

China-Watcher Notes No. 3

Third Plenum of the CPC Central Committee

Demography Imperatives

US Presidential Elections

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The *China-Watcher Notes* is a new series introduced by the Institute of Chinese Studies, New Delhi, under the ambit of *ICS Analysis*. Each edition shall cover a set of topics of contemporary relevance pertaining to different aspects of China.

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Third Plenum of the CPC Central Committee

In Chinese terminology and practice, the Third Central Committee meeting is held halfway between the cycle of the quinquennial Party Congresses. It customarily focuses, in depth, on national economic policy; it is the culmination of a series of other economics-focussed meetings and many internal documents. It's a big deal.

With the laying down of a five-year reform timeline, a strong message has been given to the business world by the August 2024 Plenum, a departure from previous plenums where no such timelines were set. This 2029 goal coincides with the 80th anniversary of the People's Republic of China.

Trivium China, an American consultancy which trenchantly analyses China affairs (provides paying subscribers a daily compilation besides issuing a freebie, limited to one item), in its commentary on the 2024 Third Plenum, called, the event 'a doozy'.¹ It questioned the ambitious goal of '300 reforms' to be undertaken across the Chinese governance system. Some other external observers also voiced scepticism.

The crucial question is: can 'state capitalism' work or is it a contradiction in terms? President Xi Jinping wants an innovative, technology-driven system to thrive, with the Party-State firmly in the driving seat, guiding, and monitoring business. World over, the state apparatus almost always operates with a heavy hand – even when it starts with softer intentions. China's regulatory framework today, in effect, cripples the market system. Remember the extraordinary economic growth that came from Deng Xiaoping's transformative 1978 reforms? He famously declared that the colour of the cat did not matter, as long as it caught mice. Thus entrepreneurship, lightly controlled, was pushed along by people who amassed

great wealth. And from 1978 onwards, the Chinese economy doubled in size, every 10 years, right up to 2019 (though the first few years after 2012, when Xi Jinping assumed charge, witnessed a slight slowdown). The COVID pandemic produced a global slowdown, but arguably, the crackdown on the major Chinese enterprises that had been the country's growth engines, which has intensified in the post-COVID era, contributed in no small measure to the slowdown in China.

The Economist, analysing the results of the Third Plenum noted that China now produces far fewer 'unicorns' (start-ups, privately held enterprises that jump to a valuation of over \$1 billion) than before. In June 2024, the State Council acknowledged that investors were fearful of making such investments, owing to perceived problems in cashing out.² Other actions against the major business groups have been widely reported.

Those capitalist 'animal spirits' are caged. In their place, Xi Jinping expects 'Ten Thousand' (*yi-wan* 一万) small-and-medium enterprises to lead change and transform the economy. Sure, in Germany *mittelstand* has long been one of the loci of innovation and growth. But equally, the German mammoth-sized enterprises (Adidas, Allianz, Daimler, SAP, Siemens, Volkswagen, and their ilk) have been the other leg driving the economy. Similarly, Japan's small units are vital to the economy, co-existing with the huge conglomerates. Each successful ecosystem emerges through its own incremental, self-driven change. China's state capitalism, like every state-dominated system in history as seen, is intrinsically heavy-handed. China's situation has worsened owing to the near-total power concentration that is Xi Jinping's hallmark. Can the state-driven technology acquisition drive, currently underway, be a potential saviour? Let's see how this unfolds.

Demography Imperatives

Germany and several others in Europe, and in Asia, Japan, even South Korea, are among the countries that are currently witnessing a rapid shrinking of their working-age population, and a major rise in the 'dependency ratio' – the proportion of the population that are too young, or too old, to work. Japan now relies on imported workers, from the Philippines, and a few

Asian countries (Nepal among them); and that dependence will surely grow. Others in this group face hard choices, especially with regard to the scarce category of service-providers.

In an article in July 2024, *Asia Times* derided gloomy prognostications in the *Wall Street Journal*, *The Economist*, and elsewhere and wrote³:

‘...this is a problem for China in the long term. In fact, China is far from unique in this regard — every developed country is aging rapidly, and most developing countries aren’t far behind...the shrinking of the population isn’t actually the problem — it’s the aging. Rising old-age dependency ratios do put a huge economic burden on working people, and an aging workforce probably does reduce innovation and productivity growth... as the Alphas reach working age over the next decade, they will stabilize China’s demographics. China’s working-age population is actually projected to *increase* over the next few years, before beginning a slow decline’.

