Low Consumption Share of China's Economy

The consumption share of China's economy, though has stayed relatively high, actually higher than the average level of the United States and certain European countries during the 2000s and the 2010s, has plummeted coming into the late 2010s and up until the present (Zisper et al., 2021). On one hand, the low share of consumption level stands in stark contrast with the percentage composition of middle and upper-middle class consumers in China and may be reflective of their spending habits and the broader ideologies among the mass majority; but more visibly, the low share can be attributed to a wide range of governmental practices and policies as well as the framework under which the Chinese economy operates. This essay will answer the question of why the consumption level of China's economy is low and explores what options there are for the Chinese government to increase consumption.

First of all, the low consumption share of China's economy is partly ascribed to the consuming habits among Chinese people. Incorporating the model of precautionary saving, Choi et al. (2014) has set forth that Chinese consumers tend to save a large portion of their income while spending mainly on wealth management products, which is in stark contrast to countries such as the United States, where the habit of spending on goods prevails. In fact, China's rate of spending is among the leading ones around the globe historically ever since the 1980s and probably stems from traditional Chinese cultures in which schools of thought including Confucianism promotes long-term planning and thriftiness (Ng et al., 2019; Zhang et al., 2018). However, this culture has taken a turn as Gen Z in China now spends more through a more diversified repertoire of channels (Wang, 2023).

In addition to the sociocultural factors driving the low share of consumption in China, government policies and practices that largely revolve around benefiting state-owned enterprises as well as the supply side of the economy also seem to be the culprits here. To put things into perspective, Chinese government has constantly carried out practices that externalize the benefits of the consumers to the businesses through practices including repression of interest rates, hukou system, eminent domain, and inefficient investment done by the government and large corporations that are subsidized through loans. Let us discuss these one by one to get a fuller picture of how government practices and policies shape the consumption level (Pettis, 2024).

The repression of interest rate benefits the government and large corporations at the cost of consumers, who are the biggest net savers, in that consumers earn less income from interest rate, the margin that could have been earned without the repression is then transferred to the biggest borrowers-state-owned enterprises and big corporations. Not only does the less amount of income contribute to low share of consumption from household and individual consumers, the inefficient investment on the end of state-owned enterprises and big corporations in turn further reduce the consumption level because they are less capable of affording reasonable or high wages to their employees who constitute a significant portion of the consumer group (Pettis, 2024). Given that the household savings are especially substantial in China, this dynamic compounds the low share of consumption.

Hukou system is yet another one. Migrant workers are denied access to equal housing subsidies, education resources, and healthcare resources, all of which in turn force them to send children to schools at places they do not currently reside, travel to other places for medical services or paying out-of-pocket at higher prices, and rent or buy real estate at higher costs, all of which then reduce the amount of income they have left to purchase goods and products, thereby reinforcing and perpetuating the low share of consumption. Eminent domain sometimes compounds the issues also, in which government pays unfair amount of compensation to those deprived of their housing, or in worse scenario, hires local thugs to violently remove occupants (Hu, 2022), both of which leaves the residents with a reduce ability to spend.

Going forward, the Chinese government could regulate the housing market by reducing the cost, thereby alleviating the situation wherein consumers spend disproportionate amounts of income to purchase real estate. Besides, it could increase the interest rate for savings, but this may be done at the cost undermining the interest of manufacturers, thus reversing their competitiveness and ultimately the overall economy (Pettis, 2024). It may also consider its domestic circulation strategy and the broader economic framework, which has largely focused on housing, manufacturing, infrastructure as opposed to diffusing progressive, innovative technological development (Ding, 2023).

In conclusion, China's low share of consumption is due to sociocultural factors and a state-led economy. Practices including housing market regulation and adaptation in the current economic framework China operates under may raise the share of consumption in the time to come.

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