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Literature Review - Studying Aging Population in China – Challenges of an aging population on the CCP

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Research Question: Studying Aging Population in China – Challenges of an aging population on the CCP

“China will get old before it gets rich” (The economist, 2012) a popular phrase used by critics when describing China’s aging population. China is home to the world’s largest population, with a population of 1.34 billion as revealed in China’s 2010 census (Population Reference Bureau, 2011). However, China’s population has grown substantially over the last two decades, and the proportion of the elderly, aged sixty-five years and above will increase to 25 percent by 2040, totaling 300 million strong (Peng, 2011). Indeed, China’s “silver-hair” crisis reflects a growing population of dependent individuals, and the arrival of this phenomena was so imminent and inevitable with its effects being huge, long lasting and irreversible that this has become China’s Achilles’ heel (The Economist, 2012).

China is a very unique case study, where it is the first country to implement a mandatory one-child policy on its citizens and also, it is the first country that became old before it became rich. A declining fertility rate and mortality rate only reflects a population growing older by the year. China has taken just 20 years to reach an age profile that took Britain or France 60 or 70 years (Devichand, 2012). With the second batch of baby boomers, born after the cultural revolution between 1962-1970, growing above the age of 45, the speed of aging is simply too fast. As mentioned in a BBC news article, “The rest of China is catching up, by the year 2050, a third of Chinese people, 450 million of them, will be aged over 60”. As research goes on for this topic at the moment, China is only at her initial stage of aging, but undoubtedly, she is moving on to the next stage of aging where we can expect the second baby of baby boomers entering into their next phase of life cycle - retirement. As this is a new phenomenon that China is experiencing, it has caught the attention of many Sociologists who see the rapid change in social dynamics within the society, and question if
institutions in China are adapting fast enough to cater to the changing needs of the population. For this literature review essay, we will be analyzing the challenges posed for the CCP.

**Economic challenges**

Based on the literary readings, many authors have pointed out to one similar point, that China’s economic growth is highly affected by demographic changes, and one of the economic consequences of an aging population is an increasingly shortage of labor, which spells the end of China as the “world’s factory” (The Economist, 2012). Authors link demographic change to economic growth as “the ratio of the working-age population to the dependent population, measured by the youth and old-age dependency ratio” (Eggleston, Oi, Rozelle, Sun, Walder, Zhou, 2013). The old-age dependency ratio compares the number of people over 65 with those between 15 to 64. At the moment, the ratio is 11, but by 2050, China’s old-age ratio is expected to rise fourfold to 42 (The Economist, 2012). A country with high old-age dependency rate will “increase the likelihood of an economic growth slowdown” (Einchengreen, Park, Shin, 2011). Furthermore, the legal retirement age for women is 55 and 60 for men (Cheng, 2014), resulting in an increasing decrease in the quantity of labor while on the other hand, the number of dependent population increases. With the people born in the “second baby boom” period, within the next decade when majority of them reach their legal retirement age, the Chinese aged population will increase “6.2 million more each year” (Hou, 2011). As further substantiated by a news article from CNBC, “in 2011, demographers in China estimate 3.45 million laborers aged out of what is considered the optimum working age group of between 15-59 years of age”. It is estimated that both the number and the speed of laborers existing the workforce will increase gradually over the next few years and by 2050, “nearly 22% of China’s population will be over 65 years old” (Shobet, 2013).

Given that China was once reputable for ‘cheap, young labor’, however with a declining fertility rate as a result of the one-child policy, there is increasingly a shortage of labor, especially at the coastal cities such as Shanghai or Guangzhou. Nevertheless it must be noted the shortage of labor at coastal
cities is also partially due to the internal mass migration of rural workers who are seeking work in internal provinces, which is closer to home. However, in general, there is an overall trend of a shortage of workers as the population in China, specifically the “second baby boomers” are reaching the legal retirement age. The labor shortage can also be seen with the increasing promise to workers to “double their wages over the next 5 years” (Eggleston, Oi, Rozelle, Sun, Walder, Zhou, 2013). Without sufficient labor and a constantly increasing wages will decrease China’s export competitiveness. In comparison with Singapore, which is also an Asian country that is facing a similar aging population crisis, unlike China, Singapore is able to “import cheap foreign labor to counter the aging population problem” (Lee, 2012) in order to keep the country robust. However, China is unable to replicate the same solution as “China... already has the world’s largest population. When the population ages, there’s no way to import labor from other countries” (Lee, 2015). With an increasingly aging population even when China is still in the developing stage, the CCP will find it increasingly challenging to maintain China’s image as a “low-cost workforce” (Shobert, 2013) to continuously strengthen China’s economic growth. However, as mentioned by Perkins, growth is likely to “slow down for a prolonged period, unless China can maintain high growth of productivity”. It is of little wonder why critics say “China is growing old before it gets rich” (The economist, 2012).

