Population, Consumer

“One-Child Policy” and evolution of policy

- The major decline in China’s fertility rate occurred in the 1970s—before the “one-child policy” was adopted in 1980
- 1980s enforcement of the new policy
  - sometimes savage, and sometimes relaxed (especially in the countryside)
  - By the late 1980s the policy was codified in a more pragmatic way
    - a blanket exception for rural families (who were permitted to have a second child if their first was a girl)
    - more relaxed quotas for ethnic minorities
  - under perfect enforcement, only 60% of families would be limited to one child, and the fertility rate would be about 1.5

Impact of the policy

- Difficult to evaluation
  - Could be other factors such as migration of rural labor to city

	Fertility Rate		
	1980	1990	2010
China	2.4	2.1	1.4
South Korea	2.8	1.6	1.2
Thailand	3.4		1.4

Gradual Change of Policy

- State Family Planning Commission (SPFC)
  - has 500,000 employees and six million part-time workers
  - millions of dollars in fines every year
- 2010 census: fertility rate was far lower than the SFPC had claimed
- SFPC was put under the Ministry of Health
- Policy start relaxing
- In November 2013: urban couples in which either the husband or the wife was an only child could have a second child.
  - In the first year, only 1.1 million couples applied for permission to have a second child, far below the 12 million eligible
- November 2015: all couples can have two children.

Possible considerations

- cost of raising children
- housing conditions
- availability of affordable childcare

Why Did Chinese Workers Start Moving from the Countryside to the City?

- steady movement of workers
  - From agriculture to urban employment in industry and services
  - from the state sector to the private sector
- in 1978
  - 70% of workers were engaged in agriculture in the countryside
  - nearly 100% city workers worked either for state-owned or “collective” enterprises.
- By 2013
  - 31% of workers were in agriculture
  - 18% of urban workers were employed by SOEs and collectives.
- Study by Nicholas Lardy in 2011
    - 2/3 of China’s urban labor force in 2011 worked in privately controlled companies
    - 95% of net urban job creation since 1978 has been generated by private firms.

1st wave of work migration: 1980s

- creation of township and village enterprises (TVEs), or small-scale rural industrial firms,

Employment in TVEs		
1978	1985	1993
28 million	70 million	123 million

20 percent of the entire nation's active workforce

Impact of SOE Reform on the Labor Market

- Background:
  - in 1995: SOE employed about 60% of urban workers
  - inefficiency and financial losses
- late 1990s: reorganization of SOEs
  - 30 million people were officially laid off.
    - mostly occurred in industrial firms
  - early retirement schemes
  - privatization of the companies.
  - In 2005: SOE employed about 23% of urban workers

Employment in SOE	
1995	2005
113 million	64 million

Impact of SOE reforms

- # of jobs cut
  - The number is more than five times the number in the U.S. between 2008 and 2010
  - 30 million industrial layoffs in China v.s 8 million jobs lost in the US manufacturing sector from 1979 to 2009
- Total urban employment: increased by 90 million people, a 50% increase
- Possible reasons
  - the government effectively deregulated manufacturing
    - allowing more efficient private companies to take over the production gaps left by the shrinking state sector
  - trade liberalization
    - China's WTO entry in 2001, enabled many of these new manufacturing companies to tap into booming global demand.
  - a host of new service businesses (such as transport firms and restaurants) grew up to cater to the needs of the manufacturing firms and their employees
  - increased government spending on infrastructure, and the real estate boom unleashed by housing privatization, boosted the demand for construction workers.

“Lewis Turning Point”

- Sir W. Arthur Lewis, a West Indian economist who won a Nobel Prize in 1979
- Lewis imagined an economy with two sectors:
  - a subsistence agricultural sector
  - a modern industrial sector
- Higher wages in modern industry draw labor out of the countryside, but because the supply of surplus agricultural labor is so large, companies can get away with raising wages at a slower pace than the rate of productivity growth.
- In this first stage, the economy sees rapid accumulation of capital, a rise in the corporate profit share of national income, and a fall in the labor share

“Lewis Turning Point” (Cont’d)

- At a certain point
  - the supply of surplus rural labor begins to dry up
  - companies have to start raising wages much more aggressively
- In this second stage, a reallocation of national income away from the capitalists and toward the workers can occur
  - as long as the capitalists do not keep wages low by importing workers from abroad, or moving their investments to low-wage countries.
- The transition from the first to the second stage is called the “Lewis turning point.

