As China’s four-decade long demographic dividend is coming to an end, the country is actively seeking to seize new economic opportunities in higher-value-added productive activities. Could Africa be the big winner of this economic restructuring?

In September, leaders of China and most African nations will gather in Beijing for the seventh triennial Forum on China and Africa Cooperation (FOCAC) summit. FOCAC is the umbrella platform under which regular ministerial meetings and working groups between Chinese and African governments take place since 2000.[1] This year's summit takes place in a year when China is celebrating the 40th anniversary of the “opening and reform” of the country’s economy launched by paramount leader Deng Xiaoping in 1979. Hosting FOCAC this year offers China a symbolic occasion to progress towards the long-standing promise to use its own developmental success to help less advanced developing countries, which dates to the Mao era but was prominently reiterated by Chinese President Xi Jinping at the World Economic Forum in Davos in 2017.

Little is known in advance of the details of this year’s FOCAC summit agenda. Much, however, is known of slower moving and relatively predictable demographic shifts that underpin rapidly deepening economic ties between China and African nations. This piece explores those demographic shifts and, more specifically, how the passing of China’s low-wage demographic dividend opens a new window for African nations to seize the opportunity offered by their own emerging demographic dividend era.

China’s four-decade demographic dividend

In 1979, Deng Xiaoping set China’s course away from autarky and onto a path of “opening and reform.” Amid pervasive poverty and the devastating incidence of recent famines, the aim of this programme of economic reforms was to incrementally and experimentally embark on a development trajectory via which China would realise the Four Modernisations – in agriculture, industry, national defence, and science and technology – first elaborated by Premier Zhou Enlai in 1964. Reducing population growth was seen as a means of both supporting and hastening the attainment of these goals. Therefore, to further slow already falling birth rates, the country introduced what became commonly known as the “one-child policy”, which lasted for 35 years until a two-child policy was introduced in 2015.

What ensued was a demographic dividend lasting for 42 years. This underpinned China’s labour-intensive export-led transformation from autarkic backwardness to “factory of the world”, and now to emerging giant of the world economy. A demographic dividend is understood as a transitory window of economic
growth potential resulting from an increase in the working-age population share. The basis of such dividends lies in a rise in the support ratio, a weighted ratio of dependents and economically active contributors to an economy. China’s support ratio began rising in 1971 as a result of declining fertility more than offsetting declining infant/child mortality. China’s total fertility rate fell rapidly from 1980 onwards and has more recently stabilised below replacement level (of 2.1) at around 1.6. At the same time, life expectancy rose by nearly a decade, a combination providing for China’s ongoing demographic transition, a process that can be defined as “a fall of fertility and mortality from initially high to subsequent low levels and accompanying changes in the population.”

When a demographic transition coincides with a process of incremental labour transfer from the informal rural sector to the formal industrial sector, the resulting productivity gains offer a relatively rapid industrialisation window. In economics, such a process was elaborated in Lewis’ “Economic development with unlimited supplies of labour”, and is now commonly referred to as the Lewis Model in the economics literature. Around 1980, being home to a youthful, poor, and mostly agrarian population offered China this type of remarkable – and temporary – economic opportunity window, which the country used through a successful incremental agenda of “reform and opening” in its efforts to achieve the Four Modernisations. Much less studied in the literature, if at all, but nonetheless important was a parallel opportunity in the broadly concurrent – although marginally earlier – high-wage demographic dividend that most developed countries experienced from around 1970. This “double-demographic dividend”, the advent of parallel complementary economic dividends in China and partner countries, arguably opened by far the greatest export-led Lewis Model-style industrialisation and growth window ever seen in history. In a potent example for African leaders today, China’s leaders did not fail to use it to boost the country’s economy and improve the living standards of Chinese citizens.

