

# **Study of consumer policy and the development of demand in China**

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## Abstract

### **1) Analysis of changes in consumer policy and demand since the creation of the People's Republic of China**

1. Phases of consumer policy: policy to suppress consumerism (1949-1978), economic recovery policy (1979-1988), policy to stabilise economic growth (1989-1997), policy to boost consumption (1998-2004).

2. Progressive change in consumer patterns:

Changes in consumer patterns for small town dwellers: survival consumption (pre 1994, Engel's Index over 50%); mostly survival consumption with a gradual increase in linked to development (1994-2000 Engel's Index between 40-50%); and rapid increase in comfort and development consumption (2000-2004 Engel's Index between 30-40%).

Changes in consumer patterns for peasant farmers: survival consumption (pre-2000), consumption still mainly for survival but with a gradual increase linked to development (2002-2004).

### **2) Analysis of the main issues related to consumption and their causes**

Main issues: consumption levels continue to fall and the contribution of demand to economic continually decreases, total consumption and consumption per capita grows at a far slower pace than economic growth. Compared to world standards, consumer growth in China is slow, whereas the increase in government consumption is too fast. Consumer growth among peasant farmers is slowing and the consumer gap between towns and rural areas is growing.

The causes: Reform are overdue in the investment and financial sectors and consequently having an impact on investment effectiveness. A significant amount of money and resources have been wasted in unproductive investments, which instead could have contributed to improving the living conditions of many people. The different economic structures of towns and villages have led to a mismatch between production and demand – economic growth is outpacing consumer growth. Welfare reform is lagging far behind economic reform, leading to diminishing household confidence with regards to future earnings and expenditure. Consequently household savings levels are growing rapidly and hindering purchasing power. The implementation of personal income tax and capital gains tax is holding back consumer growth among middle income and low income households. The wage gap is widening. Growth in income and the desire to consume are progressing inversely. Government assistance for development is still inadequate and is halting consumer growth. Fraud is common and consumer safety is low. The Interests and rights of consumers are badly which acts as a further damper on consumption.

### **3) Development objectives for demand in the 11<sup>th</sup> Five Year Plan**

Growth in consumption is estimated at 9% by the end of the year, with contribution with demand rising by 65.4%. Retail consumer sales should remain at double digit growth. There should be a

significant increase in the market for consumer products in towns and rural areas, and changes in the distribution of high, medium and low income households. The middle class will expand and become the main engine for consumption.

#### **4) Consumption measures implemented while building a society that aims to eradicate poverty**

Several suggestions and measures for policies to provide consumption incentives and encourage sustainable consumerism:

1. Actively promote fiscal reform to change from indirect to direct taxation as the main source of government revenue.
2. Accelerate reform in the investment sector; adjust the relationship between investment and consumption.
3. Increase income levels for small town dwellers; adjust wage distribution.
4. Endeavour to increase the farmers' incomes in order to utilise the huge market potential this consumer group represents.
5. Improve the income tax system and stimulate public finance payment transfers.
6. Develop and enhance consumer credit and gradually increase the rate of credit purchases.
7. Implement income-linked consumer incentive measures for small town inhabitants.
8. Speed up the establishment of a social welfare system.
9. Reorganise and establish market regulations for the distribution of goods to build a safe and secure consumer environment.
10. Boost the recycling industry making distribution of goods a key link in the recycling economy.

[End]

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