The Problems and Countermeasures of China's Consumption Development

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Since the Chinese economy eutered the New Normal, the contribution rate of consumption has exceeded investment, becoming an important driving force for economic development. Due to the insufficient supply and imperfect consumption infrastructure, however, consumption growth is confronted with many constraints. On the basis of reviewing the current situation and characteristics of consumer market development, this paper analyzes the main problems faced by consumer growth at present, and then puts forward some suggestions on system design, adjustment and expansion of effective supply and improvement of supervision mode for better promoting the role of consumption as the "stabilizer" and "ballast" of economic growth.

Keywords: consumption growth, consumption upgrade, effective supply

Since the Chinese economy entered the New Normal, total consumption has been steadily on the rise and the consumption growth rate has been maintained at over 10%, which greatly boost the economic growth and are worthy of their title of "stabilizer" and "ballast". As the economic growth shifts from previously pursuing speed into currently improving quality, higher requirements are proposed for consumption development, especially the residents' income. During the consumption upgrade, how to better meet the consumer demand to drive the sustainable and rapid consumption growth has been a major part of economic development. Based on the analysis of the current consumption situation, this paper analyzes the issues in the process of consumption upgrading and makes suggestions on further advancing the consumption growth and consumption quality.

1. The Situation and Characteristics of Consumption in China

1.1. Situation of Consumption

The consumption has been in a rapid growth from 2012 to 2017, when the total social retail sales grew steadily from 21443.3 billion yuan to 36626.2 billion yuan[1] and the average annual compound growth rate reached 11.3%. In addition, the contribution of consumption to economic growth continuously elevates, with 54.9% in 2012 and up to

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[1] National Bureau of Statistics, http://data.stats.gov.cn/easyquery.htm?cn=C01.

58.8% in 2017. As China's economy stages into high-quality development, consumption will increasingly promote economic growth (see Figure 1).

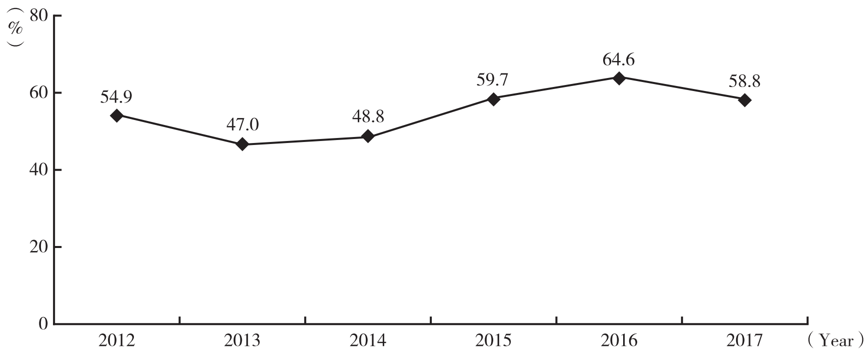

Figure 1. Contribution Rate of Consumption to Economic Growth (2012–2017)
Source: National Bureau of Statistics.

According to the management structure, retail sales of urban consumer goods increases from 17.93 trillion yuan in 2012 to 31.43 trillion yuan in 2017 and the average annual compound growth rate is 11.88%, slightly dropping from 86.6% to 85.8% in the total retail sales of social consumer goods; retail sales of rural consumer goods increases from 2.78 trillion yuan in 2012 to 5.20 trillion yuan in 2017 and the average annual compound growth rate is 13.34%. The consumer retail sales in rural areas increase from 13.4% to 14.2% in the total retail sales of social consumer goods. Therefore, the consumption growth rate of rural residents is nearly 1.5% higher than that of urban residents (see Figure 2).

