

The
Economist

Special report: China

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THE CLIENTELE OF the Le Amor retirement home in the Fragrant Hills of western Beijing are no ordinary folk. Staff boast that one of them taught President Hu Jintao when he was at university. Another is the descendant of a nutritionist who worked for the Empress Dowager Cixi, China's last great imperial ruler. A third is a former senior official in the party's top anti-corruption body. By the grim standards of such homes

in China, it seems they are being treated well. If they wish, they can rent a suite of rooms, including one for a live-in servant. All rooms have an emergency button.

The home's director is coy about how she secured such a desirable rural location for her \$10m venture, away from the city's downtown smog. Le Amor is one of only a handful of privately run retirement homes in the capital aimed at the well-to-do. Looking after the elderly is a business in its infancy in China, where that task usually falls to the offspring, if any. But Le Amor's market has very attractive prospects.

Over the next few years China will undergo a huge demographic shift. The share of people over 60 in the total population will increase from 12.5% in 2010 to 20% in 2020. By 2030 their number will double from today's 178m. The dependency ratio—the number of people of non-working age, both young and old, as a proportion of those of working age—will bottom out between 2012 and 2015 at an exceptionally low level before rebounding, says a report by the Chinese Academy of Social Sciences. Put another way, China's "demographic dividend"—the availability of lots of young workers—which helped fuel its growth will soon begin to disappear. The overall population will start to grow faster than that of working age. One trigger for this could be a sharp economic slowdown. Many Chinese have recently become familiar with the "Lewis turning point", named after a 20th-century economist from St Lucia, Arthur Lewis, who said that industrial wages start to rise quickly when a country's rural labour surplus dries up.



Watching the dependency ratio grow

One way this will show up is in a proliferation of places like Le Amor. A lot of schools will close down. Wang Feng of the Brookings Institution

notes that China's primary-school enrolment dropped from 25.3m in 1995 to 16.7m in 2008. Revoking the one-child policy would probably not make a big difference. Chinese couples have small families mainly because children are expensive, Mr Wang argues. China's rapid ageing, combined with a shrinking labour force, will "fundamentally reshape the Chinese economy and society", he suggests. In the next decade the number of people aged 20-24 will drop by 50%, Mr Wang predicts.

Optimists believe China still has several more years before the economic impact of an ageing population becomes apparent. China's commerce minister, Chen Deming, said in March 2010 that the country could still enjoy another decade of "demographic dividends". In a report last year Morgan Stanley pointed to 80m-100m surplus labourers in the countryside who could be employed in urban areas (although as this special report has argued, that might not be easy). It also expressed optimism about continuing productivity gains from rising levels of education and technology use.

In search of cheap young workers

Still, the redrawing of China's economic map is unmistakable. A decade ago, impoverished migrants gathered outside factories in cities like Dongguan, desperate for work. Now Dongguan's streets are full of banners and notices advertising jobs. Wage rises are beginning to accelerate. According to Stephen Green of Standard Chartered, they have risen by 9-15% this year in the Pearl River Delta around Dongguan. Part of the increase is government-driven. Local authorities have been raising minimum wages, and the new five-year plan calls for increases averaging 13% annually, nearly twice as fast as the target for GDP growth. But the main reason is a diminishing labour supply, helped in the delta by an uptick in labour activism. A local academic says that a strike at a Honda car-parts factory last year provoked more than 200 copycat strikes and protests.

Manufacturing is beginning to move inland to areas where labour is more plentiful and cheaper. Chongqing has been a big beneficiary. Morgan Stanley says the city is turning into the largest laptop manufacturing base in Asia. Its electronics industry is expected to create hundreds of thousands of jobs. Foreigners invested \$6.3 billion in Chongqing in 2010, up by 58% on the year before.

Meanwhile, local governments across the country will have to cope with a fast-rising population of retired people whose pensions, if any, will have to be paid for by contributions from a shrinking working

population. The central government has been trying to help, introducing a rural pension scheme that is due to cover the whole of the countryside by 2020. In rural areas the dependency ratio will rise far more steeply than in cities as young people move out and the elderly stay behind. But again money is a problem. As with schools and medical services, the central government makes the plans but leaves it to local governments to put up the lion's share of funding.

In the cities decent pensions are almost as rare, except among workers in the privileged state sector. In 2008 only 17% of migrants in urban areas were enrolled in any pension scheme at all, the government admits. Young urban couples, many of them without siblings, will find themselves with four parents to look after and will themselves have only one child (known as the 4-2-1 phenomenon). If they are sensible, they will save hard to prepare for such a future, which will not help the government's efforts to shift China towards more consumption-led growth.

A big increase in the retirement age is overdue. In practice this is now around 56. But the official age of 60 for men and 50 for women (55 for civil servants) has not changed since 1951, when average life expectancy was 46 compared with today's 73. Like their counterparts in the West, many workers groan about having to plod on for longer. Online polls, which are likely to reflect the views of younger people, have found strong opposition to any rise in the retirement age. Many fear that it could make it even harder for university graduates to find jobs (last year 6.3m students graduated from Chinese universities, up from 1m in 1999, so competition is fierce). When French workers went on strike last year over plans to raise their retirement age, officials in China hastily denied reports that they were planning to do anything of the sort. The people's will is almost as much of an obstacle to reform in China as the party's.

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