

Indo-Pacific Demographic Shifts

Effects of the Demographics in China and India on the Regional Security Environment

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Introduction

“Demography offers a narrative about future challenges.”¹ This notion aptly describes the Indo-Pacific region’s current state, home to two of the world’s most populous nations: China and India. By extension, demographics also offer a series of opportunities from which nations can reap huge dividends if poised to take advantage. Demographics provide the potential to shape the security environment in the Indo-Pacific for decades to come, and the United States should be prepared to assist allies and shape policy and strategy to take advantage of the coming changes. This article seeks to answer the following questions: How will China and India’s demographics shape the Indo-Pacific region’s security environment? Additionally, what are the implications for the United States, and how should Washington respond to the demographic shift, if at all?

India’s and China’s differing demographics can shift the Indo-Pacific’s security environment toward a position more favorable to the United States via economic and social factors. China’s demographic boom is starting to conclude, and internal forces may bring about change favorable to US interests in the region. Meanwhile, India’s demographic dividend could soon be collected if the Indian government prepares its country.

Chinese Demography

History

China’s management of its population began in the 1950s as Beijing saw an exploding population’s likelihood as a fundamental problem. During this decade and through the end of the 1970s, China saw a rapid decrease in infant mortality and rising life expectancy.² Identifying this trend, the Chinese Communist Party introduced China’s one-child policy in the late 1970s to stem the tide of population growth. Although demographers often cite the one-child policy as the main driver behind the demographic shift in China, it was primarily the Chinese citizenry and culture that drastically shaped China’s demographics.³

Urbanization allowed the Chinese to have fewer children as they became less reliant on agricultural labor.⁴ Also, as health care and birth control became more accessible, the Chinese people opted to have fewer children. Finally, given the patriarchal nature of Chinese society, couples with only one child were more likely to prefer a male to a female, resulting in a massive gender imbalance throughout the population.⁵ These social factors, combined with the one-child policy, successfully curbed the total fertility rate by the 1980s.⁶ Even though Beijing was able to curb China's population boom, it was still left with a large working-age population entering the 1980s.

By the late 1980s and early 1990s, China was ready to take advantage of its glut of working-age citizens. During the last two decades of the twentieth century, China had the right climate for capital investment, an infrastructure network suitable for global commerce, and, most importantly, a sizeable workforce.⁷ Chinese timing could not have been more fortuitous. As international shipping costs continued to lower, it became cheaper to make goods overseas and ship them to markets abroad. It is estimated these factors accounted for approximately 20 percent of China's economic growth between 1980 and 2000.⁸

However, the rapidly declining birthrate now presents a problem for China's security posture. Its population continues to grow more top-heavy, and its dependency ratio will only become larger over the next couple of decades. The *dependency ratio* is the number of dependent persons in a society, usually children and the elderly, to the working-age population. Higher dependency ratios typically foretell less economic progress, as fewer resources are spent on growing the economy.⁹ A demographic chart for China is shown in figure 1, illustrating how the population pyramid has become inverted.

China's Demographic Future

It appears, "China has exhausted its demographic dividend" due to its demographic shift.¹⁰ Therefore, now is the time to take stock of the future of China's economy, society, and military. China will be forced to revamp its economy in short order. No longer will China function as "the world's factory," shifting instead to focus toward other sectors of the population.¹¹ As Beijing spends increasingly on China's elderly, it is reasonable to expect that its economic boom will continue to slow. The slowing economic engine of China could have massive implications for its diplomatic initiatives. If China's economy cannot sustain the long-term financing that has been used around the region to fund infrastructure

projects, Beijing may have to call in debts. That could lead to substantial regional friction, as many Chinese debtors are likely to default.

