

Labour demographics

Long boom, slow bust

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Moving on

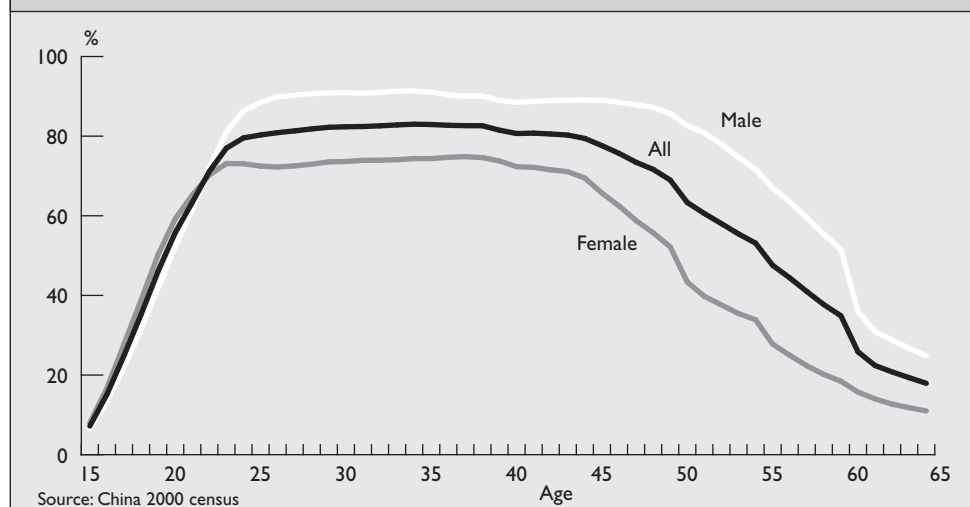
Massive reallocation of labour from low to higher productivity jobs has been the driving force behind China's economic growth. This trend has been aided by a favourable demographic profile: China's population, with a median age of 32, is now concentrated in prime working-age cohorts. This creates a window of opportunity for rapid economic growth provided the pool of available labour can be put to work productively.

At present, China's biggest economic challenge is creating enough jobs. In recent years, the pace of new job creation has not been sufficient to sustain the employment rate at previous levels. After 2015, the population in working ages will decline very slowly. As this occurs, China can substitute quality for quantity of workers through investment in human capital. The problem of surplus labour will diminish and wages will rise in accord with productivity growth. From about 2020 onward the main problem will gradually shift from employing an aging labour force (as the current bulge of those in their 30s and 40s moves into the later working ages), to supporting an ever-larger dependent elderly population.

The not-so-roaring forties

China faces three major employment challenges. First, its working-age population has been increasing faster than the total population for decades. Second, the large pool of surplus rural labour must be shifted to jobs in the urban economy. And third, the inefficient state industrial sector must shed workers who must then be re-absorbed

Figure 1
Urban employment rates by age and gender, 2000



in non-state jobs. These three challenges together imply that the Chinese economy must create new jobs at an extraordinarily fast pace.

The rural population has dropped in absolute size since the mid-1990s because of rural-to-urban migration, but it still constitutes 57 percent of China's total population. This figure overstates the size of the agricultural labour force: in 2002, 44 percent of the national labour force was agricultural. China's rural population has a high reported employment rate, but productivity is very low.

Massive reallocation of labour from country to city, and from low to higher productivity jobs, has undercut the traditionally high formal urban employment rate. Between the 1990 and 2000 censuses, the national employment rate for the population ages 15-64 declined from 84 percent to 79 percent. During that period the rural employment rate for those ages remained at around 87 percent, but the urban employment rate fell from 77 percent to 67 percent. Urban employment rates drop precipitously in middle age (see Figure 1). For urban women, the employment rate is steady at just over 70 percent until age 43, and then falls sharply. For men, a similar fall – from an employment rate of nearly 90 percent – begins at about age 50. But it is worth noting that China's urban employment rates for those in their early 20s to mid-40s remain high by international standards.

