

## **New Consumption as An Engine for China's Economic Development**

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Since 2020, despite the impact of COVID-19, the Chinese consumer market has achieved positive results: supply-demand profile is generally stable; the total retail sales of consumer goods grow faster quarter by quarter; household propensity to spend begins to pick up; the momentum to upgrade consumption in goods remains strong; consumption in service is innovating and accelerating thanks to digital technologies; new growth hot-spots keep emerging, such as health consumption, green consumption, experience-oriented consumption, and consumption of famous domestic brands. The Chinese consumer market has demonstrated strong resilience. In 2021, the Chinese consumer market was hit by the pandemic and severe weather conditions at home and turbulent international environment abroad. However, as the economy recovers on all fronts, consumption is regaining its importance as the primary growth driver. New opportunities for innovation in consumption have been generated in supply upgrading, channel reorganization and market restructuring. In the medium-and-long term, China will enter a new stage of development driven by consumption innovation, during which the leading role of consumption in economic growth will continue to grow. Spurring consumption across the board and accelerating the development of a complete domestic demand system will become a policy priority for the Chinese government.

### **I. Strong Momentum for China's New-Mode Consumption: Four Features**

#### **i. Strong development resilience has become the notable advantage of China's consumer market**

Since 2020, the Chinese consumer market has demonstrated strong resilience to the impact of COVID-19, and has become the ballast for its economic growth. At the start of 2020, the pandemic spread fast and hit consumption hard, as indicated by shrinking short-term consumer demand and huge market decline. As business, production and market reopened, the national economic recovery accelerated, which enabled a faster bottom-out of the consumer market. To be specific, consumption for upgrading purposes showed strong resilience, with the auto industry as a leading example. In September 2020, the sales of SUV and new-energy vehicles reached 980,000 and 734,000 units, reporting a year-on-year growth of 16% and 68% respectively, setting new record for comparable season (see Chart 1). Meanwhile, consumption-oriented Internet has become a platform for innovation, with more transaction moving online. New patterns of consumption, such as live commerce, online health care and education, culture and entertainment, brand consumption kept thriving.

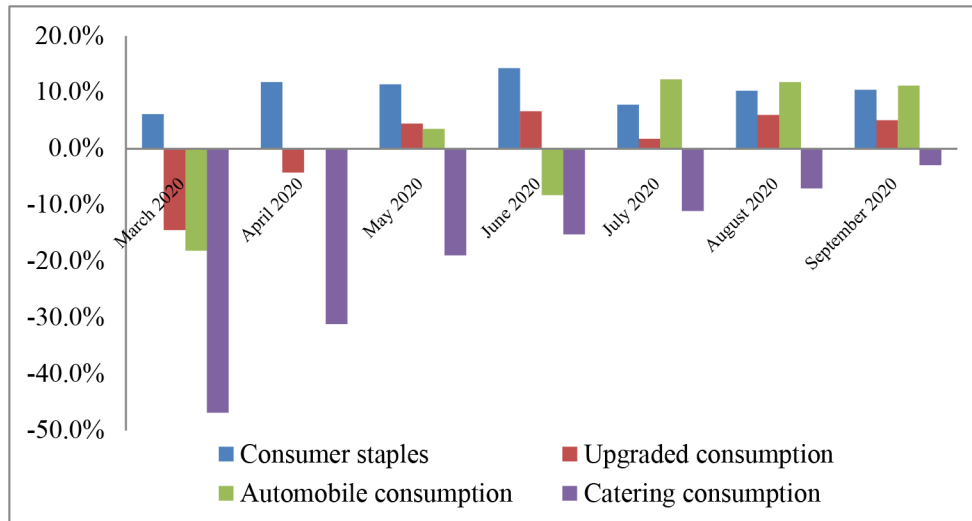


Chart. 1 Recovery and development of various types of consumption in China in the first three quarters of 2020

Source: China National Bureau of Statistics

Different from the slump in 2020, the consumer market in 2021 has been recovering fast on all fronts. The total retail sales of consumer goods reached RMB31805.7 billion for the first nine months, representing a monthly average growth of 15% and a monthly year-on-year growth of 7.7%. Although consumption in July turned to slow down due to the COVID-19 resurge, it began to rebound in August and the growth rate continued to expand in September, demonstrating strong resilience (see Chart 2). On the other hand, while the global commodity prices rise, the supply and demand in the Chinese consumer market remain generally balanced, and prices remain basically stable, thus creating a favorable price environment for the sound development of the consumer market (see Chart 3).

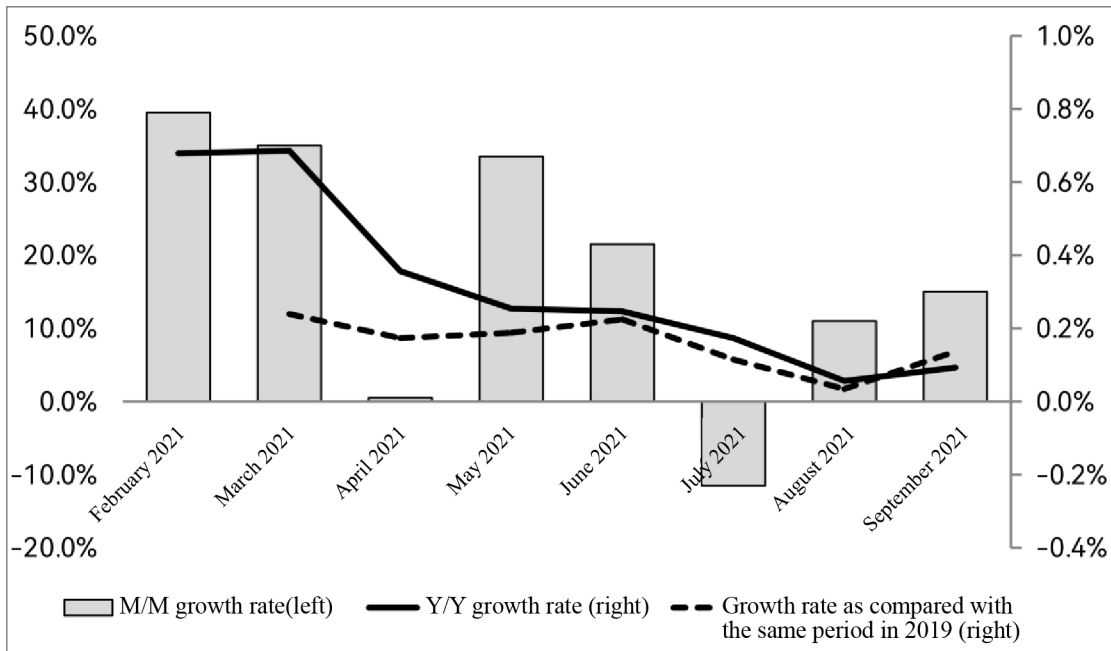


Chart 2. Growth of total retail sales of consumer goods in 2021  
Source: National Bureau of Statistics

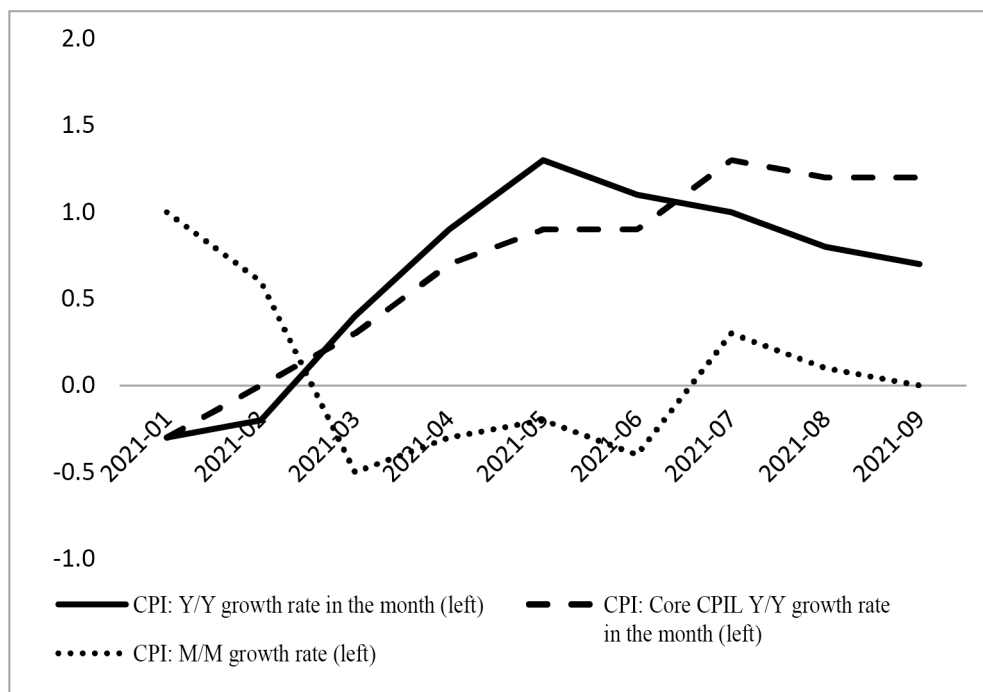


Chart 3: Operation of CPI and RPI in China in the first three quarters of 2021  
Source: China National Bureau of Statistics.

