New Consumption: to Inject Strong New Impetus into the New Development Pattern [1]

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Abstract: Over the past 40 years of reform and opening up, the living consumption level of the Chinese people has been greatly improved. We have made a historic leap from lack of basic living necessities to prosperity for all, and are embarking on a new journey to build a modern China. People have a stronger desire for a better life, and five new trends and new driving forces of consumption, namely, "quality improvement, transformation, differentiation, innovation and remodeling", have emerged, which are not only the main driving force and "ballast stone" for the steady growth of the national economy at present and in the future, but will play a very important guiding and driving role for the realization of high-quality development, the acceleration of the construction of a modern industrial system, and the realization of innovation-driven development in China, as well as provide strong new impetus for the new development pattern in which domestic circulation play a dominant role and domestic and international circulations mutually reinforce each other.

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[1]The report only represents the views of the author without reflecting the views of the organizers and the government.

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I. Consumption is becoming the major impetus of China's high-quality development phase

The year 2021 is a year of special importance in China's modernization process. It is the year when the building of a moderately well-off society in an all-round way will come to a close and the building of a modern socialist country will start. Faced with the change of development stage and the severe challenge of external development environment, the Chinese government has made "forming a strong domestic market and building a new pattern of development" the focal point of the Fourteenth Five-year Plan, has clearly required that we should "adhere to the strategic basis of expanding domestic demand", and has made comprehensively promoting consumption and accelerating the cultivation of a complete system of domestic demand an important development measure during the period of the Fourteenth Five-year Plan, highlighting the important position and role of consumption in China's economic development at present and even in the medium and long term.

On the one hand, consumption has played an increasingly important role in driving China's economic growth. For a long time, China's economic growth had been mainly driven by investment and export, and consumption had accounted for a relatively low proportion of GDP. But in recent years, as China has moved from high-speed growth to high-quality development, consumption has become increasingly important as a "ballast stone" of economic growth. Since 2010, China's consumption rate has continued to rise from 47.4%, and has generally stabilized at more than 50% in the past decade; Since 2014, the contribution of consumption to GDP growth has exceeded that of investment for six consecutive years, and has remained at about 60% overall. This reflects the growing role of final consumption as the primary driving force of China's economic growth (see Figure 1).

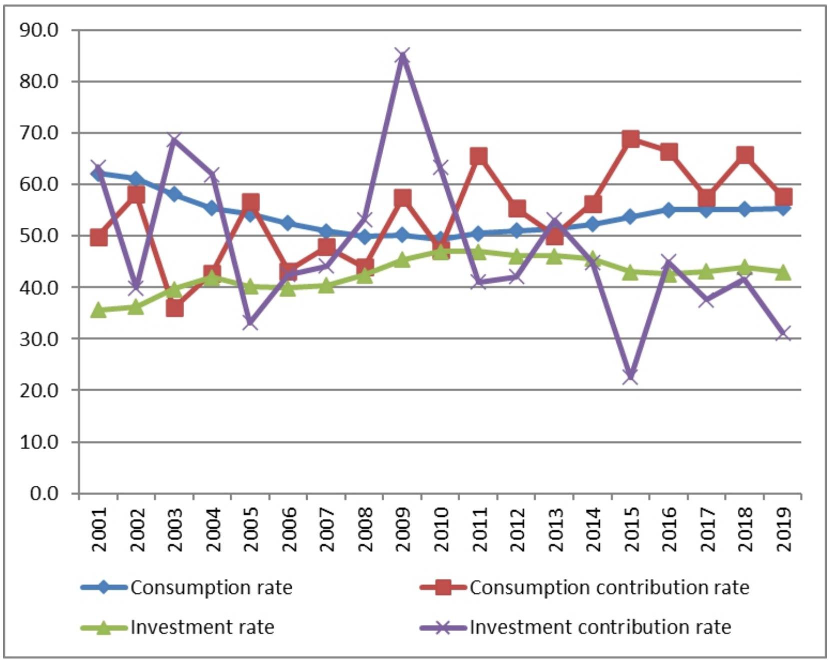


Figure 1 Contribution Rates of Consumption and Investment Demand to GDP and GDP Growth

Source: China Statistical Yearbook 2020

On the other hand, consumption will play a more important role in driving China's medium- and long-term development. In 2019, China's per capita GDP and GNI both exceeded USD10,000. It is estimated that by the end of the Fourteenth Five-year Plan, China's per capita GDP will exceed USD14,000, exceeding the high income threshold, and it is expected to reach the middle and high income level in 2035. According to international experience, when a country moves from the middle income development stage to the high income development stage, the importance of consumption in national economic growth will further increase. In the future, China's consumption rate is expected to rise to 60%. In the medium and long run, consumption will continue to play an increasingly important role in driving China's economic and social development.

