

CHANGING CONSUMPTION PATTERNS IN CHINA

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Summary

Market sales in China entered a stable stage in early 1990s. The total value of consumption products by the whole of Chinese society in 1991 was US\$3739.7 billion; after taking price rises and inflation into account. This total consumption reflects an annual increase of 10%. The purchasing power in China is amazing. The low income and high consumption in China is a new trend. Chinese people have a long tradition of saving money for later use, but consumption also facilitates economic growth. Consumption by the population comprises 80% of the total consumption, becoming the dominant determinant of economic growth. In the past, China's consumption went through several basic stages. Between 1978 and 1984, Chinese consumption was mainly on food, although consumption in urban areas was slightly more advanced. In 1992, production in China first went into surplus. The Chinese consumption market changed in 1996 from a demand market to a supply market. In the future, the pattern and trend of consumption will have new characteristics. For example consumption in restaurants and on traveling will increase.

The increase in consumption is not even. The weight of consumption in urban areas will increase as a result of two factors—the increasing population and the increasing per capita level of consumption. In energy consumption, the level of energy wastage is very high. China's unit energy consumption is 30 to 90% higher than the level of developed countries. Coal consumption for electricity is 30% higher than the international standard of the industry, and coal consumption for cement is 5% higher than the industry standard. The amount of coal reserves is enormous in North China but less in South China, more in West China and less in East China. China is gradually developing other kinds of energy. China's energy production and consumption must coordinate with the conditions of economic growth and natural availability of energy resources. The production of energy in China is increasing to meet the demand.

Growing consumption on automobiles has created serious problems in China. Domestic oil is unable to match China's economic growth. Oil consumption has also led to serious air pollution. The supply of cars in China lags far behind the demand, even though, in 1997, there was only one private car per 400 people. Cars bring major changes in family life. In 1997, 1.3% of Chinese families had private cars, the great majority being in eastern and coastal areas. Car consumption in China has many obstacles to overcome. The abnormally high price of car is not well accepted by Chinese consumers. The number of Chinese people visiting Thailand far surpasses the number of Thai people visiting China. In Indonesia, Chinese tourists and consumption level rank the first.

China in the past experienced the assignment of welfare housing. Today Chinese people are using income to buy houses on the open market. China calls the new housing system 'monetary assignment of housing'. Monetary assignment should correct abnormal behavior of consumption. The house as a commodity will be able to circulate in the market, and the market will use its invisible hands to regulate consumption. The income earned by Chinese people is low, and using limited income to buy a house is a new focus. The price of houses in China is high, while income is low, but many Chinese people are buying houses. The greatest concern now in Chinese villages is the need to build a house.

In 1997, fish farming provided about two thirds of the fish consumed in China. The Chinese are changing their diet.

In Shanghai, the consumption of education per capita increased annually by 45%. The price of books is increasing rapidly. Between 1993 and 1996, the number of books sold in China increased by more than 24%. Even with the high prices of books, there is a strong market for book consumption. Information consumption is surely a future trend in China, particularly with computers. Consumption on health, related service and environment is gradually becoming fashionable in China.

In 1992, China established the Management Center for Green Food. Drug consumption is a destructive force, even in China. New to most Chinese, consumer credit is promoted by the People's Bank of China with housing loan and automobile loan to ordinary citizens. At the end of 1999 credit consumption accounted for less than 1% of total consumption, but the trend is growing rapidly. Consumption of family electronics is one of the main activities of the 1990s.

1. Escalating demand for consumption

Increasing demand for consumption comes from two major factors in China. One is the absolute increase in the size of the population, and the other is the expanded economy and greater disposable income.

Because of the strong policy of population control, China's total fertility has reduced to a level lower than that of the replacement fertility, but the young age structure of the population produces high population momentum. China's population is likely to increase by nearly 500 million people between 2000 and 2050, up to a total of 1.6 billion. This is equivalent to adding another Beijing annually for the next 50 years.

Because the size of population is so large, even a slow rate of population growth of less than 2% implies a huge absolute increase.

China's gross national product (GNP) increased by leaps and bounds during the 1980s and 1990s. The total jumped from US\$120 billion in 1980 to about US\$1000 billion in 1999. In 1998, the growth rate of GNP was 7%, and 7.3% in 1999. Between 1980 and 1999, the average growth rate of GNP was nearly 8% per year—the fastest in the world in that period. The industrial sector leads all others in rapid expansion, reporting an average growth of more than 13% each year, and showing strong potential for further possible increase. The agricultural sector advances at only half that pace. Tertiary employment increased its share of output in GNP from 13% in 1978 to over 32% in 1999.