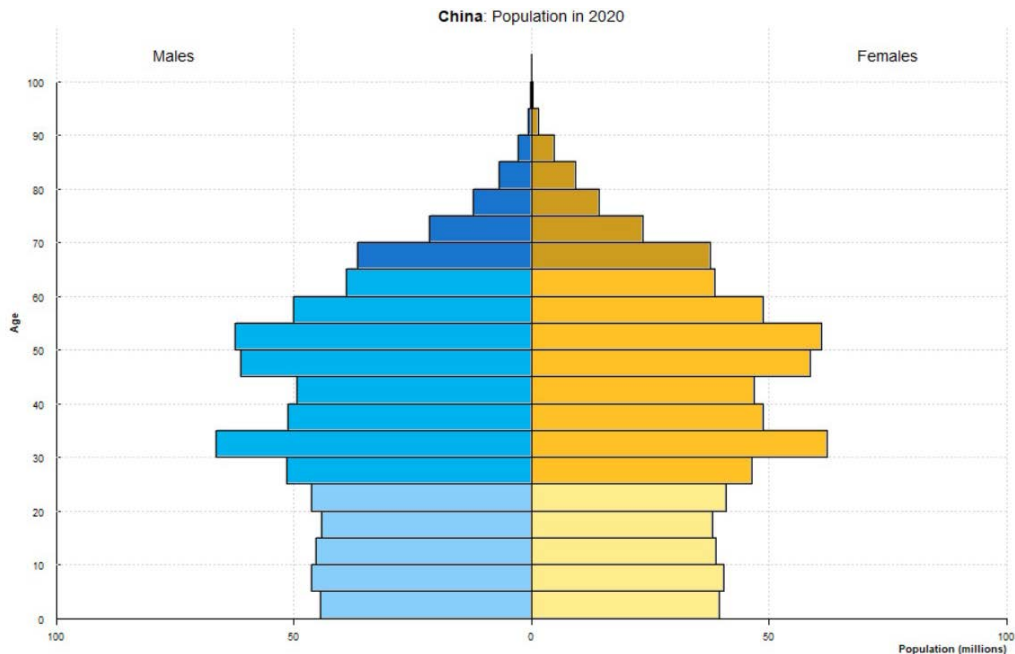


Figure 1. Demographics of China in 2020

China's demographic realities will also affect the outlook of Chinese society. The effect of Beijing's family planning programs has been most pronounced in rural China.¹² Due to the limited number of females throughout China, the ones who do exist have often migrated to the cities. This urban migration has left an entire underclass of rural males who will likely never find a spouse. The "bare sticks," as the men are known, present a real social crisis for China.¹³ If China has many poor, uneducated bachelors on its hands, Beijing will have to find something to do with them. Eventually, these men will require more end-of-life care, due to a lack of traditional family structure. Additionally, if their numbers and discontent continue to grow, they could present a source of civil unrest in a nation where party control and stability are essential.

Finally, the Chinese military will also face two different problems associated with demography. First, as China continues to age, there will be fewer military-age males to serve. The lack of military-age males is a significant consideration for a conventional war. Major ground operations, such as an invasion of Taiwan, tend to be manpower-intensive. While there is reason to believe that advances in automation and technology will reduce the manpower-intensive nature of some

aspects of war, there is no reason to believe that these advances will extend to the area of armed ground combat.

Additionally, as the population continues to age, citizens will generally be less predisposed to war in the first place.¹⁴ Wars are expensive; in a nation where eldercare costs are rising, choices will have to be made regarding limited resources. Also, there are a higher number of families with one male child. Public sentiment might not support war with the same enthusiasm that a normally distributed family demographic would. While that consideration may not be as pressing in a country under single-party rule, it could still affect the mental calculus about going to war. As the sun sets on China's demographic rise, it simultaneously rises on India's demographic future.

Indian Demography

History

After gaining its independence in the late 1940s, India embarked on a series of population control measures starting in the 1950s.¹⁵ The primary goal of the National Family Planning Program was to stabilize the total fertility rate around the replacement level. This program was less successful than in China because of the lack of centralized government control and the cultural differences that persisted in India. Due to the government's failure, India has maintained a total fertility rate above the replacement rate, and its population continues to grow. The *replacement rate* is the average number of children born per couple to replace themselves. It is usually slightly higher than two and depends on the region. As recently as 1960, India's total fertility rate has been near six. However, its most recent reported number is slightly higher than two.¹⁶ These trends also indicate that India will surpass China as the world's largest population in the next decade.¹⁷

As India's population continues to grow and the working-age population booms, this substantial number of working-age citizens could provide India with its demographic dividend over the next couple decades. India's demographic distribution is shown in figure 2, presenting a stark contrast to China's distribution. Given this demographic picture, India can become the next economic superpower over the next couple decades. This bright economic future, however, is not India's birthright. India faces challenges due to the global environment, its poor infrastructure, and cultural barriers to development.

