burden of not just ageing parents but aged maternal and paternal grandparents. Due to expenses on medical and old age care, the resources available to spend on an offspring considerably reduced in the hands of the youth, which in turn led to severely reduced desires to have and spend on an offspring. China tried offsetting the trend earlier by relaxing the one-child policy and allowing couples to have two children and then relaxed policies further for couples to have even three children. Even cash doled out by the state to encourage couples to have children has not produced dividends. An ageing population owing to reduced birth rates means that China will face labour shortages, which will also lead to reduced tax revenues for the state to invest in a host of arenas ranging from services to manufacturing to defense.

In December last year, the World Bank cut its China growth outlook for 2022 and 2023 citing the impact of the abrupt loosening of the strict Covid-19 policies and persistent property sector weaknesses. It stated that the Chinese economy would grow only 2.7% in 2022. Covid outbreaks in several cities including in manufacturing hubs like Shenzhen and Tianjin have hurt economic activities across sectors. During crises, and during health crises in particular, consumption decreases as the public wants to save up for mitigating the crisis instead of spending earnings or savings on consumption. Thus, sectors like food, beverages, retail, and tourism come under pressure, in turn putting other major services under pressure. A low consumption rate means that there will be lesser buying power for imported and expensive goods, meaning higher trade deficits for the countries seeking to export to China. To add to this, as stated by the population statistics, the number of people in the working age segment is set to decline. A disaster in China will have devastating ripple effects across the global economy.

Economic data released by China for 2022 showed that the gross domestic product grew just 2.9% in the last three months of 2022, while over the whole year, the Chinese economy grew just 3%, which is the slowest rate in about 40 years. The slowdown is clearly attributable to the draconian zero Covid-19 policies and the associated lockdowns. This had an impact on China's overall trade as well, as revealed by trade statistics from November 2022. China's exports in November contracted 8.7% from a year earlier, while imports tumbled 10.6%, both missing expectations by large margins. Owing to the ongoing Russia-Ukraine war, the global economy has already been teetering on recession.

Trade imbalances emanating from China—a key node in the global supply chain—does not augur well for the recovery of the global economy. Further disruptions can be expected in the near future owing to the demographic crisis already set in motion in China. While Liu He, the vice-premier of China, at the World Economic Forum in Davos recently gave out reassurances that China's economic health is intact and China is still a good place to do business, demographic and economic trends state the opposite and for the sake of the vitality of the global economy, countries must seriously build or strengthen alternative supply chains.

## Demographic Dividend: Advantage India?

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In this context, India which became the most populous country in the world overtaking China's population could be a bright spot. India possesses a demographic dividend opportunity, which is expected to remain till 2056. In the period of demographic dividend opportunity, the working age ratio is equal to more than 150% and the dependency ratio is less than 66.7%. India has already been an attractive destination for foreign direct investment because of its skilled workforce and its growing consumer base. For a country like India which possesses the advantages to take its manufacturing capacities to greater heights and for the world which seeks alternate supply routes and a market, a win-win situation can emerge while crisis deepens further in China.

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