It was around 2007, however, that China entered a new period over which labour would incrementally become scarcer, and in turn more expensive.[2] China’s revealed comparative advantage index for labour-intensive goods peaked in 2003, and China has since experienced increasing wage-related pressures. Alongside the exhaustion of its labour surplus, at a broadly concurrent time, the share of China’s population aged 65 and over passed the empirical benchmark of 7 percent often used to determine whether a population should be defined as “ageing”. This combination marks a dramatic turning point for China’s economy, and the beginning of a long decline of the country’s support ratio – as the weighted working-age population share is getting smaller. The resulting gradual loss of remaining low-age advantages broadly coincided with the global financial crisis, with much tighter domestic and international growth conditions as the overall result. In turn, China now faces an uphill journey to reach its goal of entering the high-income group by achieving a higher level of prosperity to the benefit of its citizens. An extensive body of literature in China summarises this particular challenge around the notion of “getting old before getting rich” coined by demographer Cangping Wu in the early 1980s.

**China’s fading demographic dividend in global context**

In this context marked by tighter growth conditions, it has been estimated that China’s falling support ratio alone will dampen growth by as much as 1.2 percent per annum, against an earlier positive effect of 1.4 percent per year. Against this backdrop, Chinese policymakers seek to identify and seize new economic opportunities in advanced manufacturing and tertiary sectors in more developed coastal provinces, while relocating less advanced industries to inland provinces. Importantly for many African nations, they also seek to take advantage of cross-country differences in the timing of population ageing by newly investing labour-intensive industrial capacities that are now less competitive domestically in emerging low-wage demographic dividend “frontier” countries abroad.[3] The four-quadrant Economic Demography Matrix (EDM) presented in Table 1 offers a simple framework for understanding the underpinning landscape transformation in terms of global economic demography, and its potential to better support long-run African development.[4]

<table>
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<th>Economic Demography Matrix</th>
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Note: Old = share of population aged 65 years and over ≥ 7% (and young otherwise); rich = GNI per capita
at or above $12,476 in 2016 (and poor otherwise).

Table 1 presents four basic combinations in terms of demographic and economic situations: young and poor; young and rich; old and poor; old and rich. Through this EDM lens, the demographic shifts in China mentioned above have moved it out of the “young and poor” quadrant and into the “old and poor” quadrant. This signals a fundamental shift in factor advantages, and more specifically a gradual decline in labour-related comparative advantage.

In response, China now seeks to transfer its export-oriented low-wage industries to today’s “poor and young” demographic dividend “frontier” countries (countries marked in green in Figure 3). Unlike “poor and old” countries, “poor and young” countries offer low wages, and some of them are potentially on the verge of an era of low-wage industrialisation and productivity gains – as described in the Lewis Model – as was China in the 1980s. China’s rising foreign aid and expanding array of concessional lending institutions and instruments are being geared to support this agenda, notably under its flagship “Belt and Road” initiative.

Figure 2 and 3 illustrate these shifts in global economic demography of the last two decades. Over the twenty years dividing the two figures, the transition of several relatively economically advanced developing countries – including Brazil, China, Colombia, Thailand, Tunisia and Turkey – from “poor and young” to “poor and old” is striking and warrants more attention in the literature as to the political and economic consequences. Figure 3 alone draws attention to the fact that the remaining concentrated cluster of “young and poor” (green) countries is African.
Data source: World Bank, World Development Indicators (2018)

Specifically, and for static comparison, World Bank data shows that sub-Saharan Africa (SSA) in 2016 had an average share of population aged 65 and over (one indicator of demographic transition) of just 3.1 percent. For comparison, the same figure was 4.7 percent for China in 1980. At the country level, in 2016 Uganda had SSA's lowest share of older population, with just 2.2 percent of population aged 65 and over, and Seychelles (already in the high-income group) had the highest, with 8.4 percent. In Ethiopia, a prominent target of China's labour-intensive manufacturing investors, the same share stood at just 3.5 percent in 2016.[5]

