

THEMATIC

China's demographic headwinds

The latest Census results suggest China's population is aging faster than expected, prompting Beijing to relax birth restriction and move to a three-child policy. Recognizing the challenges to reverse low fertility, we expect China to rely more on the productivity driver for growth in the long run.



Claire HUANG,
Senior EM Macro Strategist

China's TFR at 1.3 is among the lowest around the world

Population aging is more severe than projected

The results of the seventh Population Census show that the Chinese total population continued to grow, reaching 1.41 billion in 2020. However, population growth slowed further to 0.53% per annum in 2010-2020 from 0.57% in the previous decade. The share of working-age population (aged 15 to 64) shrunk to 68.5% in 2020 from the peak of 74.5% in 2010, while the senior population (aged 65 and above) rose to 13.5% of the total in 2020, from 8.9% in 2010.

Along with the slower-growing population, the birth rate is falling. The number of new-borns dropped to a record low of 12m in 2020, against the backdrop of declining new marriages and a shrinking cohort of women of childbearing age. The pandemic outbreak may also have affected new births owing to delayed family planning. The total fertility rate (TFR) - an indicator holds age cohorts unchanged - stood at 1.3 in 2020, lower than most demography watchers had foreseen¹. Needless to say, this level of TFR is lower than the replacement rate of 2.1 and is among the lowest around the world.

The low fertility rate will be hard to reverse under the new three-child policy

Within weeks of the Census results, the Chinese Politburo announced a relaxation of birth restrictions, moving from a two-child policy to a three-child policy.

This marks a further shift away from birth restrictions to encourage more births. However, although birth restrictions have effectively contained the Chinese fertility rate since the 1980s, they are no longer the major dampening factor. The willingness to give birth has declined rapidly under social changes, surging house price inflation and the increasing costs of raising children.

In fact, the shift from the one-child to two-child policy in October 2015 gave a moderate boost to the fertility rate for over a year, but new births started to drop quickly from 2018 as the "catch-up" effect faded out. A recent survey² reveals that the majority of Chinese households think two children are the ideal family size, but not more, indicating that the boost from the three-child policy or a full relaxation will be much smaller than the previous policy shift.

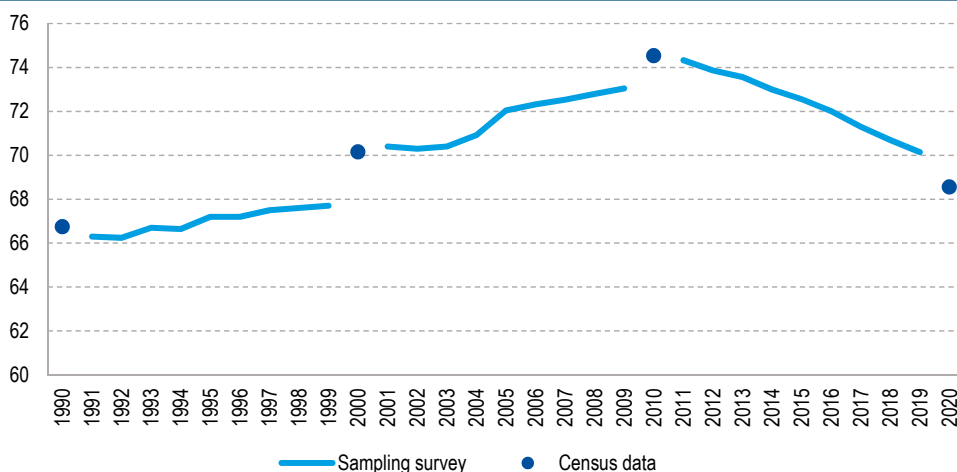
Total population will peak in around 2026

Assuming a full relaxation of birth restrictions in five years and a transitory rise in the total fertility rate, China's demographic profile still looks challenging. Its total population will start to decline in the mid-2020s. The number of new-borns could fall below 10m in the late 2020s, after an initial rebound following the policy relaxation. Consequently, the share of the old-age population (age 65+) will double in 20 years, to close to the level Japan has today. For China's growth, this means the first demographic dividend is long gone. The

¹ The UN World Population Prospects 2019 forecast an increase of China's total fertility rate from 1.70 in 2020-2025 to 1.77 in 2075-2100. In 2021, the CIA has estimated a rate of 1.6.

² 2020 Survey by Fudan University (in Chinese).

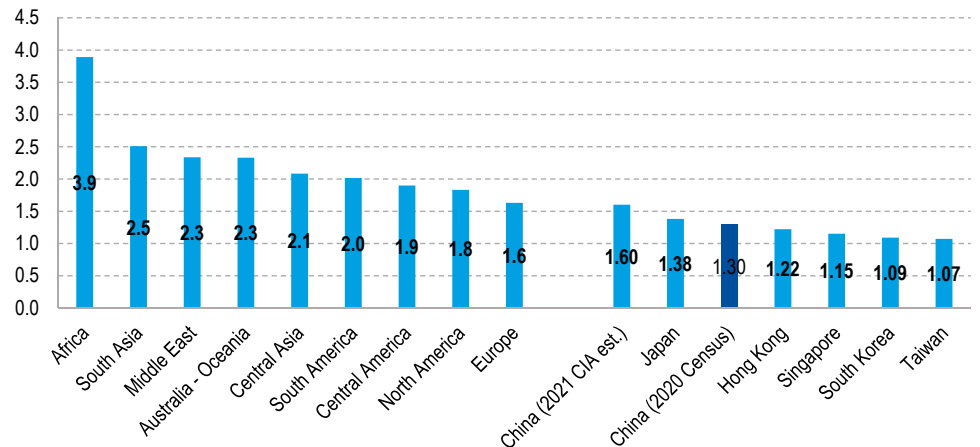
1/ China: share of working age population (age 15-64, % of total)