“Lewis Turning Point” and China

- In the 1990s and early 2000s
  - virtually unlimited supply of labor, due to
    - demographic dividend
    - mass layoffs in the SOE sector
  - enabled a large expansion of industry and the building of huge amounts of infrastructure.
  - A greater share of the financial gain from this economic activity flowed to the capitalists through rising profits than to workers through rising wages
  - the investment share of GDP (financed by corporate profits) rose, and the consumption share of GDP (funded by worker wages) fell.

"Lewis Turning Point" and China

- Beginning in about 2005, labor supply began to fall
  - supply of young workers (ages 15–24), peaked in 2005 and began to fall in 2010
  - overall working-age population (ages 15–64) will peak around 2015 and will then decline steadily.
- wage growth for migrant workers and for relatively low-skilled jobs accelerated, growing faster than those for white-collar jobs
- This trend was exacerbated by the dramatically increase university enrollments
- Between 2000 and 2013 annual graduations from tertiary institutions rose from less than one million to more than six million. These graduates were not interested in factory work
- faster growth in wages relative to corporate profits
- Young workers are quite happy to move to wherever the jobs are
- after the age of thirty, their willingness to move decreases
  - either the rate of rural-urban migration will slow down
  - or employers will have to offer even higher wages to attract the workers they need
  - Or a combination of both.

