Dragoman Digest.

12.02.2021

China's marriage problem

Government entreaties and incentives can only do so much

China is rapidly following the greying trajectory of its East Asian neighbours. China's birth-rate is now at its lowest in seven decades. In a culture where marriage is still often seen as a pre-requisite to having children, the precipitously declining marriage rate is a key explanatory factor here. There is no single reason that explains why the number of Chinese getting married has fallen a startingly high 41 percent from 23.8 million in 2013 to 13.9 million in 2019. One reason is purely demographic, in that the legacy of the now reversed One Child policy means that there are fewer people of marrying age. Cultural preferences for sons have resulted in a gender imbalance, meaning that there are now up to 30 million single men struggling to find a bride. China's rapid urbanisation – over 60 percent of the population lives in cities now compared to just 18 percent in 1978 – has also discouraged larger families.

Certainly, economic factors and their intersection with cultural preferences are also a key part of the equation. Purchasing a house – often seen as a prerequisite to marriage – is becoming prohibitively expensive. The increasing economic empowerment of women means that they are less likely to view marriage as a necessary safety net. Marriage in general is becoming less attractive for Chinese women, partly because of enduring cultural expectations that women – even working ones – should fully shoulder the burden of domestic duties. There also remains an enduring cultural expectation that increasingly wealthy and educated women should "marry up."

So far, the government's patriotic propaganda exhorting couples to have more children appears to have had limited success. Government increases to maternal leave allowances have often led employers to discriminate against women to avoid paying entitlements. Unless Beijing can somehow reverse the situation, demographic issues – leading in turn to economic problems including reduced aggregate demand, a smaller tax base and an increasing cost of caring for a growing elderly population – may well clip the wings of China's rise.

Dasgupta Review proposes a framework for valuing natural assets

The report may be part of a trend towards the accelerated adoption of biodiversity targets

In 2019 the **United Kingdom** Treasury commissioned an independent, global review of the economics of biodiversity. Last week, the final report was published, making the case for governments and institutions to re-think traditional methods of national accounting to incorporate the value of natural assets. The Dasgupta Review on the Economics of Biodiversity comes at a time when biodiversity is declining faster than at any other point in human history. The report takes aim at Gross Domestic Product as a metric and claims it is "wholly unsuitable… for identifying sustainable development." It appears significant that the report was commissioned by HM Treasury, rather than the Department for Environment, Food & Rural Affairs.

While a wholesale shift from the use of GDP as a primary economic indicator remains highly unlikely, momentum may build for an increased international focus on biodiversity. The UN Biodiversity Conference (COP15) will be held this year in Kunming, **China** and will aim to achieve an "ambitious and transformative" global framework. At the start of 2020, a working group issued a Zero Draft of the framework proposing a 30-year agenda to "bend the curve of biodiversity loss" with legally binding targets. This aligns with President **Biden**'s pledge to better protect the world's rainforests and oceans, and Xi **Jinping**'s "Ecological Civilization" concept and the (unofficial) desire to prevent more future outbreaks of zoonotic diseases. Ultimately, we may see the proliferation of biodiversity targets alongside carbon abatement aims from financial institutions and businesses, with economies and companies reliant on the use of natural assets being subject to the largest transition costs.

Modi proposes roadmap for winding back state hand in Indian economy

Although the government is desperate to drum up revenue, debt-laden state-owned enterprises may struggle to attract buyers

Prime Minister Narendra **Modi** has announced several key reforms to wind back state control of India's economy. The Ministry of Finance plans to aggressively divest from state-owned enterprises in the petroleum, airlines and commercial shipping sectors, setting a target of US$23 billion worth of divestment for the 2021-22 financial year. In addition, New Delhi plans to privatise two of 12 state-owned banks – though the particular banks have not yet been specified. The Ministry has also scheduled for 2022 an IPO for the Life Insurance Corporation (LIC), India's largest state-owned insurer. The government will retain 10 percent of LIC's shares. Foreign-ownership limits on insurers will be raised from 49 percent to 74 percent, allowing foreign investors to hold a majority stake.

Modi's reform programme is driven by the government's need to offset the economic impact of the pandemic and boost social spending. India's economy contracted by 8 percent in 2020. India's debt-to-GDP ballooned to 89 percent in 2020 from 72 percent the previous year. The partial privatisation of the banking system might reduce the recapitalisation burden that has plagued the government, with many banks having required regular bailouts. The reduction of the risk of future bailouts is contingent on improved management. Just last week, the government announced a US$2.7 billion recapitalisation plan. Overall, New Delhi has pumped US$40 billion worth of funds to shore up banks over the past four years. Fitch projected that state-owned banks will require between US$15 billion and US$58 billion in recapitalisation by 2022. Many of the banks have high percentages of gross non-performing assets. For example, Union Bank, Indian Overseas Bank and Punjab National Bank have 13 percent or more of gross non-performing assets. Given these factors, buyers may be hard to attract.

The internal political rationales behind China's new coast guard law

Xi uses national security arguments to further consolidate his power

China's new coast guard law – allowing the patrol force to fire at foreign ships in waters considered by Beijing to be under its jurisdiction – has inevitably stoked regional fears. **Japan**, for example, has urged **Australia** to play a greater role in the East China Sea, where Chinese coast guard vessels have persistently encroached into Japanese territorial waters.

No less important are paramount leader **Xi Jinping**'s domestic political motivations for promulgating the new law. An ill-fated coup across the 2012-13 period is particularly material here. It was during this time that four top Chinese officials attempted to halt Xi's ascent up the leadership ladder. The four officials – including Xi's purged rival Bo Xilai – and their acolytes controlled the police and coast guard and had a high level of influence over the military. After wresting control of the military and armed police in the intervening years, all that remained for Xi was the coast guard. By effectively turning the coast guard into a second navy, the law gives Xi operational control and ensures that he now has direct control over the entirety of China's security apparatus.

The domestic dimensions of this new law makes interpreting its geopolitical implications somewhat difficult. A more sanguine interpretation may be that this new law is primarily domestic in intent and will not be used to change the status quo in territorial disputes. Increasingly sceptical of Beijing's intentions, China's neighbours will not be taking any chances.