Source: NBS, Amundi Research. Data as of 11 May 2021

THEMATIC

2/ Total fertility rate (%)



Source: CIA, NBS, Amundi Research. Data as of 17 June 2021

Working-age population will continue to decline over the next half century

working-age population will continue to decline over the next half century, translating into lower potential growth. The *second* demographic dividend, achieved through investments in physical and human capital, is usually larger than the first one³, and will become the policy focus. The prevailing low fertility rates in East Asian economies provide important lessons: it is difficult to reverse the demographic profile in the long run but it pays off to invest in human capital and to tap into the talent dividend.

Policy implications: innovation is the new driver of growth

To address the aging population challenges, **postponement of the retirement age** is already under discussion. We also expect to see an enhancement of the social

security network and a more determined crackdown on housing price speculation, which is believed to be playing a major role in depressing the fertility rate during the urbanisation process.

In an internal speech in January, President Xi noted that China's old growth model is not sustainable amid environmental bottlenecks and rising labour costs. He regards **innovation as "a matter of survival" and key to long-term economic development**, indicating plans to boost potential growth by raising productivity over the long run. The Census results are a reminder of the demographic headwinds in China, which will add more weight to China's transition to an innovation-led growth model.

Finalised on 21 June 2021

³ IMF - What Is the Demographic Dividend?

Amundi Research Center



Find out more about
Amundi publications
research-center.amundi.com

Emerging Private Equity
Money Markets Find Monetary
Foreign Top-down Policies
Exchange Corporate Equities Bottom-up
Sovereign Bonds High Forecasts
ESG Fixed Income Yield Real Estate
Quant Investment Strategies Asset Allocation

DISCLAIMER

This document is solely for informational purposes.

This document does not constitute an offer to sell, a solicitation of an offer to buy, or a recommendation of any security or any other product or service. Any securities, products, or services referenced may not be registered for sale with the relevant authority in your jurisdiction and may not be regulated or supervised by any governmental or similar authority in your jurisdiction.

Any information contained in this document may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices.

Furthermore, nothing in this document is intended to provide tax, legal, or investment advice.

Unless otherwise stated, all information contained in this document is from Amundi Asset Management SAS and is as of 29 June 2021. Diversification does not guarantee a profit or protect against a loss. This document is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The views expressed regarding market and economic trends are those of the author and not necessarily Amundi Asset Management SAS and are subject to change at any time based on market and other conditions, and there can be no assurance that countries, markets or sectors will perform as expected. These views should not be relied upon as investment advice, a security recommendation, or as an indication of trading for any Amundi product. Investment involves risks, including market, political, liquidity and currency risks.

Furthermore, in no event shall any person involved in the production of this document have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages.

Date of first use: 2 July 2021.

Document issued by Amundi Asset Management, "société par actions simplifiée"- SAS with a capital of €1,086,262,605 - Portfolio manager regulated by the AMF under number GP04000036 - Head office: 90 boulevard Pasteur - 75015 Paris - France - 437 574 452 RCS Paris - www.amundi.com

Photo credit: ©MDelporte - iStock/Getty Images Plus - Thongkoch Chutpattarachai

Chief editor

BLANQUÉ Pascal, *Group Chief Investment Officer*

Editor

DEFEND Monica, *Global Head of Research*

Deputy-Editors

BLANCHET Pierre, *Head of Investment Intelligence*

BOROWSKI Didier, *Head of Global Views*

With Global Research contributors

AINOUZ Valentine, *Deputy Head of Developed Markets Strategy Research, CFA*

BERARDI Alessia, *Head of Emerging Macro and Strategy Research*

BERTONCINI Sergio, *Senior Fixed Income Research Strategist*

BLANCHET Pierre, *Head of Investment Intelligence*

BOROWSKI Didier, *Head of Global Views*

CESARINI Federico, *Head of DM FX, Cross Asset Research Strategist*

DROZDZIK Patryk, *Senior EM Macro Strategist*

GEORGES Delphine, *Senior Fixed Income Research Strategist*

HERVÉ Karine, *Senior EM Macro Strategist*

HUANG Claire, *Senior EM Macro Strategist*

PERRIER Tristan, *Global Views*

PORTELLI Lorenzo, *Head of Cross Asset Research*

USARDI Annalisa, *Senior Economist Cross Asset Research*

VANIN GREGORIO, *Cross Asset Research Analyst*

VARTANESYAN Sosi, *Senior Sovereign Analyst*

With the Amundi Insights Unit contribution

BERTINO Claudia, *Head of Amundi Investment Insights Unit*

CARULLA POL, *Amundi Investment Insights Unit*

FIOROT Laura, *Deputy Head of Amundi Investment Insights Unit*

DHINGRA Ujjwal, *Amundi Investment Insights Unit*

PANELLI Francesca, *Amundi Investment Insights Unit*

Conception & production

BERGER Pia, *Research*

PONCET Benoit, *Research*

Document for the exclusive attention of professional clients, investment services providers and any other professional of the financial industry