The demographic literature considers that in 2016, a share of 2.8 of older population higher is an indicator of having begun a process of demographic transition. When this share reaches 5.5 percent, the threshold of demographic dividend has been crossed. Finally, a 10 percent share of persons aged 65 and over is considered as the threshold for the stage of late demographic dividend. In 2016, China had a 10.1 percent share of older population. In other words, whereas Figures 2 and 3 suggest that Latin American countries may have been unlucky in having their period of demographic transition coincide with that of China's hundreds of millions of worker-strong demographic dividend, African countries may instead sit on the cusp of a "sequential demographic dividend" that they can more readily – and together with foreign investor partners such as China – reap to foster their own industrialisation process.

China-Africa population and development cooperation

This comparative demographic transition overview served to draw implicit attention to the direct and indirect potential for cooperation between China and Africa in related areas, of the kind that may be on the agenda if this year's FOCAC summit. Directly, there are vast opportunities for China to invest in the economies of the "young and poor" demographic dividend “frontier” countries. Moreover, China is home to hundreds of billions of dollars of savings and is specifically looking to reinvest now excess industrial capacity in infrastructure and low-wage labour-intensive industries especially.[6]

Together, these trends mean that it is timely to extract relevant developmental lessons from China's successful – and unsuccessful where so – experience of harnessing its own low-wage demographic dividend. Along the lines of the "Beijing Call for South-South cooperation on Population and Development," an outcome of the Ministerial Strategic Dialogue held in Beijing in March 2016, there is, to that end, already a process of deepening China-Africa cooperation in the area of population and development. Areas of nascent such cooperation include sexual and reproductive health, reproductive health rights, gender equality, and population and development. This section offers a brief elaboration of China's population and development cooperation institutions and investments in Africa's human capital.

The United Nations Population Fund (UNFPA) has identified four areas where China's experience in capturing its own demographic dividend could be used to draw lessons for African countries: employment and entrepreneurship; education and skill development; health and well-being; and rights, governance, and youth empowerment. In that direction, and in the footsteps of the African Union's 2017 summit theme of "Harnessing the Demographic Dividend through Investments in Youth", the first-ever China-Africa Conference on Population and Development was held under the same banner in April 2017, in
Nairobi. The event was jointly organised by the China Population and Development Research Centre, Kenya's National Council for Population and Development, with support from the UNFPA. Topics covered included “demographic transition and demographic dividend with an emphasis on human capital, education and skill development, health transition, building on the experiences from China and East Asian countries as well as specific initiatives from participating African countries.” Nairobi was also announced as the permanent host of a research centre established with support from China to train African experts in population management.

The second annual China-Africa Conference on Population and Development will be hosted by Guangzhou in July 2018, under the theme “South-South Cooperation and Achievement of Demographic Dividend in Africa.” Topics to be covered include issues related to adolescents and youth, reproductive health and reproductive rights, population ageing, population data, research methodology, and South-South cooperation, among others. Alongside, China is investing intensively in the education of African youth, and in educational and science and innovation-related infrastructure in Africa. At FOCAC in 2015, President Xi announced 40,000 training opportunities for Africans in China, and 30,000 government scholarships. Many more are sure to be announced at this year’s FOCAC summit. In early 2018, China also announced the establishment a new aid agency, the State International Development Cooperation Agency, that will spearhead these types of development cooperation initiatives.

As part of education- and research-related cooperation efforts, there are also numerous examples of Chinese-funded new universities and extended university facilities being constructed in African countries, as well as an increasing array of partnerships aiming to consolidate and advance research collaboration. Examples include the Chinese-funded Malawi University of Science and Technology, the country's fourth public university, opened in 2014. In mid-2016, the China Shenyang University of Chemical Technology agreed to establish a Chemical University of Technology in Nigeria. An agreement between Mount Kenya University (MKU) and China University of Petroleum seeks to ensure that MKU can provide Kenya with an adequate supply of high-quality oil and gas experts for its own needs. In January 2017, the Chinese-built School of Biomedical Sciences at the University of Health and Allied Sciences in Ghana's Volta region was officially handed over to the national government. Such investments, not without their own challenges, are future-oriented and build upon the earlier UN-led Millennium Development Goals push to improve primary school enrolment rates.