Table 1 Change Trend of Consumption Rate Before and After the End of the Period of Rapid Economic Growth in America, Japan and South Korea

		Before and After the End of the Period of Rapid Economic Growth	
		Mean value of the ten years before	Mean value of the ten years after
United States	Consumption rate	77.0 (1949-1958)	76.2 (1959-1968)
	Contribution rate of individual consumption	55.1 (1949-1958)	57.4 (1959-1968)
Japan	Consumption rate	63.6 (1963-1972)	67.0 (1973-1982)
	Citizen consumption rate	55.8 (1963-1972)	56.1 (1973-1982)
	Contribution rate of citizen consumption	63.1 (1963-1972)	74.7 (1973-1982)

South Korea	Consumption rate	62.0 (1984-1993)	64.1 (1994-2003)
	Citizen consumption rate	51.3 (1984-1993)	52.7 (1994-2003)
	Contribution rate of citizen consumption	57.2 (1984-1993)	59.6 (1994-2003)

Source: World Bank Database

Therefore, to adhere to the strategy of expanding domestic demand and to comprehensively promote consumption are not only an important policy measure for China to cope with the impact of the current epidemic and speed up economic recovery, but also a strategic choice for China to accelerate the construction of a new development pattern with domestic circulation as the theme and mutual promotion of domestic and international double circulations, as well as to promote the stability and long-term economic development.

II. Five new trends in consumption will become the source of impetus for building new development

Looking deeper, different from the traditional way that relied on the continuous expansion of consumption quantity as the major impetus, the current rise in the role of consumption as a driving force of China's economic growth is largely driven by a set of new consumption trends that are different from the past. The five new trends of consumption in the consumption market, namely, "quality improvement, transformation, differentiation, innovation and remodeling", have become new growth points for economic growth and new impetus for high-quality development.

(I) Quality improvement: Commodity consumption has changed from "owning commodities" to "owning high-quality commodities"

Over the past four decades of reform and opening up, Chinese people's consumption level of basic necessities, such as food, clothing, housing, transportation, etc. has been greatly improved, and their material lives have been greatly enriched. The Chinese people **are bidding farewell to the period of growth in the quantity of consumption marked by "owning commodities", and accelerating into a new stage of improving consumption marked by "owning high-quality commodities".**

On the one hand, the growth of the consumption quantity to meet the basic necessities (such as food, clothing, housing, transportation, etc.) has basically completed. In terms of food consumption, marked by the continuous decline of Engel coefficient, the demand for food and clothing of Chinese residents has been met, and the growth of food consumption has slowed down or even decreased. In 2019, the Engel coefficient of Chinese residents dropped below 30% for the first time, down more than 30 percentage points from the beginning of reform and opening up. The consumption of grains, meat, vegetables, fruits and other major foods has decreased to varying degrees since 2010 after years of continuous growth. Grain consumption declined by an average of 2.7% per year from 2012 to 2019; Per capita consumption of edible vegetable oils exceeded 11 kg in 2014 and then declined; Per capita meat consumption fell for the first time after reaching 31.8 kg in 2018. In terms of household durable consumer goods, major household appliances such as color televisions, refrigerators, air conditioners, washing machines, water heaters and mobile phones have basically fully covered urban and rural households (see Table 2). In terms of housing, the per capita living (building) area of China's urban residents increased from 6.7 square meters in 1978 to 39 square meters in 2016, and that of rural residents increased from 8.1 square meters to 60 square meters in 2016, which is close to the housing level of Europe and Japan.