Secondly, the CCP will face the challenge of financing a more costly social pension system. With a shrinking labor force to contribute to the retirement income system and increasing number of retirees, the CCP has to relocate resources to channel fundings into this new system, without compromising the other social institutions in society. By the end of 2008, “166 million urban employees (55% of urban employed workers) were contributing to the urban basic pension insurance scheme and 53 million retirees were benefitting from the system” (Banister, Bloom, Rosenberg, 2010). China’s UEPS is funded through employer contributions - 20%, while the employee contribute 8% of wages. The employer’s portion of contributions are pooled together at
the local level, in order to finance current benefits along a defined schedule, whereas the employee’s contributions are designed to be deposited into the individual’s account. However, as majority of the UEPS goes to paying legacy pension, in summary, employers are asked to pay for both their own benefits and the benefits of legacy pensioners. Thus, there was little participation in the UEPS, and many employers and employees have “tried to avoid or minimize participation in the UEPS sometimes by underreporting wages” (Pozen, 2013). This eventually led to the inadequate coverage for the existing legacy benefits for the aged. This is substantiated by a report from China’s Business Journal released in January 2015 that there is a deficit faced by China’s individual pension account: RMB 3 trillion (around USD $484 billion). As presented by the readings, the challenge for CCP is to have an immediate short term solution for this costly pension system while paving the way for major reforms to take place.

Social Challenges

According to the Confucian principle of filial piety, the younger generation of adult children “is expected to care for their elderly parent” (Today’s Research on Aging, 2010). However, due to the adoption of the one child policy in the 1980s and after half a century of the policy’s implementation, the negative effects of the policy are slowly being revealed, one of which is the “alteration of traditional Chinese family” (Wang, 2005). Due to the one child policy, the family structure has changed from one that has many family members to 4 adult elderly, 2 adult children and one young child, also known as the “4-2-1” structure (Flaherty, Lin, Ding, Dong, Ding, Li, Xiao, 2007). Traditional families used to have many family members, where “average Chinese women had size children” (Smith, 2015) especially in the rural areas, due to the functional benefits that the children can provide in terms of agricultural production. With this changing family structure, it means that for every 4 elderly, their two adult children will have to support the former, themselves and their own child. As mentioned in the China Daily, cost of living rises in cities across China today, and with many
mouths to feed, many new couples would rather forgo the traditional Chinese custom of having many children. As reflected in The Guardian news reported in 2015, Chinese families are increasingly “less enthusiastic about the partial relaxation of the one child policy, choosing to stick with one child, often for pragmatic and economic reasons”.

From here, there are two points for the CCP to be worried over. Firstly, with the current 4-2-1 structure in most Chinese families, there is the problem that there is an increasing dependent population as compared to a working population. A dependent population refers to people not between the ages of 15-64, where they rely on the working population with income to support them. With an increasingly smaller group of working population, the country as a whole will face difficulties in supporting the dependent population. This is where the CCP has to step in to reallocate resources to these elderly whom their own adult children are unable to support. Also, as the cost of living has increased drastically, the non-dependent population will try to reduce the number of ‘dependent population’ relying on them. One way is to give birth to fewer children to reduce their economic burdens. However, in the long run if most adult children choose not to have children, there will constantly be an ever more shrinking workforce to support the adult children that would have transitioned into their retirement phase. Increasing taxes to supplement the old age pension system will only increase costs of living and the Chinese will be even more unwilling to ‘give birth’ to additional costs.