According to reports by China's State Statistics Bureau, in 1999 the primary sector increased its value to US\$1736.8 billion with an annual increase rate of 2.8%. The secondary sector increased its value to US\$489.9 billion with an annual increase rate of 8.5%. The tertiary sector increased its value to US\$336.8 billion with an annual increase rate of 6.9%. The total grain yield was 500 million tons, a reduction of about 1% from the previous year. In 1999 Chinese enterprises improved their productivity—the net benefit after discounting all costs being US\$23.9 billion, an increase of 61.5% from the previous year. Total exports had a value of US\$23.4 billion with an annual increase rate of 6.0%. In urban areas, the average annual disposable income of each resident was US\$704 with an annual increase rate of 9.3%. In rural areas, the average annual net income of each peasant was US\$265 with an annual increase rate of 4%. China's proclaimed goal at the beginning of the economic reform in 1978 was, by year 2000, to attain *xiaokang shuiping*, or a comfortable living standard for the nation as a whole. This meant a quadrupling of the country's total industrial-agricultural output between 1978 and 2000. China achieved this goal early, in 1998.

Market sales in China entered a stable state in the early 1990s. As incomes were rising, the average price of sales decreased in 1991 by 2.9%, and the retail price index fell by 1.3%. The total value of consumer products for the whole Chinese society in 1991 was US\$3739.7 billion. After allowing for inflation, this total consumption represents an annual increase of 10%. During the 20 years between 1979 and 1999, overall consumption increased by an annual average of 7.2%.

The characteristics of China's consumption pattern in the 1980s and 1990s can be summarized as follows. The first characteristic was the rapid increase in consumption level, especially in urban areas. The second was the great regional differentials of consumption in levels and types, mainly because of different base conditions and uneven economic development. The third characteristic was the gradual enlargement of the gap in consumption levels between urban and rural residents. A fourth characteristic was new preferences and tastes as well as an obvious and significant shift in consumption from short-term needs to long-term ones.

The average consumption tendency in China, measured by the ratio of relative change in consumption to relative change in income ($\Delta C / \Delta I$), has decreased from 0.986 across the whole country (0.986 in urban areas and 0.987 in rural areas) between 1949 and

1977, to 0.782 (0.815 in urban areas and 0.713 in rural areas) between 1978 and 1995. This indicates that before the economic reform almost all income was used for consumption. After the reform income still had the major impact on consumption, but other economic factors come into play. These other economic factors, which are more prevalent in urban areas than in rural areas, consist of changes in preference of consumption, variation in price, addition of tax, relocation of available resources, etc. These changes provide evidence that the market, as an invisible hand, has the flexibility to adjust China's consumption.

As a developing country, China's per capita GNP ranks very low in the world. The purchasing power in China is, however, amazing. In 1999, the total expenses on commodities came to US\$450 billion, which is three times as high as the figure in 1993, with an annual growth rate of 18%. The low income and high consumption in China can be explained as follows. First, Chinese people have many subsidies due to the communist system; the average purchasing power is estimated to be 100-200% higher than the average income. Second, a small number of people who have just become rich have very high levels of consumption. These people in general are young, following closely the market trend. Third, Chinese people have a long tradition of saving money for later consumption. The high consumption in the 1990s was partially a result of spending the money earned in the 1980s. By the end of 1998, China's total bank saving was more than US\$5000 billion, that is 200 times as high as the saving before the reform in 1977. To demonstrate the success of economic reform in China, one can simply check the change in personal saving. The change in personal saving is 25.5 times between 1952 and 1977 (25 years), while the change in personal saving was 200 times between 1978 and 1998 (only 20 years). This rapid increase in personal saving to such a high level is historically unprecedented in China, and is probably unique in the world. Besides the bank saving, many Chinese people have stock shares, treasury bills, and foreign currencies. The stock market in China had just developed in the late 1980s, and it attracted many individuals for enthusiastic investment. This investment was particularly high in the late 1990s due to the very low bank interest rate. Introduced in the early 1980s, the issue of treasury bills was a new financial practice for collecting money from individuals. Although individuals can claim a slightly higher interest rate from treasury bills than the interest rate on bank deposits, money for treasury bills has to be collected and used by government for a longer term, e.g. at least for five years. In one month, February 1998, the Chinese government issued US\$12 billion treasury bills. Between 1996 and 1999, China People's Bank reduced the bank interest rate from 6.1% to 2.1% and a new saving tax of 20% was implemented in November 1999. The interest adjustment and savings tax were all for the purpose or persuading people to move their money into investment and consumption in order to stimulate the economy. At the end of 1997, the circulating cash in China was very high, amounting to US\$1200 billion, which means an average amount per person of US\$120. A sampling survey by China People's Bank in 1998 showed future intentions for consumption. The first five intentions, which account for 65%, reveal follow information: 24.7% of people who save money in a bank do so for daily use, 13.0% for education of their children, 12.7% for buying a house (in urban areas) and building a house (in rural areas), 7.9% for consumption of high class commodities such as a car, and 7.4% for old age support. Longitudinally, these figures show that there was an increase of 2.7% for buying and building houses, and a total decrease of 0.5% for education of children and for

consumption of high class commodities. The study also indicated that the surplus of income after consumption went into the following channels: (1) fund raising within enterprises, (2) stock market, (3) investment and management of business, and (4) bank saving.