Table 2 Penetration rate of household durable consumer goods for urban and rural residents in 2019 (number of ownership per 100 households)

Index	Urban family	Rural family
Family cars	43.2	24.7
Motorcycles	18.7	55.1
Electric mopeds	59.4	70.1
Washing machines	99.2	91.6
Refrigerators (Freezers)	102.5	98.6
Color TV sets	122.8	117.6
Air conditioners	148.3	71.3
Water heaters	98.2	71.7
Smoke exhaust ventilator (set)	81.7	29.0
Mobile phone (set)	247.4	261.2
Computer (set)	72.2	27.5

Source: China Statistical Yearbook 2020

On the other hand, the more important is that, **needs for quality improvement of basic necessities of life by urban and rural residents in China in recent years have been centralized in purchase and utilization of various kinds of consumer goods. With better taste and desire to show personalities, they have higher needs for product quality and brands.** For instance, they prefer fresh, nutritious, healthy and safe food; functional, stylish, branded and personalized outfit. These new needs first stimulate fast growth of China for global medium- and high-end consumer goods, as reflected by rapid increase in consumer goods import to China. Taking Tmall Global as an example, as at the end of June 2020, it had introduced almost 30,000 international brands in 6,000 categories from 89 countries into Chinese market. More than eighty percent of them entered China for the first time. In 2019, consumer goods imports of China recorded as high as RMB1.45 trillion, with an average growth rate of over 20% since 2013. Then, consumption of higher-quality products has greatly promoted innovation of domestic supplies. Brands in food, cosmetics, garment, digital products and other fields have grown fast in China. Launch of numerous innovative products contributes to a trend of consumption of cheap but high-quality products made domestically, having accelerated the adjustment and upgrading of Chinese consumer goods manufacturing from lower-end products to medium- and higher-end products, offering more choices and support for consumption of higher-quality products.

(II) Market expansion: Consumer concerns transfers from commodities to services

In the wake of consumption structure upgrading, travel, cultural entertainment, education and training, health care, physical fitness, family services, elderly and child care and other services have been new focuses of consumption of urban and rural consumers. Expenditure on service consumption keeps being above that on commodities. From 2013 to 2019, expenditure on service consumption of Chinese residents grew at an average annual growth rate above 11%, significantly higher than the 8% of total consumption. Share of expenditure on service consumption in total household consumption spending rose from 39.7% in 2013 to 45.9% in 2019 (see Figure 2). Service consumption has been a new motivation for supporting consumption growth and accelerated adjustment of service industry structure in China.

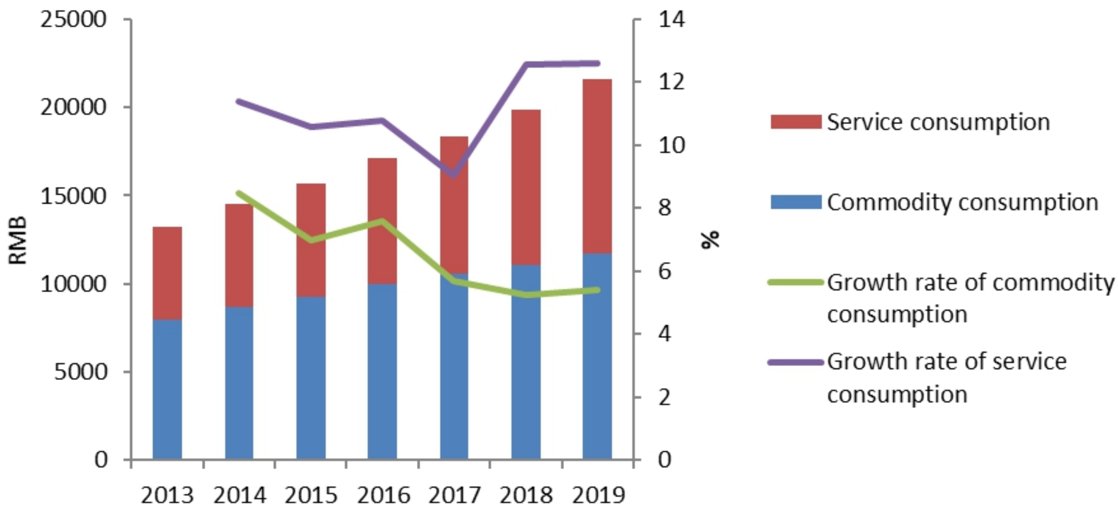
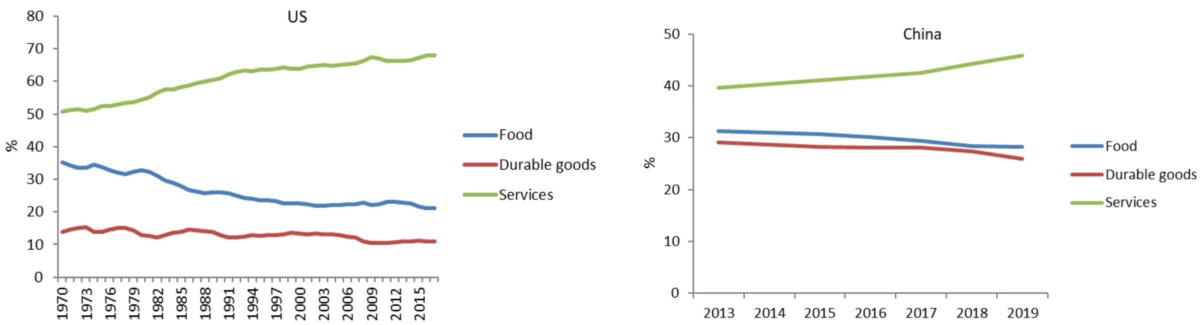