Secondly, with a smaller family size, it reduces the availability of family care for Chinese elderly, who traditionally depended on community support in their old age. However, given that these elderly’s adult children have to both work in order to be able to support four elderly and one child, these has led to even more social demographic changes – internal migration and change of gender norms.
Deng Xiao Ping’s once famous quote “致富光荣” refers to the ideology of ‘getting rich is glorious’ and many Chinese took that as a cue to attempt all methods to earn more money. As such, ever since his 1992 southern tour and the establishment of the special economic zones, where most of them were situated near the coast, China saw a new form of social movement where there was large scale internal migration in the 1990s. Many adult Chinese children left home to look for better job prospects along coastal cities such as Shanghai or Guangdong, where inner cities such as Jintang saw the number of people working elsewhere “grow from almost nothing to 180,000 (out of a population of 900,000)” (The Economist, 2012). In their pursuit to getting rich, elderly parents are often left behind in rural villages to fend for themselves, with a severe lack of family care. Although Initial migration to coastal cities as a result of a better future has been brought to an halt because of the high costs of living in big cities, and adult Chinese children are moving inwards towards their own hometown because of the increasing wide array of job opportunities available in conjunction with lower cost of living, the Chinese are undoubtedly still moving out of their villages and “pumpkin patches to seek better employment and better wages” (The Economist, 2012). This is substantiated by Smith’s research that “82% of those 55 years old and above live with or near a child”. Furthermore, as health insurance is operated at the county level, “co-payments increase for care received outside of one’s home county” (Rand Corporation, 2015) and as such, discourage parents following their adult children to new locations and voiding them of family care.

A change in gender norms, an unanticipated effect of the one child policy, also contributed to the reduction of availability of family care for Chinese elderly. With the implementation of the one-child policy, women are increasingly seen as important assets to contribute to the economic wealth of the family as well. While women traditionally play the role as ‘care-givers’, increasingly, this support has “becomes less reliable, particularly when women enter the work force” (Banister, Bloom and Rosenberg, 2010). In contemporary China, women are now empowered with the ability to challenge gender norms set by traditions that female play the role as the dominant family caregiver.
In essence, with changing traditions amidst an increasing aged population, the challenge for CCP is to think of how to counter the current low fertility rate, as a higher fertility rate may be a solution to increase the number of caregivers in the society and with a larger working population, they will be able to better support the dependent population in the long run. CCP is unable to continuously offer subsidized elderly care institutions or elder care help for an increasingly aging population as this will be a large cost for the country’s economy.

Increasing medical costs is also another challenge for the CCP to overcome, as pointed out by various authors. With a population growing old in conjunction with lower mortality rate, medical costs will increase for longer periods of time. As people age, they tend to be more “susceptible to disease and disability” as mentioned by the World Health Organization in their report on ‘Risk factors of ill health among older people’. The article included examples such as “the risk of falls increase steeply with age”, together with other factors such as mental health or even elder maltreatment. According to the life course theory, childhood is also a factor in affecting old age health, especially the different types of habits built up since young that may benefit or affect one’s health when old. Based on a research conducted in 2005, 5-7% (or about 5.7 million) of the Chinese elderly needed long term care in 2005. Long term care was defined as a status in which a person has been disabled in any of six activities of daily living for more than ninety days. It is estimated that the figure will reach 27 million in 2050 given the same age-sex specific prevalence rates. Also, mentioned in the article was that the yearly long-term care expenditure reached 21 Billion Yuan in 2005, yet the proportion of unmet or undermet needs was nearly 60%, which meant that approximately 3.5 million Chinese elders could not access to long term care services although the demand is there. It is obvious with such statistics that there is a major challenge for the CCP to resolve as the number of Chinese seeking medical attention will only increase and not decrease. Now it is the batch of 1960s to 1970’s baby boomers parents who require the medical attention, however, it will not be long before this batch of baby boomers join the queue in waiting for medical attention as well. Although the CCP has privatized elder care institutions, however, they are still held accountable for the health
of the public and more has to be done to ensure that all receive adequate medical attention. Also, privatizing elder care institutions is not a long term solution to resolve the needs of the people.

Conclusion

After going through the readings about the challenges posed by the aging population on CCP, it boils down to one question: whether the economic power China has accumulated over the past thirty years (before the effects of the one-child policy can be felt) will be adequate to fund its growing pension and health care costs. And with that being said, literary sources have proven that resolving the aging population question in China cannot be done simply with one approach. Instead, a multi-prong approach have to be put in place in order to solve the different types of economic or even social problems arising from an increasingly aging population. However, given that China is a greatly diversified country, undoubtedly, there will be a group that be ‘left out’. Will it be the aged because of pragmatic concerns that they are less economically productive? These can only be seen with time, however, as of now, to continue China’s strong economic growth, the CCP has to find ways to resolve the exploding aging crisis in China.
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