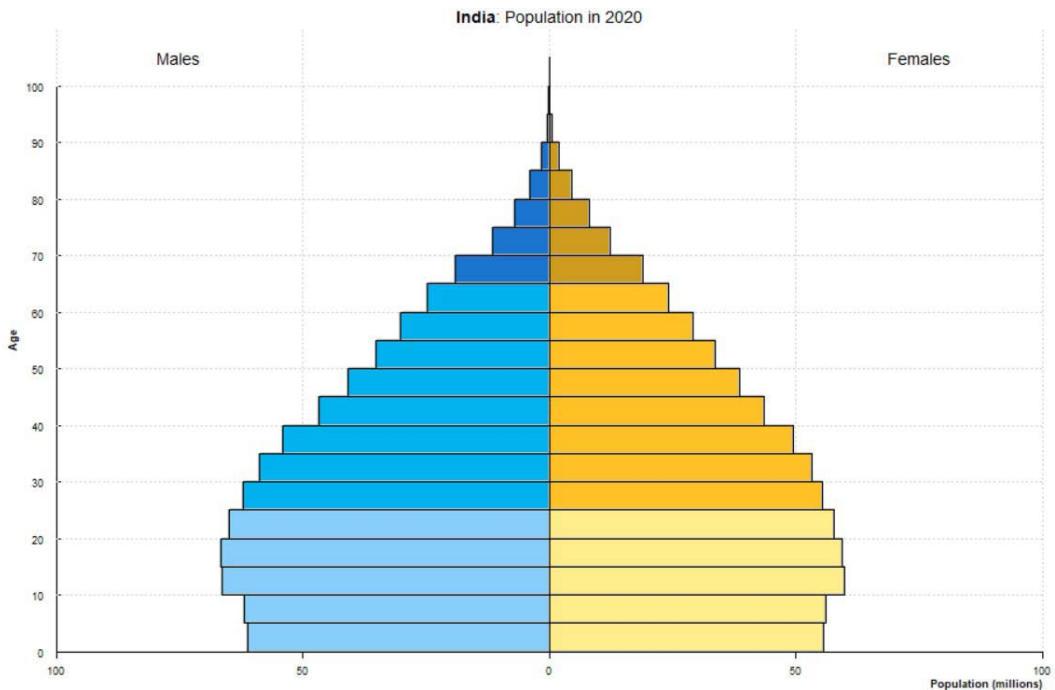


Figure 2. Demographics of India in 2020¹⁸

India's Demographic Future

The world in which China came of age in the global economy is vastly different from the global environment India faces today. China's demographic dividend came at the dawn of globalization. China was at the right place in its development at the right time to reap huge rewards from the offshore migration of manufacturing to China.¹⁹ Its cheap labor supply kept prices low for global firms and saw increased capital investment. However, the economic landscape has changed. The world has already gone through the globalization cycle, as manufacturing has largely left economically developed nations for other less-developed countries where the labor is cheaper. For a nation like India to gain the types of jobs needed to sustain its economic boom, manufacturers would need to leave countries where labor costs are already low.

Additionally, automation has already eliminated many of those jobs that migrated to China in the first place.²⁰ Therefore, it is not as simple as moving the factory from China to India. Instead, India must create jobs in other sectors to compete globally. For New Delhi, this means leveraging India's advanced service and IT sectors to create more jobs for its growing working-age population.

India's infrastructure deficiencies will hamper the creation of the economic base that China used in the late twentieth century. China invested in the infrastructure necessary to move raw materials and processed goods to and from the sea. India does not have a system of similar capacity in place.²¹ This lack of infrastructure hampers economic productivity in two ways. First, it physically limits the amount of material, goods, and services that can be transported around the country. Second, poor infrastructure serves as a deterrent to getting foreign direct investment. Foreign investors often look to a nation's infrastructure as a metric for investment success.²² If the infrastructure is poor or missing, investors will shy away and invest in other countries. Infrastructure is even more important to India than China because China's economic development was highly concentrated along its coast, so it had little need to address inadequate infrastructure inland. However, in India's case, a substantial portion of its demographic boom will occur in states that are not near its coast, so it will have to mass migrate people to urban centers or develop more sophisticated infrastructure inland.

Finally, India has social issues that require change before it can receive its economic dividend. India will need to achieve substantially better health outcomes in general and allow for the more significant mobilization of its women to realize full economic potential. While India has been getting healthier as a nation, it still has progress to make toward the levels that will sustain economic growth.²³ Additionally, mobilizing women for the workforce will be a crucial economic enabler for India, adding up to two-percent growth per year.²⁴ Inability to mobilize the entirety of the Indian workforce and for women to plan their families will drag down the economy during its potential boom, negating much of its demographic dividend. If New Delhi can remedy these issues, India will be well on its way to the economic prowess foretold by its demographics.

