

# China Economic Spotlight

Free to View  
Economics - China

## Slowing population: How worrying is it?

- ◆ Population growth has slowed to a record low and the labour force is shrinking
- ◆ But a smarter workforce is replacing retirees, while faster urbanization helps to lift labour productivity
- ◆ We expect growth in human capital to gain momentum in the years ahead, which is conducive to long-term economic growth

The census results are in, and the population is still growing, though at a slower pace. But many are concerned about the population peaking in size soon and the impact of a smaller labour force on China's longer-term growth. Indeed, the latest data shows the population is aging fast and the labour force is shrinking. But these concerns are overblown, in our view, as a smarter and more productive labour force is replacing the retirees. We believe human capital will continue to grow strongly over the next decade or so as previous investment into education pays off. Combined with a faster pace of urbanization, this should more than offset the negative impact on economic growth from a shrinking labour force. We expect China's potential growth to stay above 6.5% in the years ahead.

### Population is slowing and aging, but concerns about the negative impact on economic growth are overblown...

The headline results showed China's population increased to 1.41bn people in 2020, a 72m increase from the last census in 2010. The compound annual growth rate was 0.5% for the last decade, which was the slowest pace since the census has been recorded. The data also confirms that the population is aging fast. The share of the population over 65 years old saw the largest increase, as the ratio rose by 4.6ppt, while those between 60 and 64 saw the ratio increase by 0.8ppt from 2010.

Meanwhile, new births also stalled. In 2020, the birth rate fell to 0.85%, the lowest on record, though this was most likely an outlier year due to the COVID-19 shock as the previous years saw modest growth rates averaging roughly 1.2% in the period from 2010 to 2019. Nonetheless, even excluding 2020, the birth rate has shown a noticeable decline in pace, which also puts pressure on the population growth.

As more people age and retire and the birth rate slows, this in turn means that the working age population is shrinking. The working age population (see footnote on page 2) fell to 879m, down 37m from 2010, or a CAGR decline of 0.3%. While the declining working age population has made many investors concerned about the shrinking labour force and its negative impact on China's longer-term growth, this is overblown, in our view.

*This is an abridged version of a report by the same title published on 12-May-21. Please contact your HSBC representative or email [AskResearch@hsbc.com](mailto:AskResearch@hsbc.com) for more information.*

---

**Qu Hongbin**

Co-Head Asian Econ Research, Chief China Economist  
The Hongkong and Shanghai Banking Corporation Limited

**Erin Xin**

Economist, Greater China  
The Hongkong and Shanghai Banking Corporation Limited

---

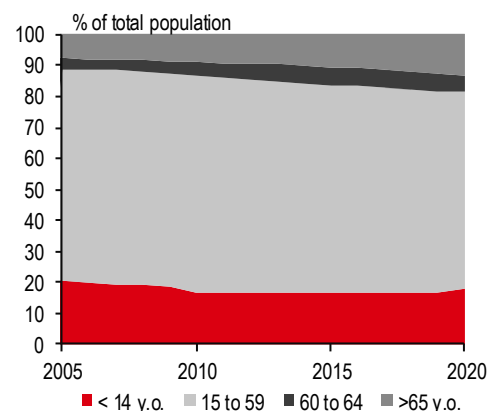
### Disclosures & Disclaimer

This report must be read with the disclosures and the analyst certifications in the Disclosure appendix, and with the Disclaimer, which forms part of it.

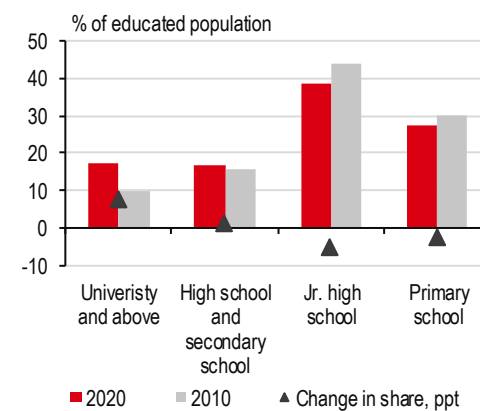
**Issuer of report:** The Hongkong and Shanghai Banking Corporation Limited

