

# China's Economic *Hail Mary*

BY FUXIAN YI

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**A**t a recent press conference, China's new premier, Li Qiang, argued that the country's demographic dividend has not disappeared, even though the population is declining. He supported his claim with impressive-sounding figures: China has nearly 900 million working-age people, out of a total population of 1.4 billion, with more than 15 million people joining the workforce every year. But should we believe these numbers?

An examination of Chinese demographic data reveals clear and frequent discrepancies. For example, the National Bureau of Statistics claimed that there were 474 million births between 1991 and 2016, which is in line with the 478 million first graders recorded by the Ministry of Education between 1997 and 2022. For 2000, the Bureau reports that there were 17.7 million births—a figure that aligns perfectly with the 17.5 million first graders in 2006. And yet, while the 2000 census showed only 13.8 million children under the age of one, there were 14.3 million ninth graders in 2014, implying a gross enrollment rate of 104 percent.

There are several reasons why Chinese demographic data are unreliable. For starters, China's local governments have a strong incentive to inflate population figures. More residents mean larger fiscal transfers from the central government, including funds for priorities like education, pensions, and poverty alleviation. Likewise, households might claim to have more members in order to receive more benefits from local governments.

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*Fuxian Yi, a senior scientist in obstetrics and gynecology at the University of Wisconsin-Madison, is the author of Big Country with an Empty Nest (China Development Press, 2013).*

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Politics provides another motive for exaggerating the birth figures. For example, to show that the shift from a one-to-two-child policy worked (and benefited the careers of the relevant officials), the National Health and Family Planning Commission announced 18.85 million births in 2016, a 27 percent increase from the previous year. In Shandong and Zhejiang provinces, the reported increase was even larger: 56 percent and 75 percent, respectively. The National Bureau of Statistics and even the United Nations' World Population Prospects report published similar figures.

But the two-child policy was introduced in January 2016, meaning that any resulting "baby boom" would not emerge until the fourth quarter at the earliest. So, how could there be such a huge spike in births in 2016?

The simplest explanation is that it never happened. The number of administered doses of the Bacillus Calmette-Guérin vaccine—which is required for every newborn—barely increased in 2016. Moreover, there were only 17 million first graders in 2022—fewer than in 2006, meaning the actual births in 2016 may be only 13 million. Instead of surging as expected, the number of first graders in 2022 fell year on year—by 5 percent nationwide and in Shandong, and by 1 percent in Zhejiang.

More than three decades of malfeasance by Chinese officials and demographers have so muddied the demographic data that no one—not even top-level officials like Li—knows the real numbers. What is clear is that they are nowhere near as favorable as Li suggests.

Even if more than 15 million people technically join the workforce annually, as Li claims, one must recognize that some three million "work" only on paper, and—more important—about 22 million workers retire each year. The average age of migrant workers increased from 34 in 2008 to 42 in 2021, and China's prime-age labor force (aged 16–59), which underpinned the country's economic miracle, began to decline in 2012, coinciding with a significant slowdown in GDP growth, from 9.6 percent in 2011 to 4.4 percent in 2020–2022.

While population aging may not directly cause economic recession, a higher aging index—the number of people aged 59 and over per 100 individuals younger than 15—has a strong negative correlation with GDP growth, as does a higher median age and proportion of people over 59. A higher proportion of children aged 14 and under correlates positively with GDP growth.

These dynamics are already apparent across Chinese regions. With relatively younger populations, southern and western China are still growing. But in the Heilongjiang, Liaoning, and Jilin provinces of northeastern China—where fertility rates fell a decade ahead of the rest of the country—the economic engine has stalled. Though China's government claims that northeastern China's economy

grew by 5 percent annually in 2013–2019 and by 3 percent annually in 2020–2022, the fourth national economic census showed that the region's GDP in 2019 was the same size as in 2012.

Just as a baker cannot make bread without enough flour, Li cannot deliver growth without enough labor. Population aging alone could cause GDP growth to fall to 3 percent by 2028, and that does not account for the other economic "grey rhinos" that Li will likely face during his tenure, in-

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cluding a housing bubble collapse and a government debt crisis. Nor will upgrading the quality of "flour" change this, as Li seems to hope when he argues, as he did at his recent press conference, that rising education levels have put China on track to reap a significant "talent dividend."

As Japan's experience shows, attempting to make up for a shrinking workforce by improving education can backfire. As Japan's enrollment rate for tertiary education has soared—more than doubling since 1992—the number of young people willing to work in manufacturing has declined. From 1992 to 2021, the total number of manufacturing workers fell by 35 percent—more than double the decline in the prime-age workforce (17 percent)—causing Japan's share of world manufacturing exports to plummet from 12 percent to 4 percent. The number of Japanese companies in the Fortune 500 fell from 149 in 1995 to 47 in 2022.

For China, overemphasizing higher education could cause massive infrastructure projects like the Belt and Road Initiative to become a drain on a weakened manufacturing base. It could also compound China's demographic woes by reducing fertility.

To improve China's economic prospects, Li must raise the retirement age. But while similar moves in the United Kingdom in 2011 and in France today have sparked major protests, it is better to launch a gradual reform now than wait to implement a sudden and drastic increase.

Li's real challenge is to increase the number of births and avert a demographic collapse. Unfortunately, this will be nearly impossible. ◆