

**Demographic Dividend to Reform
Dividend: Transformation of
China's Development Model**

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1. Why Old Model Has Prevailed So Long?

Prolonged and Unfinished Task

- Chinese leadership has called for transformation of development model since mid 1990s (9th Five-year Plan)
- Little progress in 9th-10th FYP periods
- Retreatment in 11th FYP, mainly because of 4 trillion stimulus plan in 2009

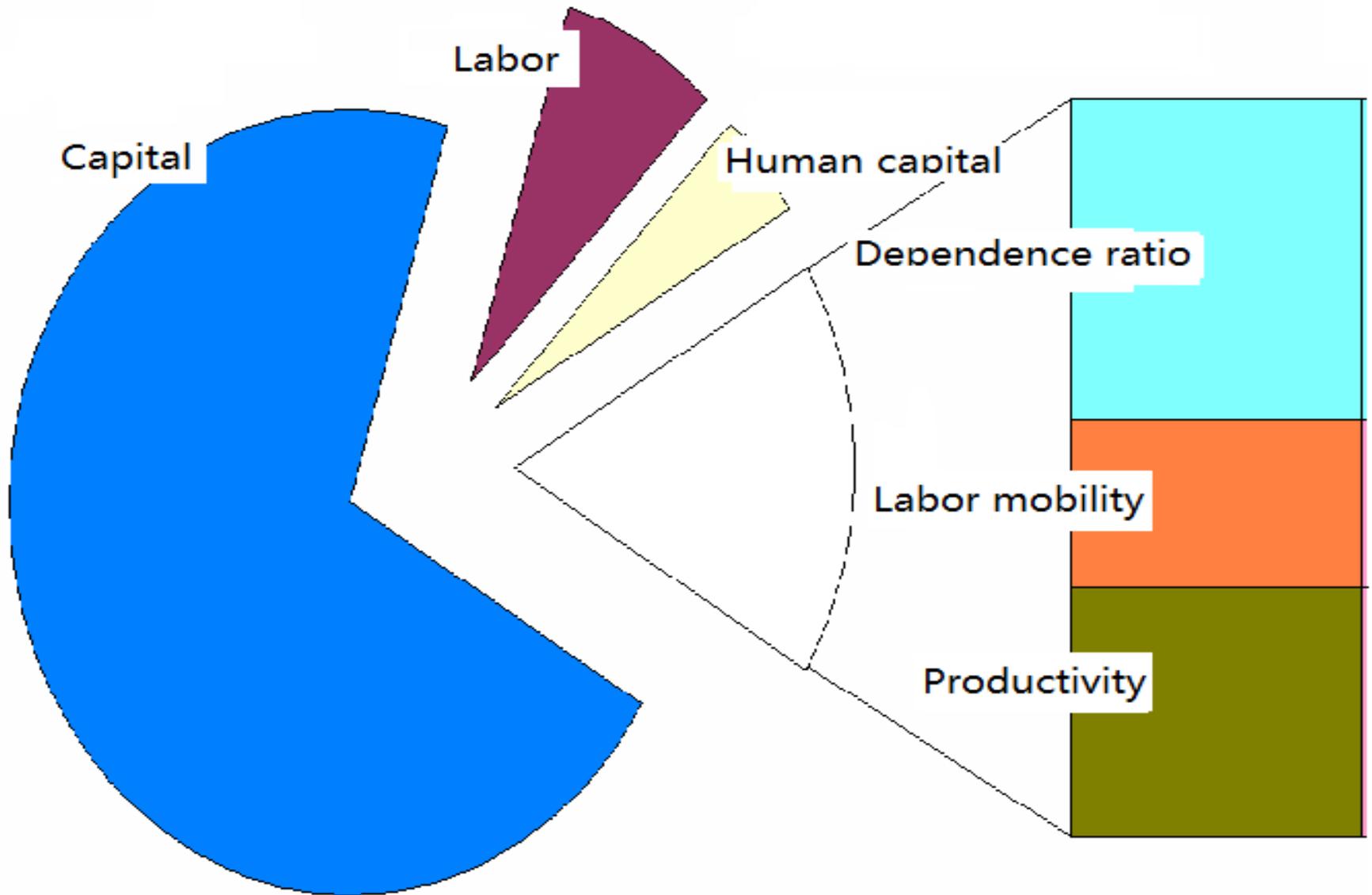
Conditions Are Ripe Now. Why?

- We are going to see (1) what is development model meant in China case, (2) relationship between development stage and development model, and (3) what changes occur in China development stages

In China, Transformation of Development Model Means...