**View HSBC Global Research at:**  
<https://www.research.hsbc.com>

**Chart 1. An aging population**



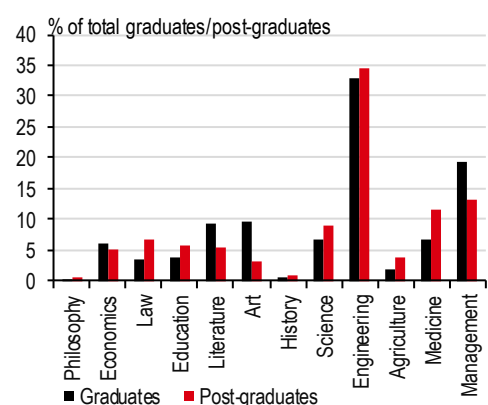
**Chart 2. Education levels have increased**



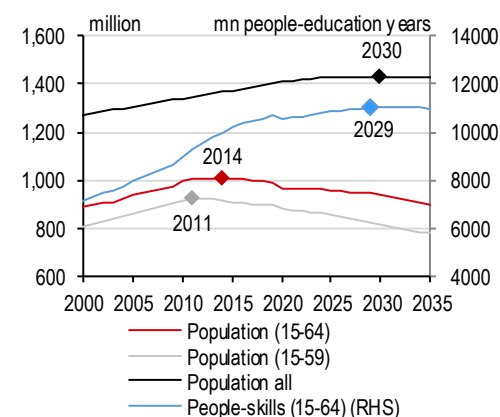
**...because it is being replaced by a smarter work force**

Most importantly, a smarter and more productive labour force is replacing the exiting retirees. In 2020, there were over 218m people who had a university or higher level of education. This is a 73% increase from 2010, and shows the rapid gains in education levels of the population. The share of the educated population with a university or higher level education saw the sharpest increase, rising by 7.2ppt to 17% over the last decade. Meanwhile, the shares of primary and junior high levels of education declined, showing a clear upgrading in education levels. We estimate that for every two retirees that have less than eight years of education, they are being replaced by 1.9 new graduates who have over 12 years of schooling. Moreover, university and post-graduate students are choosing to specialize in more technical fields with over 40% concentrated in science, technology, engineering, and maths (STEM). This should in turn support China's drive for increased technological development.

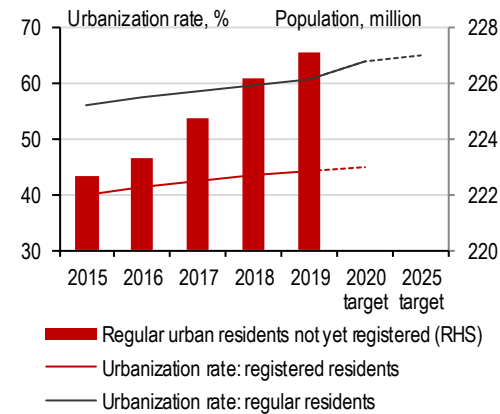
**Chart 3. Over 40% of students in university and postgraduate are in STEM**



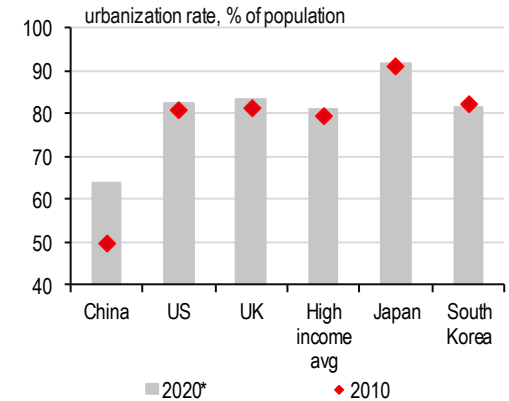
**Chart 4. Human capital will still grow over the next decade**



<sup>1</sup> While the retirement age is officially 60 years old, we expand the demographic to 64 as this age group is generally still able to work and due to data limitations as the expanded demographic group allows for a longer time series analysis. The 14<sup>th</sup> Five Year Plan also mentioned that there will be a gradual increase in the retirement age in the coming years, which is likely to expand to this age group.

**Chart 5. Urbanization has accelerated**


Source: Wind, NBS, HSBC; Dash line denotes target.

**Chart 6. China's urbanization rate still falls behind other developed economies**


Source: World Bank, NBS, HSBC; Urbanization rate for 2020 is for China, for other countries, data is for 2019.

We believe the smarter workforce can more than offset the shrinking size of the labour force. In fact, once adjusted by education, we find that human capital growth is still positive and likely to continue to grow over the next decade, and is not likely to peak until 2029 (see blue line in Chart 4). This is one year faster than our previous estimate of 2030 as the census data showed a slightly larger decline than anticipated in the working age population.

Aside from education, there are also other drivers that would support human capital development. Improvements in health care coverage and health care breakthroughs can improve labour quality, while increased labour market protections and social security coverage would also benefit more productive and satisfied workers.