**ii. The Chinese consumer market continues to expand and is expected to become the world's largest**

Since China's reform and opening-up, it has greatly unleashed growth potential, and expanded people's choices of consumption, which helps foster and build a super-large consumer market. The

final consumption expenditure for 2020 reached RMB55.7 trillion, representing a growth of 248 times over 42 years before with a CAGR of 14% (see Chart 4). In particular, since China’s accession to the WTO in 2001, the Chinese market and the global market have become increasingly interconnected, which brought much vigor and vitality to the domestic consumer market and accelerated consumption growth.

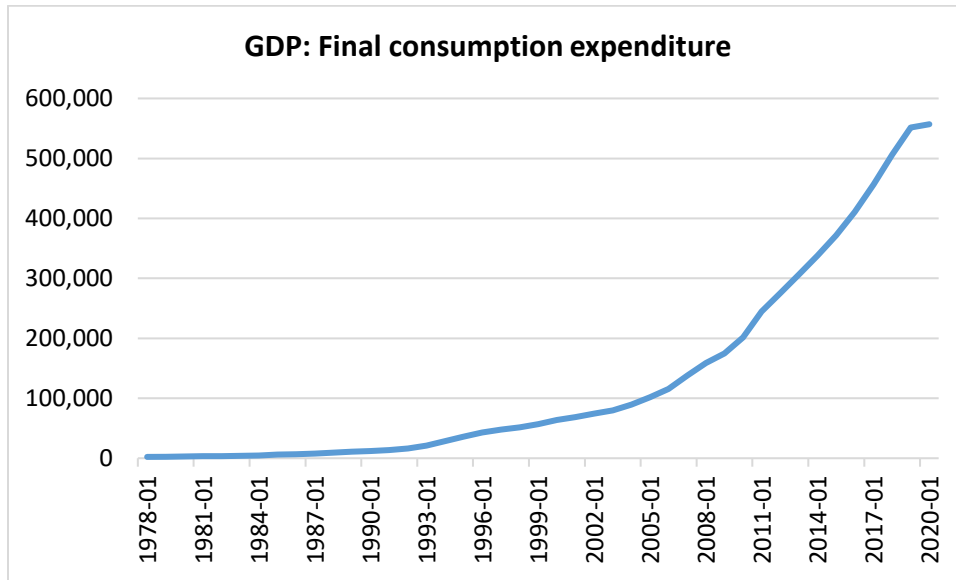


Chart 4: Scale of China’s final consumption expenditure since the reform and opening up (RMB 100 million yuan)  
Source: wind

Measured by total retail sales of consumer goods, China has become the world’s second largest consumer market, with a market size close to that of the U.S. In 2019, China’s total retail sales of consumer goods reached about RMB41 trillion, or USD6 trillion at the average annual exchange rate. By comparison, America’s total retail sales of consumer goods in 2019 was about USD6.2 trillion, suggesting the gap between the two countries’ retail industry is about USD200 billion (see Chart 5). It is expected that China will become the world’s largest consumer market from 2025 to 2030.

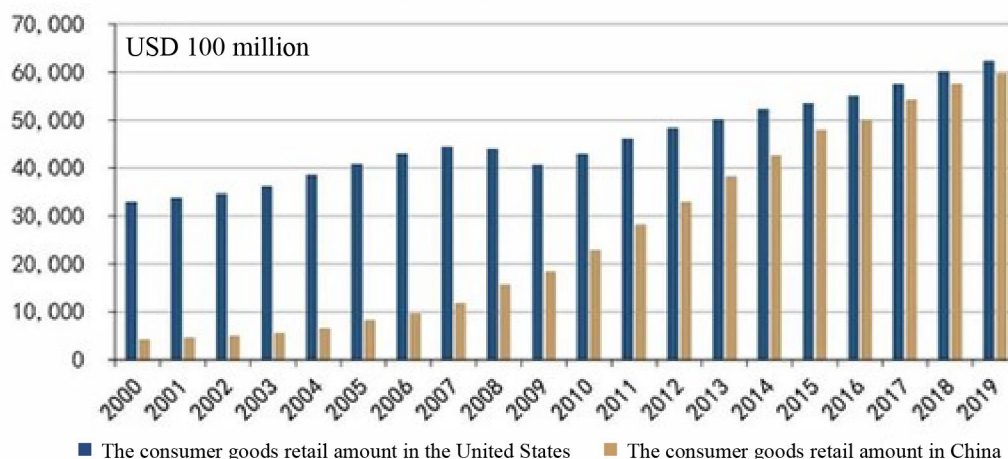


Chart 5: Scale of Chinese and US consumer markets  
Source: wind

### iii. Consumption drives solid growth of the Chinese economy

Consumption is the primary pillar of China's economy. The ratio of final consumption to GDP has kept growing since 2010 from 47.4%. Over the past decade, the ratio remained generally stable at 50%. However since 2014, the ratio has remained around 55%, surpassing the share of investment for six years in a row. This reveals that final consumption has become the primary pillar of China's economy.

From a historical perspective, consumption has remained the largest component of China's GDP. From the demand perspective, since reform and opening-up, China's ratio of final consumption to GDP (the share of final consumption expenditure in GDP) has remained higher than the ratio of investment to GDP (the share of gross capital formation in GDP). Within the three decades after reform and opening-up, synchronized progress has been made in consumption, investment and export, fueling the economic growth. During this period, gross capital formation grew rapidly, and final consumption remained the biggest part of GDP though its share fell to 48.9% from 60.7% in 1978. In particular, as the Chinese economy entered the new stage of high-quality development, the ratio of final consumption to GDP resurged to 54.8% in 2020 (see Chart 6).

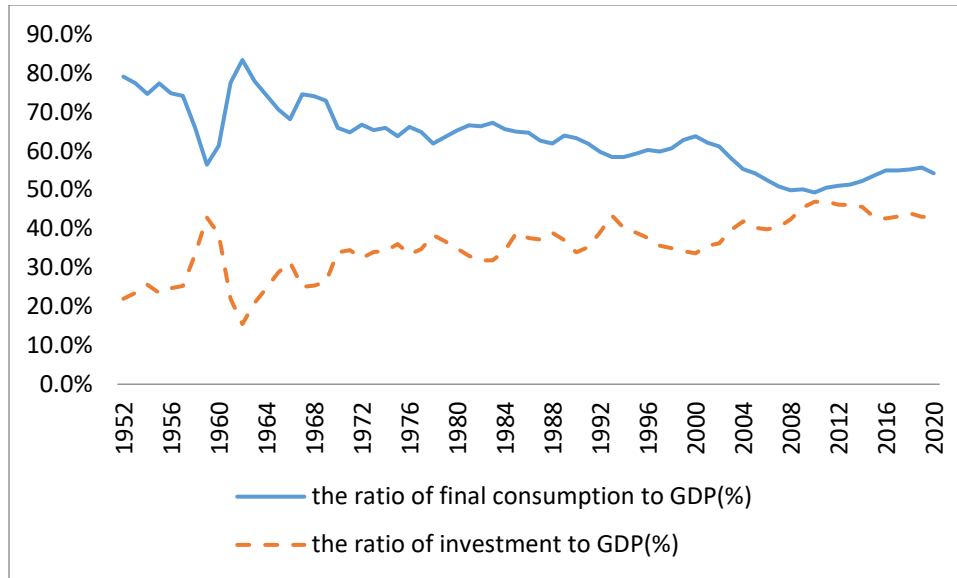


Chart 6: Changes in the proportion of consumption, investment and export to China's GDP  
 Source: China National Bureau of Statistics.

Consumption is also the primary driver of China's economic growth. With China's economic restructuring, the contribution of final consumption to GDP growth has followed a U-shape curve. During 2001-2010, China's annual average contribution of final consumption to GDP growth was 48.4%, 7.2 percentage points lower than that of investment. With China's transition from high-speed growth to high-quality development and the upgrading and expansion of consumption, the annual average contribution of final consumption to GDP growth reached 60.1% during 2011-2019, 22 percentage points higher than that of investment. Consumption is no doubt the main engine for China's economic growth (see Chart 7).

