Demographic Dividend: Supply-side View and Evidence on Chinese Growth

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1. Fast Growth alongside Rapid Demographic Transition
Very Low Fertility for Many Years (and two features)
Age Structure Changes Faster
(WAP rise & dependence decline)
Decomposing China’s Growth (preventing diminishing return on $K$)

- Capital: 61%
- Education: 6%
- Labor: 9%
- Reallocation: 8%
- TFP: 24%
- Residual: 16%
High Potential + Strong Demand
= Fast Actual Growth

GDP Growth Rate (%)

Actual  Potential  Average
2. Disappearance of Demographic Dividend
Reversed Demographic Factors
(WAP shrinks & dependence rises)
As Result, One, Return on $K$ Decreases, Estimated by Various Studies
Two, $L$ becomes scarce and wage of unskilled workers increase.
Three, Room for Reallocation Efficiency (TFP) Becomes Smaller

![Graph showing labor force trends from 1984 to 2012. The graph compares agricultural and non-agricultural labor force over time.]
Finally, Potential Growth Rate Slows Down and Slowdown Will Continue
3. From Demographic Dividend To Reform Dividend
Since It Is Supply-side Factors Cause Slowdown, PGR Can Be Increased
By Reforms to Increase Labor Supply, Human Capital, TFP, & Hopefully TFR

- Having urban residence
- Living in cities

Population share (%)

Years: 1990 to 2012
Future Scenarios of Potential Growth Rates under Dif. Assumptions

- Baseline
- Scenario A
- Scenario B
- Scenario C

<table>
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<tr>
<th>Year</th>
<th>Potential growth rate (%)</th>
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<td>2011</td>
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Thank You!