

China an Ageing Nation

China's young working population (between 15 and 35) swelled substantially in the early 1980s, giving the country what economists call a 'demographic dividend'. The rise in the number of young workers — combined with moderate social welfare measures and result-oriented economic policies — helped China's economy grow by about 8 per cent a year for the past two decades as youths rushed to fill factory jobs and then spent their incomes on goodies like motorcycles, mobile phones and even homes.

Today India, with half its population under 25, stands to reap the same demographic dividend as China — but only if New Delhi improves its social welfare policies and removes economic bottlenecks. Or else dividend could turn into a disaster leaving the country saddled with millions of under-educated and under-employed youth. This would be tragic for two reasons. The first is the obvious human misery that would envelop India and slowly contaminate the global economy. Second, India would miss out on the chance to emerge as Asia's pre-eminent economy, as China's demographic dividend is wearing out in the face of a steadily ageing population.

China's age advantage began reversing in 1999, when it became an ageing society, which is defined as a society where more than 10 per cent of the population is over 60. The country now has 144 million seniors, about 11 per cent of the total population, according to a white paper just released by China's state council. By 2025, this number will be 280 million (almost equal to the entire population of the US), and by 2050, it will rise to 435 million, almost a third of China's population.

As one of the world's oldest nations gets older, experts here are struggling with ways to stave off the consequences — increased pension and health costs, lower productivity, and social upheaval. Radical measures are being considered, including lifting the famous 'one child only' rule. That authoritarian decision, which is often lauded by planners for bringing China's birth rate down to 1.1 per cent, has worsened China's current demographic problems by reducing the number of youth that can support the elders. Currently, the ratio of workers to retirees and children is 4:1, but will decline to 2:1 by 2040, according to official reports.

Figuring it out
The total population of China
against the number of senior citizens.

| Year | Total population (billion) | Seniors (million) | As % of total population |
|-------|-------------------------------|----------------------|-----------------------------|
| 1980 | 1.2 | 55 | 5 |
| 1990 | 1.2 | 80 | 7 |
| 2000 | 1.3 | 130 | 10 |
| 2010* | 1.3 | 165 | 13 |
| 2020* | 1.4 | 238 | 17 |
| 2030* | 1.4 | 425 | 30 |

* Projected figures
Source: China State Council

Given this, there is no painless way for China to deal with its ageing problem. In retrospect, China should have launched a forced-savings retirement scheme when its workers were young. This pay-as-you approach would have led workers to place a percentage of their incomes in private retirement accounts through which they could have invested in real estate, the stockmarket and safer fixed-rate schemes in various measures. Singapore's Public Provident Fund is the best example of this. But China, like India, has not done this, partly because it did not get its act together, and partly because of social customs. Traditionally, retirement was seen as a 'golden time' in China, when a person was expected to sit back and enjoy the material rewards of a lifetime's work while living with and being cared for by their children. Because of this tradition of filial responsibility, the government did not create a strong social safety net for seniors. It was only when children could not or would not care for their parents that the state stepped in to help — in a very modest way. For example, China's old-age homes can accommodate only about 1.5 million people, or about 1 per cent of the population above 60, according to the National Working Committee on Ageing.

But modernity has brought new realities. Increasing numbers of children are moving away from their homes and a recent survey conducted in Beijing found that about half of the city's senior citizens lived alone. Most children still financially support their parents and the practice of putting them in old-age

homes is spreading. Thanks to the one child rule, a couple now has to support four elders. That has strained both the married couples' ability to care for their parents, and ties between the generations.

"We don't need our children to help us," Dai Yong Fa, a senior in You Liang, a village in central Chongqing province, where it is common for people to migrate to the cities, said when asked if her children who have migrated to the cities help her financially. "We are self-sufficient and can take care of ourselves."

But it is clear that millions of retirees in China are threatened by poverty as very few have meaningful savings. During the Maoist years, rural communities toiling away in collectives received housing, food coupons and clothes as compensation, so no one really made any money. Urban workers employed by the government and state-owned enterprises fared slightly better. They received meagre pensions, but now even these are under threat. The World Bank says China's implicit pension debt of some \$1.5 trillion is woefully under-funded, not least because pension money is mostly invested in government bonds that pay low returns. This is much like India's Provident Fund Scheme, which enjoys de jure independence, but de facto has to invest its money in low-yielding government securities. But where India is better off is that its pension schemes are not as woefully mismanaged or corrupt as China's, not that we know as of now at least.

In September 2006, Shanghai's powerful Communist Party chief, Chen Liangyu, was summarily sacked for loaning pension money to builders, entrepreneurs and, somewhat predictably, to himself. Two months later, China's National Audit Office announced that it had uncovered \$1 billion in misused pension funds.

To ease the burden on retirees, the government makes it relatively easy for them to obtain subsidised housing and food. But even this state generosity is waning under the pressure of market economics, says Ding Ning Ning, director of social studies, Development Research Center of the State Council in Beijing. "We adopted the American model of development and economics but now we are seeing the problems," he says. "The worst impact is on health care." Where once almost all citizens were covered by a rudimentary health care system, today about half the country lacks health care coverage. Circumstances are particularly severe for the elderly because they do not have the income to pay for treatment they need, he says. The problem is already spiraling in areas such as central Chongqing and Sichuan provinces, where ageing levels exceed the national average.

In Dai's village, most people look like seniors and she said their life was typified by one word: nothing. "We have nothing to do and we sit around all day playing mahjong," she says, gesturing to the tables of retirees along the main street of her village reverberating with the click-clack of mahjong pieces being shuffled.

“We get nothing from the government and we have nothing. Our kids are in the cities. We have nothing.”