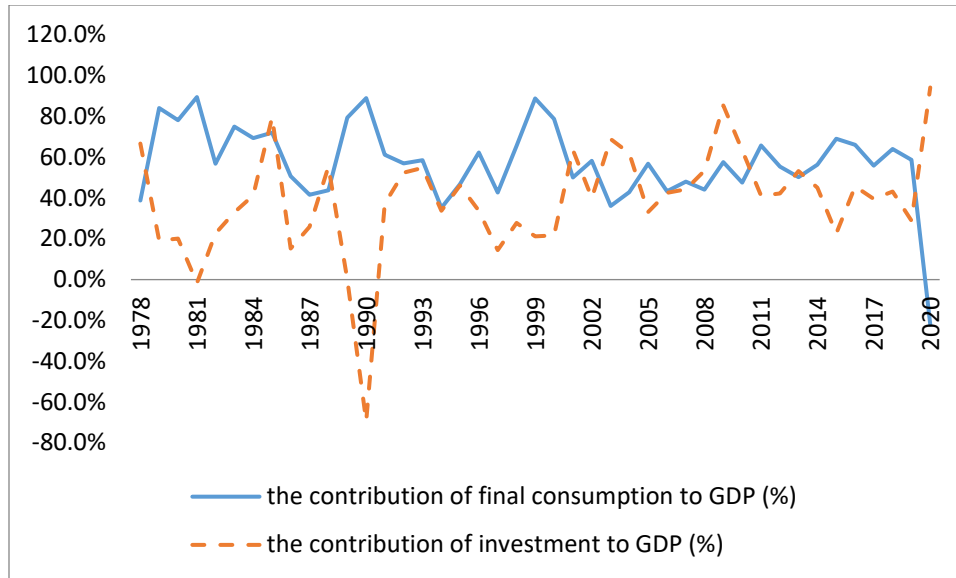


Chart 7: The contribution of final consumption and investment to China's GDP growth  
Source: China National Bureau of Statistics.

**iv. Continuous upgrading of household consumption lifts the consumer market to a new level.**

Continuous increase of household income has driven the rapid growth of consumption. Since 1978, Chinese household income reached new milestones in the 1990s and 2010s, laying the foundation for rapid expansion in household consumption (see Chart 8). In 2019, per capita disposable income exceeded RMB 30,000 for the first time, 63.3 times and 4.4 times more than that in 1980 and 2000 respectively.

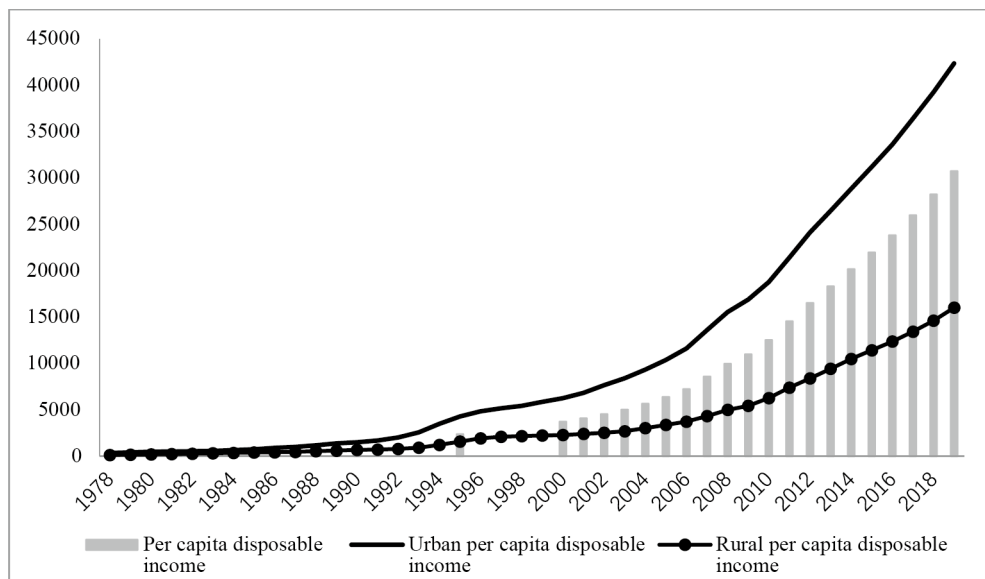


Chart 8: Per capita disposable income of Chinese residents from 1978 to 2019 (RMB/person)  
Source: China National Bureau of Statistics

Income of urban and rural residents has grown in a synchronized manner, ensuring a basically balanced and sustainable pattern of consumption growth. Per capita consumption of urban residents grew from RMB734 in 1985 to RMB 35,716 in 2019. During the same period, per capita consumption of rural residents increased from RMB345 to RMB15,023, a growth of over five times or around 12% on average annually (see Chart 9). In addition, since 2013, consumption of Chinese households has risen faster than other major economies in the world. China’s per capita consumer spending has maintained an annual average growth of 8.5%, higher than that of developed countries such as America and Japan and most developing countries for the same period. This indicates the robust vitality and potential of China’s consumption (see Chart 10).

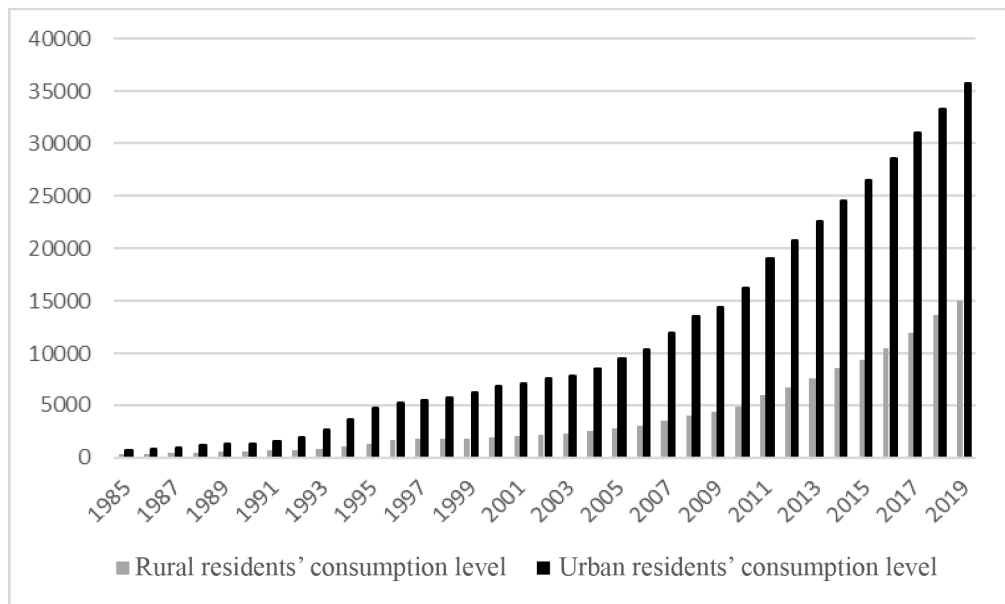


Chart 9: Consumption level of Chinese residents from 1985 to 2019 (RMB/person)  
Source: China National Bureau of Statistics.



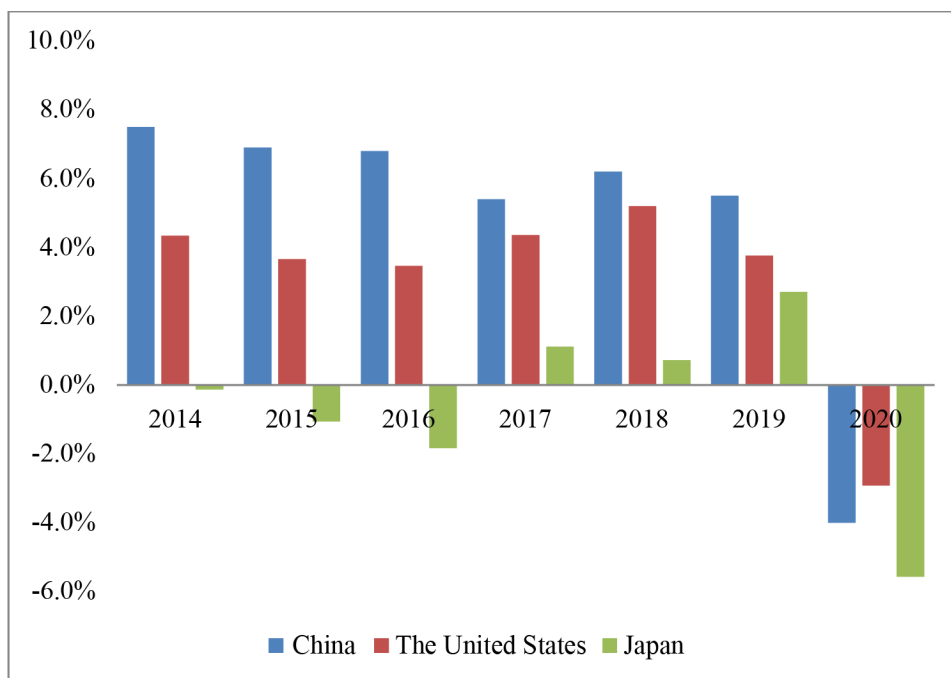


Chart 10: Comparison of the growth rate of household consumption expenditure among China, the United States and Japan