Figure 2 Growth of Expenditures on Household Commodity Consumption and Service Consumption, 2013-2019

Source: NBS.

One of the contributors to service consumption growth is the new needs of Chinese residents to live a better, more convenient and pleasant life. For example, tourism boom in China in recent years has not only generated a huge domestic tourism market, but also got China at the top of the list in terms of outbound tourists. In 2019, domestic tourists recorded 6 billion person-times, almost double the 2.96 billion in 2012. In 2019, Chinese residents traveling abroad for private affairs were 160 million person-times, also double that in 2012. Another contributor is the new needs of Chinese residents for personal development, including needs for improvement of physical conditions, life quality, knowledge level and employment. From 2013 to 2019, share of expenditures of Chinese urban residents in education & culture and health care in total expenditures kept growing to 8.3% and 11.6% with average annual growth rates of 10.2% and 13%, respectively.

From perspective of development stage, during the course of moving from middle income to high income, the increasing proportion of service consumption expenditure is the leading factor for upgrading resident consumption structure in the advanced developed countries. In addition to working for consumption structure upgrading and cultivation of high-quality human resources, it's the main driving force for high-speed development of service industry and formation of service economy. For example, in the U.S., proportion of service consumption expenditure had been above 50% since 1960s, and kept



growing in the following 30 years to 70% in 2000. In the 21st century, this proportion remained above 70% (see Figure 2). In line with the growing trend of proportion of service consumption, share of the service industry in U.S. GPD exceeded 70% in the new century, demonstrating a mutual promotion between service consumption expansion and service industry growth.

Figure 3 Change in U.S. Service Consumption

Source: China Statistical Yearbook, Economics and Statistics Administration

(III) Innovation: Rapid development of new consumption pattern driven by a new round of technical revolution

Currently, the new round of global technical revolution continues, which drives the consumption pattern transformation and enables a number of new consumption manners like digital consumption and green consumption, in addition to new products and new industries. For digital consumption, in particular, the 1.4 billion population is a massive market, offering a huge market base and rich application scenarios for internet, big data, cloud computation and other digital technologies. On such basis, new digital consumption pattern represented by online shopping, online consumption, mobile payment is showing leapfrog development, driving China to a new highland of global digital consumption development.

Take online shopping as an example. Online shopping in China has kept growing at a high speed since 2010. As of 2019, the number of users of online shopping in China had been 707 million, and retail sales online was reported RMB11,760.1 billion, accounting for 24.9% of total retail sales of consumer goods, almost 20 percentage points higher than that in 2010. Online shopping has been a major shopping manner of Chinese residents. Besides, the development pace of online shopping in China has been way beyond that of the developed countries. For instance, despite being introduced earlier than in China, after 21 years of development, online shopping in the U.S. accounts for only 15.1% of its total retail sales of consumer goods (see Figure 4).

