



Trends in Private Consumption in China

The Development of Chinese High Income Class and its Global Relevance

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**Chinese private consumption
will grow exponentially
in the coming years**

China's Next Five-Year Goals: The Shift in Priorities from Growth to Welfare Improvement and Socioeconomic Sustainability

12th Five-Year Plan (2011-16)

Stable and relatively fast economic development.

Major progress in economic structure adjustment:

Higher private consumption rate;

Increased share of services sector output;

Increased urbanization rate;

Significant reduction in energy intensity and carbon emission as well as other major pollutant emissions;

Marked improvement in ecological environment.

Rapid Increase in household income:

Household income grows at the same pace as economic growth and labour wages grow in tandem with productivity growth;

Raising the income of low-income earners;

Expanding middle-income group;

Poverty reduction.

Social development:

Promoting job creation and harmonious labor relations;

Adjusting income distribution (raising households' income in primary industry, reversing the widening of income gap between rural and urban areas, between different regions and sectors)

Building universal social security system for both urban and rural areas;

Building a basic healthcare system covering all urban and rural residents.

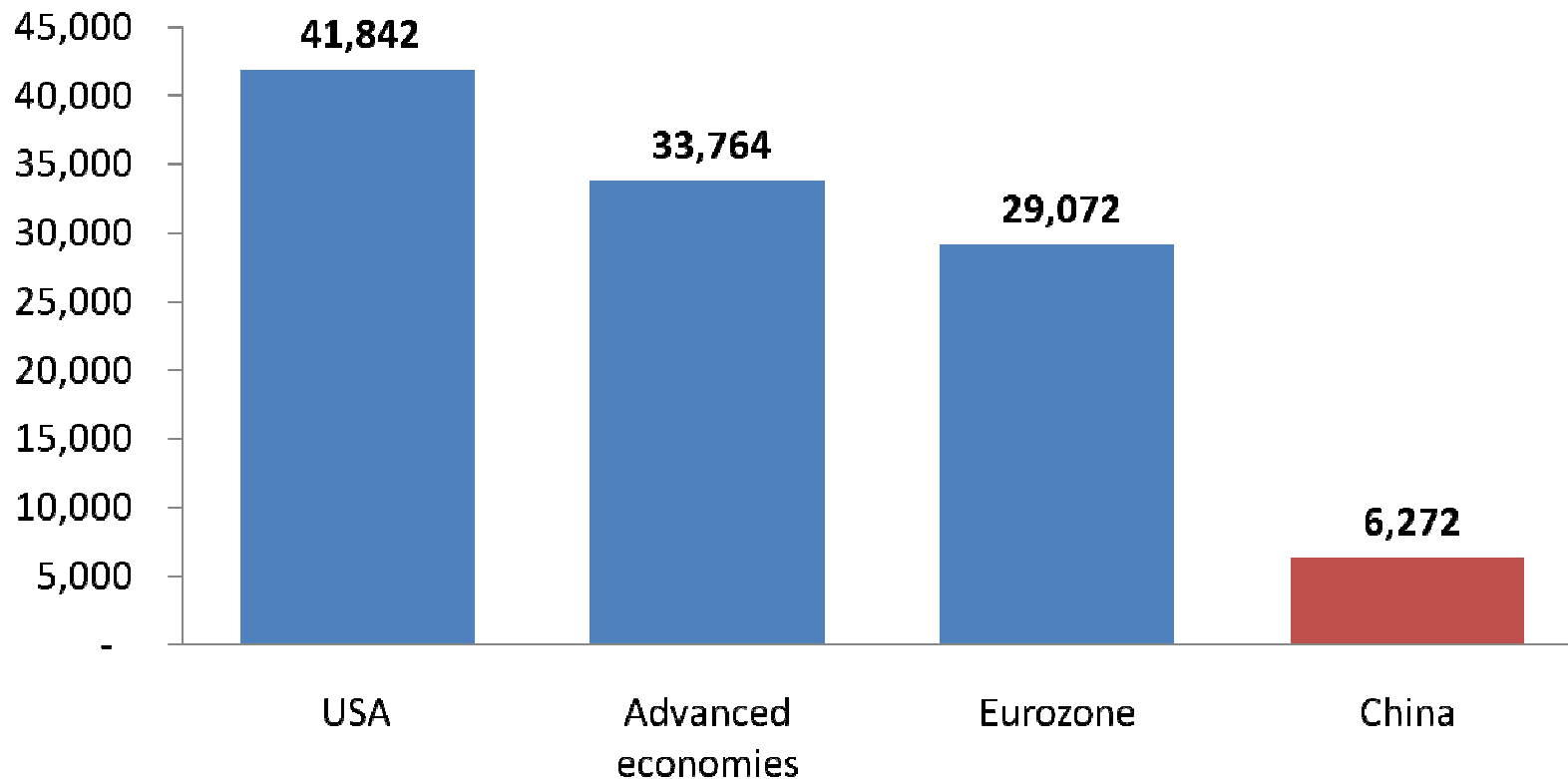
Reform and opening-up:

Marked progress in the reform of fiscal, financial, monopolized sectors.

**If China succeeds
in boosting consumption,
Chinese consumers
may become a new long term
source of global aggregate demand**

Chinese average GDP per capita is far from Western Standards...

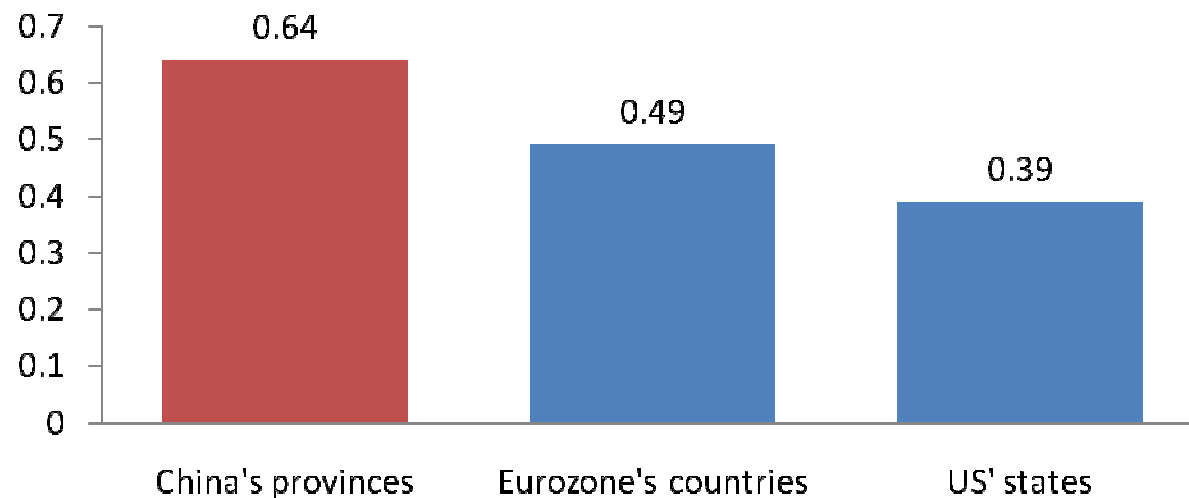
GDP per capita in 2009 (2005, PPP dollars)



Source: Global Insight, October 2010

**...But China is a vast country
with high inequalities in income,
among provinces and between rural and urban areas.**

Coefficient of variation* of GDP per capita, 2009



Source: Wang and Zhang 2009

China: 1.3 billion people (2.6 times the EU) and 9.6 Kmq land (> twice the EU)

**The Coefficient of Variation (COV) is a normalized measure of a dispersion of a distribution;*

COV= standard deviation/mean

**If the average GDP per capita is far from Western standards,
there are however many people
with incomes comparable to average Western ones.**

They can be found among the **top earners
and they are the group this study focuses on.**

We define “High Income Class**” (HI)
the group of Chinese **top earners** that have
an average **per capita GDP of \$30,000 (2005, PPP).****

Why do we focus on HI Class?

The growth of the **Chinese HI Class**
is of **global importance**
given the weakness
of Western consumers,
they can counter-balance it
because they have enough PP

The main intuition of this study

is that

Chinese HI Class is big

and is set to grow fast,

especially in the coming decade

PART 1

How big is Chinese High Income Class?