Source: National Bureau of Statistics of China, US Bureau of Economic Analysis, Statistics Bureau of Ministry of Internal Affairs and Communications of Japan

## II. Shifting and Upgrading the Engine for China’s Consumption: Five Trends

### i. Better quality of consumption: from basic needs to higher level of consumption in goods

Since the inception of reform and opening-up 40 years ago, there has been a notable growth in Chinese household basic living expenses, including those for clothing, food, housing, transportation and other daily necessities. With abundant supply of physical goods, Chinese people are graduating from an era marked by growth of quantity in consumption and to a new age featuring the improvement of quality in consumption. The share of spending on food has plummeted, while the quality of food improves rapidly. In 2019, Chinese household Engel Coefficient was 28.2% on average, or 27.6% in cities and 30.0% in the rural area (see Chart 11). Difference between China and developed countries in Engel Coefficient has become narrowed. After years of continuous growth, consumption of grains, meat, vegetables and fruits has declined by varied degrees since 2010. Among them, grain consumption decline by 2.7% per year during 2012-2019; per capita consumption of edible vegetable oil began to drop after peaking at 11 kilograms in 2014; meat consumption per capita fell for the first time after hitting 31.8 kilograms in 2018. With the upgrading of consumption and growing health literacy, there has been a strong demand for diversified ingredients including edible oil, dairy products and dried or fresh fruits, and a rising share of hi-quality protein and fat in diet. For instance, the sales of green organic food, organic cereals, imported fruits and seafood register an annual average growth above 30%. Dairy product and fruit consumption has surged at the same time.

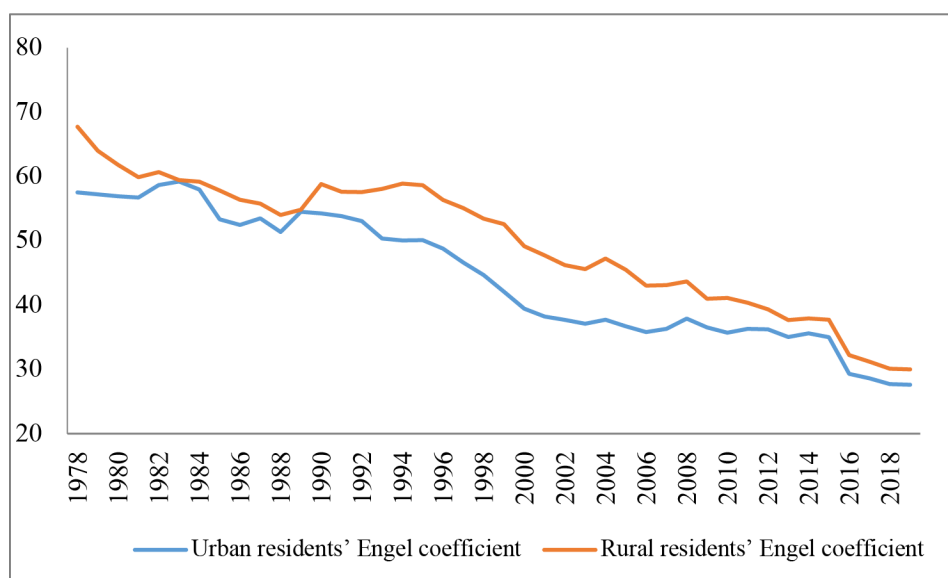


Chart 11: Engel Coefficient of urban and rural residents in China from 1978 to 2019  
Source: China National Bureau of Statistics

The consumer market for durable goods is also shifting focus from scale to quality. To date, almost all urban and rural families have common major household appliances such as color TVs, refrigerators, air conditioners, washing machines, water heaters and cellphones (see Table 1). Car ownership among urban and rural households grew by 93.5% and 147.9% respectively during 2013-2019, similar to the growth rate of Japan during its comparable period of development (1969-1975). The number of private cars increased from 88.386 million in 2012 to 230 million in 2019, or 161 private cars per thousand people. The concept of environment-friendliness is widely acknowledged by auto owners. In 2019, 1.172 million new energy vehicles were sold, 143.2% more than the number of 482,000 in 2016.

Table 1 Number of Durable Consumer Goods per 100 Households (Urban and Rural)

Item	Number Owned by Urban Households	Number Owned by Rural Households
Private car	43.2	24.7
Motorcycle	187	551
E-bike	59.4	70.1
Washing Machine	99.2	91.6
Refrigerator	102.5	98.6

Color TV Set	122.8	117.6
Air Conditioner	148.3	71.3
Water Heater	98.2	71.7
Range Hood	817	29.0
Mobile Phone	247.4	261.2
Computer	72.2	27.5

Source: China Statistical Yearbook 2020

New demand lays the groundwork for new national brands, which appeal to mid-to-high-income consumers. In recent years, Chinese brands in food, cosmetics, apparel and accessories, and digital products have grown vigorously, and a large number of innovative products have come to the market. New national-brand products of premium quality and reasonable price are popular with Chinese consumers, helping to accelerate the transition of consumer goods industry to medium-to-high end and offering more choices and support for consumption upgrading. The boom of new national-brand products is observed in multiple sectors with growing frequency, with many over-night success stories. The top 100 new national brands in 2020 have an average brand history around 6 years, and rake in RMB5.4 billion<sup>1</sup> in sales on average. New national brands are playing a greater role in setting trends. In 2020, over 390 new brands opened their first outlet in China, among which domestic brands accounted for about 70%, up by 10 percentage points<sup>2</sup> from 2019.

China has become a major source of growth for the global duty-free market. According to some estimates, Chinese consumers spend about RMB130 million on overseas shopping annually, 2.9% of the total retail sales of consumer goods. The COVID-19 pandemic has changed the landscape of duty-free market worldwide. As policies to draw Chinese consumers back to the home market take effect, China becomes a magnet for top international brands. For example, during the Chinese National Day holiday in 2021, revenue in Hainan duty-free shops grew by 77% year-on-year, or up by 249% from the same season in 2019. Commercial facilities and brands for reshoring consumers are constantly optimized and upgraded, revealing huge potential for related service consumption. In addition, several Chinese cities positioned as international consumption centers are speeding up the innovation of their tax-free policies and the construction of duty-free stores in city proper, promising to make the Chinese market more appealing to consumers and commercial resources.

<sup>1</sup>2021 List of Top 100 New National Brands, Dolphin think tank.

<sup>2</sup>Source: big data from <http://www.winshangdata.com/>.

## ii. Market expansion: a shift of focus from goods to services

With the upgrading of consumption structure, tourism, cultural entertainment, education and training, medicine and health care, sports and fitness, family services as well as elderly care and infant nursing have become new focus of consumption among urban and rural residents, with spending on services outpacing that on goods. During 2013-2019, China's consumer spending on services grew by an annual average of over 11%, notably faster than the 8% growth rate of total consumption. The share of spending on services in China's total consumer spending rose from 39.7% in 2013 to 45.9% in 2019. Service consumption has become a new driver for consumption growth in China and an accelerator for the restructuring of service industry (see Chart 12).