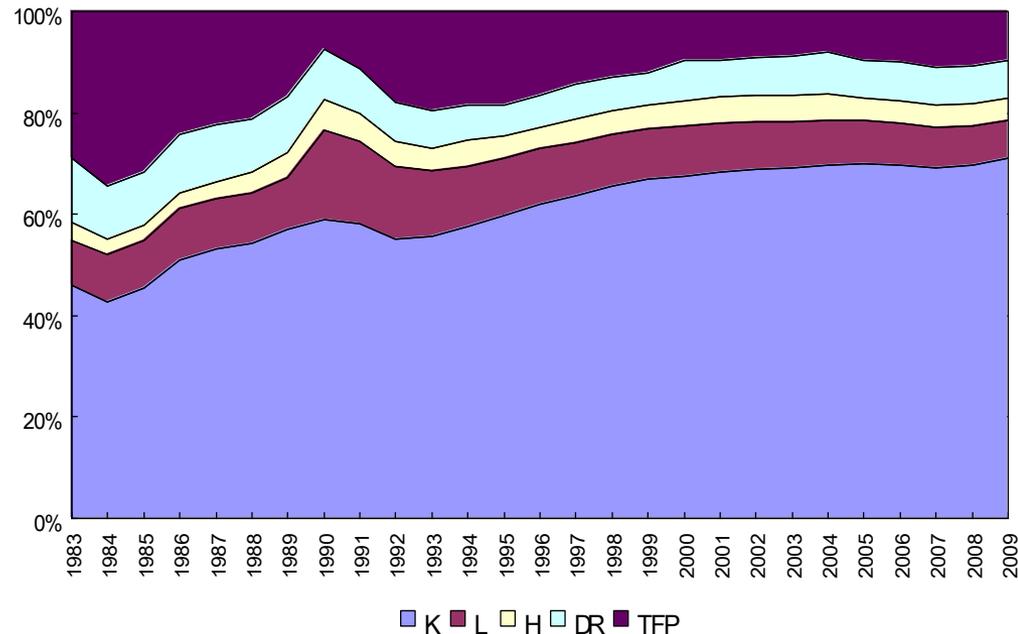
- Supply side: from inputs-driven growth to productivity-driven growth
- Demand side: from depending mainly on export and investment to domestic consumption
- In terms of sectors: from manufacturing domination to more services

What's Driven China Growth So Far?



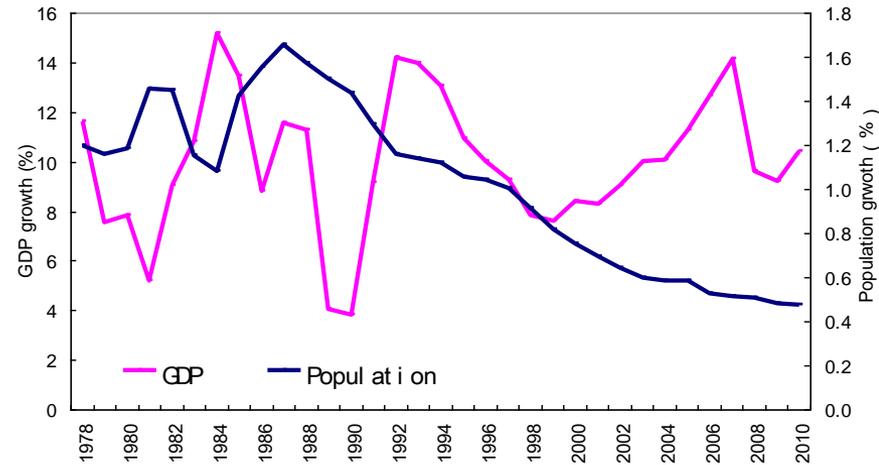
Three Periods of Development

- Period 1: rural reform to urban reform
- Period 2: reform and open-up to mobilize investment
- Period 3: transforming to productivity-driven growth model