**Less than 10% of population
(<133.5 million)**

First steps of the study

- ✓ We know that in 2005 (World Bank, latest data available) the richest quintile of Chinese population held 47.8% of total national income, the richest decile 31.4%.
- ✓ The WB does not provide further details on income distribution in China.
- ✓ If we assume that income distribution has remained the same through 2009, and that the distribution of GNI is the same as that of GDP, we can estimate GDP per capita in these two top-income groups:



The richest 20% of Chinese population (267 million) had a per capita GDP of \$15,000 in 2009 (2005 PPP dollars); (Total GDP*47.8%/population*20%)

The richest 10% of Chinese population (133.5 million) had a per capita GDP of \$20,000 in 2009 (2005 PPP dollars); (Total GDP*31.4%/population*10%)



Therefore in 2009 there was a percentage smaller than 10% of the Chinese population that had an average GDP per capita comparable with Western ones.

Methodology

The lack of data requires that we make a series of (sometimes strong) **assumptions** in order to estimate the size of this class.

1. Income distribution.

- the distribution in GNI is the same as that of GDP;
- it has remained the same from 2005, and will remain the same till 2020 (static estimate); *We prefer not to make further assumptions on income distribution future developments even if we know that inequalities in income should be reduced according to the 5YP. There are too many factors that affect income distribution in different ways. We prefer to choose simplicity.*
- distribution of income in the richest quintile of the population maps the one in total population (= the distribution of income across quintiles is replicated within each quintile, that is across 4% of population). *If the 20% of the total population holds the 47.8% of national income, we assume that 4% of the population holds the 47.8% of 47.8% of income that is 22.8%.*

2. Population and GDP per capita.

- We use Global Insight estimates.

3. High Income Class average GDP per capita of \$30,000.

- It does not vary with time (static estimate).

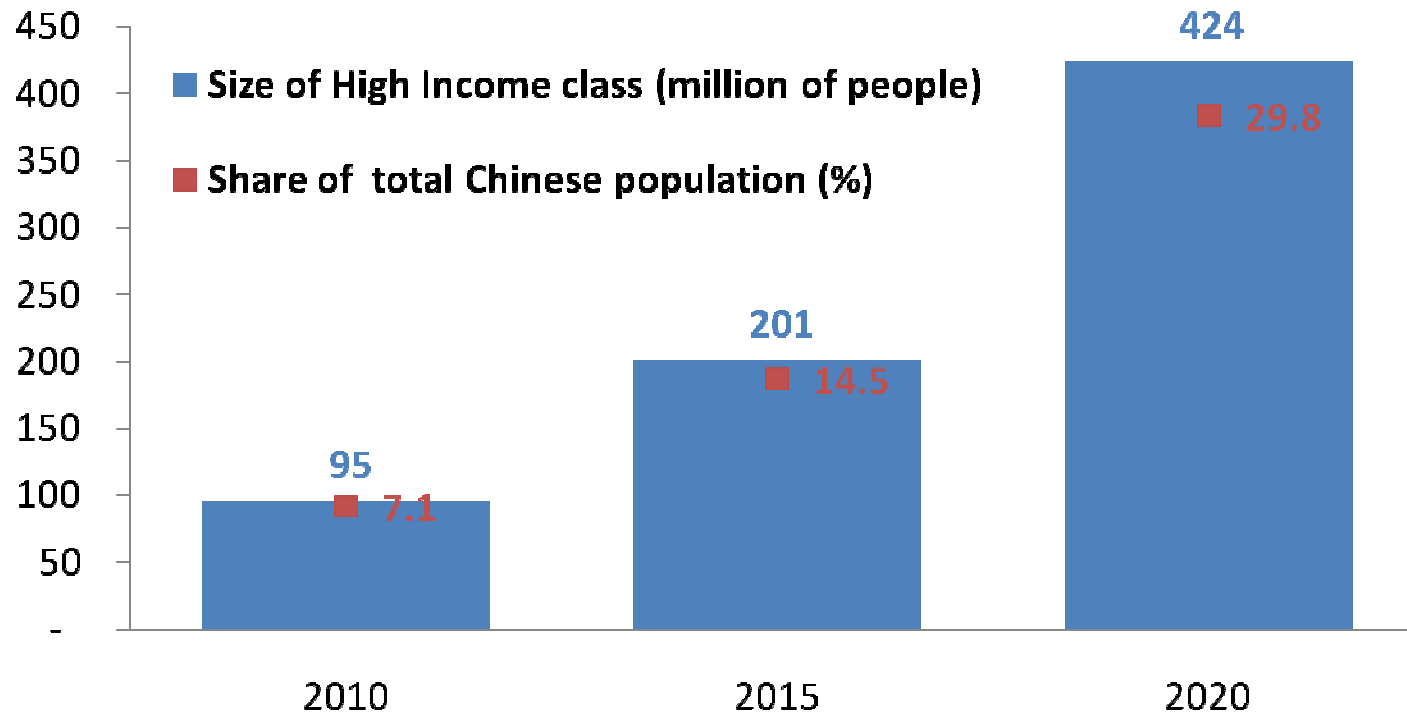
4. Share of private consumption on GDP.

