**China's Infamous 'One-Child Policy' Is About To Become A 'Two-Child Policy'**

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Since 1979, China has maintained a population control program known as the "one-child policy," in most cases limiting families living in urban areas to only one child.

The country just completed a once-in-a-decade leadership transition earlier this year, though, and the new management is eager to show its reform-minded stripes amid a slowdown in the Chinese economy.

As a result, the "one-child policy" may be set to become a "two-child policy" fairly soon.

"According to the 21st Business Herald which cited sources close to the National Population and Family Planning Commission, China may significantly relax its one-child policy at end-2013 or early-2014 by allowing families to have two children if at least one parent is from a one-child family," writes BofA Merrill Lynch economist Ting Lu in a note to clients. "A plan for allowing all families to have two children after 2015 is also being reviewed. We believe the news to be reliable and is in line with our view."

Deutsche Bank economist Jun Ma says a transition to a "two-child policy" would be something of a long-term stimulus package.

"As tens of millions of sibling-less people in China are now entering their child-bearing age, we expect this policy shift would induce the fourth baby boom of the country," writes Jun in a note. "This projected baby boom, although in smaller scale than the previous three, would reverse the declining trend of newborn babies since 1990s and would eventually help mitigate the negative impact of aging population on economic growth and financial sustainability of the pension system."

BofA's Ting calculates around 10 million new babies as a result of the proposed policy shift:

If the 21st Business Herald news is confirmed, the demographic reform path (which we called “piecemeal path” in our earlier report) is more conservative than our baseline “middle path”, which is defined as allowing all families to have two children without any restrictions. So is this a big disappointment? Not really. This is because the one child policy now is only strictly enforced in urban areas and some developed rural areas where most couples of child-bearing age have at least one singleton (note China’s one-child policy started in the late 1970s).

According to the 2005 population survey, singletons account for 29.3% of Chinese aged 30 or under (the generation affected by the one-child policy). The ratio should be significantly higher in urban areas. Assuming 60% of people of child bearing age in urban areas are singletons, on top of the 36% families which are already allowed to have two children, we estimate 48% of urban families of child bearing age could benefit from the coming reform. Using census data, there are 79mn women of child bearing age (23 to 42) this year. 48% of 79mn is 38mn. Assuming 25% of them choose to have a second child, about 9.5mn babies would be born as a result of this reform to one-child policy.

"We believe that the reform-minded president Xi and premier Li will use the opportunity of abolishing the one-child policy to build up their authority, show their determination in making changes and convince the Chinese people that they do have a roadmap for reforms," says Ting.