

China's One-Child Policy Dilemma for Leaders

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As the world's largest national congress meets in Beijing to prepare for new leadership, likely successor Xi Jinping will inherit a roadblock to growth dating back almost to the era of [Mao Zedong](#): the one-child policy.

Implemented in 1979 to alleviate poverty, the restriction on family size will cut the number of 15- to 24-year-olds, the mainstay of factories that drove growth for two decades, by 27 percent to 164 million by 2025, the United Nations estimates. In the same time, investment that fueled more than half of last year's 9.2 percent [expansion](#) will be constrained by soaring pension and health-care costs as those over the age of 65 surge 78 percent to 195 million.

Failure to scrap the law risks accelerating a demographic change that the Beijing-based Brookings-Tsinghua Center for Public Policy estimates could eventually cut China's growth in half. With [China](#) accounting for about 30 percent of global expansion, the restraint would affect companies such as automaker General Motors Co. and Yum! Brands Inc., operator of KFC restaurants.

"This is one of the last chances to change the policy before things get much worse," said Helen Qiao, chief Greater China economist with Morgan Stanley in Hong Kong. "If they start to lift the one-child restriction on urban dwellers now, the economy can get a boost from people still willing to have more than one kid."

Increasing the fertility rate to 2.3 children per woman, from about 1.6, would cut the decline in the workforce in half by 2050 to 8.8 percent, from 17.3 percent, according to the UN. That would reduce China's reliance on [exports](#) as an increase in births stokes demand for consumer products such as Danone SA's baby formula and Hengan International Group Co.'s diapers.

Baby Consumers

Relaxing the one-child policy is "urgent" to help shift the economy toward greater consumption, Qiao said. "Increases to the [labor force](#) will take 16 years but people will have babies now and the boost for consumption will come right away."

Khiem Do, Hong Kong-based head of multiasset strategy at Baring Asset Management Ltd., which oversees about \$46 billion, said an easing of the policy would help “consumer, housing, consumer durables and construction” industries. He declined to name specific stocks, citing company policy.

That may not be enough to persuade the almost 3,000 delegates to next week’s National People’s Congress to reverse rules that have been a pillar of Communist Party policy for three decades and are backed by cities including Shanghai, which face rising pension costs.

“A sudden U-turn is not likely,” said Cai Yong, a fellow at the Carolina Population Center at the University of [North Carolina, Chapel Hill](#). “The government is more worried about short-term problems. More and more people see the problem but there’s no urgency to change it because it’s slow burning.”

Unwound Slowly

The policy instead is more likely to be unwound gradually. Some delegates may push for relaxations in the law at the NPC, which starts on March 5, Wang said.

The government already allows a few exceptions, such as permitting rural families to have a second child if the first is a girl. Couples in some regions are allowed a second child if both parents are single children. Minority ethnic groups are excluded from the restriction. Those who can afford to may pay a fine for having a second or third baby.

“China is going to change its one-child policy,” said Ronald Wan, a Hong Kong-based managing director at China Merchants Securities Co. “It won’t be overnight. They will fine-tune bit by bit. Dairy milk and those companies related to children like education, clothing will benefit.”

Urban Dilemma

The dilemma facing China’s cities is that an end to the one-child policy, implemented three years after Mao’s death, would mean more money needed for schools and children’s facilities just as local governments face surging bills for pensions and care for the elderly.

The [Shanghai](#) Municipal Population and Family Planning Commission last year rejected a proposal to allow couples to have two children because it would strain a system that already has to deal with an aging population. Deputy Director Sun Changmin said the one-child policy is a basic national principle and the overall population remains elevated, according to an Oct. 27 statement on the government’s [website](#).

China's "God-awful one-child policy" will change the proportion of elderly people to workers so rapidly over the next 20 years that there's "no way" the nation can sustain its current level of economic growth, U.S. Vice President [Joe Biden](#) told students at [Florida State University](#) on Feb. 6, prior to a visit by Xi to the U.S., according to an official transcript.

Pension Bill

Expanding China's rudimentary pension system to all workers would cost 7 percent of GDP, or \$411 billion, rising to 15 percent of GDP by 2050, as the number of pensioners triples, according to [Richard Jackson](#), director of the Global Aging Initiative at the Center for Strategic and International Studies in [Washington](#). The pool of workers able to pay taxes will fall by 233 million to 682 million, UN projections show.

"To experience that level of aging with basically an unfunded retirement safety net is a recipe for serious trouble," said [Stephen Roach](#), a professor at [Yale University](#) and former non-executive chairman for Morgan Stanley in [Asia](#).

Workers without any security over pension income will save rather than spend, making rebalancing toward more consumption and away from investment-led growth impossible, Roach said in a telephone interview.

"China's got to really relax the family planning policy but it's also got to move aggressively to fund the safety net," Roach said. "Neither one of those has happened."

'Malthusian Shadow'

China's reluctance to end the policy is also rooted in concerns a population explosion would hurt economic progress, a theory proposed by political economist Thomas Malthus two centuries ago, said Wang Feng, a director of the [Brookings- Tsinghua](#) center, a venture between China's [Tsinghua University](#) and the Washington-based [Brookings Institution](#).

"The Malthusian shadow is really dark and heavy over the head of China," Wang said.

"China has lost so much time already. Now time is really running out."

So, while some delegates at the NPC may call for changes, the policy won't be on the official agenda this year, said Wang. His center estimates China's demographic profile will gradually reduce annual average expansion to about 5 percent or less, from 10 percent in the previous three decades.

"China's demographic changes will also have far-reaching implications for the world economy, which has relied on China as a global factory for the past two decades and more," Wang said.

Concerns that ending the policy will trigger a surge in births are misguided, according to Jackson, Wang and Cai.

Temporary Respite

Cai at the Carolina Population Center estimates an end to the restrictions would cause the fertility rate to rise only temporarily before falling back to 1.5 within five years. Jackson sees it rising to 1.8 or 1.9, while Wang says there “is no reason to believe it can go up to 2,” the rate a nation needs to prevent its population shrinking.

[Japan](#)’s fertility rate is 1.42 while in the U.S. it is 2.08.