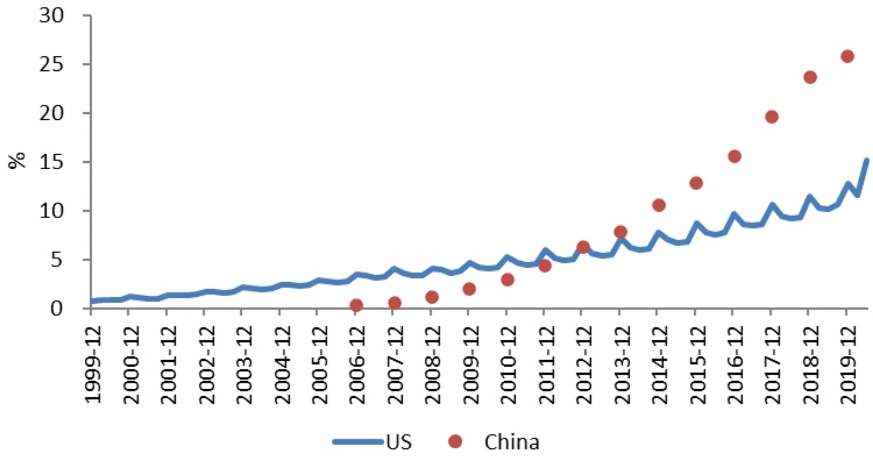


Figure 4 Comparison between Shares of Online Shopping in Total Retail Sales of Consumer Goods in China and U.S.

Source: Ministry of Commerce, United States Census Bureau.
Note: U.S. data are quarterly data, and Chinese data are yearly data.

Besides online shopping, digital innovation of service consumption is even more active in China, with accelerated development in mobile payment, online entertainment, online education, online medical care, online finance, etc., witnessed. As represented by mobile payment, there have emerged Alipay, WeChat Pay, Baidu Wallet, Quick Pass and other mobile payment platforms, having quickly expanded the mobile payment application to daily shopping, travel, bill payment, ticket buying and other life scenarios. Besides, the number and value of mobile payment transaction have been increased sharply, with average annual growth rate of 81.7% and 98.2%, respectively (see Figure 5). In 2017, market size of mobile payment in China exceeded that in the U.S., becoming No.1 in the world. In 2019, mobile payment transaction value in China reached RMB347.1 trillion.

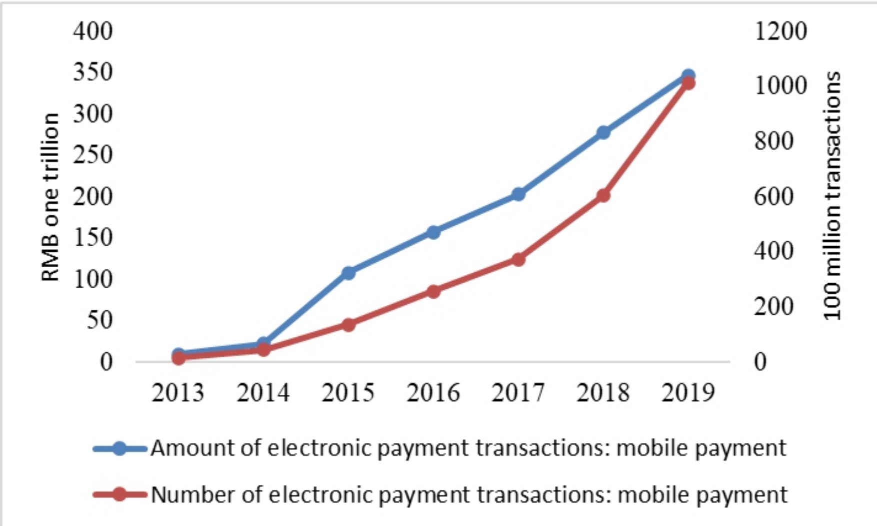


Figure 5 Value and Number of Mobile Payment Transactions in China, 2013-2019

Source: People's Bank of China.

Rapid development of digital consumption has not only greatly driven the fast development of digital industries and infrastructure in China, but also cultivated a large number of global leading internet enterprises. At present, there are a total of 100 Chinese enterprises recognized in the global list of unicorn companies, the second most in the world, next only to the U.S. Among them, 80% are in the new consumption fields (see Figure 6).