- High Income Class consumption represents 36% of its GDP in 2010, that is a fraction equal to the national share of consumption on GDP (that corresponds to 34.3% 2005 PPP dollars).
- If China succeeds in stimulating its internal demand, we believe that the national share of consumption, and High Income Class consumption, could be 45% of GDP (40.6% 2005 PPP) in 5 years, 50% (43.9% 2005 PPP) in 10 years.

Since marginal propensity to consume is decreasing in income, the share of consumption on HI class GDP may be lower than 36%. As such, based on this assumption taking alone, we may be overestimating the HI class private consumption.

Main findings

1. The Chinese High Income Class is big and will double every 5 years in the next decade



Source: author's estimates on NBS, World Bank and Global Insight data

2010 , Germany: 81 million with a per capita GDP of \$32,138 (Global Insight, October 2010).

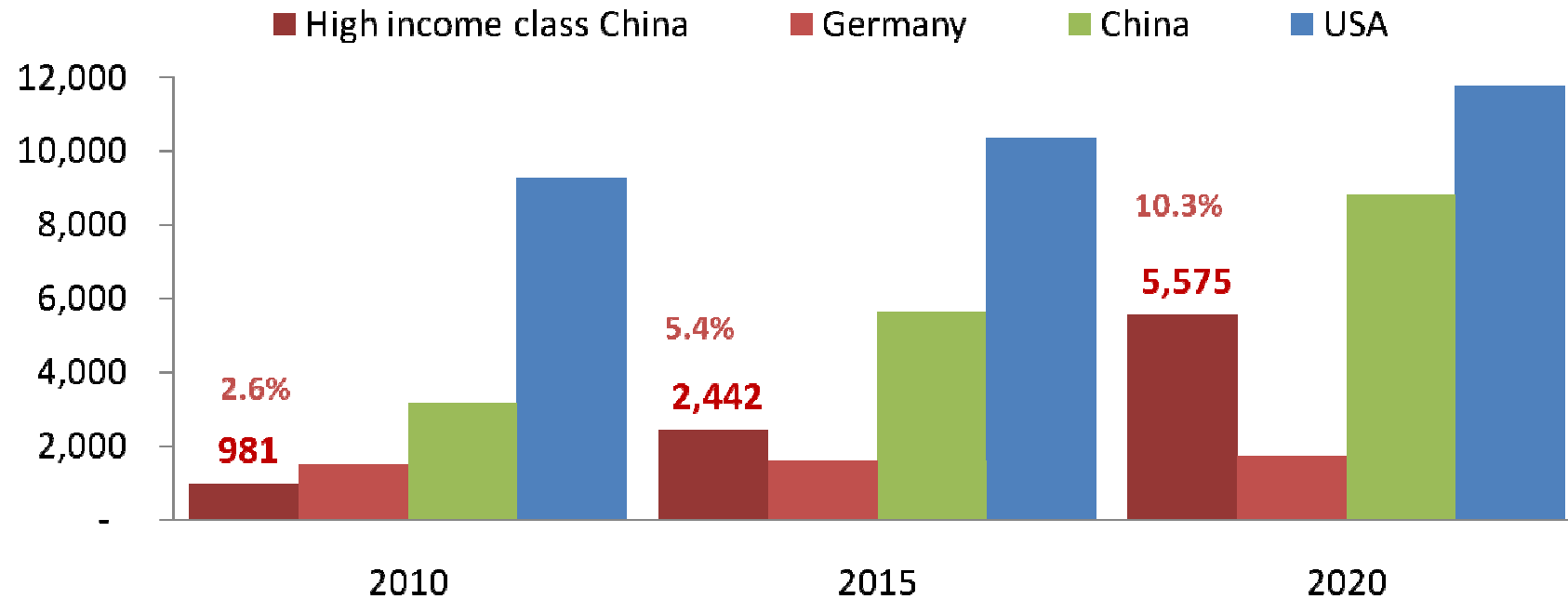
2015, France, Italy and Germany: 206 million with a per capita GDP of \$32,738 (Global Insight, October 2010).