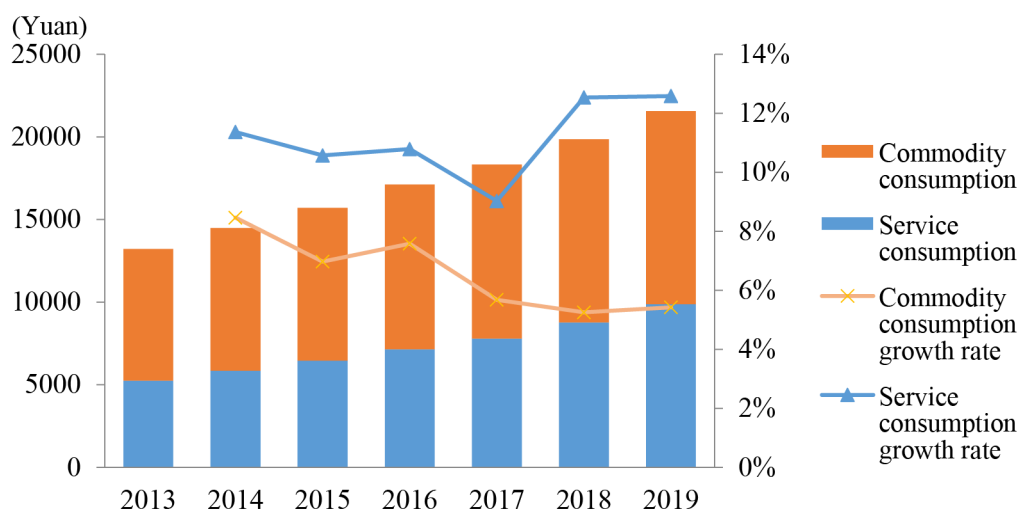


Chart 12: Growth of Chinese residents' consumption of goods and services from 2013 to 2019  
Source: China National Bureau of Statistics.

The expansion of service consumption is partly due to Chinese people's demand for a better life with greater convenience and joy. The tourism boom in recent years has given rise to a huge domestic tourist market and made China the biggest source country of the world. In 2019, domestic tourists made 6 billion trips, more than doubling the number of 2.96 billion in 2012. In 2019, the number of outbound trips for personal purposes reached 160 million, twice the level of 2012. Another contributor to service consumption growth is the new pursuit for personal accomplishment, including better health and living standards, study and career opportunities. Since 2013, urban citizens have spent a larger share of income on education, cultural activities, and medical service. The ratio of educational and cultural spending and medical bill reached 8.3% and 11.6% respectively in 2019, representing an annual average growth of 10.2% and 13%.

During the pandemic, service consumption is moving online, and innovative formats such as “non-contact” service and other innovation are gaining traction. As offline business struggles, online platforms offer new channels for service providers to do business, leading to an explosive growth in “non-contact” Internet services such as online education, medicine, entertainment and media. Moreover, companies in traditional service sectors are integrating online and offline models by ramping up digital transformation, extending presence in more dimensions. Take community group purchase for instance. The cooperation with offline channels such as community convenience stores and food markets has been stepped up. Delivery facilities such as central or grid warehouses have been established in over 300 cities and more than 2,600 towns nationwide. In the first half of 2021, sales volume and the financing scale of this segment reached RMB100 billion and RMB26.2 billion respectively, both larger than the total of 2020.

**iii. Innovation: new consumption patterns motivated by the new round of technological revolution are making headway.**

The new round of global technological revolution is making headway, changing production modes, empowering to a large quantity of products and industries, and reshaping the consumption pattern with the rise of digital consumption and green consumption, etc.

In terms of digital consumption, the 1.4 billion Chinese population stands for an enormous market and rich application scenarios for the Internet, big data, cloud computing and other digital applications, facilitating the rapid development of new consumption patterns such as online shopping, online consumption and mobile payment, and making China a new global hub for digital consumption. Take e-retail for instance. By 2019, China registered 707 million users of online shopping, and the retail sales of Internet shopping hit RMB 11,760.1 billion, accounting for 24.9% of the total retail sales of consumer goods, up by 20 percentage points from 2010. This indicates that Internet shopping has become an important pattern of daily consumption among Chinese people. Within only nine years, the share of e-retail sales in China’s total retail sales of consumer goods grew from 0.6% to 15.5%. In contrast, it took 21 years for the U.S. to raise this share from 0.7% to 15.1% (see Chart 13).

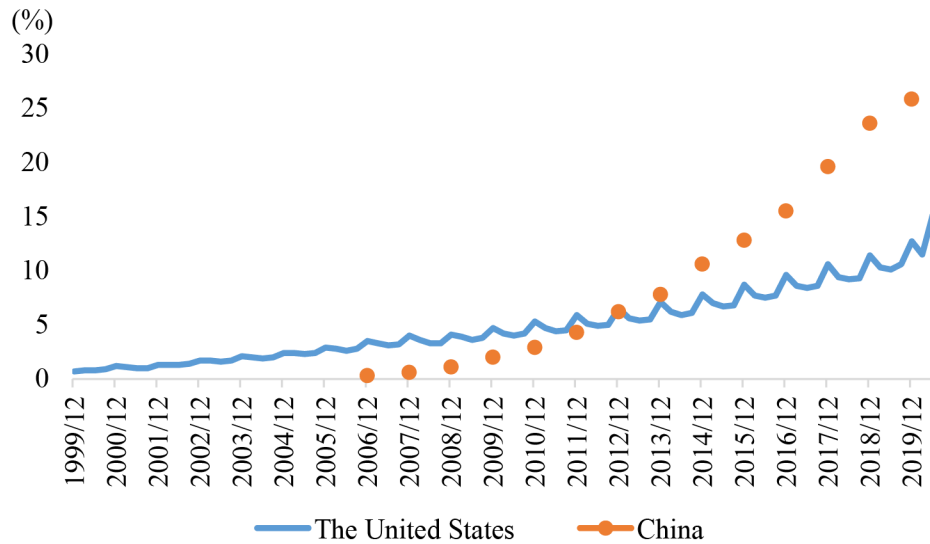


Chart: The proportion of retail sales of consumer goods in online retail in China from 1999 to 2019 and comparison with the United States  
 Source: Ministry of Commerce of China, and Census Bureau of US Department of Commerce.  
 Note: The data in the United States are quarterly, and the data in China are annual.

Accelerated application of innovative technologies has expanded the penetration of online payment and live streaming, etc., and giving rise to a large number of world-class business formats, models, platforms and enterprises. Take mobile payment for instance. Many mobile payment platforms have emerged, such as Alipay, WeChat Pay, Baidu Wallet and Quick Pass. Internet payment is becoming ever more popular at a faster pace, and it is widely applied in various scenarios including grocery shopping, travel, bill payment and ticketing. Both the value and number of mobile payment transactions have soared, with an annual average growth of 81.7% and 98.2% respectively. In 2017, China's market size of mobile payment surpassed that of USA to become the world's largest, and its transaction volume reached RMB347.1 trillion in 2019. In 2021, live commerce, a form of experience-oriented consumption, came into fashion. In the run-up to the China's online shopping carnival on Nov. 11, Li Jiaqi and Weiya, 2 most famous live-streamers in China, generated RMB18.9 billion in sales revenue in a single day.

The rapid growth of digital consumption provides a catalyst for China's digital industry and infrastructure, and helps create world-leading companies. Over 200 Chinese enterprises are on the list of unicorns, second only to America. Among them, 136 enterprises are specialized in mobility, e-commerce, cultural entertainment, community life, medicine and health care, and over 80% of unicorns are concentrated in the segments of new consumption (see Chart 14).

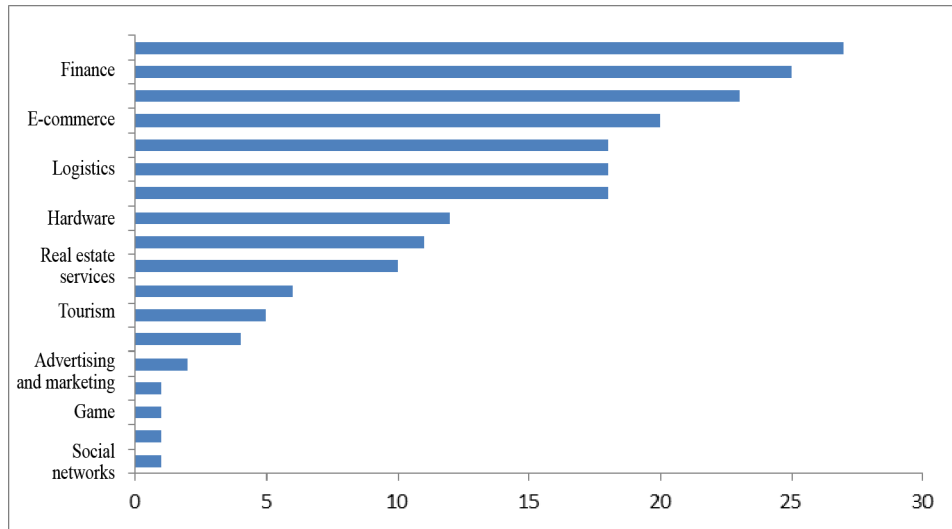


Chart 14: Industry distribution of “unicorn” enterprises in China in 2018  
Source: itjuzi.com

Green development and green consumption are becoming important growth engines. In recent years, with policy incentives, the concept of green consumption is embraced by the Chinese people, unlocking potential on both demand and supply sides, a recipe for an ever expanding market for green consumption market. Green consumer goods have become a preferred choice for consumers. According to the *2019 Report on Green Consumption Trend* by JD Big Data Research Institute, there were over 100 million SKU of green goods on the JD platform, and their year-on-year growth rate in sales was 18 percentage points higher than that of the whole platform. Green mobility has become ever more popular. During 2017-2019, the market size of car-hailing registered an annual average growth of 15.7%, expected to hit RMB600 billion in 2025. The market size of second-hand vehicles is bulging, reaching RMB1,052 billion in 2020, reporting nearly 20% of annual growth for two successive years. And it is expected to hit RMB2,115.9 billion and RMB3,407.8 billion in 2025 and 2030 respectively.