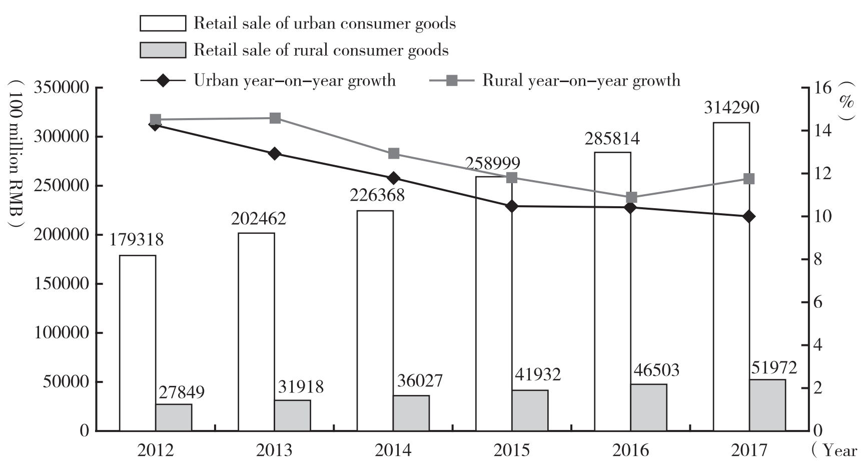

Figure 2. Retail Sales of Consumer Goods in Urban and Rural Areas and Year-On-Year Growth (2012–2017)
Source: National Bureau of Statistics.

In terms of consumption type, retail sale of commodities rises from 18388.4 billion yuan in 2012 to 32661.8 billion yuan in 2017 with a compound annual growth rate of 12.18% and the proportion elevating from 88.8% to 89.2% in the total social retail sales; catering revenue increases from 2328.3 billion yuan to 3964.4 billion yuan with the average annual compound growth rate of 11.23% and the proportion falls slightly from 11.2% to 10.8%, slightly lower than the retail sales of goods (see Figure 3).

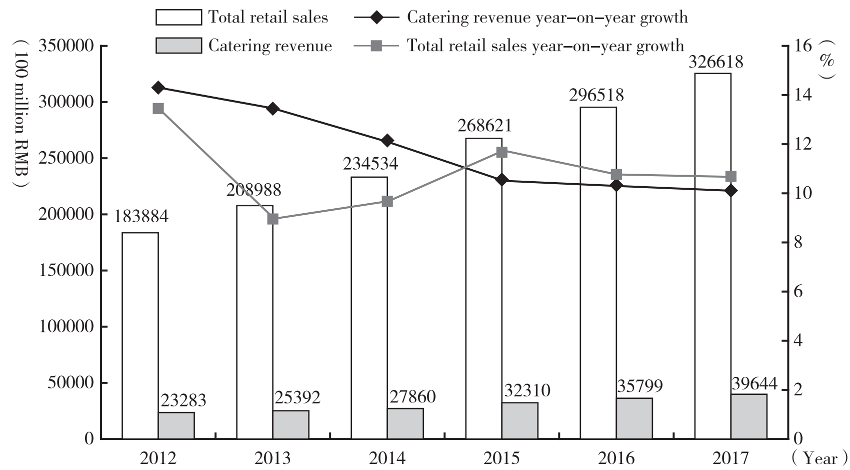

Figure 3. Retail Sales, Catering Revenue and Year-On-Year Growth (2012–2017)
Source: National Bureau of Statistics.

1.2. Main Characteristics

1.2.1. Expanded Gap between the Consumption Growth in Urban and Rural Areas and the Great Potential in Rural Consumption

In recent years, with the continuous increase of rural resident income and the improvement of the level of urbanization, consumption in the rural areas grows fast, higher than urban consumption all the time and the gap is gradually expanding, sitting at 1.8% in 2017. The fact that the proportion of rural consumption in the total social retail sales rises to 14.2% indicates the gradual release of rural consumption potential. In the future, we should further strengthen the rural circulation infrastructure by encouraging large circulation enterprises to achieve "channel sinking" and reinforcing the layout in the third-tier and the fourth-tier cities and the regions inferior to the county. We should also improve the rural consumption environment, which can increase convenience and security of rural resident consumption and propel the sustained and rapid growth of rural consumption.

1.2.2. Consistent Expansion of Online Retail Market and the Integration of Online and Offline

The rapid development of e-commerce has changed residents' habits of consumption and pushed up the rapid growth of the online retail market. The average annual compound growth rate of online retail sales reaches up to 32.93% from 2012 to 2017. In 2017, an amount of 7.18 trillion yuan[1] was reached in terms of the online retail sales. Among them, the online retail sales of physical goods are 5.48 trillion yuan, the proportion of which has risen to 15% among the total retail sales of social consumer goods and the contribution of which in the growth of total retail sales of social consumer goods has been registered as 37.9%, indicating the significance of online retail in consumption market.