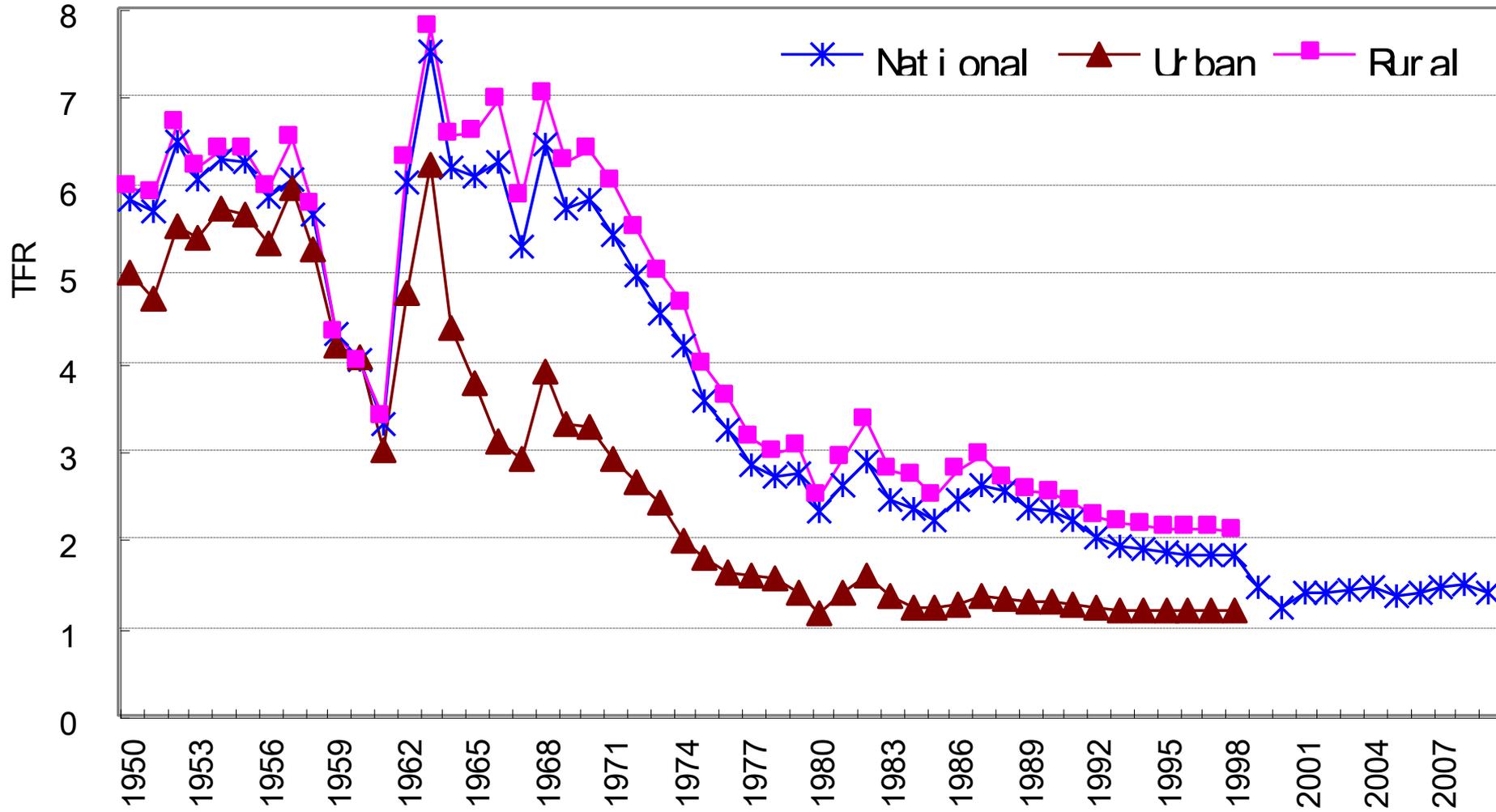
Conclusion

- Demographic transition guaranteed human capital supply, prevented diminishing return to capital, generated reallocation efficiency and unexplained demographic dividend

