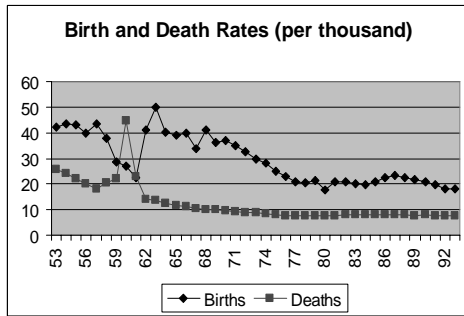


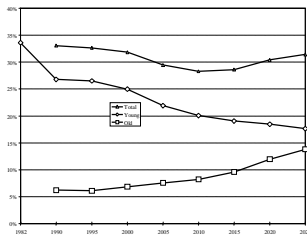
Special Demographic Features



Special Demographic Features

- Sustained decline of death rates at low income level in a large country
- Sustained decline of birth rates due to government policy of family planning after 1970
 - 1971: “later, longer, fewer”
 - 1980: “One child” policy to a target of 1.2 billion in 2000 (but reached that level by 1995)
 - Exceptions: minority group

Dependency Rates of Young and Old



Age Structure of the Population

- Present
 - High working age population and low dependency rates for both young and old dependents
 - Share of population of ages 15-64 is very high
- | | |
|-------------------------|-----|
| China | 67% |
| Low income countries | 57% |
| Middle-income countries | 62% |
- Opposite of Japan

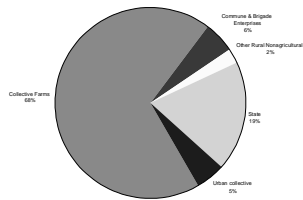
Age Structure of the Population

- Near Future (till 2010)
 - The trend continues (the share of working age population increase to 70% before decline)
- Future (from 2010 on)
 - The trend reverses

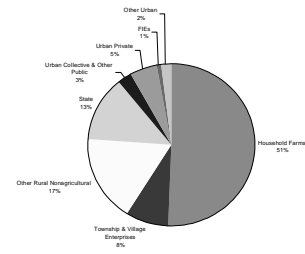
Economic Implications

- Dual problems
 - In the immediate future: Serious unemployment problem, job creation is a primary concern
 - In the distant future: Serious pension problem, how to finance it

Where to Be Employed: 1978



Where to Be Employed: 1999



Urban Workers by Ownership

Million Workers (Year-end)	1992	1999	Change
State Administration & Non-Profits	32	36	+4
State Enterprises of which: Industrial	76	50	-26
Non-Industrial	45	24	-21
Urban Collectives	31	26	-5
Joint Stock, Ltd. Liability	36	17	-19
Private	0	12	+12
Foreign Invested	7	35	+28
Registered Unemployed	1	6	+5
Laid-off Workers (Without Jobs)	3.6	5.8	+2.2
Total	0	12	+12
	156	174	

Labor Market

- Dismantling of *danwei* system
 - Labor immobility was much worse even compared with other planned economies
- Rural to urban migration (floating migrants)
 - Cheap
 - Hard working
- Competition between urban dwellers and floating migrants
- Local government regulations
 - Barriers (numerous licenses, restrictions of employment)
 - Entitlement to local public goods (schools, health care)
- Policy accommodations
 - Temporary or permanent permits (“Green cards”) based on jobs and investment (housing purchase)
 - Varies by region

Education Attainment (15 and above)

	1982	1995
Illiterate, semi-literate	34.5%	13.6%
Elementary (6 yrs)	30.8%	43.6%
Lower middle (total of 9 yrs)	23.8%	31.0%
Upper middle (total of 12 yrs)	10.0%	9.4%
College (2 or 4 more year)	0.9%	2.3%

Social Safety Net

- Four components
 - Pension
 - Health care
 - Unemployment insurance
 - Welfare support
- The Chinese tradition of reliance on children after retirement
- Proportion of population over 60 primarily dependent on children for financial support

	Urban	rural
Women	41.7%	82.0%
Men	7.7%	54.4%
- How to finance retirement?