Li Bengong, vice-director, China’s National Working Commission on Ageing, says, “Everything must be completed in terms of addressing the problem of the ageing population before 2030.” That might seem like a long time and that is one reason short-sighted politicians often defer addressing pension and social security issues. But given the pace at which people age and how money compounds, 23 years is not a long time. Since there will soon be only two young people for every senior in China, creating a US-style social security scheme, by which workers pay for retirees, is untenable. Beijing has created a National Social Security Fund that receives monies from state-run lotteries as well as 10 per cent of the proceeds of IPOs of state-owned companies that go public abroad. But this will hardly be sufficient. The government is also experimenting with different healthcare and pension plans. But the central problem is cost. While advanced countries, which have aging patterns similar to China’s, have annual per capita incomes (PCI) of \$10,000, China’s annual PCI is just \$1,300. Chen Zhi, chief of the department of population and social science in Sichuan, a province that has the highest proportion of seniors in China, said recently: “We are like a man getting old before he gets rich.”

Amidst all this, many seniors who have lived through China’s wild political swings over the past half century, say they feel alienated and lost. They were trained to create a communist utopia, but now find themselves in a post-industrial, knowledge-led economy, where neighbourhoods are torn down and replaced by huge shopping centres and office high-rises. Some older residents in Beijing say they cannot even venture far from their homes, because they are illiterate and cannot read the road signs along the new streets. Alone, and often widowed or divorced, most seniors spend their days on wobbly stools and tables they set up outside corner dumpling restaurants, playing low-stakes games of Chinese-style three-card poker, checkers, chess and mahjong. Many still wear the worn blue Mao suits, the standard national uniform from 1949 to the mid-1970s.

This sense of community is the one pillar that keeps China’s retirees feeling alive, and in the early mornings, groups of seniors often meet to do tai-chi and other forms of exercise in parks and town squares. It is also common to see elderly couples waltzing in public places even as a battered cassette recorder spills out music from another time. But that is not the only way seniors here are trapped by their past. Many of them cannot read and write effectively, and have no marketable skills. That, coupled with high unemployment rates, means it is almost impossible for senior citizens to find even part-time work.

That has led many retirees to push the authorities to provide them with more benefits and complain about corruption in their pension plans. Over the past decade, seniors have staged hundreds of protests and sit-ins over these issues, according to the Ministry of Public Security. “In the cities people get something, I

think about \$5 a month,” says Dai, referring to a provincial programme in Chongqing under which seniors get a stipend. “But in villages we get nothing. The (Communist Party) cadres take everything. This is how it is.”

The repercussions of this on the global economy are significant and growing, and forcing both Chinese and US officials to grapple with the problem. In December 2006, US treasury secretary Henry Paulson, Federal Reserve Board chairman Ben Bernanke, labour secretary Elaine Chao and eight other cabinet-level officials were in Beijing to convince the Chinese government to institute a better social security scheme. Their complaint: today’s working population in China is watching their parents’ difficult retirement has created another problem, that of high savings. “China has very high precautionary savings because most people have no healthcare plans or reliable pensions,” Chao says.

China’s home savings rate is technically about 20 per cent. But since many people do not earn enough to save at all, average middle-class families save about 30-50 per cent of the salaries. Zuo Jia Qiu, 43, a manager with a private company in Beijing, says he earns about \$550 a month and saves about \$250. This trend is distorting the global economy because Chinese consumers may be buying more than they ever did, but like Indian buyers, they are still choosing to put away that extra \$250 a month instead of blowing it on a designer bag or an iPod. That is reducing the amount of goods China imports from countries such as the US and India. “The large trade and current account deficits of the US and China’s external surpluses are contributing to the current pattern of global imbalances,” says Bernanke. “Because China’s national savings rate is even higher than its rate of investment, the country has excess funds to lend in the global capital market.”

Currently, China is investing its huge foreign exchange reserves mainly in US national debt (Treasury Bills) and corporate debt. Since the US has a ready buyer of its national debt in China (and countries such as Japan and Saudi Arabia), it keeps borrowing more and more. But this system is not sustainable. China, at present, holds about \$350 billion of the US treasury’s \$8 trillion debt, plus another \$750 billion in private and local government securities. Bernanke hints that Beijing might do well to use its surplus to pay higher pensions from its general account and institute a more generous social security scheme, as this will stimulate local consumption. He also says that Beijing should raise the value of the renminbi, as that would make US products cheaper in China and stimulate consumption while decreasing China’s trade deficit with the US.

But Beijing is demurring for many reasons. China holds so many US dollars that raising the value of the renminbi by 10 per cent would mean a \$100 billion loss for Beijing in renminbi terms. That is a figure most people will not let go off easily. More significantly, China fears raising the value of the renminbi would make Chinese exports costlier and US food imports cheaper. This could create a double whammy by hitting both workers in export-oriented factories in the cities

and domestic farmers. Not only could that cause a recession, it could also ignite political instability.

To combat US pressure, the Chinese have hinted that they might shift investments out of the US and into euro, yen and even Asian currencies. Then, the US would be forced to raise interest rates, fuelling a recession at home, and possibly globally. As this would also hurt China, for now Beijing and Washington are caught in what former US Treasury Secretary Lawrence Summers once called “the balance of financial terror”.

To Chinese seniors struggling to make ends meet in a new and unfamiliar world, the wrangling of central bankers is too esoteric and remote to follow. Many say they are resigned to being ‘red-lined’ out of the government’s priorities, underlining the increasing sense amongst the Chinese of all groups that their welfare is the government’s last concern.

“I have never had a happy period in my life that I can look back on,” says Tan Guang Quan, 70, a widow in Guangtiantou commune in central Chongqing, who depends on her sons for financial support. “Now, things are getting better... but not for me. My life is over.”

Courtesy: <http://www.businessworld.in/index.php/Ageing-Nation.html>