‘Alphas’ are described as ‘an echo of China’s extremely large Baby Boom generation’. This author goes on to say it’s only after 2050 that ‘things start to look worse’. China’s ‘median age’ would then rise from 39.5 to 50.7’.

But this flies in the face of facts. The latest UN *World Population Prospects* report, analysed in the *South China Morning Post* of 28 June 2024 noted⁴:

- By 2054, China’s population would fall by 204 million, and by 786 million by 2100, to just 633 million.
- It would also be a much older population in average age.
- India would hit a peak at around 1.7 billion in the 2050s, but would then begin to shrink, down in 2100 to a projected 1.505 billion people. The other projected big population states are, Pakistan (511 million) and Nigeria (477 million).
- Back in 1990 the world over, the average number of children per woman was 3.31; today, the global fertility rate is 2.25 and is fast heading below 2.1. That means a declining global population, but with major slowdowns in rich states and continued growth within (in parts) countries of the Global South.
- We need projections of future migration, from the Global South to the Developed states, though this will depend much on future policy responses.

A 2023 analysis noted that the quality of China's workforce has driven its' economic transformation. Between 1982 and 2010 the 'people going to university increased tenfold to 38% for those with an urban *hukou*. In rural China, those with basic education 'more than doubled to nearly 60%'. This led to rural workers 'getting into productive jobs in the cities'.⁵

An older 2021 study by the Chinese Academy of Social Sciences had said: 'new births slipped to below 20 million from 1998, while total births in the 2000s dropped to 162 million, 45.9 million fewer than in the 1990s'. It estimated that, China's population would peak at 1.44 billion in 2029 before entering 'unstoppable' decline.⁶

The problem with population projections is that they cannot take into account other factors, such as economic trends, and lifestyle choices. But demography numbers have to be considered.

What then should we understand about China's demographics?⁷ I hope we have specialists in India that track this issue carefully. As the country with the world's largest population, India has a deep stake. Key points for consideration from China's experience are:

- For decades, China's family planning regulations imposed high costs on families that had more than one child.
- Limits were significantly relaxed in 2016, but birth rates are still falling. Social engineering can bite back!
- Total Fertility Rate (TFR) shows the number of live births per woman; TFR of 2.1 makes for a stable population, no growth or diminution. China's TFR fell from 2.814 in 1980 to 1.610 in 2003, and gradually began to rise thereafter, to 1.690 in 2018, and 1.707 in 2024. Policy changes to encourage larger families, after the early 2000s have clearly had limited impact.⁸

Low birth rates and an aging population will increase the 'dependency ratio',⁹ creating a mighty headwind to economic growth. But other factors also come in play: labour shortage

also drives automation. And China is the world's largest user of industrial robots, and is among the world leaders in this technology. This also makes predictions hazardous.

US Presidential Elections

China, like most other players on the international stage, is closely watching the exceptional drama of the 2024 US elections. The published analysis in China, by leading academics and others, is part of public theatre, useful for analysis, but surely not quite indicative of internal Chinese calculations. The San Francisco Biden-Xi Summit of November 2023, despite the relatively light content of the agreed cooperative actions, indirectly revealed how much both sides are invested in looking for working solutions, even while many factors suggest continuing tensions.

Trivium China of 15 August wrote: 'No matter who wins the White House, China is buckling down for extended strategic competition with the US. That means strict adherence to China's oft-stated foreign policy goals of supply chain security, global governance reform, and Global South solidarity'. A recent speaker at the Institute of Chinese Studies, New Delhi, made a persuasive argument about the US' objective of preserving unipolarity on the global stage.¹⁰

Statements by the leading candidates, Donald Trump and Kamala Harris, now at the closing stages of the campaign, are much more about their respective appeals to the electorate in a tight race, than hard evidence on the positions that the winner will take as the President in office on 20 January 2025. Prudence and potential blowback, which may not be visible during the contest for office, do become the watchwords when the winner takes power. The moral: treat the campaign statements with caution. *Abhi main picture baki hai!*¹¹