Wage rates, by any reckoning, remain extremely low (see Table 1). Based on official exchange rates, hourly labour costs per manufacturing employee in China are only 3 percent of those in the United States, one-fourth those in Mexico and Brazil, and one-tenth those in Taiwan, South Korea, Hong Kong and Singapore. Even using higher purchasing power parity exchange rates, the take-home pay of the average Chinese manufacturing worker in 2002 equated to just over US\$2 per hour.

Plenty of workers till 2025

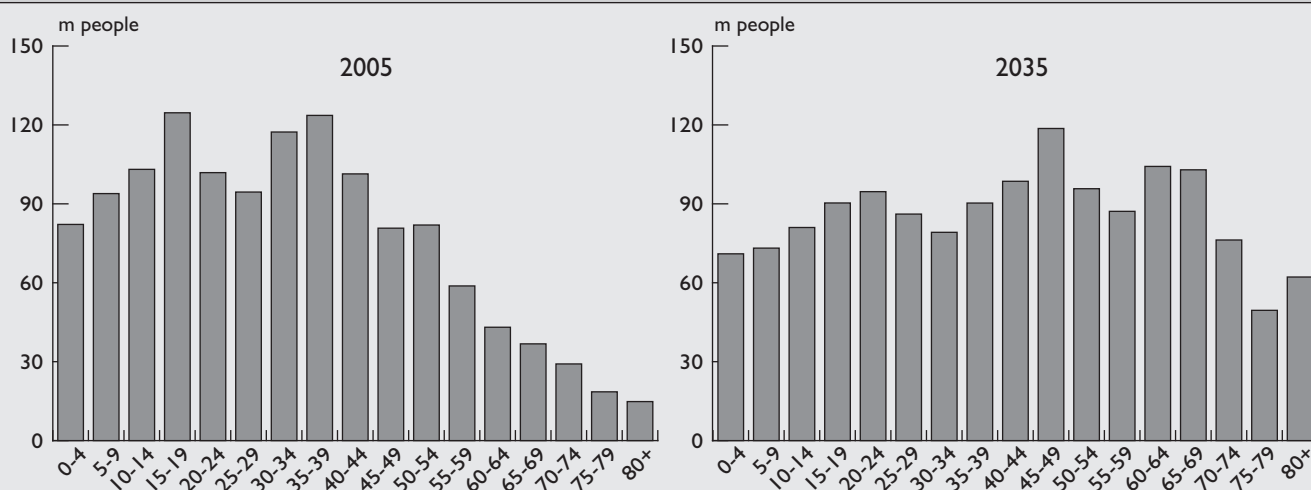
The boom of prime-age workers in China will continue for another decade, even though child age cohorts are growing ever smaller (see Figure 2). The 15-19 cohort is very large today (125m) due to a temporary loosening of limits on fertility in the

Table 1
Hourly labour cost in manufacturing, 2002
% of US labour cost at current exchange rates

United States	100
EU-15	94
Asian NIEs	33
Brazil	12
Mexico	12
China	3

US hourly labour cost = \$21.12
 Source: Judith Banister, Bureau of Labor Statistics

Figure 2
Population by age cohort, 2005 and 2035



Source: US Census Bureau, International Data Base

late 1980s in response to a backlash against extremes of compulsory family planning in 1983. Over the next decade this group will help solve any current shortages of young adult workers.

China's population in the working-age cohorts (ages 15-64) will increase from 928m in 2005 to a peak of 995m in 2015. After 2015, the working-age population will decline very slowly to 987m in 2025. This will not be a problem; it will allow breathing space for China's government and economy to prepare for coming demographic changes.

*The squeeze starts
in 2025*

In the quarter century 2025-2050, China's working-age population will contract sharply from 987m to 861m. Meanwhile the elderly population will grow rapidly. Previously under-utilised and sidelined workers in their 40s, 50s and 60s will become more gainfully employed, while those who were sidelined or retired early can be brought back to work. China can cope with the bust in prime-age workers by applying a range of solutions that other countries are trying now and will have successfully implemented by then, and by further raising the human capital and productivity of its workforce. As the working-age population declines, China will have the chance to substitute quality for quantity of workers, and wages can rise without serious loss of global competitiveness.