With the gradual maturity of the network consumption market, the competition among e-commerce enterprises is fiercer. To further satisfy consumer demands and enrich consumer experience, e-commerce platform enterprises begin to extend to the offline regions. In other words, they actively cooperate with large-scale physical retailers while establishing the offline experience store. And they also merge with physical enterprises in the form of investment of shares and acquisitions, exemplified by the investment of Alibaba in Suning, Sanjiang and the purchase of shares of Lianhua Supermarket together with the opening of Jingdong convenience store on the basis of share buying of Yonghui Supermarket. In the situation of strong involvement of online enterprises to the offline retail, traditional physical retail enterprises also actively expand online, selling online through e-commerce platform; self-built platforms also exist such as the launch of Dmall App by Wu Mart, boasting the same price and quality online and offline and two-hour instant delivery, which fully combines offline physical experience, online convenience and service. With the advancement of technology applications such as mobile payment, AI (artificial intelligence), big data, internet of things and VR, it is essential to achieve the integration of online and offline. And the full-channel retail has officially been a new model of retail enterprises.

1.2.3. Obvious Growth Rate of Service Consumption and the Trend of Balance between Goods and Services

With the steady improvement of resident income in China, Engel's coefficient has been declining, dropping to 30.1% in 2016. This figure is down by 2.9% compared

[1] Press Conference of the Ministry of Commerce: China's online retail sales reached 7.18 trillion yuan in 2017, China News Service, http://finance.sina.com.cn/roll/2018-01-25/doc-ifyqyqni2628835.shtml, January 25, 2018.

to that in 2012 and is close to the rich standard (20%–30%)[1] set by the United Nations, meaning that resident consumption has shifted from food and clothing oriented into the development-oriented, from material into spiritual consumption, from goods-directed into equal importance of goods and services. At the same time, consumer demands on the service and experience have proliferated and the network consumption is upgrading from physical consumption to service one. According to statistics,[2] the growth rate of service-based network consumption has exceeded 70% from 2011 to 2016, rising from 4.3% in 2011 to 25% in April 2016. Besides, service experience consumption is remarkable in tourism, entertainment and other areas. According to the data from the Ministry of Culture and Tourism, the domestic visits of tourism have been up to 5.001 billion in 2017, a 12.8% increase year on year; the total tourism income of 2017 is 5.4 trillion yuan, increasing by 15.1% than the previous year, far higher than the total social retail sales. Its contribution to GDP is 11.04%, becoming a “new impetus” to stimulate economic growth. In entertainment industry, the national box office revenue reached 55.911 billion yuan[3] in 2017, an increase of 13.45% year-on-year and the movie-watching visits were 1.62 billion, up by 18.08% compared with the same period last year. The average annual compound growth rate of box office revenue has been over 30% for four consecutive years (2012–2015), a rapid growth again after the decline to 4% in 2016, indicating that the film market in China is getting more stable.

In addition, service consumption on health and intelligent medical care also develops by leaps and bounds. With the improvement of life quality, people have higher requirements on health. As the environment degrades and life pressure increase, our common concerns about health are raised. Data show that the domestic medical products in developed countries such as Europe and America have accounted for more than 25% of the total consumption expenditure while the percentage on the annual consumption per capita of medical and health products in China is merely 0.07%, so the potential is huge. At present, the intelligent medical equipment in China lacks variety, the application range is narrow, and the equipment cannot be popularized; with continuous development of high and new technologies, the types will be enriched and the functions will be enhanced; more and more households will have such demands to purchase health equipment; the health products and small devices represented by health care, rehabilitation and auxiliary treatment will be an important growth point in household health consumption.

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[1] Ning Jizhe: Press Conference of the State Council, http://news.163.com/17/1010/11/D0CPIH4O00018AOR.html,October 10, 2017.

[2] China Academy of New Supply-Side Economics and Ant Financial Research Institute: New Supply-Side—Consumption Index of Ant Network, http://finance.china.com.cn/roll/20160523/3733828.shtml, May 23, 2016.

[3] According to SARFT, China’s box office reached 55.911 billion yuan in 2017, increasing 13.45% than the same period of last year, http://news.163.com/18/0101/14/D72P9GQ900018AOQ.html,December 31, 2017.

1.2.4. Obvious Trend of Upgrading Consumption with Brand and Green Consumption Becoming the Hot Spot Gradually

As per capita GDP outperforms 5000 US dollars, a series of transformation takes place in consumption demand, from survival-based to development and enjoying stage, from the basic demand to the pursuit of quality, increasing demand for personalized and intelligent goods and the brand and green consumption gradually becoming a hot spot. According to the data from the Ministry of Commerce by monitoring 5000 retail enterprises, in the first half of 2017, the year-on-year growth rate of primary energy consumption air conditioning, refrigerator and smart TV was higher than that of the whole growth rate of air conditioning, refrigerator and TV, up by 29.9%, 15.4% and 20.7% respectively. What's more, the big data from the Jingdong "6.18" implies that sports goods like Adidas and Nike rank high and the 3C categories such as Apple, Huawei are on the top list. Of course, the sales of unmanned aerial vehicle, intelligent toilet and other goods are also considerable, reflecting the current trend of upgrading consumption.