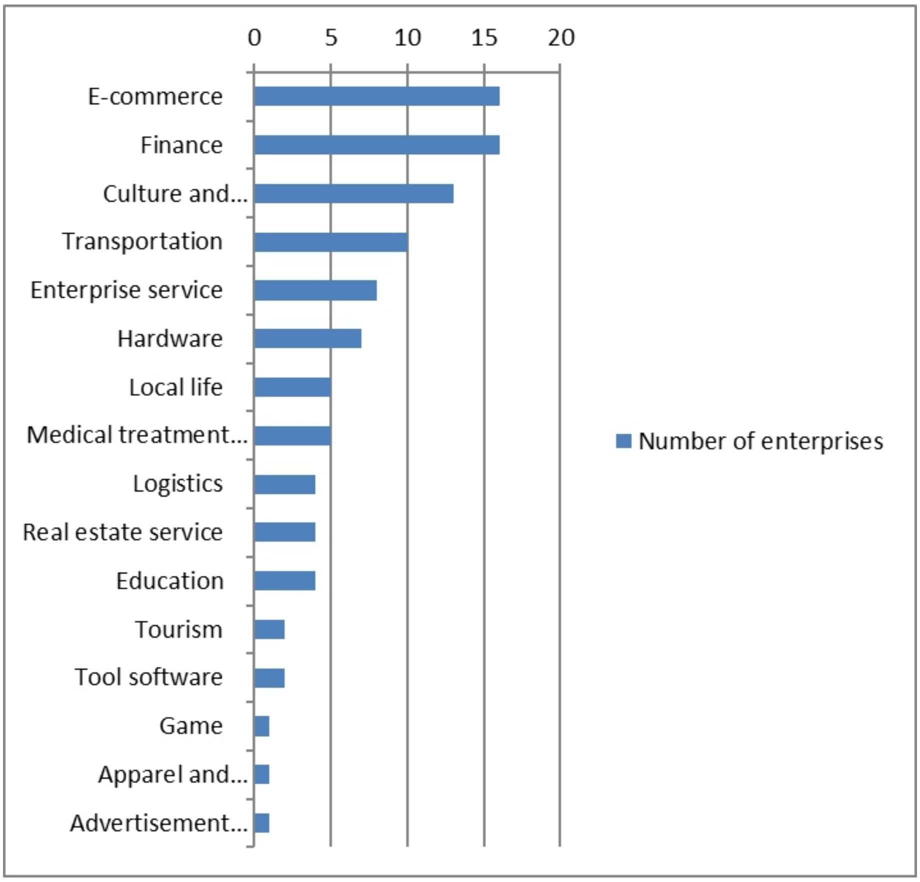


Figure 6 Industrial Distribution of Chinese Unicorn Companies

Source: Hurun Research Institute.

(IV) Differentiation: The formation of new multi-tiered and differentiated consumer groups is accelerated.

Under the effect of difference in income, age, education and many other factors, Chinese consumer groups are differentiated at a high speed, and different groups have different consumption powers, intentions and preferences, having dramatically driven the consumer market differentiation and cultivated new multi-tiered and diversified consumption growth engines.

First, the middle-income group has been a main force of consumption in China. Despite the 560 million low-income population with average monthly income less than RMB1,000 in China, the middle-income population is seen expanding. By standards of the Word Bank, there were 420 million middle-income people in China in 2018, sharing 30% of the total population, 5.3 percentage points higher from 2014. Thus China has become the country with the largest middle-income population in the world. Consistent with this trend, share of consumption by this group in total social consumption of China kept rising from 43.5% in 2014 to 50.9% in 2018. 3 Seen from the income elasticity of consumption, the figure of the middle-income population remained around 0.6 from 2014 to 2018, higher than the 0.23 of the higher-income group and the 0.38 of the lower-income group. It tells that the middle-income population has greater contribution to consumption growth.

Then, the groups born in 1980s, 1990s and 2000s are the most active and innovative consumers. In China, the new generation represented by those born in 1980s, 1990s and 2000s grew up in a relatively well-off and increasingly opened period with internet innovation speeding up. They are better educated and open-minded

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[3] Data from the *China Family Panel Studies (CFPS)* of Peking University

about new things and new technologies, and have the desire to show personalities and be stylish. They're the most active and innovative consumption groups, and the main force supporting the medium- and long-term consumption growth in China. In 2019, the new-generation population aged 20-40 in China accounted for 28.9% of the total population, whose contribution to China's consumption growth in the next 15 years will be close to 40% (shown in Fig. 7).