#### Urbanization accelerates

One key factor driving China's labour productivity growth has been urbanization. As rural workers move to urban centres, they gain more skillsets, higher paying jobs, and can contribute to a more productive area of the economy. The urbanization trend has in fact accelerated. The population census showed the urbanization rate reached 63.9%, close to the 14<sup>th</sup> Five Year Plan's target of 65% by 2025. In our view, while this puts China closer to its target, this does not necessarily mean that the pace of urbanization will slow. Urbanization will likely be a continued trend as there is still more than enough capacity for China to continue to urbanize. China's urbanization rate lags behind other developed economies as the average urbanization rate of high-income economies is above 80%.

We estimate that if China continues to urbanize at a pace of 5ppt of the population over the next five years (which has historically been the target in prior FYPs), this means roughly 70m more urban workers and would help to boost labour capacity by 3.5%. Continued focus on hukou reforms and land rights reforms could help to continue to lift the urbanization rate. Meanwhile, a renewed focus on the industrial sector in the 14<sup>th</sup> FYP also means that migrant workers are likely to gravitate towards higher-productivity sectors as opposed to lower-skilled services sectors. This would also help to allow China to unleash its productivity potential.

#### Human capital matters more

Putting this altogether, we think the drivers for human capital development are still going to be strong in the coming years. While the working age population is shrinking, this is likely to be more than offset by a smarter and more-productive labour force. In terms of longer-term economic growth, we believe human capital will still be a contributing factor, and will help to keep potential growth elevated and above 6.5% in the coming years.

# Disclosure appendix

## Analyst Certification

The following analyst(s), economist(s), or strategist(s) who is(are) primarily responsible for this report, including any analyst(s) whose name(s) appear(s) as author of an individual section or sections of the report and any analyst(s) named as the covering analyst(s) of a subsidiary company in a sum-of-the-parts valuation certifies(y) that the opinion(s) on the subject security(ies) or issuer(s), any views or forecasts expressed in the section(s) of which such individual(s) is(are) named as author(s), and any other views or forecasts expressed herein, including any views expressed on the back page of the research report, accurately reflect their personal view(s) and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report: Qu Hongbin and Erin Xin

## Important disclosures

This document has been prepared and is being distributed by the Research Department of HSBC and is not for publication to other persons, whether through the press or by other means.

This document is for information purposes only and it should not be regarded as an offer to sell or as a solicitation of an offer to buy the securities or other investment products mentioned in it and/or to participate in any trading strategy. Advice in this document is general and should not be construed as personal advice, given it has been prepared without taking account of the objectives, financial situation or needs of any particular investor. Accordingly, investors should, before acting on the advice, consider the appropriateness of the advice, having regard to their objectives, financial situation and needs. If necessary, seek professional investment and tax advice.

Certain investment products mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors. Investors should consult with their HSBC representative regarding the suitability of the investment products mentioned in this document and take into account their specific investment objectives, financial situation or particular needs before making a commitment to purchase investment products.

The value of and the income produced by the investment products mentioned in this document may fluctuate, so that an investor may get back less than originally invested. Certain high-volatility investments can be subject to sudden and large falls in value that could equal or exceed the amount invested. Value and income from investment products may be adversely affected by exchange rates, interest rates, or other factors. Past performance of a particular investment product is not indicative of future results.

HSBC and its affiliates will from time to time sell to and buy from customers the securities/instruments, both equity and debt (including derivatives) of companies covered in HSBC Research on a principal or agency basis or act as a market maker or liquidity provider in the securities/instruments mentioned in this report.

Analysts, economists, and strategists are paid in part by reference to the profitability of HSBC which includes investment banking, sales & trading, and principal trading revenues.

Whether, or in what time frame, an update of this analysis will be published is not determined in advance.

For disclosures in respect of any company mentioned in this report, please see the most recently published report on that company available at [www.hsbcnet.com/research](http://www.hsbcnet.com/research). HSBC Private Banking clients should contact their Relationship Manager for queries regarding other research reports. In order to find out more about the proprietary models used to produce this report, please contact the authoring analyst.

