



Infomail

November 2, 2015

Bare Branches

China's One Child Policy Left Behind

"Classes struggle, some classes triumph, others are eliminated. Such is history; such is the history of civilizations for 1000's of years" Chairman Mao 1893-1976



Last Thursday, China's central Communist government announced that it was "relaxing" its one child policy, and moving it to a "two child policy," in order to combat a ticking demographic time bomb.

The "one-child" policy, officially called the Family Planning Policy, was introduced between 1978 and 1980. Not as strict as the media would lead to believe, the policy allowed many exceptions and ethnic minorities were exempt. By 2007, 36% of China's population was subject to the one child policy. An additional 53% were allowed to have a second child if the first was a girl (as long as they obtained the proper government permit).

The policy's roots go back to Chairman Mao's rule, where China's birth rate was as high as four children per family, and food shortages led to famine. So the Communist party decided to restrict China's population growth in order to stabilize food and water supplies, and to improve individual prosperity.

How large has the impact been? As always with government policy, well intended but with unintended consequences:

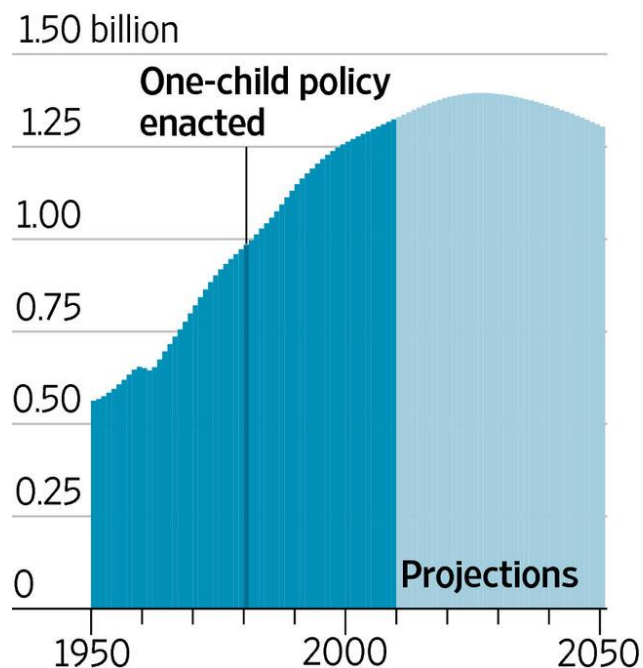
- According to the Chinese Health Ministry, doctors have performed 336 million abortions and 196 million sterilizations since 1971 (by contrast, the USA with ¼ the population, has had 50 million abortions since 1973).
- It has produced a skewed sex ratio, combined with a cultural preference for male heirs, which according to the UN Development program (2010), it is estimated that 40 million women went "missing" from China's population. As many as 119 boys were born for every 100 girls.
- Despite the regulation allowing a second child if first was a female, it was illegal for a Chinese woman to be pregnant with a second child without a birth permit. Many victims fled as refugees.
- Wife shortages – it is estimated that there could be 30 million bachelors in China by 2020 (Financial Post Oct 30, 2015), which has led to a thriving matchmaking business. That's almost the population of Canada being bachelors.
- Many who wanted more than one child, especially those with financial means, have paid the fines or simply left the country, taking their economic resources with them.
- An aging country – by 2030, China will have 243 million people over the age of 65 and by 2050, seniors will represent 30% of the population.

Baby Bump

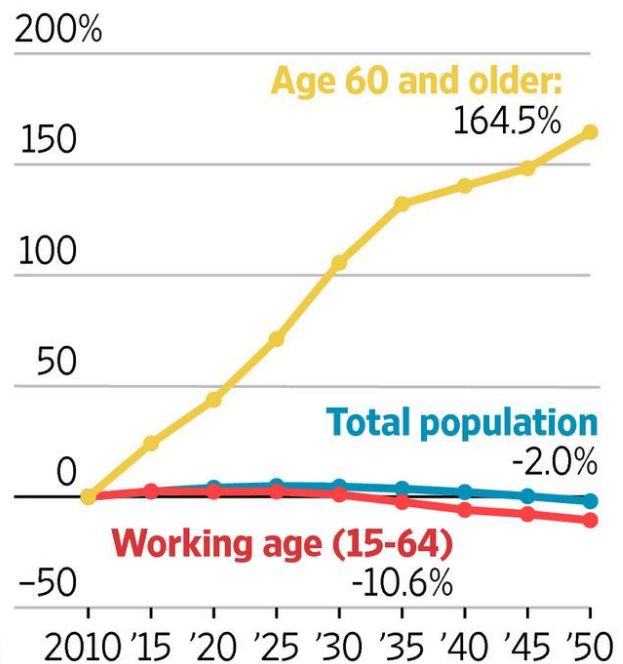
China's one-child policy was introduced to rein in population growth....