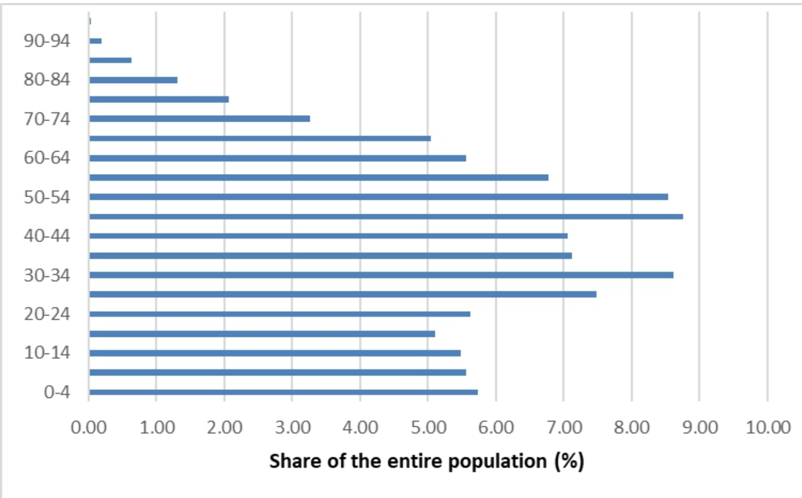

Figure 7 Distribution of China's Population Structure in 2019 (%)

Source: China Statistical Yearbook 2020

Thirdly, the consumption potential of silver-haired population cannot be ignored. With the rapid arrival of the aging society in China, the size of China's aging population continues to expand. In 2019, the number of aging population aged over 60 in China had exceeded 250 million, accounting for more than 18% of the total population, which will reach about 30% in 2035. The silver-haired population will become the largest consumer group in China in the future. Different from developed countries, the silver-haired population in China are still relatively young at present. In 2019, the aging population aged 60-75 accounted for more than 70% of the total aging population (shown in Figure 5). Under the condition of increasingly perfect social security, the aging population aged under 75 have a strong desire to enjoy life and pursue healthy consumption, and have a large number of new demands in personal goods, health products and services as well as cultural tourism, who will contribute more than 20% to China's consumption growth in the next 15 years. Their consumption potential and their consumption ability to a large number of markets and service industries suitable for the elderly cannot be ignored.

(V) Remodeling: The large central city will become an important growth pole of China's consumption

In recent years, China's urbanization process has continued to advance, with the urbanization level approaching 60%, which enters a new stage dominated by urban agglomerations. With the accelerated development of urban agglomerations, China's consumer market has further accelerated its agglomeration to urban agglomerations. In 2019, the total retail sales of consumer goods in China's urban market accounted for more than 85%, with the Yangtze River Delta, Pearl River Delta and Beijing-Tianjin-Hebei urban agglomerations accounting for more than 40%.

More importantly, the accelerated integration of the consumer market within the urban agglomeration will promote the consumer market of the central city to the middle and high end, and the consumption level will be rapidly improved. It is expected to form a number of international consumption center cities with global competitiveness Since 2015, there have been 10 Chinese cities entering the 140 largest retail markets in the world. Thereinto, the retail sales of consumer goods in Beijing and Shanghai have exceeded RMB1 trillion for two consecutive years, entering the top 10 in the world, which have become the most important preferred cities for world-renowned consumer brands to open stores (shown in Table 3). The total retail sales of consumer goods in Shenzhen, Chengdu and other eight cities have all exceeded RMB500 billion.

Table 3 Comparison of Attraction to Retailers in Global Consumer Cities

Ranking	**Attraction to global cross-border retailers**	**Attraction to global cross-border luxury retailers**
1	London	London
2	Hongkong	Hongkong
3	Paris	Paris
4	Dubai	Tokyo

5	New York	New York
6	Shanghai	Shanghai
7	Singapore	Singapore
8	Beijing	Dubai
9	Kuwait City	Beijing
10	Tokyo	Osaka

Source:

From a global perspective, the international consumption center cities are not only the large market for the release of middle and high-end consumption, but also the weather vane for attracting global consumption resources and leading global consumption innovation, playing a huge role in promoting consumption and economic growth in various countries and even in the world. For example, the population of the world's 140 largest retail markets accounts for only 13% of the global population, but they contribute more than one third to global GDP and consumption (shown in the figure below). Therefore, in the future, Shanghai, Beijing and other large central cities will also become important growth poles to promote consumption in China and even in the world.

