

On demographic window before signing off for my summer vacation

[Tsang Shu-ki](#) (9/7/06)

I am having a rather extended summer vacation in the coming two months; and it will be quite some time before I could come up with any new piece of mine on this website.

So perhaps I need to have a short note before signing off. As I have shown concern about the disappearance of China's "demographic dividend" (www.hkbu.edu.hk/~sktsang/China_forex_051101.pdf) and Japan's alleged "abyss" (with two recently posted "networthy items": "[Japan's Demographic Woes Worsen](#)" (2/6/06) (Patrick Goodenough) and "[Japan Stares into a Demographic Abyss](#)" (14/5/06) (Hisane Masaki)), I should put forth my own view more clearly.

A demographic window is a relative concept referring to the prominence of the proportion of working age group in the population. Such a phenomenon will generate strong supply-side and demand-side forces that propel economic growth. Unfortunately, it is an opportunity which is often not made the best use of by many nations and territories.

In terms of cause and effect, a demographic window is directly linked to the size of the population. As the demographic window is being "closed", the ratio and the size (depending on the exact population structure and time lag) of the labour force will fall. And further down history, the total size of the population will also contract. We have already seen such dynamics in Europe and Japan.

The reason is simple. The whole process is driven by low fertility (birth rate), for whatever socioeconomic, political or natural reasons. And as the "baby boomers" of the preceding era progressively retire, there is a diminishing net supply of working age population. Both factors lead to the "aging" of the society and finally the contraction of total population, if the process is not reversed, say by a war and then another "baby boom" and/or massive immigration.

As a very long-term projection which can only be an imprecise reference, readers may like to look at Table 16 first and then Table 3 of the United Nation's *World Population to 2300* published in 2004:

www.un.org/esa/population/publications/longrange2/WorldPop2300final.pdf.

I suggest the reverse sequence of viewing the tables, because it follows more closely the logic of discussion here. Table 16 presents the projected demographic windows of various countries (please note in particular China's and India's); while Table 3 is on population sizes. One can work out the relevant time lags from them.

Another piece on China's demographic window (dividend) is also interesting:

www.southcn.com/nfsq/scene/hdzt/gzjt/200405140422.htm.

In particular, the views of Cai Fang (蔡昉) are sobering. All in all, the years of China as the world's manufacturing hub seem to be numbered, and India looks like the heir-apparent.

China therefore needs a two-pronged strategy: (1) Add as much national wealth and earn as much foreign exchange reserves as the hub as possible, before the window is closed. It will be utterly foolish not to use the window when it is still opened. (Hence I am against floating the Renminbi or its significant revaluation). (2) Upgrade the country's technology and productivity with urgency to prepare for the post-window era! Cheap labour could no longer then be the driving force of the Chinese economy.

In any case I guess no one can do much on complex issues like these in a summer. Bye for now.