...but has resulted in several problems, including a shortage of younger workers.

Total population



Cumulative projected population growth from 2010



Note: Projections do not account for the change in China's one-child policy

Sources: U.S. Census Bureau's International Database

(population); U.N. Population Division (growth)

THE WALL STREET JOURNAL.

In China, men who cannot find a wife are known as *guanggun*, or 'bare branches.'

In a controversial blog this week, Xie Zuoshi, a Chinese economist, has proposed that the surplus bachelor problem could be solved by allowing women to marry more than one man, and Mr Xie also suggested that men be allowed to marry each other.

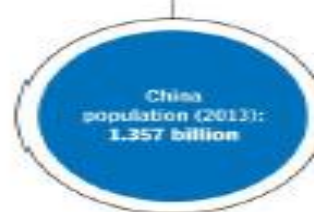
IT HAS CUT THE BIRTH RATE ...

AVERAGE NUMBER OF BIRTHS PER WOMAN IN CHINA



... WHICH HAS CURBED POPULATION GROWTH

Population without one-child policy*: 1.757 billion

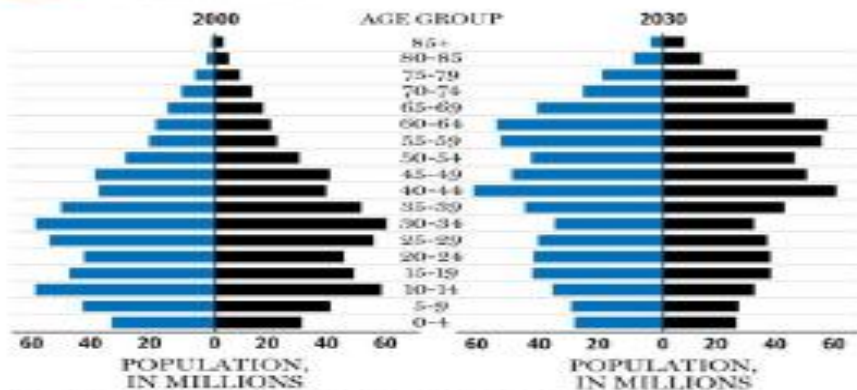


*The Chinese government credits the measure with preventing 400 million births.

IT WAS HELPING TO AGE CHINA'S POPULATION

POPULATION AGE STRUCTURE

■ MEN ■ WOMEN



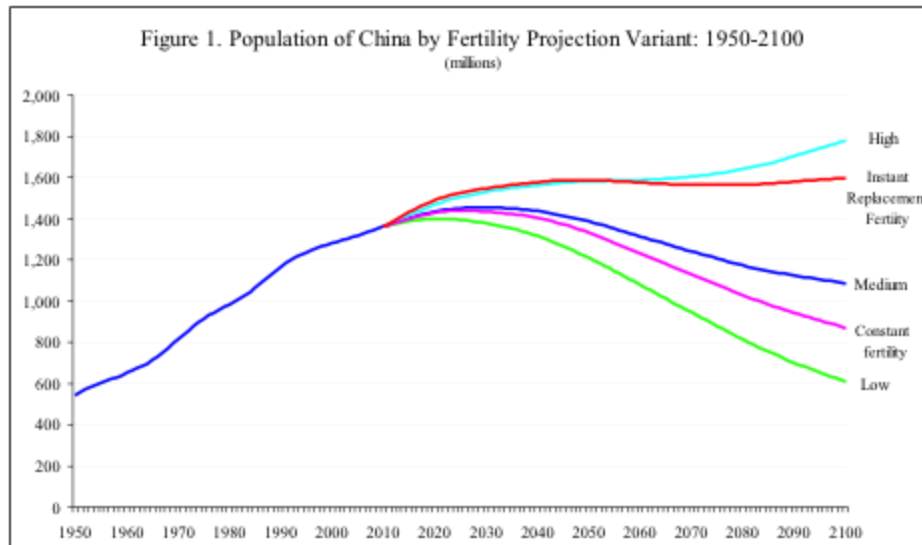
SOURCE: UNITED NATIONS DEVELOPMENT PROGRAMME, WORLD BANK, CHINA ECONOMIC QUARTERLY