2020, Western Europe: 421 million with a per capita GDP of 36,088 (Global Insight, October 2010).

Main findings

2. The Chinese High Income Class will gain relevance in global consumption

Private consumption (2005 PPP \$, billions) and China's HI class global share



Source: author's estimates on NBS, World Bank and Global Insight data

The Gaining Relevance of Chinese High Income Class

High income population in China (millions of individuals and share of total Chinese population)						
	2010		2015		2020	
High income class China	95.4	7.1%	200.7	14.5%	423.7	3.0%

Source: author's estimates

GDP (2005 PPP \$, billions and global share)						
	2010		2015		2020	
High income class China	2,863	4%	6,020	7%	12,710	12%
China	9,228	14%	13,901	16%	20,094	19%
USA	13,215	19%	15,239	18%	17,454	17%
Germany	2,623	4%	2,868	3%	3,099	3%
World	68,260	100%	84,516	100%	103,853	100%

Source: author's estimates and Global Insight

Private consumption (2005 PPP \$, billions and country's share of private consumption on GDP)						
	2010		2015		2020	
High income class China	981	34.3%	2,442	40.6%	5,575	43.9%
China	3,163	34.3%	5,638	40.6%	8,815	43.9%
USA	9,276	70.2%	10,353	67.9%	11,772	67.4%
Germany	1,484	56.6%	1,604	55.9%	1,731	55.8%
World	37,226	54.5%	44,822	53.0%	54,089	52.1%
High income class China/World	2.6%		5.4%		10.3%	
China/World	8.5%		12.6%		16.3%	
USA/World	24.9%		23.1%		21.8%	
Germany/World	4.0%		3.6%		3.2%	

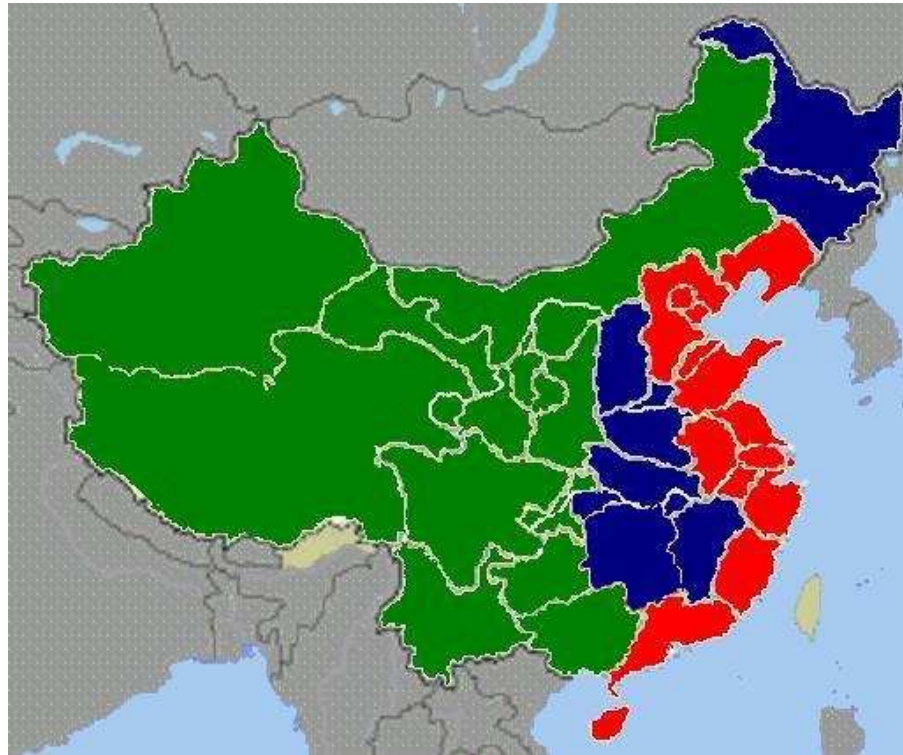
Source: author's estimates and Global Insight

