

## Response to the Repeal of China’s One-Child Policy: Part 2 – The Economic Transformation

**In the second of our three-part series, academics from the Department of International Development consider the consequences for China’s economic growth and productivity following the formal repeal of the one-child policy.**

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### **Maintaining rapid growth requires people – Shamel Azmeh**

The change in China’s “one child policy” is highly interesting from the perspective of China’s economic transformation and its position in the global economy as the “factory of the world”.

For the last few decades, Chinese economic growth relied heavily on the mobilisation of a large labour force from the agricultural sector into the labour-intensive manufacturing sector and on the way the flow of labour between the two sectors was controlled by a number of political, economic, and socio-cultural mechanism to create a young manufacturing labour force that suited the requirements of global production in flexible, low-cost, and just-in-time production.



This is what allowed both giant companies such as Foxconn and Yue Yuen and smaller companies to meet the global demand for products such as garments, shoes, electronics, and other labour-intensive sectors by building what some scholars have called “dormitory labour regimes” that can offer global value chains a production location that cannot be matched anywhere else in terms of scale, cost, and speed/flexibility.

This model generated very rapid economic growth based on a huge growth in manufactured exports. Nonetheless, this process remains extractive in the sense of mobilising a large labour force often in unfavourable working condition in processes that capture relatively little value-added on a global level. This model is, almost by definition, transitory, as the constant supply of low-cost labour declines and as the newly-formed working class in the industrial area begins to form an identity and demand broader rights and improvements.





Global-Tech China. Photo credit: [Institute for Global Labour and Human Rights](#), via Flickr. Licence: CC BY 2.0.

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### ***See Part 1 of our Response: How Revolutionary?***

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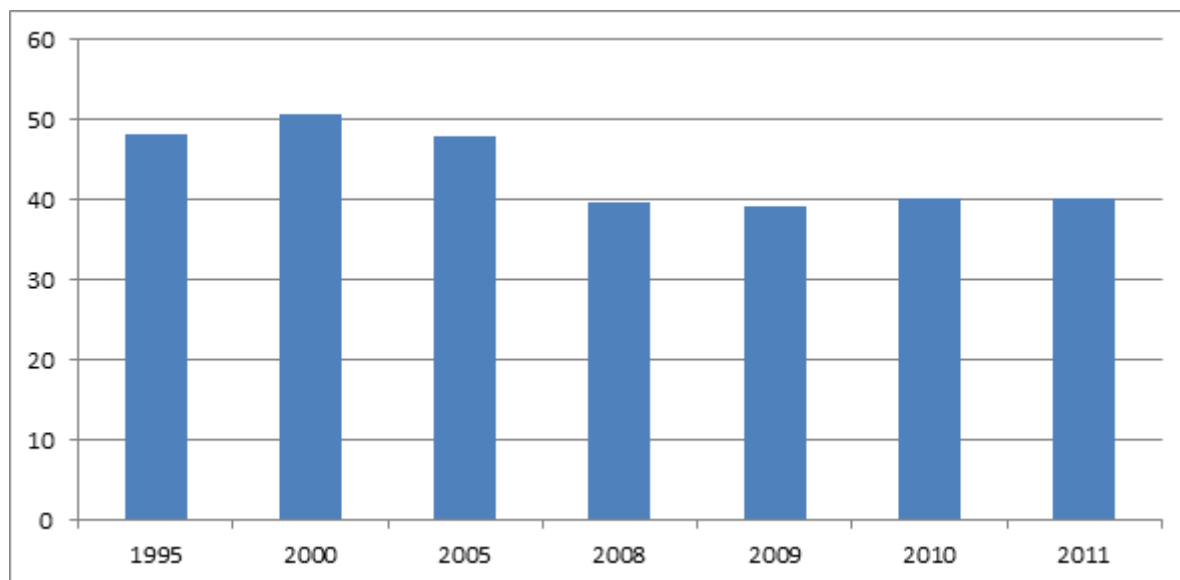
In the last few years, industrial areas in China experienced not only cases of labour shortages but also rising demands of workers as the Yue Yuen strike in 2014, one of the largest in decades, illustrated. The only way for such a production model to maintain rapid growth in the absence of a constant influx of low cost labour is to upgrade the production base, move into new activities and sectors, and capture higher share in the value-added to move toward a different type of growth.

This is the huge challenge facing China today, and on which, in my view, economic and political stability in the country will be determined. The key issue will be for economic upgrading to match the demographic shift in the country to allow a smaller labour force to generate enough income to support an ageing population. China's working age population has already started to decline.

As a result, this upgrading of the industrial base has been the key economic strategy of China in the last decade or so through attempts to relocate low-value added industries into under-developed parts of China and also to other developing countries while upgrading the economies of the coastal areas. Traditional trade measures do not allow us to easily examine the success of this. China, for instance, has a higher share of high-tech exports in total manufactured exports than OECD countries but this says little about how much value China is capturing in these products as imported higher-tech components and activities such as research and design and branding that are located elsewhere captures most of the value of these products. But we know, from a number of studies such as the study of Kraemer et al. (2011) on the value distribution of an iPod and iPad products exported from China that the country captures little value in such exports.

There are some indicators, however, that suggest that this process of upgrading that was taking place in the second half of the 2000s has started to stagnate after the global crisis. Data from the OECD – WTO Trade in Value-Added (TiVA) Database (see graph) shows that foreign value-added in China's manufactured exports have stagnated and, in fact, increased slightly between 2008 and 2011 following an 8% decrease between 2005 and 2008 (more recent data is not available).





Foreign Value-added in China’s Manufactured Exports. Source: OECD – WTO Trade in Value-Added (TiVA) Database

If this was still the case, then the balance between China’s economic upgrading and its population shift is a very dangerous combination and the recent slowdown in growth, and more importantly exports, reflect the inability of China to upgrade its economic base at a time that it is starting to lose the combination of factors on which earlier growth in exports and GDP were based.

Relaxing the population policy to boost labour supply can be a way to re-balance these two trends although it can be argued that this step was actually taken too late as China’s labour force will continue to shrink in the coming years.

Upgrading the economy will remain a key task facing the Chinese political system.

*Shamel Azmeh is a Teaching Fellow in International Development, contributing to the ‘Key Issues in Development Studies’ and ‘Poverty’ modules.*

## Tough to force a population increase – Danny Quah

Incidentally, another place where the state intervenes (and where policy has similarly swung 180 degrees) is Singapore. That nation now has first-world per capita average incomes of course, but what they’re finding is that it’s actually hard to get the native-born population up now.

But as others have pointed out, this is good news for Chinese girls (and eventually for Chinese boys).

Thinking geopolitics the way I and others do, we sometimes forget that that’s the first-order effect.

*Danny Quah is Professor of Economics and International Development, and Director of the Saw Swee Hock Southeast Asia Centre.*



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