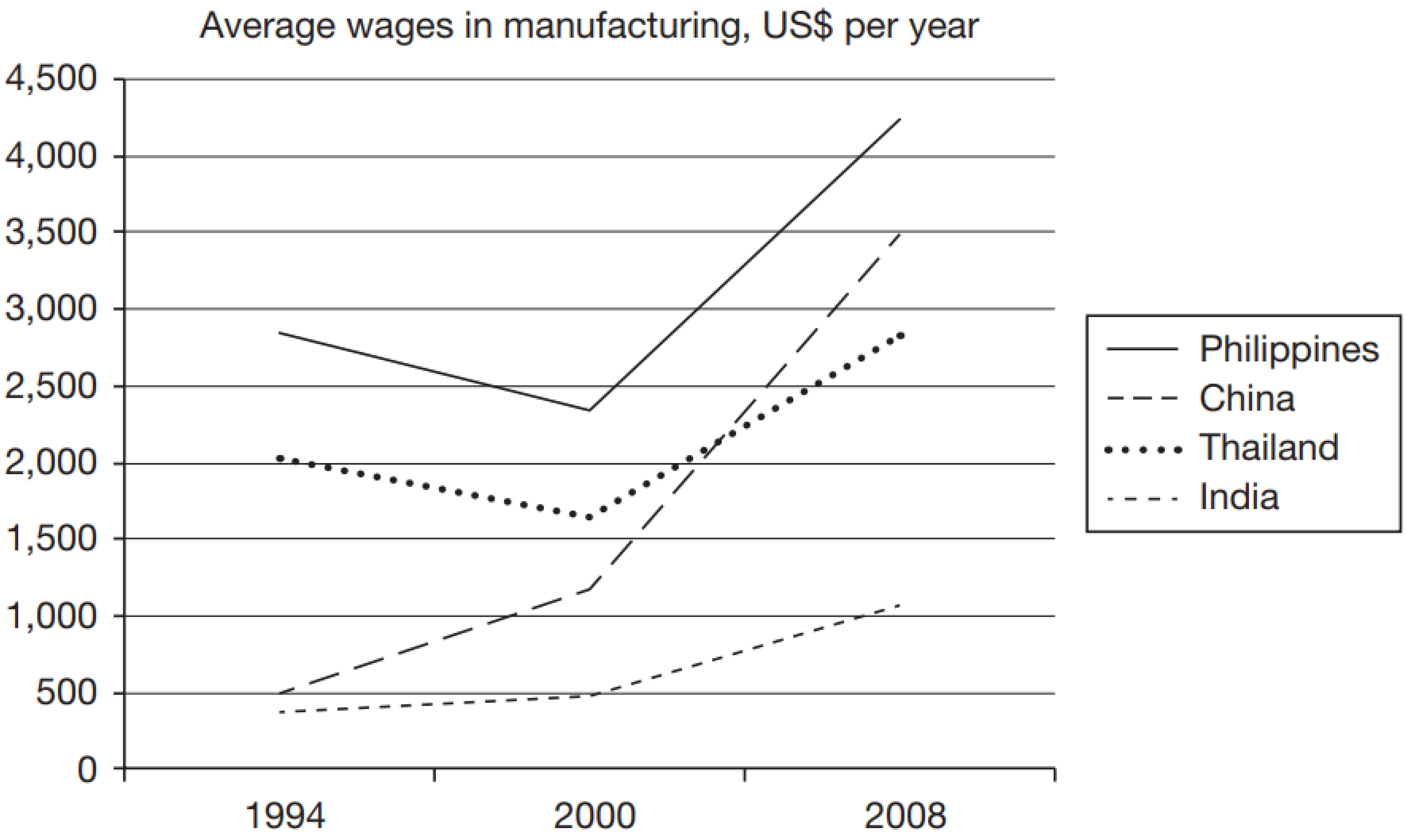

Figure 9.4 Manufacturing Wages

Source: World Bank/DRC 2013.

An unbalanced investment consumption pattern?

Table 10.1 Investment Overtakes Consumption: Share of GDP, %

Year	Gross fixed capital formation (%)	Household consumption (%)
1981	27	53
1990	25	49
2000	34	46
2010	46	35

Source: NBS.

An unbalanced investment consumption pattern? (Cont’d)

- Installation process
  - transition from a mainly agricultural to a mainly industrial economy, countries must install a huge amount of fixed capital
    - factories, infrastructure, and modern housing.
- Household incomes and spending also enjoy strong gains
  - workers move from low-wage agricultural jobs to higher-paying industrial ones.
- Once the “installation” phase is over, investment spending slows down, household spending becomes the main engine of the economy, and the consumption share of GDP begins to rise again

An unbalanced investment consumption pattern? (Cont'd)

- Between 1990 and 2013, average per capita consumer spending rose fivefold in terms of real, inflation-adjusted US dollars
  - an average annual growth rate of 7%
  - double the rate of increase in the next fastest-growing big economy (India)
  - far above the rates experienced by the rich economies and by middle-income countries in Latin America.
  - This explosive growth in consumer spending occurred even as the consumption share of the economy fell by about 15%, and as the household saving rate rose from about 20 cents of every dollar of income to 30 cents

