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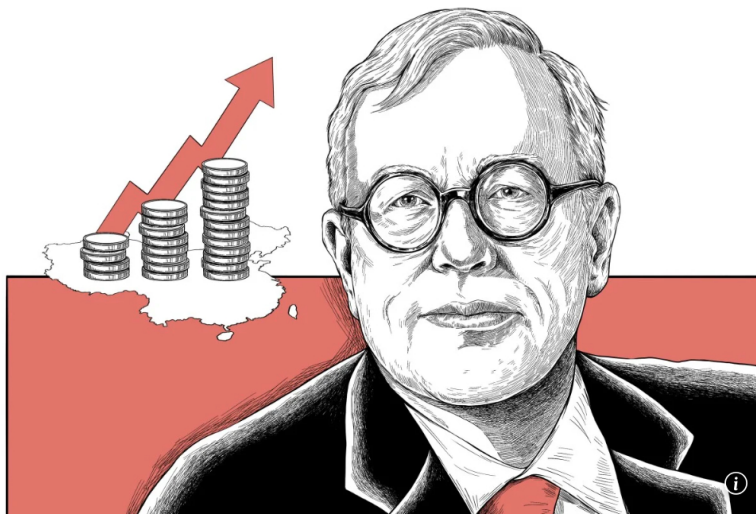
Open Questions

Nobel laureate James Heckman on the value of risk-taking, and China's 'common goal'

He also discusses the economic outlook, youth unemployment and whether the country can overtake the US in science and tech

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Josephine Ma

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James Heckman is the Henry Schultz distinguished service professor of economics and public policy and director of the Centre for the Economics of Human Development at the University of Chicago.

Heckman has devoted his professional life to understanding the origins of major social and economic questions related to inequality, social mobility, discrimination and the formation of skills and regulation in labour markets. He has also done extensive research in China's labour market and early childhood development.

He was awarded a Nobel Prize in Economic Sciences in 2000 for developing methods to solve statistical sample-selection problems.

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What is your assessment of China's economic outlook, especially as it grapples with geopolitical tensions in different parts of the world?

The whole world's economic outlook isn't good right now because of the fighting in the Middle East and the rise in oil prices and the uncertainty that all of this has created. Right now, in a period of uncertainty, China and the rest of the world is a little bit on pause.

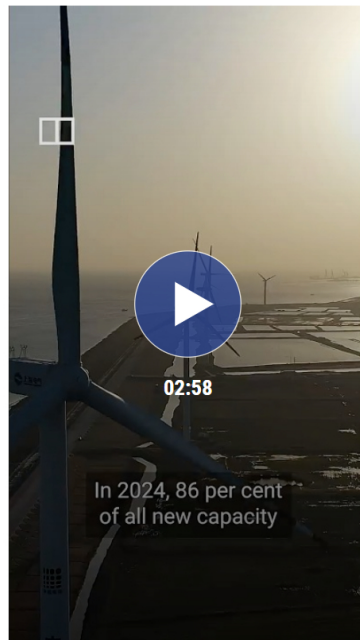
And I say "a little bit" because we are in the initial phases of a great bout of uncertainty before things are really resolved. The typical reaction of most trading partners and most human beings is to hold off and to wait until things get resolved.

Not only is there a shortage of oil, which is affecting the whole world and especially Asia, there is an additional factor which has to do with the slowdown. Things are slowing down right now, partly because it's a matter of waiting to get more information.

However, [the war in Iran](#) continues and it looks like the Iranians are a pretty tough bunch of people and want to hold on in a way that I think most Americans did not expect, at least [US President Donald] Trump did not expect.

This is going to slow the whole world economy down. And you can see it – China's growth rate forecast, 4.5 to 5 per cent per annum in the next year, is probably overly optimistic given the uncertainty that plagues the current environment.

And oil is still a very important ingredient for the Chinese economy and for the world economy. With oil and natural gas being limited and expensive, I think the slowdown will be real. I am not expecting even a 5 per cent growth rate but in the long term I am very optimistic.