Doubts about India's Economic Success

However, India has been here before. India always seems to be on the cusp of realizing its economic potential, yet it always comes up short. As far back as the early 2000s, commentators have noted India's military and economic potential.²⁵ Analysts predicted that India could sustain annual increases in GDP of over 10 percent per year.²⁶ However, India has consistently fallen short of that growth for the past two decades. Instead, figures have hovered around 6 percent, as seen in figure 3. Some of India's required changes cited 20 years ago are still relevant today, including social stability and economic openness.²⁷ Indian women are not appreciably more socially mobile than they were two decades

prior. Additionally, the protectionist measures used in the Indian economy are still intact, with indicators that they might be expanding. Since these changes have not yet materialized in India, there is no reason to suspect that their bright economic future will either.

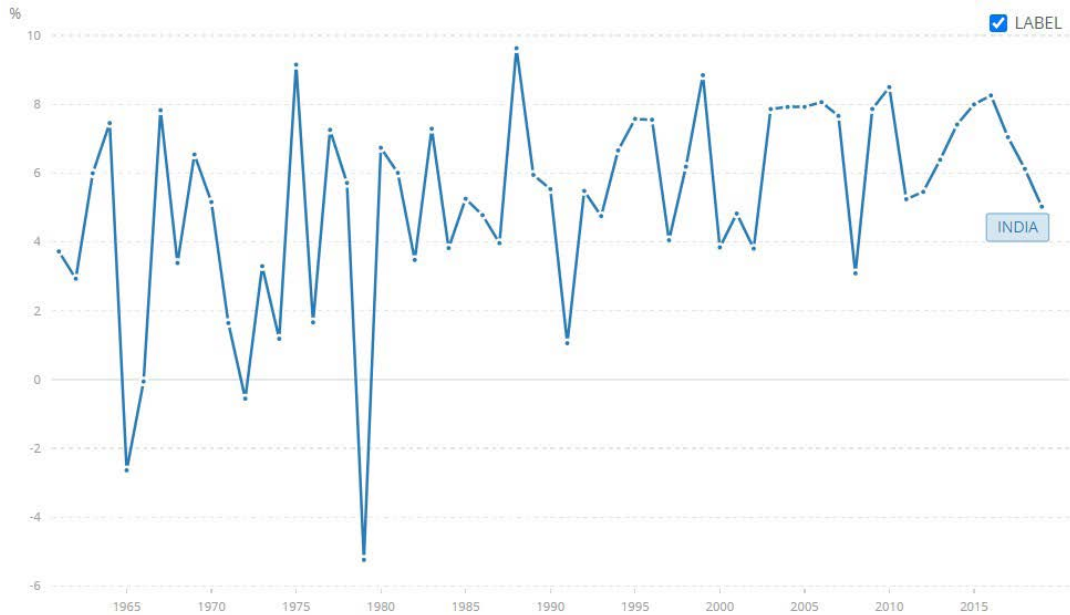


Figure 3. India's GDP growth per year as a percentage²⁸

But Things Are Different This Time

There is one reason to suspect that things will be different this time in India: demographics. Demographic forces are a proven predictor of a country's economic future.

India's potential demographic dividend can be discerned by comparison with other similarly situated countries. This is the first time in modern history when India's demographic distribution is narrowing at the bottom, indicating that families are having fewer children. A lower birthrate will lower the dependency ratio and allow for more investment in the nation's economy rather than child-rearing. During the 1980s, China had a similar demographic outlook as India. China's demographic profile in 1980 and annual GDP growth are shown in figure 4 and figure 5, respectively. This trend also holds for fellow BRICS member Brazil in the 2000s. Brazil's demographic breakdown and GDP growth are shown in figure 6 and figure 7, respectively. There is a clear trend between demographic promise and the resultant sustained increase in economic output.