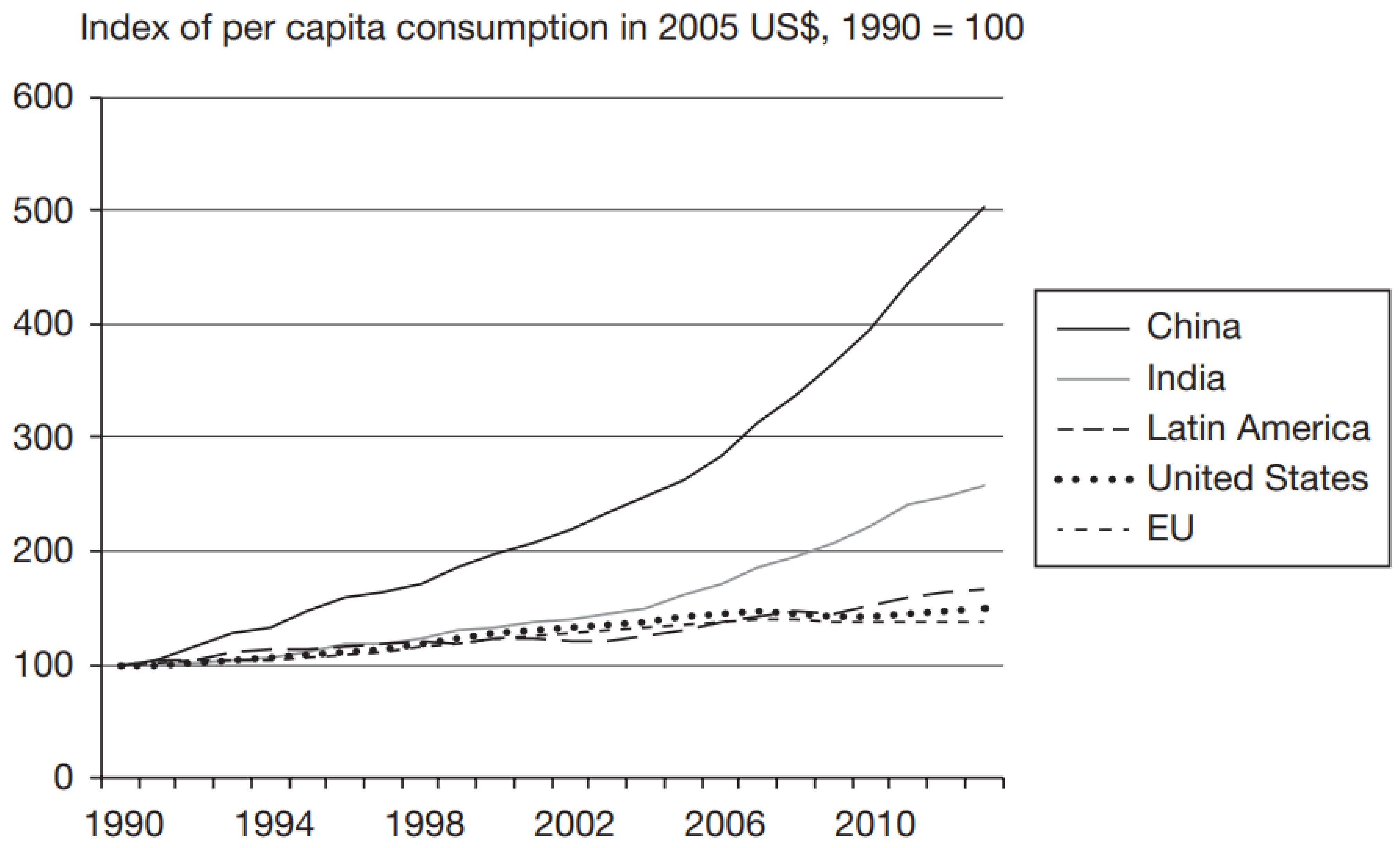

Figure 10.1 Rise of the Chinese Consumer

Source: World Bank.

Chinese consumers

- China became the world’s biggest passenger-car market in 2010
  - annual sales of nearly 20 million units in early 2010s
    - 30% higher than in the United States.
  - increasingly taking their money abroad
    - China surpassed Germany as the world’s leading source of international tourist trips in 2012, and by 2014 it recorded over 100 million such trips, five times the number a decade earlier
    - Spending by Chinese international tourists was $165 billion—eight times the figure in 2004.

Table 10.2 How Big Is China's Middle Class? Estimate for 2012

Income bracket	Millions of people	% of national population
Affluent	173	13
Established consumers	155	11
"Middle class"	**328**	**24**
Emerging consumers	228	17
Total consumer class	**556**	**41**
Lower incomes	**805**	**59**

Definitions:
Affluent: in households with income above $20,550
Established: household income between $13,500 and $20,550
Emerging: household income between $8,100 and $13,500
Lower incomes: household income below $8,100

Source: Adapted from Gatley 2013.

What Do China's Consumers Buy?

- In the 1980s: bicycles, electric fans, and basic furniture sets.
- In the 1990s: pricier household goods such as washing machines and air conditioners
- In the 2000s: China became the world's fastest-growing cell phone market, a huge upsurge in purchases of automobiles, and the private housing boom created large new markets for home furnishings and appliances.
- The average shopping basket for "affluent" Chinese consumers (the 13% or so of the population whose household income is above $20,000) is similar to that of ordinary households in South Korea

What Do China’s Consumers Buy? (Cont’d)

- service consumption begins to pick up sharply among households making more than $20,000 a year.
  - already satisfied their main material needs
  - devote an increasing share to extras like leisure and tourism
  - additional spending on education for their children (or even for themselves)
  - more expensive healthcare
  - health and retirement services for their parents
  - financial services to generate a higher return on their savings than that afforded by bank deposits.