How China's energy structure cushions the blows of global oil crisis

And what about the impact of demographic changes in China – how will the disappearing population dividend affect the economic outlook?

The demographic dividend as you describe it is kind of a mixed blessing. Twenty years ago, the Chinese population pyramid was such that more young people were being born than old people were dying.

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Now it's the opposite; [the population](#) is declining, and it's declining fairly substantially. The birth rate is also declining. So not only are people living longer, but fertility has fallen.

And so, social benefits are under threat; the so-called pay-as-you-go system where younger workers pay for the retirement and social benefits of older, less healthy workers.

But that can be addressed. It could be that retirement ages are expanded, which makes sense under any event, because the Chinese population is much healthier than it was 20 years ago.

Workers at 65 are much more able to work, full-time and even in strenuous jobs, in a way that was not possible before. This is a consequence of the improved Chinese healthcare system, nutrition and health practices. It's a blessing that health has improved.

There is another avenue of progress where China has a flexibility that other ageing countries like Japan don't have.

The population replacement rate is roughly 2.1. In other words, a family should have 2.1 children to replace itself and keep the population stable. South Korea and Japan are stuck far below that level. The South Korean decline in fertility is far worse than in China.

The current fertility rate in China is around 1.4 or 1.5, but in South Korea it's 0.7 so you are getting a tremendous decline in South Korean families.

But there is a margin of response that China has and other countries do not and that is its large rural population. There is substantial migration already. However, the large rural population including migrant workers have traditionally not received good educations.

Per capita education expenditure has been much less in rural areas and western China than in the east and in urban areas. The possibility of schooling means that more trained workers can come on board if China essentially centralises its educational policy in a way that it currently does not.

There are moves in that direction. China has now started to redistribute resources, especially to minority areas like Tibet and Xinjiang, but it could do so more generally, and that brings on a supply of educated workers who are actually able to help and will provide a kind of demographic dividend that has not been realised yet.

And there are millions of Chinese children living in these areas who could become productive members of society. And that would give the same thing as a demographic and education dividend.

Why do I say that? Well, maybe the body count is lower but the quality count could be much higher, and so you need to think not only of just replacing bodies or getting more bodies.

The whole quality of training and skill requirements in the Chinese economy have increased tremendously, which means that China is going to be much better able to produce goods and to basically sustain and achieve a prosperous way of life.

So what I am saying is you can replace bodies with skills. Fewer bodies but more skills will benefit China a great deal because there will be fewer mouths to feed but more abilities and skills out there. This will make China a much more skilled environment than it was, say, 50 or 100 years ago.

Beijing makes clear in its new five-year plan that technology will be the main economic engine and that it wants to cultivate more talent to develop new technologies and innovate. How can this goal

be achieved:

I was at the China Development Forum in Beijing when Premier Li Qiang gave the announcement of the 15th five-year plan and I listened with great interest, for several reasons.

As an American, I was very impressed with the quality of the Chinese leadership, at least the language used and the analysis they presented was very high quality. It was good economics. It was good social science actually, and it really reflected the basic principles of comparative advantage and the principles of trying to understand how a functioning economy would work.

So I was very impressed by the fact that the planning seemed to be very thoughtful and there were even a lot of elements of discussion about making the market factors in China work. It wasn't a matter of planning from the centre without recognising market realities.

I thought there should have been more focus on building domestic consumption as a major component of Chinese development. The Chinese savings rate is still extraordinarily high by world standards.

This is not a new point. People have talked about the enormously high savings rate. The savings rate is a very great benefit for China in the sense that it allows you to make investments and improve society, which it has done tremendously.

Infrastructure is at a very high level, but the fact is that promoting domestic consumption is probably a wise approach for economic growth going forward. In other countries, savings rates are often lower, maybe 5 or 10 per cent of the Chinese savings rate.

The domestic market here is huge and it's growing and that's going to be a stimulus for economic growth for Chinese companies. Many organisations, like the IMF, the World Bank – and Chinese economists themselves of course – have always talked about it.