1.2.5. The Consumption Intentions of Residents Are Optimistic and Consumer Confidence Index Hits New High

Recently, China's consumer confidence index, expectations index and satisfaction index present a steady rise. Particularly, since the second half of 2016, the three indexes robustly grow, respectively up to 124, 119 and 127.4[1] by the end of February 2018, a new high in nearly five years. All of these manifest that, guided by the current supply-side structural reform, moderate expansion of aggregate demand and other policies, the positive factors of consumption market are increasing and more consumers are willing to spend money. And the consumers are optimistic about the economic trend, future income and employment situation.

2. Constraints in the Process of Consumption Upgrade

2.1. Inadequate Effective Supply

When the income is gradually increasing, the residents are stricter for the product quality. Due to the insufficient response of enterprise production to the demand side, however, the technical standard of certain industries fails to meet the requirements, resulting in the dislocation between supply and demand. The main reason is that the domestic manufacturing industry is still at the end of the global value chain with strong

[1] National Bureau of Statistics, http://www.homilychart.com/my/hgjj/xfzxx/xfzxx_1.html.

production and supply capacity, weaker value creation, lower proportion of research and development investment in GDP and the higher dependence on the imported technology. As a result, some people are unable to buy satisfactory goods in the domestic market involving electronic products, clothing, home design, cosmetics and food health care, so they turn into the foreign markets, causing great losses of domestic demand.

After entering the upgrading stage, the demanding structure of resident consumption has transformed from survival-based into development and enjoyment consumption, from general to personalized consumption. In the current domestic supply, there is more rough processing and low value-added products and fewer precise and high value-added products; more plagiarized, imitated products instead of original, personalized products. Meanwhile, domestic industrial structure is more similar without differentiated supply plans specific to the various consumer groups, thus leading to the strong supply capacity yet weak capacity of effective supply.

Insufficient supply of service products also restricts consumption. Currently, the added value of China's tertiary industry accounts for about 50% of the gross national product (GNP), which still lags behind that of the developed countries (70%–80%). In addition, traditional service industries such as business, catering and stalls still occupy a large part in the service field and the knowledge and capital-intensive tertiary industries such as the emerging information, financial and insurance, intermediary services, sports, education and tourism still imperfectly develops, which makes it hard to meet people's ever-growing spiritual and cultural needs.

2.2. Consumption Environment to Be Improved

The imperfect legal system and policy of China's market economy lead to the disorder in circulation right now, which offers the convenience of the unqualified goods accessing the market. Many agricultural products, food and daily commodities flow into the market in normal form and the enterprises without integrity start to manufacture fake and shoddy goods, which all violate the legitimate rights and interests of consumers, exacerbate the distrust of the consumers in manufacturers and restrict our consumer market.

On the other hand, unfair competition and restriction emerge in the circulation field, which are manifested by the intervention of local government in market competition, setting administrative entry barriers to the market. Consequently, the industrial profit ratio gradually declines without corresponding policies and legal measures to limit this phenomenon.

2.3. The Great Imbalance of Circulation Industry Development and Imperfect Infrastructure

2.3.1. The Huge Gap of Circulation Development in Different Cities

The scale and level of circulation industry expands far more quickly in large cities than small cities because of their advanced commercial development, large volume of retail trade and comprehensive market function. Accordingly, the distribution scale and level are higher in large cities than those in small-and-medium-sized cities while national or regional commodity distribution centers are generally concentrated in large cities. Across the whole society, nearly 50% of the retail sales and 45% of the retail turnover are all realized in the markets in large cities whereas the small-and-medium-sized cities are mainly market localization.[1] Because of the complete infrastructure and higher modernization, the circulation format of large cities is more prosperous. So the modern circulation rapidly develops, represented by the chain operation, and the level of retail industry is perfect. In the small and medium-sized cities, new retail lags behind large cities and the market share of traditional department store is large.