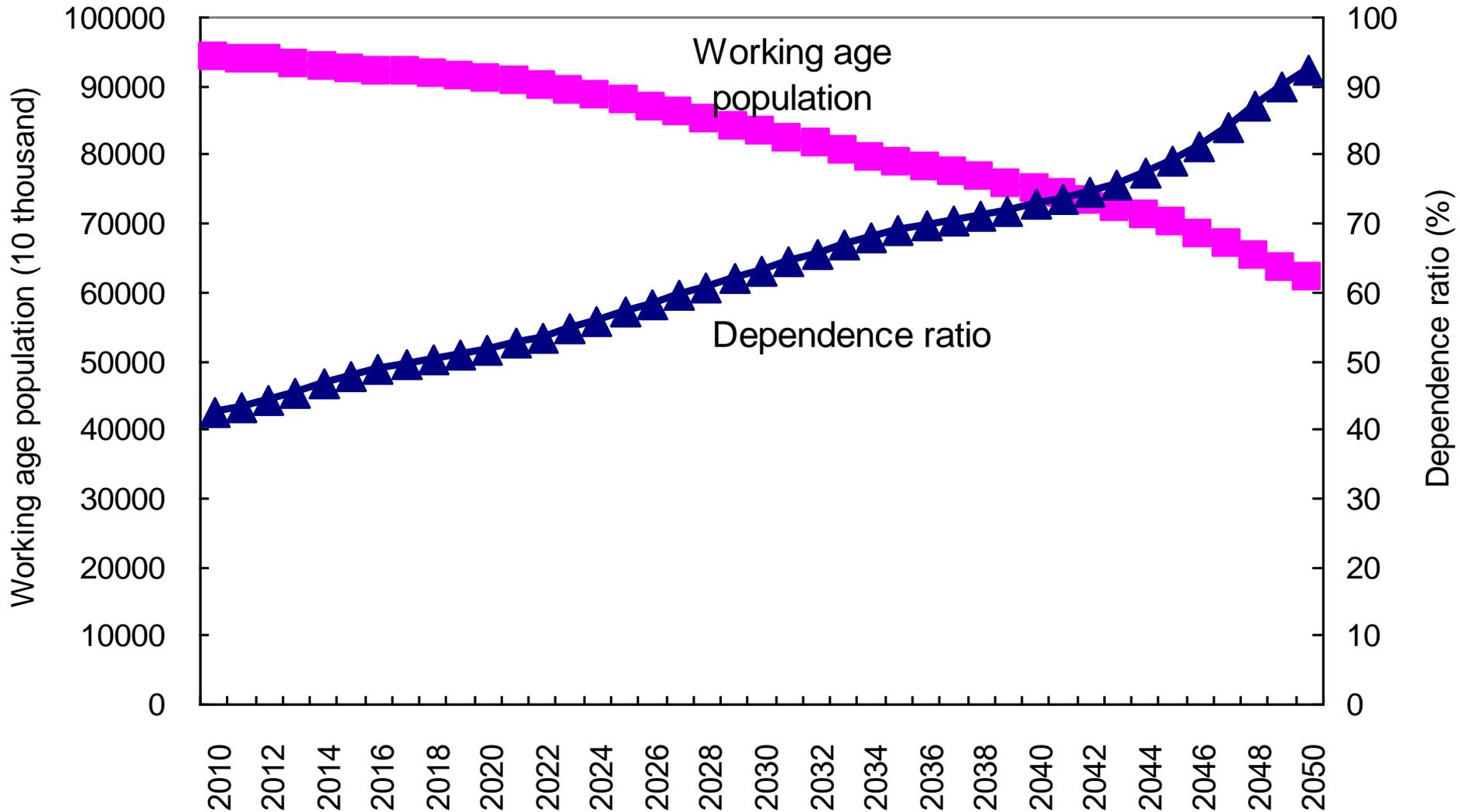


2. Disappearance of Demographic Dividend

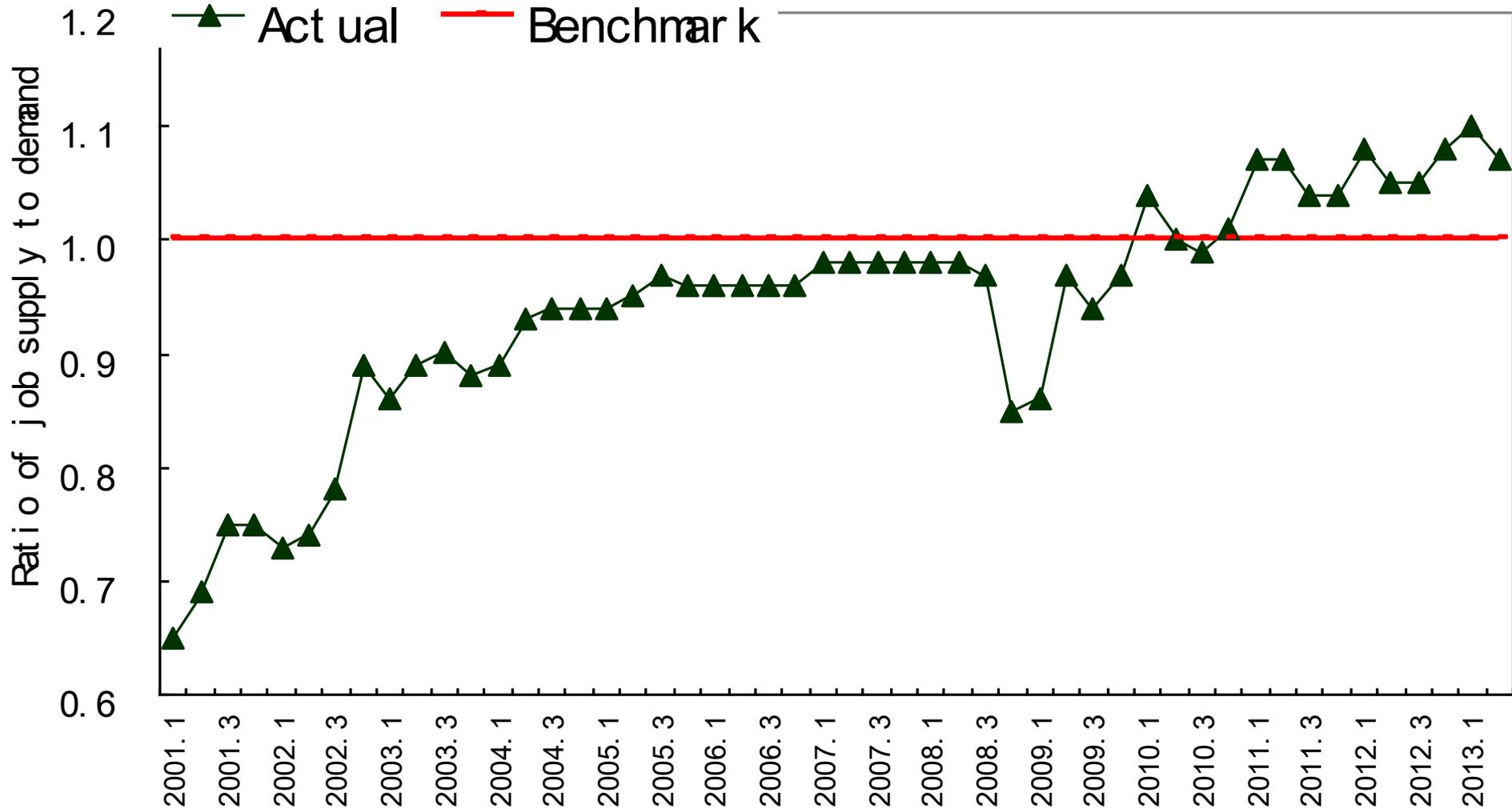
Very Low Fertility for Many Years



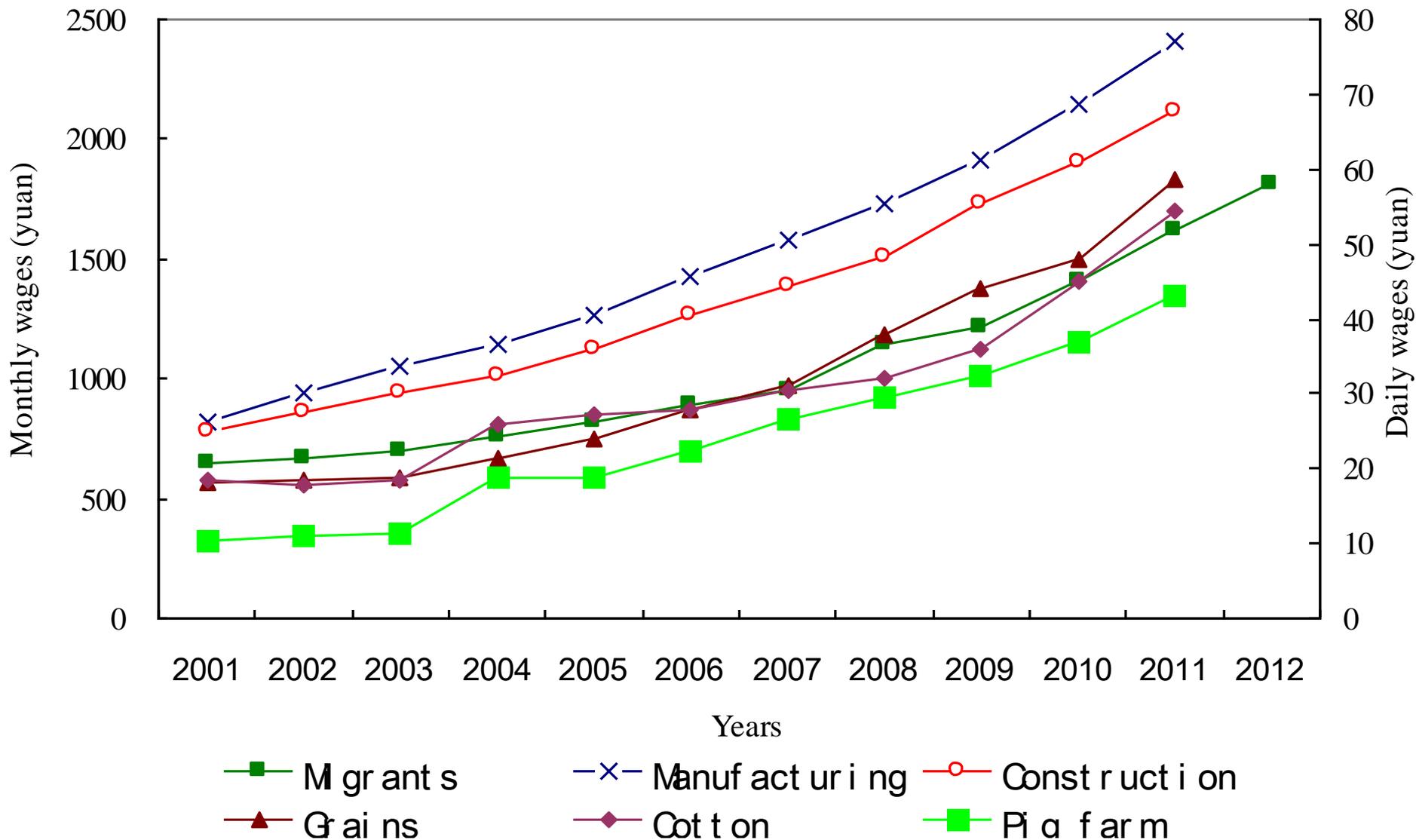
Changes in Population Age Factor



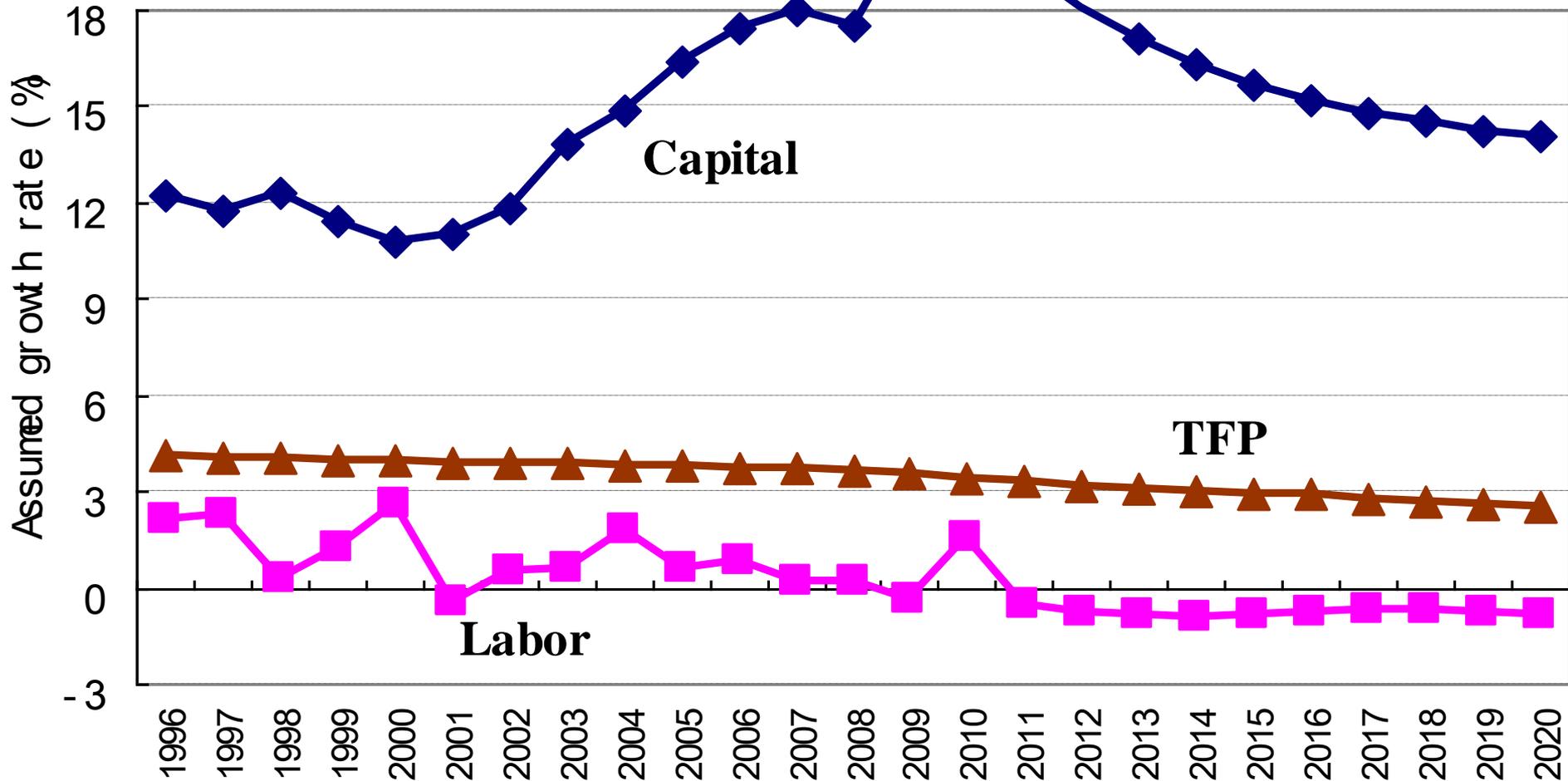
Labor Shortage Continues