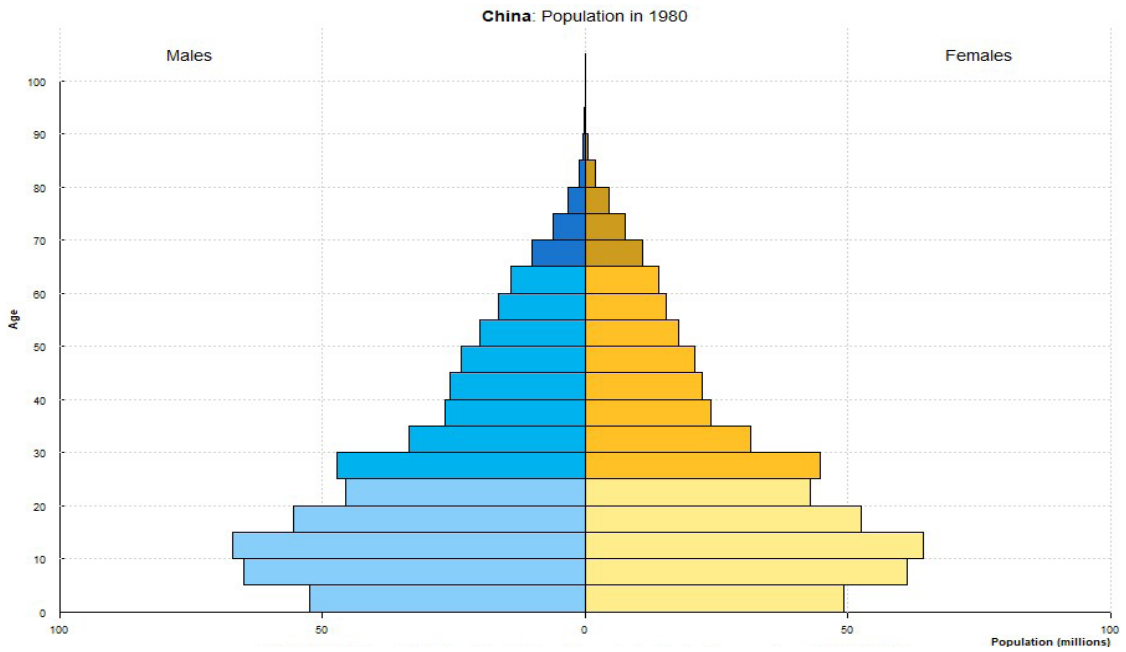


Figure 4. China's Demographic Breakdown in 1980²⁹

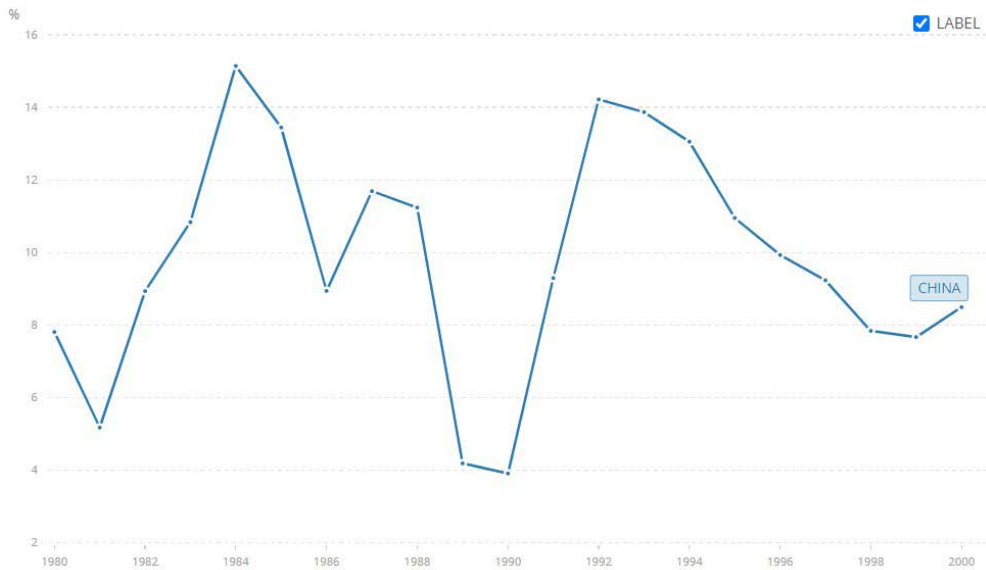


Figure 5. China's annual GDP growth as a percentage from 1980 to 2000³⁰

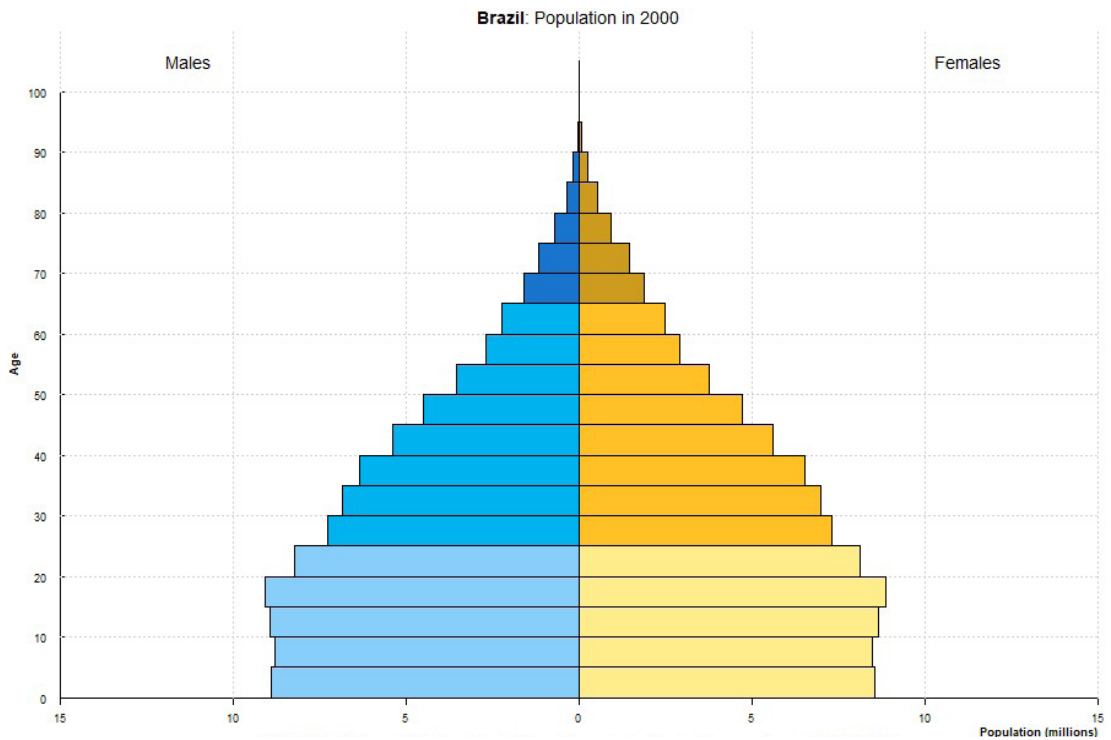


Figure 6. Brazil demographic breakdown in 2000³¹

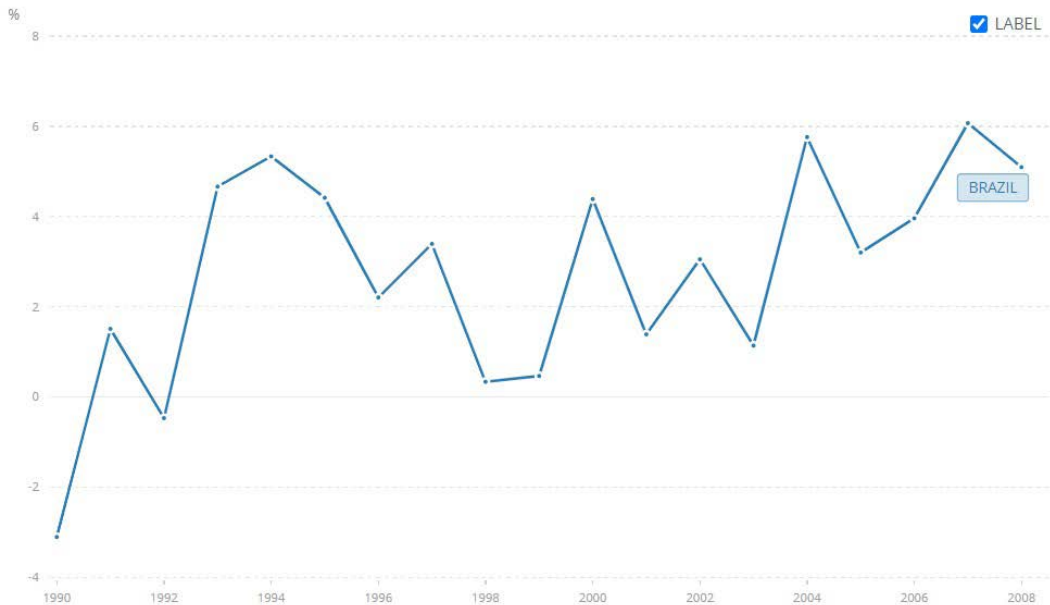


Figure 7: Brazil's annual growth in GDP as a percentage³²

These charts point to a promising trend for India, whose demographic profile looks remarkably similar to China and Brazil before their economic booms. While China, Brazil, and India are quite different nations regarding culture, politics, and geography, their demographic potentials unite them. There are admittedly numerous factors that can affect a nation's economic future, but demographics is undeniably one of the most significant.

US Implications for China's and India's Demographics

Given the demographic landscape in China, the best response from the United States is to wait. China's economic prowess is already waning and will continue to do so. For this reason, Washington is best served by allowing the demographic shift to run its course in China. By letting China's demographic situation unfold, Washington can expect to see better diplomatic and military outcomes in the future. Time is the United States' best ally regarding conflict with China.

Unlike China, India is a nation where the United States can make a substantial difference in the trajectory of the Indian economy. Fueled by the shared concern over the expansion of Chinese influence, Washington and New Delhi can help shift the economic center of gravity in the region toward India through smart investments in the nation's infrastructure and society.

First, US investment in the region sends a strong signal to the rest of the international community that India is safe for investment. While the investment climate has improved over the past couple of years, significant improvement is required.