

Domestic Demand Growth in China: Analysis through a Demographic Approach

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ABSTRACT It is a universally acknowledged truth that China has been devoted to expanding domestic demand for years. However, its domestic demand is still insufficient. Based on the extended Diamond Overlapping Generations model, this paper builds the overall domestic demand model with detailed empirical tests, using provincial panel data of China between 1991 and 2011 to investigate the influence of demographic changes on domestic demand. Estimated results of the system GMM and threshold regression reveal that child dependency ratio has a significant positive impact on China's domestic demand, and this impact slightly weakens as the economy develops. On the other hand, elderly dependency ratio has a significant negative impact on China's domestic demand, and this negative impact strengthens as the economy develops. The final conclusion shows that the declining child dependency ratio and increasing elderly dependency ratio, as the new features of China's demographic structure, are detrimental to expanding domestic demand, leading to deficiency of domestic demand in China.