#### **iv. Segmentation: the formation of multi-level and differentiated consumer groups**

Multiple factors are behind the segmentation of consumer groups, such as changes in demographic and age structure, changes in family structure and higher education background of the population. Consumer groups vary in affordability, willingness and preference to spend, which have augmented segmentation of the consumer market and anchored the rise of diversified consumption hotspots across multiple levels.

First, China has the world’s largest middle-income population with the strongest growth potential, a major source of consumption growth and innovation. Survey shows that China’s middle-income population grew from 420 million in 2014 to 500 million in 2018, and its share in the total population

rose from 30.7% to 35.8%. People from low-income group have enjoyed increase in household income and moved up to middle-income group at a faster pace. 33% of low-income population in 2014 accomplished their upward move in 2016; and share of upward reclassification rose to 39% from 2016 to 2018<sup>3</sup>. In recent years, the share of middle-income population in total social consumption has grown continuously from 43.5% in 2014 to 50.9% in 2018. The income elasticity of demand for middle-income group was around 0.6 during 2014-2018, higher than high-income group (0.23) and low-income group (0.38). This indicates that income growth of middle-income group plays a larger role in anchoring consumption growth.

Next, the young generations born in the 1980s, 1990s and 2000s have become the most robust and innovative driving force for consumption. The so-called post-80s, post-90s and post-2000s were generally born into well-off families, native to opening up and the Internet. They are well-educated with an open mind toward new things and technologies, and prefer individuality and fashion in consumption. They constitute a consumer group with the strongest innovative motivation, and serve as the cornerstone for China's medium-to-long term consumption growth. In 2019, the new generations aged 20-40 accounted for 28.9% of the total population, who will contribute roughly 40% to China's consumption growth in the next 15 years.

Third, consumption potential of the silver-hair population shall not be underrated. With quick ageing of the Chinese population, the number of elderly citizens will keep expanding. In 2019, China's silver-hair population aged above 60 exceeded 250 million, accounting for over 18% of the total population. The share is expected to reach around 30% in 2035. They will become the largest consumer group in China. Different from developed countries, this population in China is relatively younger on average, with those aged 60-75 accounting for 70% of the total senior-age population in 2019. With the improvement of social security, elderly people under 75 have a strong desire to consume for joy and health. Their huge demand for personal items, health care products and services as well as culture and tourism will contribute to over 20% of China's consumption growth in the next 15 years. Their consumption potential and their ability to drive the market for old-age products and services shall not be underestimated.

#### **v. Remodeling: large central cities and city clusters will become important growth poles for China's consumption.**

In recent years, mainly driven by the rise of city clusters, China's urbanization has geared up, with its urbanization rate approaching 63%. The consumer market is increasingly distributed among the city clusters. In 2019, the share of cities in China's total retail sales of consumer goods surpassed 85%, and the combined share of the four city clusters of the Yangtze River Delta, the

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<sup>3</sup>Calculated by the Institute of Market Economy, Development Research Center of the State Council and the Chinese Social Science Survey Center of Peking University.



Guangdong-Hong Kong-Macao Greater Bay Area, the Beijing-Tianjin-Hebei region and the Chengdu-Chongqing economic circle, exceeded 50%.

Home to international consumption centers, these cities will remain the hubs for the upgrading of domestic and foreign consumption and the allocation of global consumption resources. Since 2015, 10 Chinese cities have been ranked world's top 140 retail markets. Among them, Beijing and Shanghai have surpassed the benchmark of RMB1 trillion in retail sales of consumer goods for two successive years, ranking among top 10 destinations for world-famous consumer brands. The retail sales of consumer goods in 8 Chinese top cities, including Shenzhen and Chengdu, have exceeded RMB500 billion. As the bellwether of consumption innovation, these cities provide scenarios and resources to meet the demand for consumption upgrading, and play a leading role in promoting nationwide consumption. In July 2021, Shanghai, Beijing, Guangzhou, Chongqing and Tianjin became the first state-level pilot cities in building international consumption centers, and started to implement pilot programs. This has been a blessing for the recovery and innovation of local consumer markets. They have led the whole country in the recovery of total retail sales of consumer goods, bottoming out much earlier than towns and villages. In the first half of 2021, their sales growth remained robust, 1.7 percentage points higher than urban average growth and 1.0 percentage point higher than rural average growth (see Chart 15). In the future, Shanghai, Beijing and other central cities will also become important growth engines for domestic and global consumption.

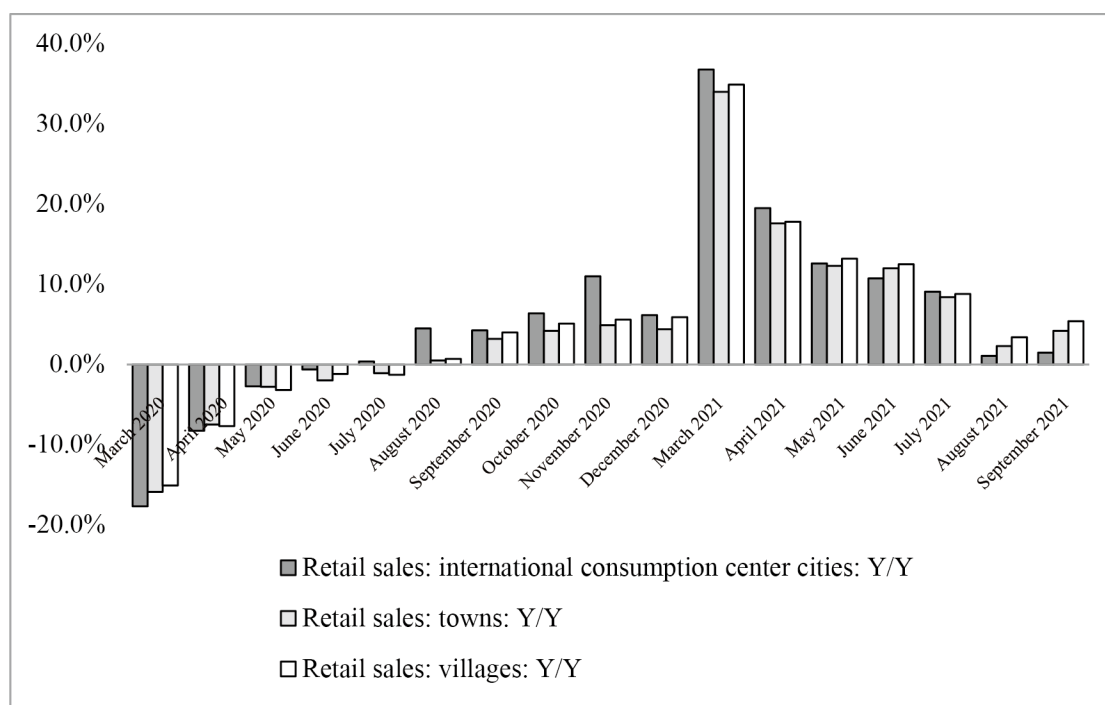


Chart 15: Consumption growth rate of China's international consumption center cities, towns and villages from 2020 to 2021

Source: China National Bureau of Statistics

Note: International consumption center cities include Shanghai, Beijing, Guangzhou, Tianjin and

## Chengdu.

Intensified regional integration turns metropolitan areas and city clusters into new hubs for consumption. According to international experience, the share of retail in American metropolitan areas grew from 55% in the end of 1950s to nearly 80% in 1982, and the share of retail in Japanese metropolitan areas rose from 36% to 41% as the country's urbanization rate increased from 72% to 86%. China enjoys a large territory. With expedited implementation of regional development strategies in the Yangtze River Delta, the Guangdong-Hong Kong-Macao Greater Bay Area, the Beijing-Tianjin-Hebei city cluster and the Chengdu-Chongqing economic circle, consumption will continue to concentrate in metropolitan areas and city clusters. According to preliminary estimates, retail sales of consumer goods in the 4 areas respectively account for 24.2%, 10.5%, 7.9% and 8.1% of the national total, in combination standing for half of the consumer market in the Chinese mainland (see Table 2).