PART 2

Where does Chinese High Income Class live?

In the urban areas of the Coastal provinces

One country, Many economies: Differences among China's Provinces and between Urban and Rural Areas



GDP PER CAPITA (nominal)

East \$5,868

Center \$2,978

West \$2,658

Shanghai's is 7.6 times Guizhou's!

SHARE OF COUNTRY'S GDP

East 58%

Center 24%

West 18%

SHARE OF COUNTRY'S AREA (kmq)

East 11%

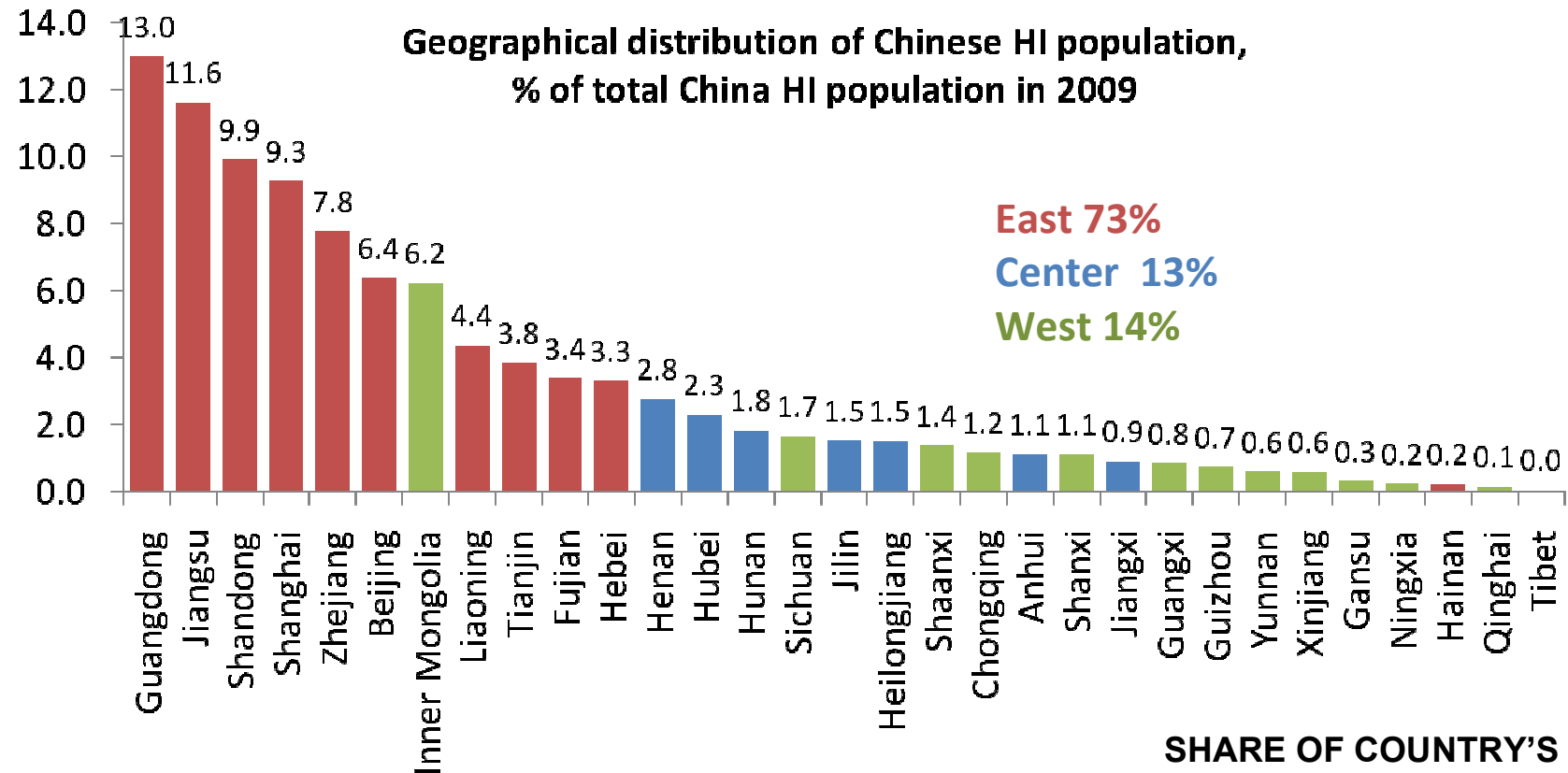
Center 18%

West 71%

- **Eastern area (11 provinces):** Beijing, Tianjin, Hebei, Liaoning, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Guangdong and Hainan.
- **Central area (8 provinces):** Shanxi, Jilin, Heilongjiang, Anhui, Jiangxi, Henan, Hubei and Hunan.
- **Western area (12 provinces):** Inner Mongolia, Guangxi, Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang.