After the economic reform the Chinese government clearly understood that consumption also facilitates economic growth, and the importance of this. After 1978, the government had been considering satisfying the gradually increasing needs for materials and cultures as important duties of various administrations, but consumption gradually solidified its indispensable position guaranteeing the normal function of national economy. This change of strategy for economic development led to a profound transition of ideology and norms for the Chinese people. People now are very active talking and pursuing consumption as a fashion for a new life. Chinese researchers found that consumption accounted for about 58% of the GDP in 1997. Consumption by the population comprised 80% of total consumption, and became the dominant determinant for enhancing economic growth.

In the past, China's consumption went through basically three stages. Between 1978 and 1992, the growth of investment demand, the growth of consumption demand, and the growth of GDP were all attributed to the characteristic of shortage. In this period, the contribution of consumption to economic growth was mainly determined by investment. Between 1978 and 1984, Chinese consumption was mainly on "food", although the consumption in urban areas was slightly more advanced. Between 1985 and 1990, Chinese consumption changed to "use" items such as TV, VCR, refrigerator, and bicycle, although the items were different in rural and urban areas. On entering the 1990s, people greatly improved their living standards, and consumption then focused more and more on "lodge" and "move", which will be hot pursuits for at least several decades. In 1992, the consumption market in China produced a surplus.

The surplus consumer commodities were firstly industrial products. Then in 1996 the principal agricultural products also appeared in surplus, as the market revealed a greater supply than demand. Regarding the needs of people for food, clothing, and use, the consumer market switched from a demand market to a supply market. Between 1992 and 1993, the contribution of consumer demand to economic growth began to follow the general trend and law typical of countries with a market economy. In a situation of relative surplus of consumer commodities, constraints of economic growth have replaced the supply of resources with market demand. And at the same time the main factors to determine the production scale and investment size changed to the scale and size of market demand. In 1993, China strengthened its macro-regulation, and over-expansion due to investment demand was gradually restrained; this contributed greatly to the realization of low inflation rate and rapid growth, as well as to the stability of increasing consumer demand. In urban areas in the late 1990s, families typically possessed durable commodities such as a TV, washing machine, refrigerator, and stereo recorder. Some families are even equipped with telephone, air-conditioning, computer, mobile phones, and automobiles. In rural areas, from 1978 to 1995, consumption also changed from self-reliance and self-sufficiency to availability of commodities and a free market. In rural area in 1978, consumption for self-reliance accounted for about 59%, but by 1997, the same consumption had decreased to 30%. In the whole country, the

mode of consumption changed from passive restraint consumption with limited supply to an active selective consumption with sufficient supply, as at present. This change is very significant for the life of Chinese people and society, but we have to acknowledge that there is insufficient consumption such as the bigger weight of no-market elements and welfare tradition.

In the future, the trend of consumption and the pattern in China will have following characteristics. Firstly the level of consumption will increase rapidly, because of the low base of consumption that has capacity to grow, and more importantly because of the rapid economic growth foreseeable in the first 20 years of the twenty-first century.

The economic growth will provide more significant material power to consumers. While the level of consumption increases, the differentials of consumption levels among the different strata of cities, between rural and urban residences, and between various regions, to a certain degree, will shrink or disappear. The second characteristic is that the structure of consumption will change considerably.

The change in consumption structure has experienced the three stages. The first stage was the primitive structure of consumption that satisfied the basic needs of consumers. The second stage was the improving structure of consumption. The third stage is the advanced structure of consumption that has diversified the commodities. In the first 20 years of the twenty-first century, China will move from the second into the third stage.

During this transition in consumption structure, regular durable commodities will be popularized for a majority of rural consumers, and durable commodities will be substituted with more advanced versions as well as advanced durable products in urban areas and in some developed rural areas. During this period, the service consumption in urban areas will have an obvious increase.

Consumption in restaurants and expenditure on traveling will increase. Information as a kind of direct consumption will become an important component, and credit consumption will have been popularized. The third characteristic is that the consumption behavior of people will become more rational.

The improved living standard and existence of income differentials will be the norm. Under the gradual enrichment of material wealth and enlargement of consumer choice, the rushing purchase and concentrated consumption typical of the 1980s will be gone and never reappear. Instead, Chinese consumers will be more careful and will be more influenced by personal tastes and preferences.

The increase in consumption is not even. In urban areas, annual per capita consumption has increased from US\$51 in 1978 to US\$903 in 1997, with an annual growth rate of 15.2%. In rural areas, it has increased from US\$16 in 1978 to US\$203 in 1997 with an annual growth rate of 13.4%. Although the increase appeared in both rural and urban areas with amazing speed, the gap is enlarging too. Nevertheless, the percentage of people living in rural areas is decreasing constantly from 75% in 1982 to 66% in 1995. This means that the weight of consumption in urban areas will increase as a result of two contributing forces, the increasing size of the urban population and their increasing

level of consumption.

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Biographical Sketch

Born in 1963, **Li Yong-Ping** obtained his degrees of M.A. in Statistics and Ph.D. in Demography at the University of California at Berkeley in 1986 and 1990 respectively. He was once a visiting professor at the University of Chicago in 1994 and in Indiana University in 1997. He is now a professor in Peking University.