³³ American investment in India is an investment in its demographic potential. The US status as an early investor could help improve American and Indian relations. It would also be a great business opportunity for American firms looking to do business overseas. To improve foreign investors' investment landscape, the Indian government will need to continue to ease the requirements for foreign investment. Restrictions on e-commerce transactions are one of the most critical limitations on foreign business. Onerous rules and regulations have raised US firms' cost to do business in India and have created a less robust system for fraud monitoring. These policies will continue to limit US investment in India, and New Delhi must address this issue to develop the trade space necessary to capitalize on India's demographic shift.

Additionally, India will need to drop its protectionist measures if foreign investment in the country is to thrive. Tariffs in India are higher than in most other developed countries.³⁴ While tariffs are meant to incentivize domestic goods consumption and occasionally send political messages to other nations, in the case of India, they are the wrong policy for the country's economic future. Protectionist measures make foreign investment more difficult. In the global economy, if returns

are not satisfactory in India, companies will seek other emerging markets where the expected returns are higher. India cannot afford to be passed over if it wants to reap economic dividends. Rather than protectionist measures, India should import the materials required to build the requisite infrastructure needed to get the country moving toward economic prosperity. Tariffs are a short-term, domestic political measure, but such measures will make India a more challenging place to do business in the long run. Maintaining tariffs will continue to hamper the economic prospect conferred by India's booming demographics.