The Chinese High Income Class: Geographical Distribution

1. Chinese High Income Class Lives mainly in Coastal Provinces



Source: author's estimates on NBS and World Bank data

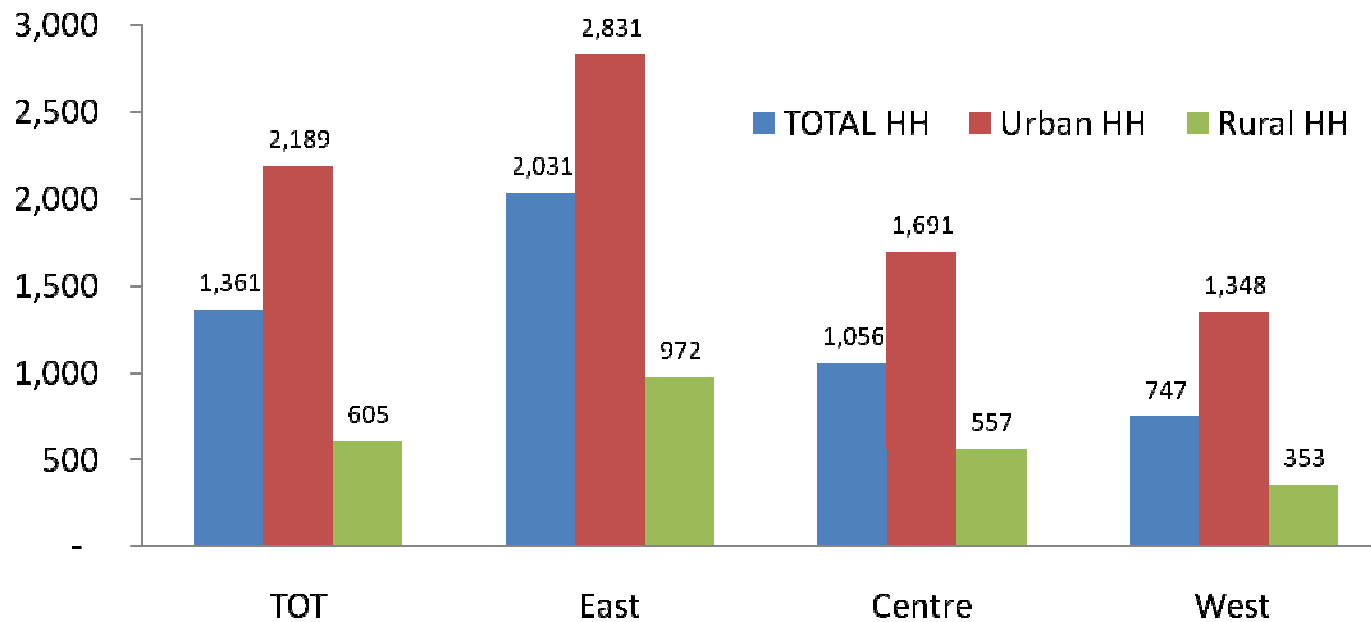
SHARE OF COUNTRY'S POPULATION

East 40%
 Center 32%
 West 28%

The Chinese High Income Class: Geographical Distribution