In addition, the supporting measures of emerging consumption are generally inadequate. For example, compared with the "soft environment" such as purchase ideas and preferential policies, the insufficient supporting facilities are the main factor to hamper the popularization of new energy vehicles in the field of automobile consumption, thus restricting the further release of consumption capacity.

2.3.2. Inadequate Rural Circulation Infrastructure

The dual economic structure between urban and rural areas causes rural development and infrastructural circulation facilities lagging far behind the city, represented by the limited number of commercial outlets, low chain degree and circulation efficiency and extensive operation mode. In the process of IT application development, the popularity of Internet in rural areas is far lower than that in towns, thus restricting the modernization of rural circulation. In 2016, the penetration of China's Internet reached 53.2%[2] while only 33.1% in rural area, which greatly hindered the efficiency of implementing the activity of "e-commerce going to the countryside", further widening the distance between the upgrading of urban and rural consumption.

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[1] China Academy of New Supply-Side Economics and Ant Financial Research Institute: New Supply-Side—Consumption Index of Ant Network, http://finance.china.com.cn/roll/20160523/3733828.shtml, May 23, 2016.

[2] China Internet Network Information Center (CNNIC): The 39th Statistical Report on China Internet Development Situation, January 22, 2017.

2.4. Imperfect Consumer Financial Development

In recent years, consumer finance develops fast, forming a consumer finance system primarily based on personal housing loans, including loans of automobile, credit card, consumer durable goods, decoration, education-aided, tourism and personal credit. But there are still defects in the current consumer financial market. Firstly, the dependence on housing loans is too huge. In 2016, mid-long-term loans of China's new dwellers was 5.68 trillion yuan,[1] accounting for 45% of the total new loans and the housing loan balance has exceeded 18 trillion yuan. Consumer finance heavily relies on housing loans, which squeezes the space of other consumer loans and is not conducive to the growth of other consumption forms. Secondly, the rural consumer financial market still lags behind the urban areas. The consumer finance has achieved certain fruits in the rural areas. Because of the uncertainty of resident income, limited understanding to the financial products and the restriction of consumption environment, this development situation is still in the original point. At the same time, due to the relatively backward construction of rural infrastructure and imperfect consumer finance implementation, it is impossible to support the large-scale development of rural consumer finance. Thirdly, the legal system on consumer finance is still defective. China lacks a complete and unified national law regulating consumer activities and adjusting the relationship of consumer credit. Since our country carried out the operation of consumer credit in 1981, its scale has expanded but it is still a drop in the bucket compared with the huge amount of GDP of China, which fails to play a macro and regulatory role to cope with the impact brought by crisis. The main reason is that commercial banks lack the legal protection when they carry out business, especially without special laws and regulations to deal with the breach of contract, dishonesty, to properly protect the rights and interests of lenders and also the protection act in terms of consumer credit rights and interests. Therefore, it is of great significance to establish a standardized and perfect consumer finance system under the impetus of the government, which can clarify the scope and subject of consumer finance supervision, regulate the transaction in the market, and define the rights and obligations of consumer finance participants.

3. Policies and Suggestions on Upgrading Consumption

3.1. Expanding Effective Supply by Institutional Design and Adjustment

We must reform and adjust existing system restrictions that affect consumption supply, promote the flow of production factors to emerging industries with high

[1] Data from 2016 financial statistics report of People's Bank of China, http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3234246/index.html, January 12, 2017.

technology, and increase the supply of high-quality products in the fields of environmental protection, intelligence, and health. By this way, residents can enjoy a high quality life. Besides, by changing the intervention way of government in economic activities, we will turn the business emphasis to seize consumer demands and grasping market trends, which can better match supply with demand. The government should delegate its power in industrial production, management and sales to the market and convert the government-directed market into consumer-directed market, which can urge enterprises to focus on the consumer demands and continuously improve their ability to meet customer needs.

It is necessary to reduce institutional transaction costs for the development of enterprises through taxation system reforms, cancellation of unreasonable charges and financial system reforms. In particular, various policy measures such as finance, taxation, subsidies, and government procurement must be integrated to support the rapid application and commercial promotion of new technologies and products. We should push forward the innovative transformation of service industries such as circulation for resident consumption upgrading and residents' services, encourage social capital to invest in the new field of consumption, expand effective supply, and increase the ratio of medium-and-high-end supply. Government should embolden enterprises to improve technological research, and guide them to develop new products with higher technology, added value and life quality. Ultimately, the effective supply can be achieved by combination with high-quality demands of the people, fully stimulating internal consumption dynamics and reducing "Consumption Spillover". All of these can make better balance between effective supply and higher requirements of people.