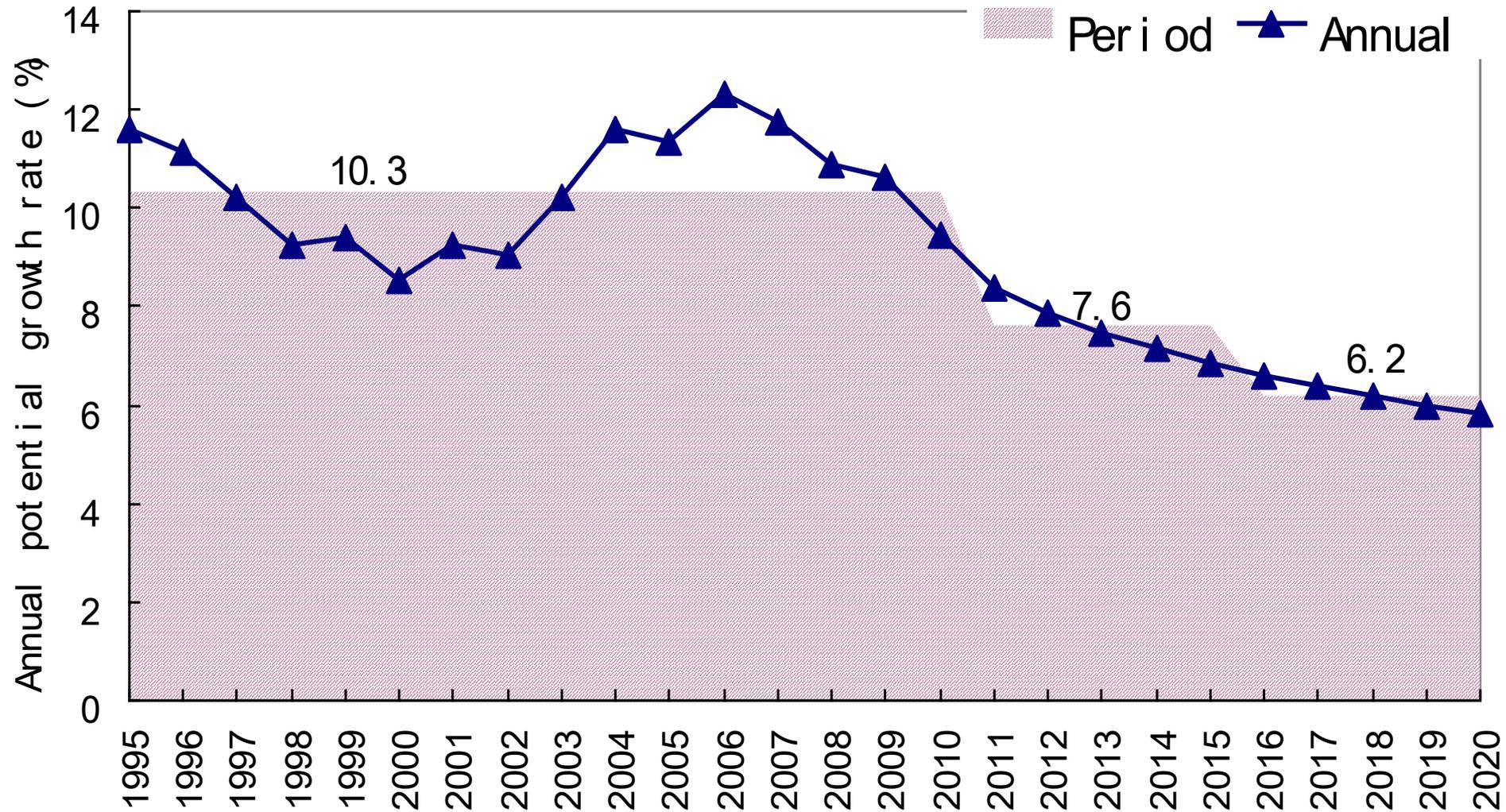
Wages Increase in All Sectors



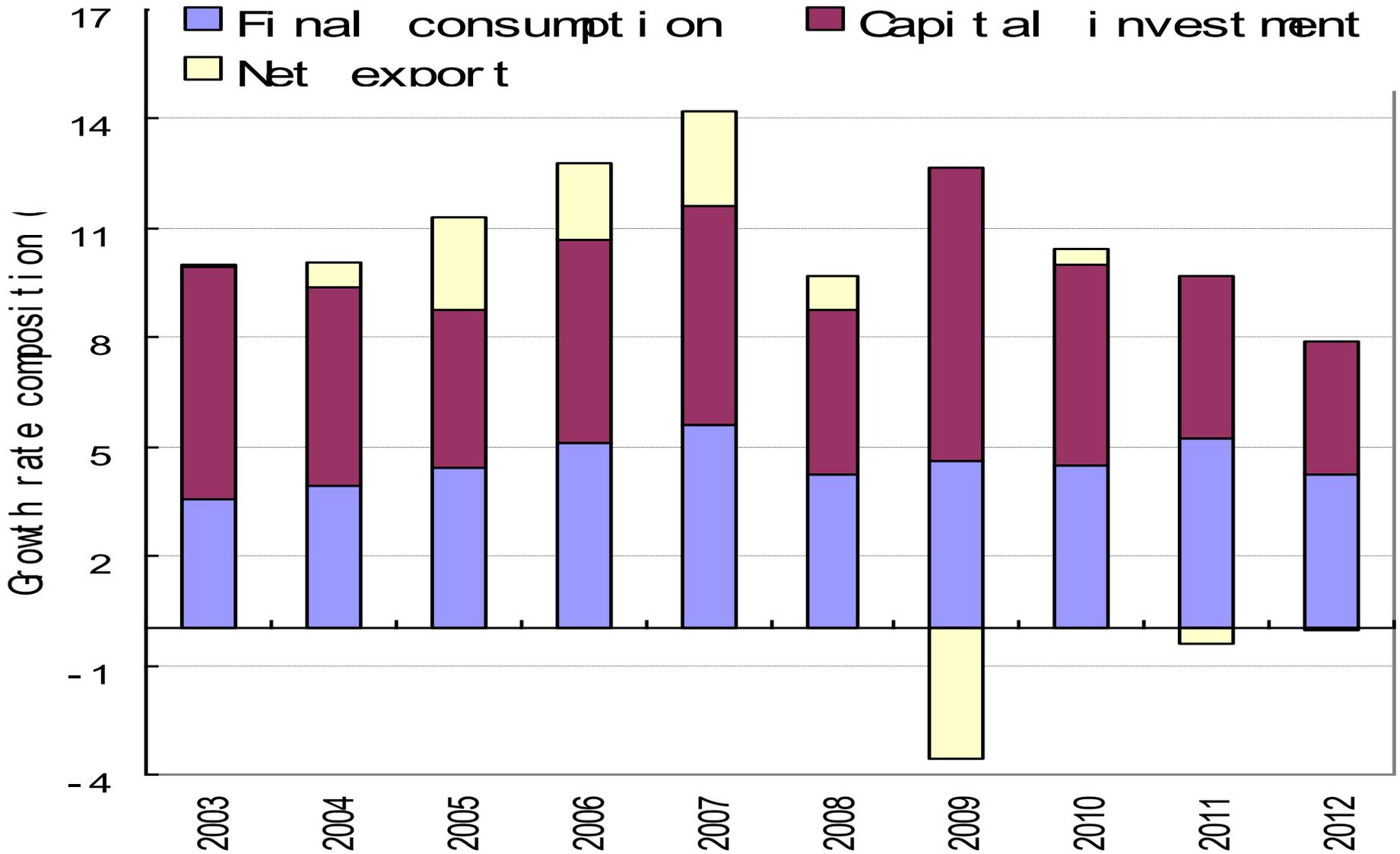
Diminishing Growth Sources



Potential Growth Rate to Decline

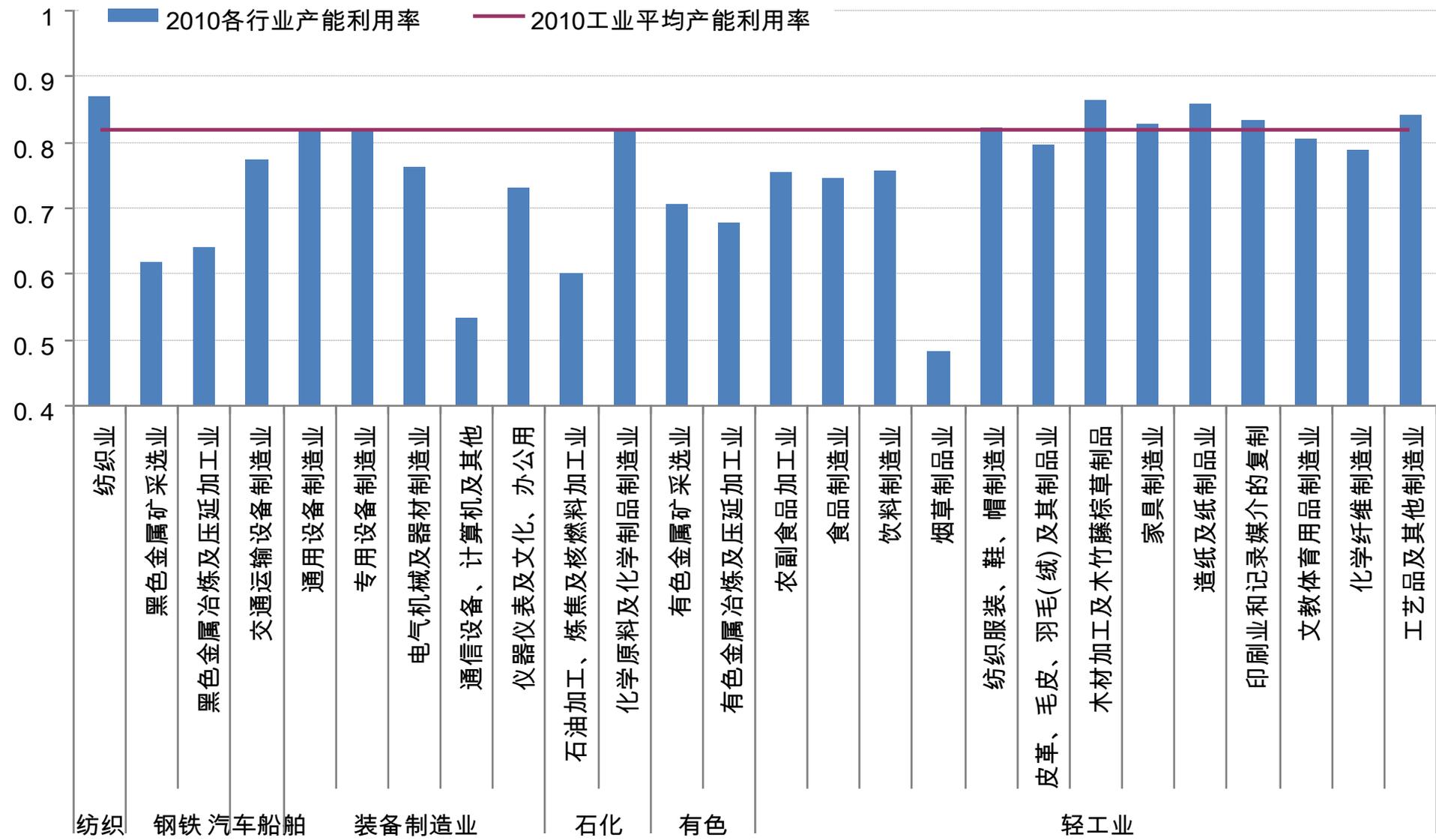


Changing Demand Factors



3. Reform Dividend and Transformation of Model