Table 2: Consumer Market Size of Metropolitan Area and City Cluster

		Total retail sales of consumer goods (Unit: RMB100 million)	Proportion in China's consumer market (Unit: %)
Beijing-Tianjin-Hebei city cluster	Beijing	15,063.7	3.69%
	Tianjin	4,218.2	1.03%
	Hebei	12,985.5	3.18%
Yangtze River Delta	Shanghai	15,847.6	3.88%
	Jiangsu	37,672.5	9.23%
	Zhejiang	27,343.8	6.70%
	Anhui	17,862.1	4.38%
Guangdong-Hong Kong-Macao Greater Bay Area <sup>4</sup>	Guangdong	42,951.8	10.53%
Chengdu-Chongqing economic circle	Sichuan	21,343.0	5.23%
	Chongqing	11,631.7	2.85%
Total			50.71%

Source: National Bureau of Statistics, P.R.C.

Overall, the Chinese market has witnessed the rise of new consumption patterns with enormous potential. They will greatly accelerate the adjustment and upgrading of China's supply system, move its manufacturing industry to up the value chain and gear up the development of its service industry. Moreover, they will attract investment from domestic and foreign enterprises, improve the efficiency of China's modern circulation system, and promote the connection and interaction between the domestic market and the foreign market, thus energizing the transformation to a new development paradigm.

### III. China's new consumption will renew impetus for global economic development

**i. A positive prospect and a stable environment for economic development lay the groundwork for the continuous expansion of the consumer market**

<sup>4</sup> To facilitate calculation, only data from Guangdong were counted for the Guangdong-Hong Kong-Macao Greater Bay Area. The share will be larger if Hong Kong and Macau are also factored in.

Since 2020, in defiance of the fallout of the COVID-19 pandemic, China has led the recovery from recession, showing the resilience and vitality of its economy. Despite relapses of the pandemic, the global economy is on a trajectory towards full recovery. China remains the only major economy with positive growth in 2020. On top of the high basis in 2020, China has managed to keep high-speed recovery in 2021. Its consumer market size has surpassed the pre-pandemic level, and consumption has again become the primary growth driver. Going forward, China will continue to enjoy a favorable environment for growth. China's GDP grew by 9.8% year-on-year in the first three quarters of 2021, reporting an average growth of 5.2% for 2020 and 2021. These hard-won achievements have contributed to the global recovery. While revising down their world economic outlook, international organizations remain confident in China's growth in 2022. Estimations by IMF, World Bank and OECD tally China's GDP expansion in 2022 at 5.6%, 5.4% and 5.8% respectively, higher than their expected world economic growth by 0.7, 1.1 and 1.4 percentage points. The Chinese economy is steadily navigating through global fluctuations with assurance. The ever-expanding Chinese consumer market will renew impetus for global economic growth.

**ii. Continued growth of household income and balanced income distribution have helped unlock consumption potential**

Household disposable income has maintained high-speed growth for a long time. Since 2002, the average salary of urban employees has grown by 12.3% per annum, generally equivalent to the growth rate of GDP or tax revenue (see Chart 16 and 17). Income distribution has become more balanced and coordinated. The urban-rural income gap continues to narrow, as the urban/rural income ratio fell from 2.8 in 2013 to 2.6 in 2020 (see Table 3). To buffer the short-term impact of COVID-19, the Chinese Government assigns priority to stabilizing employment and safeguarding market entities. It continues to offer policy incentives by cutting labor cost and financing cost and providing rental relief to anchor the job market, accelerate economic recovery and fuel income growth. Thanks to these efforts, urban and rural income has been growing steadily. In addition, China will continue to expand its middle-income group. It is one the way to becoming home to the world's largest middle-income consumer population, ensuring the continued expansion of its consumer market.

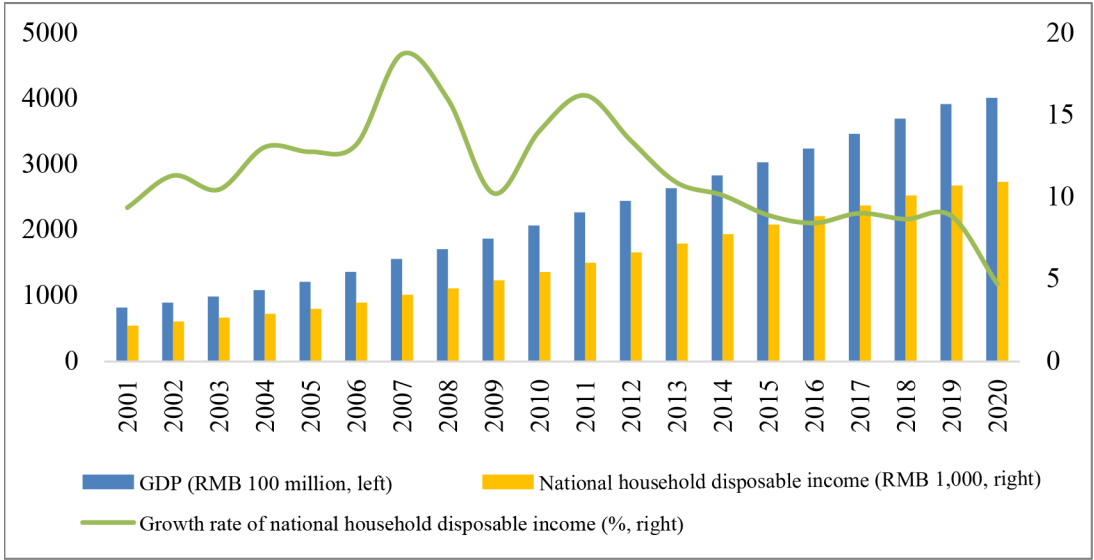


Chart 16: Change of GDP and residents' average disposable income  
 Source: China National Bureau of Statistics.

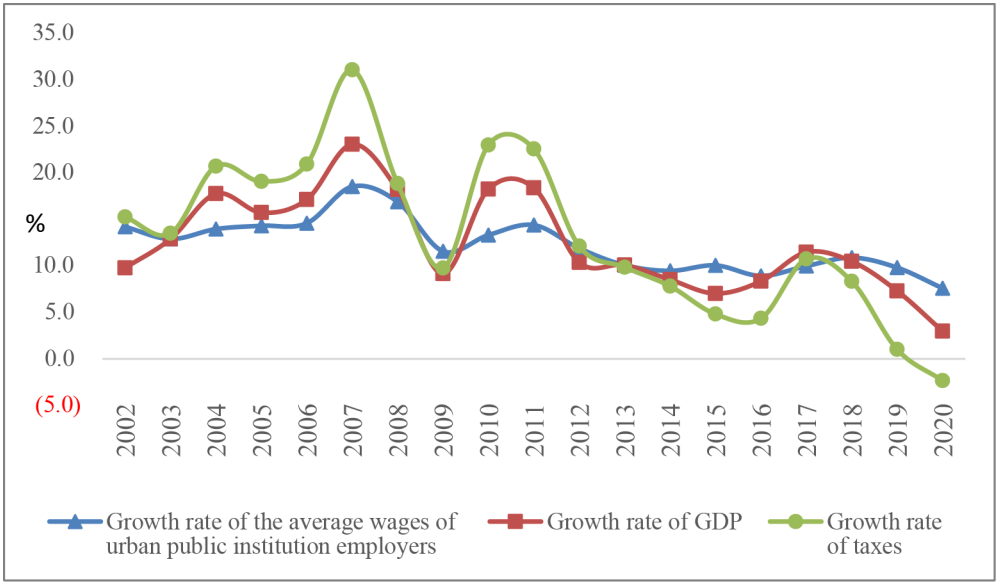


Chart 17: Growth rate of wages, GDP and tax revenue from 2002 to 2020  
 Source: Calculated according to the data of China National Bureau of Statistics.

Table 3: China's Urban and Rural Per Capita Consumer Spending 2013-2020

Year	Urban Per Capita Consumer Spending (RMB)	Rural Per Capita Consumer Spending (RMB)	Urban/Rural
2013	18,488	7,485	2.5
2014	19,968	8,383	2.4
2015	21,392	9,223	2.3
2016	23,079	10,130	2.3
2017	24,445	10,955	2.2
2018	26,112	12,124	2.2
2019	28,063	13,328	2.1
2020	27,007	13,713	2.0

Source: National Bureau of Statistics, P.R.C.