## Additional disclosures

- 1 This report is dated as at 12 May 2021.
- 2 All market data included in this report are dated as at close 11 May 2021, unless a different date and/or a specific time of day is indicated in the report.
- 3 HSBC has procedures in place to identify and manage any potential conflicts of interest that arise in connection with its Research business. HSBC's analysts and its other staff who are involved in the preparation and dissemination of Research operate and have a management reporting line independent of HSBC's Investment Banking business. Information Barrier procedures are in place between the Investment Banking, Principal Trading, and Research businesses to ensure that any confidential and/or price sensitive information is handled in an appropriate manner.
- 4 You are not permitted to use, for reference, any data in this document for the purpose of (i) determining the interest payable, or other sums due, under loan agreements or under other financial contracts or instruments, (ii) determining the price at which a financial instrument may be bought or sold or traded or redeemed, or the value of a financial instrument, and/or (iii) measuring the performance of a financial instrument or of an investment fund.

# Disclaimer

**Legal entities as at 1 December 2020**

'UAE' HSBC Bank Middle East Limited, DIFC; HSBC Bank Middle East Limited, Dubai; 'HK' The Hongkong and Shanghai Banking Corporation Limited, Hong Kong; 'TW' HSBC Securities (Taiwan) Corporation Limited; 'CA' HSBC Securities (Canada) Inc.; 'France' HSBC Continental Europe; 'Spain' HSBC Continental Europe, Sucursal en España; 'Italy' HSBC Continental Europe, Italy; 'Sweden' HSBC Continental Europe Bank, Sweden Filial; 'DE' HSBC Trinkaus & Burkhardt AG, Düsseldorf; '000' HSBC Bank (RR), Moscow; 'IN' HSBC Securities and Capital Markets (India) Private Limited, Mumbai; 'JP' HSBC Securities (Japan) Limited, Tokyo; 'EG' HSBC Securities Egypt SAE, Cairo; 'CN' HSBC Investment Bank Asia Limited, Beijing Representative Office; The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch; The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch; HSBC Securities (South Africa) (Pty) Ltd, Johannesburg; HSBC Bank plc, London, Tel Aviv; 'US' HSBC Securities (USA) Inc, New York; HSBC Yatirim Menkul Degerler AS, Istanbul; HSBC México, SA, Institución de Banca Múltiple, Grupo Financiero HSBC; HSBC Bank Australia Limited; HSBC Bank Argentina SA; HSBC Saudi Arabia Limited; The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR; The Hongkong and Shanghai Banking Corporation Limited, Bangkok Branch; PT Bank HSBC Indonesia; HSBC Qianhai Securities Limited; Banco HSBC S.A.

**Issuer of report**

**The Hongkong and Shanghai Banking Corporation Limited**  
Level 19, 1 Queen's Road Central  
Hong Kong SAR  
Telephone: +852 2843 9111  
Fax: +852 2801 4138  
Website: [www.research.hsbc.com](http://www.research.hsbc.com)

The Hongkong and Shanghai Banking Corporation Limited ("HSBC") has issued this research material. The Hongkong and Shanghai Banking Corporation Limited is regulated by the Hong Kong Monetary Authority. If it is received by a customer of an affiliate of HSBC, its provision to the recipient is subject to the terms of business in place between the recipient and such affiliate.

In the UK, this publication is distributed by HSBC Bank plc for the information of its Clients (as defined in the Rules of FCA) and those of its affiliates only. Nothing herein excludes or restricts any duty or liability to a customer which HSBC Bank plc has under the Financial Services and Markets Act 2000 or under the Rules of FCA and PRA. A recipient who chooses to deal with any person who is not a representative of HSBC Bank plc in the UK will not enjoy the protections afforded by the UK regulatory regime. HSBC Bank plc is regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In Australia, this publication has been distributed by The Hongkong and Shanghai Banking Corporation Limited (ABN 65 117 925 970, AFSL 301737) for the general information of its "wholesale" customers (as defined in the Corporations Act 2001). Where distributed to retail customers, this research is distributed by HSBC Bank Australia Limited (ABN 48 006 434 162, AFSL No. 232595). These respective entities make no representations that the products or services mentioned in this document are available to persons in Australia or are necessarily suitable for any particular person or appropriate in accordance with local law. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient. This publication is distributed in New Zealand by The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch incorporated in Hong Kong SAR.