Types of Pension

	pay as you go	funded
on benefit basis	Social security	Company defined benefits plan
on contribution basis	Nominal individual account	Individual account

Economics of Pension Reform

- The US model
 - Social security (social pool, unfunded, compulsory)
 - Company sponsored defined benefit plan
 - Company sponsored defined contribution plan (401(k), 403(b)) and IRA – individual accounts
- The Social welfare model (Europe and Canada)
 - Social pool
- The Singaporean model
 - “Providence fund” (compulsory, funded), used for retirement, health care, housing purchase, unemployment
 - Inheritable

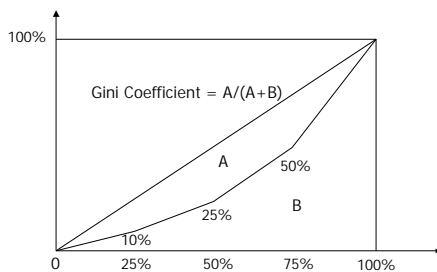
What is the Model for China?

- A combination of
 - Unfunded social pool
 - Funded personal account
- Current debates
 - Proportion of each
 - Who is managing social pool
 - Who is managing personal account
- China’s special problems
 - Transitional problem (from old to new system)
 - Aging problem
 - Capital market development
- Huge business opportunities
 - Money and assets managers

Income Inequality in China

- Decomposition of income inequality
 - Within rural
 - Within urban
 - Between urban and rural

The Gini Coefficient



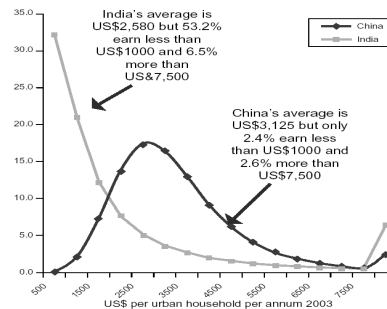
Income Gini Coefficients in China

	1988	1995	2002
Within rural	0.32	0.38	0.37
Within urban	0.23	0.28	0.32
Total	0.39	0.44	0.45

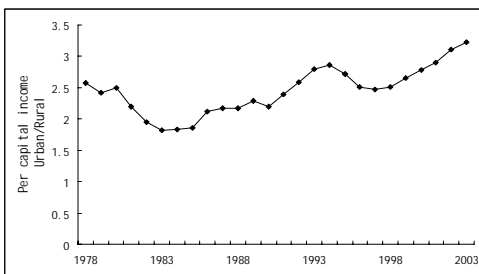
Rural Poverty

	Chinese Official Standard			US\$1/day, person	
	Poverty line (yuan/person)	Poverty Population (million)	Share of Rural Population	Poverty Population (million)	Share of Rural Population
1990	300	85	9.5%	280	31.3%
1993	350	75	8.2%	266	29.1%
1996	580	58	6.3%	138	15%
1998	635	42	4.6%	106	11.5%

Urban Residents Income Distribution: China vs. India



Urban-Rural Per Capita Income Ratio



Factors Affecting Income Inequality

- Within rural
 - Non-agricultural job opportunities
 - Labor mobility
 - Land distribution
- Within urban
 - The private sector development
 - Layoffs in the state sector
 - Monopoly in some sectors
- Between rural and urban
 - Rural and urban labor market segmentation
 - Government agriculture product price policies
 - Welfare policy discrimination

Income transition matrix for China: 1990-95

		All Individuals				
		year 1995				
year 1990		I	II	III	IV	V
	I	0.438	0.219	0.174	0.114	0.055
	II	0.277	0.260	0.203	0.158	0.102
	III	0.187	0.242	0.229	0.210	0.132
	IV	0.079	0.206	0.249	0.247	0.219
	V	0.019	0.073	0.144	0.271	0.492

Income transition matrix for the U.S.: 1993-98

		All Individuals				
		year 1998				
year 1993		I	II	III	IV	V
	I	0.591	0.236	0.111	0.043	0.019
	II	0.290	0.417	0.192	0.076	0.0274
	III	0.081	0.274	0.420	0.171	0.054
	IV	0.030	0.054	0.236	0.480	0.199
	V	0.008	0.019	0.041	0.230	0.704