As a state-dominated country, China has real challenges in its public messaging. It's official media do not carry 'balanced reports' or 'diverse views' – they have a different goal: *project official policy, guide the public on the approved position*. But China also lives in the real world. It tacitly permits wide use of 'virtual private networks' (VPNs). At moderate cost, VPN gives anyone interested, say university students upwards, access to the open internet and social media platforms and search engines can be accessed. That also holds for foreign

news outlets, but typically, not to hostile material – Big Brother is always watching internet usage, including the VPN traffic! (Many governments, besides China, have the technology to do this). As for the print media, in addition to the official newspapers (including the English-language *Global Times*), there also exists a daily, *Cānkǎo Xiāoxī* 参考消息 (‘*Reference News*’, available for the past 20 plus years to anyone interested, giving *selected* Chinese translations from international news, copyright notwithstanding!).¹² This does give some diversity in the views that reach the *informed* public, but again, in selective fashion. (Author’s Italics).

For China, this resembles walking a tightrope: the state permits those interested to access global news, but they must act with restraint, not become consumers of anti-China material, nor stray too far from official policy in their own public expressions. All Chinese know that their writings for publication, plus *all* contacts with foreigners are closely monitored.

Going back to the US-China relationship, another element is crucial: both Beijing and Washington DC know that public postures notwithstanding, their need to find working methods, and mutual accommodation, where feasible, is ever-present. Increasingly, our hybrid global system consists of: *Two Principals + Several Major Players*, of Varying Weight. We need a neat acronym for this complex post-2025 world that is to take shape.

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- ⁶ Chen, Frank. 2021. ‘China’s Demographic Time Bomb Quickly Ticking Down’, *Asia Times*, 21 January, https://asiatimes.com/2021/01/chinas-demographic-time-bomb-quickly-ticking-down/?mc_cid=6b1c594908&mc_eid=2a22370c00.
- ⁷ I lack deep knowledge of demography. It has interested me, since 1964-65, when Bhupat Oza (IFS: 1961) and I shared a house in Beijing, becoming good friends; he had studied demography in Pune.
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- ⁹ The proportion between the working age people and the dependents, i.e. those aged below 17-18, and those above 65-70 – the latter age is shifting upwards in many countries.

¹⁰ Trivium China. 2024. 'Trump, Harris both bad news for China', 15 August, <https://triviumchina.com/2024/08/15/trump-harris-are-both-bad-news-for-china/>.

Institute of Chinese Studies. 2024. 'Hobson's Choice? The US and China after the Next Election', *ICS Wednesday Seminar*, 14 August, <https://www.icsin.org/activity/show/wednesday-seminar-hobsons-choice-the-us-and-china-after-the-next-election-14-august-2024-600-pm-ist-zoom-webinar>.

¹¹ Translation: *The Main Show is yet to unfold*.

¹² In the Old China I knew (1960s and 1970s), foreigners were not allowed access to this daily paper, but that's changed.

About the Author

Kishan S. Rana has an MA in Economics from St. Stephens College, Delhi. Joining the Indian Foreign Service in 1960, he learnt Chinese at Hong Kong; served at the Indian Embassy in China (1963-65, 1970-72). After 1975, Ambassador/ High Commissioner to Algeria, Czechoslovakia, Kenya, Mauritius and Germany; served on PM Indira Gandhi's staff (1981-82). Professor Emeritus, Diplo Academy, Malta and Geneva; Emeritus Fellow, ICS, Delhi; Archives By-Fellow, Churchill College, Cambridge; Public Policy Scholar, Woodrow Wilson Centre, Washington DC. Guest faculty, Diplomatic Academy, Vienna (2011-18); Commonwealth Adviser, Namibia Foreign Ministry (2000-01). Authored and edited 14 books (two translated into Chinese); *Inside Diplomacy* (2000); *Asian Diplomacy* (2007); *Diplomacy of the 21st Century* (2011); *Churchill and India: Manipulation or Betrayal?* (2023); *Diplomacy at the Cutting Edge* (2016) (on the internet, free download).

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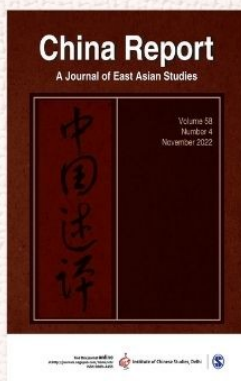


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