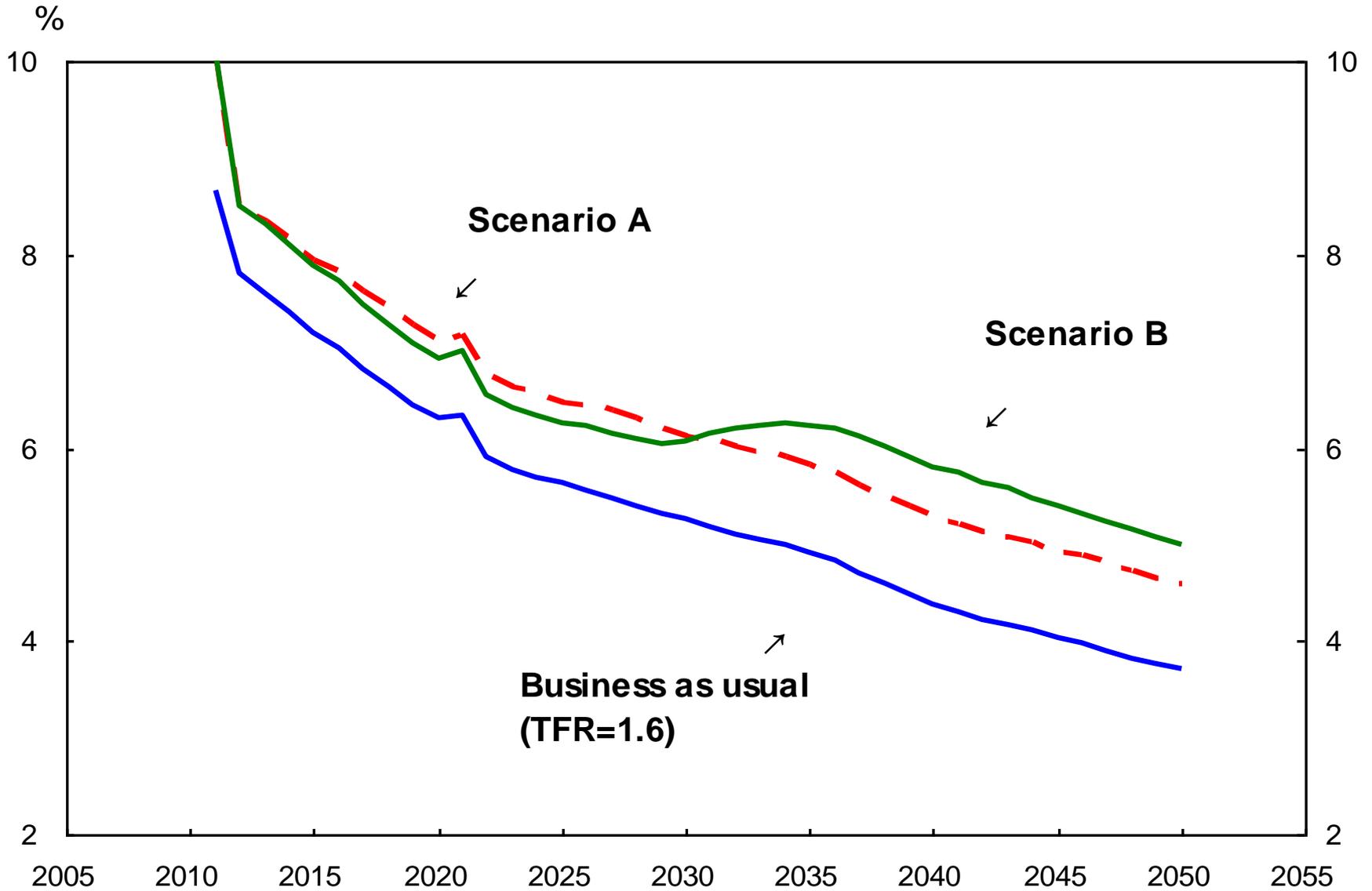
Stimulus Policies Do Not Help



If Reforms Go To...

- *Hukou* reform to increase labor force participation (1 ppt each year) and resources (labor) reallocation efficiency
- Eliminate barriers deterring free entry and exit to increase TFP (extra 0.5ppt)
- Relax birth control to increase fertility (from 1.6 to 1.77 to 1.94)

Scenarios of Reform Dividend



Conclusion (national)

- Reform is not anti-growth type but pro-growth type
- The transition of development model *per se* is way to gain new growth sources
- 3rd Plenum of CCP lays out blueprint for comprehensive reform

Conclusion (international)

- The world should not expect China to stimulate growth above potential growth rate
- Live with a slower but more balanced, productivity-driven growth
- Seize the reform dividend -related growth opportunities

Thank you!