### **iii. Propensity to consume is rebounding, enabling constant innovation and upgrading of consumption**

In comparison with other countries, China has greater potential to motivate its macro propensity to consume. The willingness to consume has touched the bottom of the U-curve and is moving upward again, a message of relief for the upgrading of consumption and the unleashing of consumption demand. In contrast, micro propensity to consume at the household level is still decelerating, though at a moderating rate, in China. This is similar to the rest of the world, mainly due to short-term shockwaves from the pandemic and natural disasters. However, there are early signs of recovery in consumption propensity and consumer confidence. Since the start of 2021, China has contained the downward trend, and demonstrated stronger momentum for bottoming out quarter by quarter. In an optimistic scenario according to historical pattern, if the momentum remains positive for the latter half of 2021, household propensity to consume for the year is expected to hit 69.4% and return basically to the pre-pandemic level (see Chart 18). A robust job market, stable income growth, policy incentives for parenthood and reinforced social security will motivate consumers to spend, providing important momentum for consumption innovation.

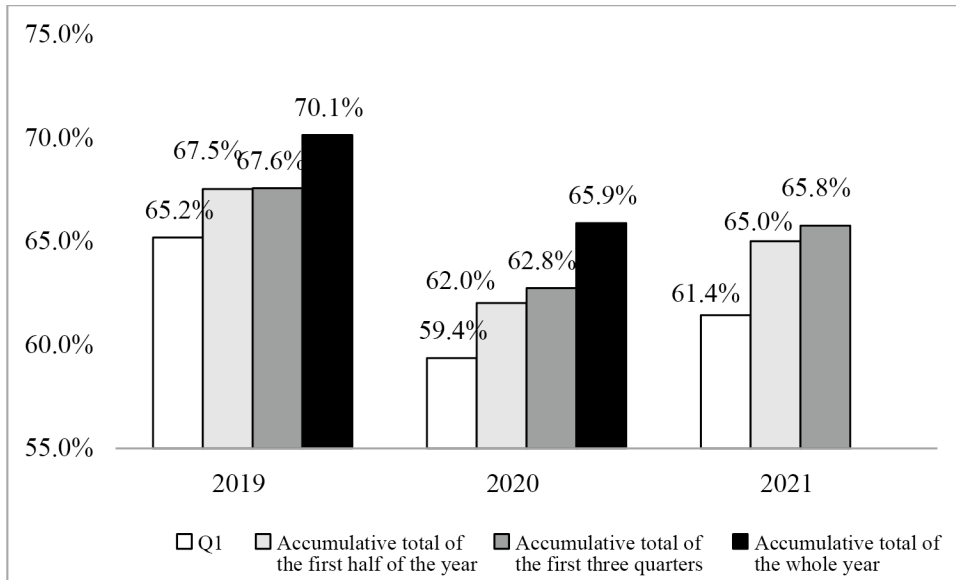


Chart 18: Comparison of Chinese residents' consumption tendency in each quarter of 2019-2021  
Source: China National Bureau of Statistics.

**iv. China is accelerating the transition to a new development paradigm, reaffirming its commitment to a higher level of market openness and shared opportunities.**

The world economy is empowered by innovative consumption patterns that emerge like never before. They facilitate the development of new supplies and new industries, and meet the growing demand of global consumers for a better life, thereby building a huge domestic market where consumption and investment reinforce each other in coordinated development. In 2021, China successfully held the 1<sup>st</sup> China International Consumer Products Expo, the 4<sup>th</sup> China International Import Expo and the 8<sup>th</sup> China International Fair for Trade in Services. The influence of such high-level events and platforms is rising, stating China's commitment to open wider to the outside world and share with other countries innovation opportunities in the consumer market. Shanghai, Beijing, Guangzhou, Tianjin and Chongqing have pioneered the initiative to build international consumption center cities, which will pool global resources in consumption innovation and international brands and provide platforms to experiment with innovative consumption patterns, products and services. With huge demand, the Chinese market will be a magnet for production factors around the world, and connect the domestic market with the foreign market more effectively. Furthermore, this will meet the demand for consumption innovation and upgrading, and inject positive energy into the international community, thus fostering a dual-cycle pattern where domestic and foreign markets supplement each other for shared growth.

#### **IV. Issues to be solved for further unlocking consumption potential**

Expanding domestic demand and driving consumption across the board are important policy measures to cope with the COVID-19 impact and accelerate economic recovery. They are also strategic choices to spur high-quality development in the medium-to-long term and integrate China into global development. Notably, the enormous consumption potential is yet to be fully unleashed due to many obstacles or restraints, such as mismatch between effective and medium-to-high end supplies and new consumption needs; gaps in new infrastructure facilities such as internet communication, multi-modal transport system, new energy and eco-environment protection; institutional barriers to the fulfillment and release of consumer needs in relation to income distribution, fair competition, middle-income group expansion, consumer protection, social security and opening up.

**First, China needs to accelerate the supply-side structural reform and offer more choices and supplies to cultivate and meet new consumption needs.** With domestic demand expansion as a strategic focus, it should quickly foster a complete domestic demand system, and integrate the strategy of expanding domestic demand with the strategy of deepening the supply-side structural reform, so as to guide and generate new needs through innovation and quality supplies. This requires more efforts to encourage innovation, increase supplies, fix weak links, unblock circulation, expand opening-up, and better align supply system to domestic demand by optimizing the structure and quality of supplies.



**Second, China needs to enhance the institutional and systematic reform and innovation on the supply side, and create a higher-level dynamic equilibrium in which demand drives supply and supply creates demand.** It should strengthen the fundamental role of consumption in economic development, promote consumption across the board, follow the trend of consumption upgrading, improve conventional patterns of consumption, foster innovative patterns, properly raise public consumption and advocate green, healthy and safe consumption. Meanwhile, it should encourage the development of new models and forms of consumption, facilitate the online-offline fusion of consumption, build international consumption center cities, and continue to expand urban and rural consumer markets.

**Third, China needs to beef up policy support for consumers and strive to expand the middle-income group.** The major pro-consumption policies of the Chinese Government are to stabilize employment and improve employment quality, raise the level of human capital, and diversify income sources so as to grow people's spending power and expand and upgrade consumption. China should also lower the burden of housing, taxation and birth on the low-income group, and increase their affordability and willingness to consume. It should encourage the sound development of consumer credit by cutting cost through technological innovation and offering reasonable credit support for upgraded and expanded consumption. In addition, it should enhance public services and innovate pro-consumption mechanisms so as to raise spending power, improve expectation and build confidence.

**Fourth, China needs to properly guide innovation in consumption, so as to upgrade the quality and scenarios of consumption.** It should step up policy innovation in duty-free retail, foster and expand high-end consumer markets including duty-free consumption, remove restraints on product category for duty-free shopping, establish duty-free stores with distinctive features, and keep improving the environment for duty-free consumption. Multiple measures should be taken to support the innovative development of Chinese-brand consumer goods, upgrade their branding and quality and expand their variety, build high-level laboratories for quality control and technical evaluation of consumer goods, provide national-brand goods access to the duty-free retail market, encourage duty-free stores to offer national brands, and foster new national brands that are popular among Chinese and foreign consumers.

**Fifth, China will be committed to opening-up wider, and make more efforts to integrate its consumer market into the global consumer market.** In recent years, the Chinese Government has advanced the opening-up of its consumer market and facilitated the import of goods and services through open platforms such as the China International Import Expo in Shanghai, the China International Fair for Trade in Services in Beijing and the China International Consumer Products Expo in Hainan. In the meantime, it will accelerate the opening-up of the service sector, and continue to expand the openness of various service industries relevant to consumer needs by setting up the

negative list of market access and the negative list of cross-border trade in services. In addition, it will build international consumption center cities with worldwide influence, competitiveness and reputation, attract and cluster renowned national and foreign enterprises and brands as well as innovative brands, set up well-known business clusters, innovate and diversify consumption models, and foster a consumption environment that appeals to people near and far.

**Sixth, China will seize the opportunities of green development and digital economy and foster new growth poles for green consumption and digital consumption.** To boost green consumption, it will promote public awareness, offer rational economic incentives, support the innovative upgrading of green consumer goods, build relevant infrastructure and keep improving an enabling policy system. China will also strengthen digital empowerment, highlight the role of digital economy in innovation and entrepreneurship, cultivate new products, brands and business patterns, create new vehicles, scenarios and models of digital consumption, and unlock new consumption needs through innovation in digital economy.

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