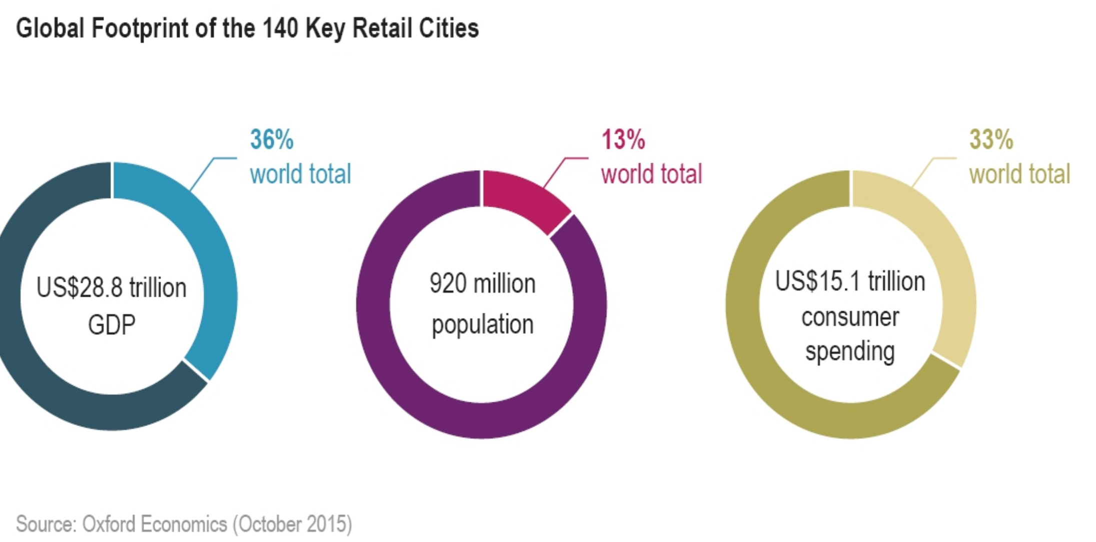

Figure 8 Contribution of 140 Largest Retail Markets in the World to Consumption and Economy

In conclusion, a series of new consumption in the current Chinese market and its great potential will greatly accelerate the adjustment and upgrading of China's supply system, lead the manufacturing industry to the middle and high end, promote the further accelerated development of the service industry, attract and drive a large amount of investment from Chinese and foreign enterprises, promote the efficiency of the modern circulation system, and realize the connectivity and interaction between domestic and foreign markets, thus becoming the driving force for building a new development pattern.

III. Reform and Innovation are Urgently Needed for Accelerating the Release of New Drivers of Consumption

It should be noted that, at present, the huge new consumption potential has not been fully released in China, faced with many obstacles or constraints. In particular, the effective and high-end supply adapted to new consumption still lags behind. There are shortcomings and weak links in new infrastructure such as network communication, comprehensive transportation system, new energy, and ecological environment protection. There are still institutional obstacles that restrict the realization and release of consumer demand in income distribution, fair competition, consumer protection and social security, as well as opening up to the outside world.

Therefore, the innovation of reform and policy needs to be further accelerated to provide support for expanding and better meeting the new consumption of Chinese people.

On the one hand, the reform of supply-side structure needs to be further accelerated to provide more choices and supply support for expanding and better meeting new consumption. Therefore, "adhering to the basic strategy of expanding domestic demand, accelerating the cultivation of a complete domestic demand system, organically combining the implementation of the strategy of expanding domestic demand with deepening supply-side structural reform, and leading and creating new demand with innovation-driven and high-quality supply" are emphasized in the 14th Five-Year Plan. Therefore, efforts should be made to promote innovation, increase supply, make up shortcomings, smooth circulation and expand opening up. By optimizing the supply structure, the supply quality can be improved, and the adaptability of the supply system to domestic demand can be enhanced.

On the other hand, it is necessary to start with the consumer end to strengthen the reform and innovation of the system and mechanism on the demand side In the Outline of the 14th Five-Year Plan, it is suggested to promote consumption in an all-round way from the perspective of enhancing the basic role of consumption in economic development, with emphasis on conforming to the trend of consumption upgrading, upgrading traditional consumption, cultivating new consumption, developing service consumption, appropriately increasing public consumption, and promoting the development of consumption to green, healthy and safe. At the same time, it is suggested to encourage the development of new consumption patterns and new formats, promote the integrative development of online and offline consumption, and further explore urban and rural consumption markets under the guidance of cultivating international consumption center cities. More importantly, it is necessary to activate consumption potential by means of reform, especially further improve consumption capacity, improve expectations and enhance confidence by stabilizing employment, optimizing income distribution, improving consumption environment, strengthening public services and innovating consumption promotion mechanism, better stimulate the continuous release of the huge consumption potential of 1.4 billion Chinese people, form a higher level dynamic balance in which demand leads supply and supply creates demand, and inject powerful new driver into China's realization of high-quality development and construction of a new development pattern.