The premier said the government wanted to [spend more on human capital](#) to boost domestic consumption. What's your view on that and what are the pitfalls?

The main thing that China should do, as I mentioned already, is alleviate the big gap between the west and east, between rural and urban. Increasing investment in the education of rural Chinese will be a very great buy – it is already helping to bolster the economy.

But I still think the gap can be closed a great deal more. And I also think the quality of education should probably be enhanced.

China's got a lot of room for improvement in its education system.

For example, test scores are only a partial indicator of what a student can do. They're not good measures of creativity or good measures of the ability to pioneer and engage in entrepreneurship. The Chinese system should be made to be more focused on creativity, productivity, entrepreneurship and risk-taking than it currently is.

I do believe that the Chinese have a great deal of gain potential here by being able to go and look closely at – and refocus – the education system.





Why dynamic learning environments enhance student creativity

I was a little dismayed when I heard the minister of education say earlier that the major focus in education was health.

Health is important, but I think the education minister didn't appreciate the fact that certain social, emotional and cognitive skills promote health.

It's not just a matter of having more health; not just more exercise, although exercise is very valuable, and that medical treatment is very valuable and vaccination is very valuable. All that's valuable. But I think it was too narrow a perspective about how to promote health.

We promote health by promoting education. It's a mistake to think that education should be just about health or only health. What we want to think of is producing more general skill sets of Chinese to make them more risk-taking, more creative and so forth. This is true not just of China but around the world.

So I am not picking on China here in particular, but I think that a lot of so-called educationists – the ones who work in schools of education – focus too narrowly on things like test scores and PISA [Programme for International Student Assessment] scores.

Even PISA itself is shifting its focus away, towards social and emotional skills as well. But those turn out to have a very big influence on health and the ability to regulate one's life, to control one's passions and appetite.

The ability to regulate oneself is really a very important ingredient, and schools and families can teach that. So I do think the educational system should probably recognise a little more that human capital production is not just a consequence of schools, but it's also a consequence of what family life is.

And that starting early is a very important way to make schools more productive, and to engage the family in the life of the child.

So all those are possible moves that China could take to essentially bolster its human capital production.

You mentioned the importance of creativity and risk taking, but the Chinese system and Chinese culture are quite rigid in the sense that people are taught to align with the central values and the central agenda. How can that gap be bridged to enable the Chinese education system to encourage risk taking?

Well, I think the most important thing is a message that I heard from [Jack Ma](#) actually, although I don't know if he wants to be quoted this way. He came to Chicago many years ago, and he opened his remarks to a group of entrepreneurs and business leaders and academics by saying that he had a university at [Alibaba](#), and he wanted to teach people how to fail.

I think it's clearly understood what he means is to take risks, try new things.

And I think there is nothing inconsistent with being obedient and respecting the law, and at the same time trying out new ideas, especially ideas that have to do with products, with science, with mathematics, with art.

So I think that the idea of conformity to values – certain values – is very good.

And I think that idea of having a common purpose and a desire to

have a China that is uniform and consistent and fair to all is a good idea. But at the same time, I think you've got to tolerate the capacity of individuals to go off and make big mistakes.

Make mistakes not just deliberately, but in an effort to try new things. A lot of investigation – whether it's in literature or in science or in business or in journalism or in any dimension – inevitably involves trying new things.

And if they're new, you're not sure they're going to work. Sometimes they work really well, sometimes they fail. And so understanding that failure is part of just trying is really important – and encouraging that.

So, I don't think it's at odds with Chinese cultural values. I was very pleased to listen to the leaders talk in Beijing about a common goal. There was a notion that China was unified, that there was a national purpose, and the national purpose was to excel. And that division was not to be encouraged, but it was actually discouraged.

The leaders were seeking a common goal – they sought to be better, stronger, more prosperous and harmonious. But at the same time, there is a lot of room in that framework for thinking big about new ideas and disagreeing about the best way forward.

One thing that should be done is more teaching of creative acts, and basically breaking rules that get established solely by tradition, or not by logic or not by comparative advantage.

You've done a lot of research on early childhood intervention and education. What's your advice for parents?