In the European Economic Area, this publication has been distributed by HSBC Continental Europe or by such other HSBC affiliate from which the recipient receives relevant services

This material is distributed in Japan by HSBC Securities (Japan) Limited. HSBC Securities (USA) Inc. accepts responsibility for the content of this research report prepared by its non-US foreign affiliate. The information contained herein is under no circumstances to be construed as investment advice and is not tailored to the needs of the recipient. All US persons receiving and/or accessing this report and intending to effect transactions in any security discussed herein should do so with HSBC Securities (USA) Inc. in the United States and not with its non-US foreign affiliate, the issuer of this report. In Korea, this publication is distributed by either The Hongkong and Shanghai Banking Corporation Limited, Seoul Securities Branch ("HBAP SLS") or The Hongkong and Shanghai Banking Corporation Limited, Seoul Branch ("HBAP SEL") for the general information of professional investors specified in Article 9 of the Financial Investment Services and Capital Markets Act ("FSCMA"). This publication is not a prospectus as defined in the FSCMA. It may not be further distributed in whole or in part for any purpose. Both HBAP SLS and HBAP SEL are regulated by the Financial Services Commission and the Financial Supervisory Service of Korea. In Singapore, this publication is distributed by The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch for the general information of institutional investors or other persons specified in Sections 274 and 304 of the Securities and Futures Act (Chapter 289) ("SFA") and accredited investors and other persons in accordance with the conditions specified in Sections 275 and 305 of the SFA. Only Economics or Currencies reports are intended for distribution to a person who is not an Accredited Investor, Expert Investor or Institutional Investor as defined in SFA. The Hongkong and Shanghai Banking Corporation Limited, Singapore Branch accepts legal responsibility for the contents of reports pursuant to Regulation 32C(1)(d) of the Financial Advisers Regulations. This publication is not a prospectus as defined in the SFA. This publication is not a prospectus as defined in the SFA. It may not be further distributed in whole or in part for any purpose. The Hongkong and Shanghai Banking Corporation Limited Singapore Branch is regulated by the Monetary Authority of Singapore. Recipients in Singapore should contact a "Hongkong and Shanghai Banking Corporation Limited, Singapore Branch" representative in respect of any matters arising from, or in connection with this report. Please refer to The Hongkong and Shanghai Banking Corporation Limited Singapore Branch's website at [www.business.hsbc.com.sg](http://www.business.hsbc.com.sg) for contact details. HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC is authorized and regulated by Secretaría de Hacienda y Crédito Público and Comisión Nacional Bancaria y de Valores (CNBV).

In Canada, this document has been distributed by HSBC Securities (Canada) Inc. (member IIROC), and/or its affiliates. The information contained herein is under no circumstances to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed judgment upon these materials, the information contained herein or the merits of the securities described herein, and any representation to the contrary is an offense. In Brazil, this document has been distributed by Banco HSBC S.A. ("HSBC Brazil"), and/or its affiliates. As required by Instruction No. 598/18 of the Securities and Exchange Commission of Brazil (Comissão de Valores Mobiliários), potential conflicts of interest concerning (i) HSBC Brazil and/or its affiliates; and (ii) the analyst(s) responsible for authoring this report are stated on the chart above labelled "HSBC & Analyst Disclosures".

Any recommendations contained in it are intended for the professional investors to whom it is distributed. This material is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. HSBC has based this document on information obtained from sources it believes to be reliable but which it has not independently verified; HSBC makes no guarantee, representation or warranty and accepts no responsibility or liability as to its accuracy or completeness. Expressions of opinion are those of HSBC only and are subject to change without notice. From time to time research analysts conduct site visits of covered issuers. HSBC policies prohibit research analysts from accepting payment or reimbursement for travel expenses from the issuer for such visits. The decision and responsibility on whether or not to invest must be taken by the reader. HSBC and its affiliates and/or their officers, directors and employees may have positions in any securities mentioned in this document (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). HSBC and its affiliates may act as market maker or have assumed an underwriting commitment in the securities of any companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform banking or underwriting services for or relating to those companies. This material may not be further distributed in whole or in part for any purpose. No consideration has been given to the particular investment objectives, financial situation or particular needs of any recipient. (070905)

If you are an HSBC Private Banking ("PB") customer with approval for receipt of relevant research publications by an applicable HSBC legal entity, you are eligible to receive this publication. To be eligible to receive such publications, you must have agreed to the applicable HSBC entity's terms and conditions for accessing research and the terms and conditions of any other internet banking service offered by that HSBC entity through which you will access research publications ("the Terms"). Distribution of this publication is the sole responsibility of the HSBC entity with whom you have agreed the Terms. If you do not meet the aforementioned eligibility requirements please disregard this publication and, if you are a customer of PB, please notify your Relationship Manager. Receipt of research publications is strictly subject to the Terms and any other conditions or disclaimers applicable to the provision of the publications that may be advised by PB.

© Copyright 2021, The Hongkong and Shanghai Banking Corporation Limited, ALL RIGHTS RESERVED. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of The Hongkong and Shanghai Banking Corporation Limited.

MCI (P) 028/02/2021, MCI (P) 087/10/2020

[1170821]