In line with China being well-positioned to invest in African countries' demographic dividends over coming years, these educational investments have been part of a long-run “win-win” development strategy. Also as part of this approach, numerous research institutes are in parallel deepening researcher-to-researcher contacts. Examples include the University of Witwatersrand (Wits) and China University of Mining and Technology Joint International Research Laboratory of China-Africa Mining Geospatial Informatics – a collaboration which has been developing since 2013 – and a partnership between Ghana’s GIMPA School of Technology and China's University of Electronic Science and Technology.

In general, these evolving physical and human capital investments by China in Africa, and parallel deepening Sino-African educational and research partnerships, are relatively little studied in the development literature. Their impact should, however, become clearer in future when their contribution to the joint capture of an African demographic dividend is better understood.

Discussion

China’s hosting of the seventh triennial FOCAC summit in September 2018 arrives at an especially opportune time for deepening demographic dividend-related cooperation between China and African nations. This is because it comes at a time of transition, when frontier and less resources-driven African countries are emerging as potential candidates to take over the position that China long occupied as the global “poor and young” economic engine and “factory of the world”, and are ultimately likely become an African equivalent in the decades ahead, subject to technology shifts and broader trends of the world economy. This implies a vast and lucrative potential for reaping the productivity gains of a growth process of the kind described by the Lewis Model, but which itself will require a focused strategy by both African stakeholders and foreign investors for capturing those gains. China and East Asia in general offer useful recent reference points for such a process.

Via the African Union, regional economic communities, and national governments, efforts are underway to ensure that this possibility becomes reality, as it did for China over a momentous 40-year era of “opening and reform.” Prominent among them is the African Continental Free Trade Area initiative, which seeks to
boost trade between African countries with a view to fostering development across the continent. The dramatic implementation of a one-child policy at low-income levels enhanced the awareness of Chinese policymakers and researchers about the importance of the interaction between demography and the economy over time. African countries would do well to try to extract related and relevant lessons from China's experience, and the country's decades of dynamic labour-intensive economic growth. This could prove instrumental as a reference point in their efforts to negotiate with Chinese investors and to build economies that will be able to increasingly compete in international markets for lower-wage labour-intensive manufacturing and services.

Each African country will experience its own combination of demographic and economic transitions, and thus its own way of moving between quadrants of the Economic Demography Matrix (EDM) or staying stationary. Alongside taking advantage of the widespread population ageing across both the developed world and the larger emerging markets, it is also crucial – and timely – to understand how to design and time development strategies in an iterative manner to reflect how demographics are interacting with the economy and politics over time. This would, for example, help inform optimal educational investment levels so as to ensure that in the longer-term future prospective smaller workforce cohorts are endowed with the educational resources to maintain the necessary productivity to pay for the aged. Studying the past and present challenges of countries that are today in the "poor old" (e.g. Brazil, China and Turkey) and "rich old" (e.g. OECD countries) quadrants of the EDM would be important in that regard.

It indeed will be the choice of individual African countries as to how to mould new demographic dividend-related opportunities into optimal national, regional, and continental development outcomes over coming decades. This year, FOCAC partner China celebrates 40 years of its own continuing work in that direction. And hence, the 2018 FOCAC summit presents a critical opportunity for African and Chinese leaders to discuss the case for mutually beneficial trade, investment, and aid opportunities to support mutual development.

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[1] FOCAC was instigated in 2000 in the footsteps of less comprehensive equivalents such as the Europe-Africa summit and the Tokyo International Conference on Africa Development (TICAD). Summits are held every three years and rotate between a Chinese and an African city.


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