Many people think of early childhood programmes as kind of extending the school system to younger ages, and so instead of six-year-olds going to school, three-year-olds going to school or even two-year-olds. That's a big mistake. I think it's really about understanding the role of the family in producing these skills of children and in the interaction that parents have with their children, the interaction patterns, parent with teacher, parent with child, and child with teacher.

Those interaction patterns are very strong and very powerful. Strong in the sense that if they're well maintained and developed, children can learn a lot and children will benefit. If they're weak, then children won't.

So the one thing that we've learned is how valuable attachment and interaction patterns are for the development of the self and of abilities. Successful early childhood programmes engage the family as much as they do the child, and certainly more than a school. So this is not another schooling programme; this is a programme which is teaching the parents how to teach the child to learn.

And also – and this is really important – protecting the child and at the same time encouraging the child to take risks. So this is what is sometimes called scaffolding. It's a notion in psychology of finding where the child is and taking the child to the next step. It's a very intense job, and parents are better at that in many ways than teachers.

We should have more parents as teachers – especially teaching young children – through example, through basically working with them, encouraging them, listening to them, engaging them in a variety of different activities.

The lessons that children learn from those engagements are powerful, and that's important. Where the real learning takes place and where the real encouragement takes place is with the individual parent-teacher engaging with a child and getting that child to go off

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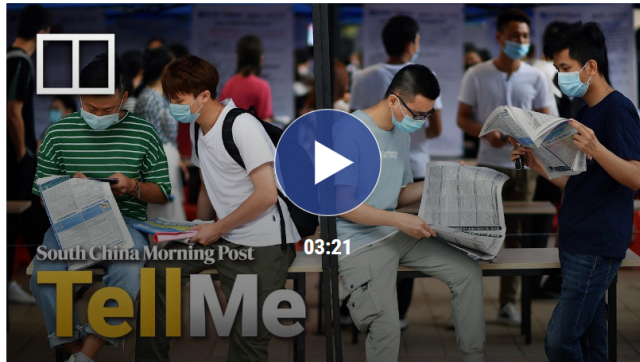
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and engage with the world.

That interaction is the key. It's not like you want to teach Chinese or you want to teach algebra or you want to teach any particular subject as much as you want to build a relationship.

These kinds of lessons have a huge spillover. They produce social and emotional strengths that people don't anticipate and are very powerful.



China's youth unemployment soars to 2-year high as job crunch deepens

Unemployment is a serious problem among young people in China. What's your view on this and what can be done about it?

Well, the unemployment problem in China is partly related to skills again. It's also related to the fact that industry and skills haven't matched as well.

[At the conference in Beijing, Tim Cook of Apple](#) talked about a large donation he had made to the China Development Research Foundation and to promote vocational education.

And I think that's something missing in China on a large scale. I know there is a formal schooling called vocational training, but the difference between successful vocational training and what's being offered now will come from integrating training at the workplace along with training and education.

So young people will learn at the workplace, they will learn at the job, and they will also take academic education.

An example would be something like the German apprenticeship system or the Austrian or Swiss apprenticeship systems. They just integrate school and work in a way that makes it easier for young people to learn a job and to find a job and to learn the skills that are needed in the job.

China still has a lot of foreign direct investment – the FDI is huge – but what's needed more is a skilled workforce to match it.

There are examples of how to do this. The US state of South Carolina at one time had mostly unskilled textile workers, but those textile industry jobs disappeared and the state was in crisis because so many were unemployed.

South Carolina attracted FDI in part by offering workplace training – so BMW and BASF and other large firms went there, and people were trained in the BMW system, trained in the BASF system and trained in other systems at other firms. So that training facilitated employment.

There's a lot of discussion about how AI is affecting the job market, but also education. How should early education change, and what should we do to help children cope with the change?

Some people say AI can take over jobs. So it's going to make simple

accounting jobs no longer valuable because it can add faster – we can add numbers more quickly with AI.

However, this kind of logic is based on the idea that somehow AI does a set of tasks and it automatically replaces people. That's not true.