JONATHAN RIVALT / NATIONAL POST

The bachelor surplus has buoyed the country's real estate market, as families with sons snapped up apartments to make them more desirable on the marriage market. The female shortage has also caused a huge rise in the "cai li," the bride price typically offered in rural communities. During the Mao era 1970's, the "cai li" was modest – a set of clothes or a bicycle – but starting in 2001, the "cai li" rose sharply, sometimes as high as ten years' worth of farm income. This resulted in a rash of scams, runaway brides, etc.....The shortage of women has now meant cai li exchanges (once solely a countryside custom) to spread to major urban centers. In 2005, Shanghai's caili was \$16,500, about 4X the average Chinese worker's annual salary.

The one child policy has also affected hiring practices, as companies now explicitly advertise a preference for applicants with siblings, saying the one-child policy has raised a generation of "Little Emperors," selfish types with such high expectations and poor work habits who make poor employees.

China Railway Construction Group, the country's second largest state-owned construction group, once posted an ad stating "Non only children college grads from rural areas have priority."



Last week's move to end the one-child policy is an attempt to ward off these issues and may be a prelude to the lifting of all birth restrictions. But it is unlikely to spark the baby boom Beijing is hoping for. Just like here in North America, couples are marrying later, often for economic reasons, and having many children doesn't make things less expensive.

So time will tell what the end result will be. But I know even if young Chinese couples started having a lot of babies today, it won't be until 2035 that they will be 20 years of age. What happens with 30 million Chinese bachelors in the meantime will be even more interesting.

Let's hope the Chinese powers that be don't see all those men as an opportunity to build an army to keep them busy.

Stay tuned,

Vito Finucci
Vice President and Director
Investment Advisor

This information is not intended as nor does it constitute tax or legal advice. Readers should consult their own lawyer, accountant or other professional advisor when planning to implement a strategy. This information is not investment advice and should be used only in conjunction with a discussion with your RBC Dominion Securities Inc. Investment Advisor. This will ensure that your own circumstances have been considered properly and that action is taken on the latest available information. The information contained herein has been obtained from sources believed to be reliable at the time obtained but neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers can guarantee its accuracy or completeness. This report is not and under no circumstances is to be construed as an offer to sell or the solicitation of an offer to buy any securities. This report is furnished on the basis and understanding that neither RBC Dominion Securities Inc. nor its employees, agents, or information suppliers is to be under any responsibility or liability whatsoever in respect thereof. The inventories of RBC Dominion Securities Inc. may from time to time include securities mentioned herein. This commentary is based on information that is believed to be accurate at the time of writing, and is subject to change. All opinions and estimates contained in this report constitute RBC Dominion Securities Inc.'s judgment as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Interest rates, market conditions and other investment factors are subject to change. Past performance may not be repeated. The information provided is intended only to illustrate certain historical returns and is not intended to reflect future values or returns. RBC Dominion Securities

Inc. and its affiliates may have an investment banking or other relationship with some or all of the issuers mentioned herein and may trade in any of the securities mentioned herein either for their own account or the accounts of their customers. RBC Dominion Securities Inc. and its affiliates also may issue options on securities mentioned herein and may trade in options issued by others. Accordingly, RBC Dominion Securities Inc. or its affiliates may at any time have a long or short position in any such security or option thereon. RBC Dominion Securities Inc.* and Royal Bank of Canada are separate corporate entities which are affiliated. *Member-Canadian Investor Protection Fund. RBC Dominion Securities Inc. is a member company of RBC Wealth Management, a business segment of Royal Bank of Canada. ®Registered trademarks of Royal Bank of Canada. Used under licence. © 2015 Royal Bank of Canada. All rights reserved.