Finally, India must improve living and working conditions for its women. While progress has been made over the past couple of decades, India is still a fundamentally dangerous place for women.³⁵ Most of this mistreatment is cultural and tough to root out, especially in the country's northern, more rural areas. This region is where many of the working-age citizens currently live. If that workforce is artificially halved due to the hindering of women's mobility, then discussing India's potential economic boom is a moot point. Women will need full access to the growing knowledge economy in the country. They will also require access to education and training to fill newly created, skilled jobs. Finally, women will need access to reliable birth control to effectively plan their families around their new economic future. Women will be the lynchpin to the Indian economic boom, and they must be able to participate if India will fully realize its economic potential.

Washington should make a stand on this issue for two reasons. First, the United States should make a stand on the principle. Limitations by the Indian government to women's access to education and birth control are violations of fundamental human rights. This should be a red line for Washington, as the United States cannot afford to be seen doing business with such governments. Second, India is approximately 48-percent female.³⁶ For the United States to invest in only half of India's booming economic dividend is poor economic policy. Washington is better off spending precious resources on other nations with more economic promise than only half of India.

Conclusion

A major demographic shift is already underway. China's demographic boom is concluding, and soon its economic and social problems will quickly multiply as its population continues to age. This shift presents an opportunity for the United States to reallocate capital and labor in the region such that it is realigned with US interests. India's opportunity is coming; there is still much unfinished work to prepare that country to reap its reward. While there is still time to complete the task, the window is closing, and substantial effort and money are needed to prepare India. ♣

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Notes

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