

## Has China already peaked?

**Latest census figures show that talk of unstoppable momentum is misplaced**

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As the Chinese Communist Party spent early July marking the centenary of its establishment with fanfare in Beijing and a rather chilling speech from China's President Xi Jinping, the main focus in China's strategic rival, the United States, was on something more prosaic.

As the U.S. economy roars back to life from the coronavirus pandemic, a heated debate is underway in Washington on whether the surge in consumer prices is a temporary phenomenon, or whether inflation is back as a structural feature.

The consumer price index increased in June at its fastest pace since 2008, and shows inflation is running above 5% annually. Huge fiscal stimulus and highly expansionary monetary policy, both a response to the pandemic, are viewed as the main causes of inflation taking off.

But what if the driver of price increases is external, not domestic? And what if the return of inflation is not a cyclical response to monetary and fiscal policy but the result of structural shifts in the global economy?

When President Xi, dressed in a replica gray Mao suit, addressed a curated audience of assembled delegates in Tiananmen Square, he made much of China's "national rejuvenation" under the rule of the CCP. With bombastic assertiveness, he warned external powers against standing in the way of its "unstoppable momentum."

A few months previously, though, there was the curious case of China's census. Late being released, with speculation this was due to the sensitivity involved, China's census revealed a population growing at its slowest rate since data collection began.

China's working-age population has peaked and has already declined by almost 40 million since this peak. Its birthrate is at its lowest in seven decades. Despite the abandonment of the one-child policy, China's fertility rate is a staggeringly low 1.3, considerably lower than the United States and lower even than Japan.

Though the official figures masked this, China's total population has almost certainly peaked and is beginning to decline. This will have profound consequences for its own trajectory, but also for the world.

China's rapid industrialization and breakneck economic growth of the past four decades has been driven by favorable demographics, an abundance of cheap labor, and the migration of rural workers to urban areas and their entry into the formal workforce.

This has not only driven China's economic growth. It has had global economic consequences. As Charles Goodhart and Manoj Pradhan demonstrate in their recent book, *The Great Demographic Reversal*, China's economic opening and integration into the modern global

economy from 1990 provided an enormous positive supply shock to the labor force in the world's trading system.

China's increase in the working-age population of over 240 million between 1990 and 2017, coupled with internal migration from rural to urban China, effectively doubled the world's workforce in the production of tradable goods.

This supply shock has been a huge deflationary force, especially in manufactured goods. It has helped keep inflation low for the past three decades to the benefit of consumers. But it has also hurt the bargaining power of workers in advanced economies, suppressing wages growth.

As China's census data shows, this process is now in the process of unwinding: the Great Reversal of Goodhart and Pradhan's book. China's working-age population has peaked and is in decline. Internal migration from rural to urban areas is approaching its natural limit.

One major consequence of this is likely to be the return of global inflationary pressures, as the supply shock of China's entry into the global economy unwinds and then goes into reverse. U.S. inflation figures, echoed elsewhere around the world, may just presage the start of an era of inflation, driven by shifts in global demography more than the actions of central bankers.

Customers shop for clothing at a store in Novato, California, on July 13: the surge in consumer prices may presage the start of an era of inflation. © Getty Images

The second major consequence of this phenomenon concerns China's rise. In the sails of every rising power in global history has blown a strong demographic tailwind. From the United States in the 19th century to Japan and Germany in the early 20th century, a youthful and growing population has driven economic growth, fueled national ambition and staffed and equipped a modern military.

China is no different. Favorable demography has been intrinsic to China's emergence as a major power. But China's demographic tailwind has run out of puff. Its population has peaked. Its working-age population is in decline. The share of its elderly is growing. And low birthrates offer no hope on the horizon.

In the annals of history, there has not been a power that is rising while its population is shrinking. The two simply do not go hand in hand. Xi might talk with confidence about the next century of CCP rule, and of China's unstoppable momentum. But the census figures show that China's power on the global stage may already have peaked