3.2. Pushing up Consumption through Various Channels with Different Guidance

Nowadays, as the consumption structure constantly upgrades, the new growth points present the feature of multi-level and diversification. In light of the new growth points of consumption, consumption demands and different consumption levels, the relevant policies must be formulated to promote the formation and development of policies regarding new growth points for consumption. First, the requirements of middle-income groups increasingly upgrade. We should utilize rational choices of consumers to guide the allocation of market resources, creating good living and growth spaces for producers with core technologies and high added-value; we should import global consumer goods with high-quality and high-value-added, improving the consumption quality and eliminating consumption gaps between the domestic and overseas market; we should expand market access by attracting manufacturers and service companies which are world-famous consumer brands to invest and develop in China, boost transformation and upgrading of China's consumption supply structure, and further enlarge domestic consumption. Second, the consumption of primary groups should be advanced. That is to say, we should improve the rural consumer environment and infrastructure, especially the signals and roads, rectify the market economic order, standardize the rural transaction, strengthen the construction of outlets in rural areas, and encourage the powerful companies to open their market in the countryside. Third, the infrastructure for the new-type consumption must be completed. Based on the original transportation, energy, telecommunications, water, electricity and gas, we should also focus on promoting infrastructure construction in information technology, the Internet, and big data, accelerate the upgrading and transformation of broadband networks, and make overall plans for improving the popularization and access capacity of broadband networks in urban and rural areas; we should put emphasis on establishing modern commodity circulation and logistics service system, especially in the new urban areas and the central and western regions to further strengthen the construction of modern commercial facilities, actively construct the circulation backbone network of nationwide commodity and the logistics distribution system in the cities, and improve the layout of network outlets and push forward the development of public logistics.

3.3. Improving the Regulation Model of Government and Strengthening the Law Supervision

3.3.1. Establishing New Government Regulation System

We should bridge cross-level, cross-regional and cross-sector data sharing platforms and collaborative management systems by the big data, promote innovation in government management and social governance models, strengthen new consumption areas such as information, finance and health care as well as market supervision on the new technologies and products, emphasize intellectual property protection, enhance government governance and build an inclusive and prudent supervision system.

3.3.2. Strengthening the Authority of Law and Its Implementation

The detrimental consumer environment takes a toll on the release of consumer demand. A robust environment on legal regulation must be formed. The first is to establish a traceability system for consumer goods. Once there exists issue concerning product quality, we must immediately scrutinize every aspect of product production and hold relevant companies accountable. For companies that cause major safety incidents, we should implement severe punishment measures like “closing the companies once the violation is found”. The second is to formulate an effective consumer protection system. The *Consumer Protection Law* should be amended and improved to protect their personal and property safety, making the standards and supervision of commodities be regulated by the laws. We should positively carry out consumer education and information services and offer consumer service information and necessary consultations through authoritative and professional media, public information platforms and modern information channels such as WeChat and Weibo. Government departments should learn how to discover problems, offer topics and grasp the correct trend of public opinion during the process of supervision, in order to balance the supervision of the circulation and the needs of customers.

3.4. Accelerating the Development of Consumer Finance and Boosting the Consumption Level

Due to the imperfect capital market and more credit constraints in financial institutions, China's consumer credit presents insufficient supply. Against the backdrop of expanding domestic demand, it is important to increase consumption through financial product innovation. The specific measures are as follows. First, on the premise of strengthening supervision, it is recommended that the consumer finance business should be freely developed across the nation through encouraging the flow of social capital and vigorously studying various consumer financial products. We can link the bank deposit reserve ratio with the amount of credit consumption, which may improve the bank's ability to bear consumer credit; second, the third-party assessment agency with reliable qualifications and high market recognition should be established to reasonably evaluate mortgage assets while extending the range of the assets. In addition, we should improve the system of intangible assets, bond mortgages, commercial land mortgages, and promote the realization of cross-times consumption; thirdly, the government should encourage banks to cooperate with retail enterprises and jointly carry out low-interest & installment payment activities. As such, banks will share transaction costs with enterprises, relieving consumers' troubles; fourth, the government should support the rural credit products, innovate management models and explore the installment payment system targeting the income characteristics of rural residents, which can reduce the payment pressure of one-time large-sum credit; at the same time, microcredit range must be extended, which can address the shortage of rural productive consumption funds, reduce their liquidity constraints, and achieve stable and inter-temporal consumption.