

# China's doom loop: A dramatically smaller (and older) population could create a devastating global slowdown

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China has announced that in 2023 its population declined from [1.4118](#) to 1.4097 billion people. Forecasting by the [UN](#) suggests China's

population will dip to 1.313 billion by 2050 and then down to about 800 million by 2100. This is a significant change and will have ramifications well beyond its borders.

There are two trends that underline such a demographic shift. First is the [aging population](#) with the percentage of those aged 60 and older currently above [20%](#) of the total population. Second, [birth rates have dropped significantly, from 17.86 million births in 2016](#) to 9.02 million in 2023. Several interrelated economic consequences of such shifts could emerge which ultimately can affect China's economic well-being in the mid-to-long term and resonate globally.

More than one-quarter of China's population will be over [60 by 2040](#) and so less economically active (retirement age for [men is 60 and for women](#) it's 50-55). This will put pressure on China's pension and elderly care systems with some [predictions](#) indicating that the pension system could be bankrupted by 2035.

To avoid pension-related issues straining public resources, [possible](#) scenarios include raising the retirement age to get people to work for longer, increasing taxes to cover additional pension requirements and shrinking current benefits.

Changes in the health care system to cope with population changes could leave the many people feeling less well off or unhappy with services being reduced. This in turn could result in some degree of political instability.

In addition, as the dependency of the elderly on their children increases, [household consumption](#), savings and investment levels are likely to decline, which in turns negatively affects the overall health of the economy.

## Labor force reductions

As older workers retire, there will be fewer people of [working age](#) in the total population, and therefore available to work. Taking measures to help [older people](#) continue to work for longer, for example, could become fundamental to long-term economic growth and to sustain the levels of GDP per capita. Nevertheless, as pointed out above, such measures could be politically unpopular.

Productivity gains (GDP per employed person) may also be affected by a reduced workforce, and one which is getting older. Some studies find evidence that labor productivity (output per working hour) varies with [age](#). It tends to increase as a person enters the labor market, then plateaus between 30 and 40, and eventually declines as an individual's work life comes to an end.

Population shifts can lead to a ["doom loop"](#), where one economic situation creates a negative impact and then another and another. As lower productivity begins to affect production in particular sectors, China may be compelled to increase imports to satisfy demand in those industries.

This could significantly affect innovation and entrepreneurship which in turn can further diminish productivity. [New ideas](#), drive economic growth. The size of the workforce affects innovation because as the number of employed individuals shrinks, the pool of new ideas becomes narrower.

If [population growth](#) becomes [negative or falls to zero](#), then the knowledge behind those ideas stagnates. In addition, there is evidence that the [peak](#) of a person's innovative activities and scientific output comes at around 30 and 40 years of age.

Current demographic trends are therefore likely to stifle technological advances and innovation in China. Innovation is essential to sustain and improve [living standards](#), consequently the levels of quality of life may come under strain as the population reduces.

At the same time, [studies](#) suggest that entrepreneurship can be negatively affected by the aging of the population as the percentage of young people is positively linked to entrepreneurial activities. This hampers the dynamism of the economy and contributes to slower economic growth.

China's [economic growth](#) depends on productivity and employment growth. Economic growth is driven by the [effective combination](#) of labor and capital (money) to generate services or products.

This requires a constant or increasing [population size](#). Importantly, with its [population going down](#), China would need to increase its per capita productivity so as to sustain economic growth.

As we have seen, Chinese productivity is also likely to go down as a result of the demographic changes. Therefore, it is expected that the Chinese economy will experience a slower [economic growth](#) through, for example, the shrinking of the numbers of shoppers or consumers which will directly impact the retail trade sector.

In addition, lower demand is likely to intensify the ongoing crisis in the [property sector](#). Fewer people able to buy property will mean a fall in prices.

## **And prices go up outside China**

China is the second largest market in the world responsible for over [one-third](#) of the world's growth and the [second](#) largest importer, so any changes will have global repercussions.

In Brazil and South Africa, for instance, both significant trading partners with China, these population shifts may lead to a [lower demand](#) for their exports. This may result in lower [employment](#) levels in those countries as exporting companies are forced to reduce operations.

As productivity declines in China, its trading partners may be compelled to import products from other economies which in turn can increase the prices of their products. In addition, emerging economies such as Thailand and Vietnam that rely on Chinese [outbound tourism](#) will experience a significant downturn in all tourism-related sectors such as transport and hospitality as the effect of population shifts lowers the number of people able to travel overseas.

Multinational corporations will also [feel demand drop](#) as the Chinese consumer market is a large source of their revenue. The knock-on effect is likely to be global as suppliers and workers around the world find jobs disappearing. In short, as a recent [OECD report](#) puts it, a sharp economic slowdown in China would drag down global growth, the effects of which could be devastating.

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