The reason it's not true is the following: sure, the job may be done partly by AI, but if the AI makes the output of that job, the task that they perform, cheaper, then it becomes much more in demand.

So even though it may require fewer workers per output item, there could be more workers employed if the demand for that task expands.

One thing more generally though is that the AI does have to be carefully used in the education system.

If people use AI as a substitute for thinking, that's deadly. That's going to prevent people from thinking on their own, and the act of thinking and creating is extremely important.

If we have too many students who are having [DeepSeek](#) or [ChatGPT](#) or Claude or some other program writing papers for them, they are not really thinking as young people.

We have to be aware of the danger of being overreliant on AI, and if students are using AI to write their papers instead of thinking through them, that's destructive.

The thinking process itself literally builds neurons and builds intelligence. You have to literally understand the way that people solve problems and the way they build brain power is by solving problems directly, not by having somebody solve the problem for them.

It's a mistake to essentially think that AI is going to be a substitute unless we just become, you know, a nation of drug addicts and dependent people. But I don't think we want that.

We want children to be able to function, and by that I mean master tasks and not rely excessively on AI. Not play too many games, not spend too much time idle, but also spend more time solving new problems. AI can help do that. You can play chess with AI, you can play Go with AI, you can also use AI in a very constructive way.

AI can also be a very valuable check on yourself – it can help you correct your text or give you some other ideas. So we need to find the balance between total reliance and total avoidance of AI. I would say that we will find a happy medium but we're still searching for that.

In your papers you've talked about the importance of children's non-cognitive development, virtues and self-control. Why are these elements so important, and why should economists pay attention?

Well I think that these are skills. Traditionally when we think about technology, we think of a Solow model of economic growth done 60, 70 years ago. Now the emphasis is on the role of capital machines and labour.

What we've come to understand is that a lot of the modern economy consists of interactions among partners, trade relationships, personal interactions.

So these social skills of interacting with others are extremely vital, and it's something we typically neglect. So it's not surprising economists have always talked about this, but I think what we've come to understand is that it is much deeper than just IQ or cognition. We think that the way the human brain works, emotions play a very powerful role: emotion and self-regulation and virtue.

You are most famous for the Heckman correction model to correct

statistical bias. How robust is Chinese data?

There are a number of social experimental data sets that are not made available publicly, but are used for private decision-making. So the Chinese data is rich.

There's a real question, though – which is not completely resolved – as to how accurate some of the very large aggregate figures are for things like, you know, production and pollution and manufacturing.

I hesitate to make strong statements because I haven't studied those in great detail. I remember many years ago [late American economist] Lawrence Klein was actively engaged in the question about whether the macro data – the data on the economy in China – was accurate.

I think the standards of micro data that individual organisations are collecting are generally very good, but I hate to make a general statement about all data collection in China because I simply haven't studied it.

What do you think of the suggestion that China may overtake the US in a few years in terms of scientific or technological development?

The current administration in the United States has been very unwise in [trying to block and failing to support science](#) in a broad way. It has taken political actions in a way that are very unconstructive. So it's possible that the rate of progress in the United States will slow because support from the government is low.

Nonetheless, the United States still has a large private sector and places like Silicon Valley and other centres like MIT and Harvard where there is a big private sector supporting research.

But the government support for the NIH [National Institutes of Health] and others has been politicised and reduced, and that means you are slowing down basic science. In certain quarters, parts of what they've reduced though is fine.

I personally am in agreement with some of the cuts in the sense that some of this research being funded before was purely political, and it was clearly done to kind of inspire people's beliefs which were more of a political basis than serious social science research. So cuts of this type of research are good.

I do believe that China is really engaged very strongly.

It can only lead to output that's very, very good. And the quality of the workers I've met with and interacted with has been extremely high. And the work quality is good.

resources – and [puts] in high-quality resources – and maintains high standards, it will possibly overtake the US.



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Josephine Ma is China news editor and has covered China news for the Post for more than 20 years. As a correspondent in Beijing, she reported on everything from the 2003...

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