2. Chinese High Income Class Lives mainly in Urban Areas...

Households (HH) consumption per capita, US\$

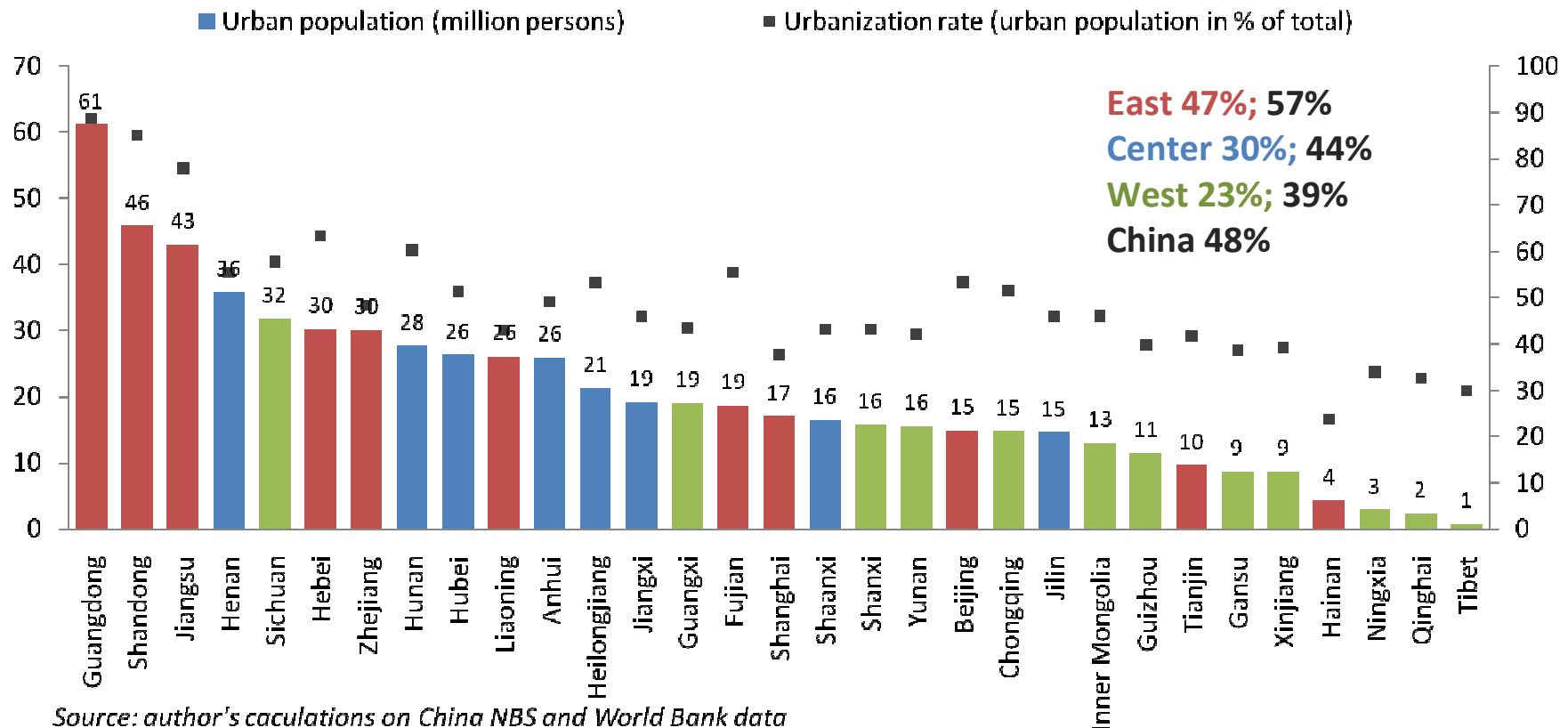


Source: author's calculations on NBS data

Average consumption per capita in urban areas is more than 3 times that of the rural areas (US\$ 2,189 vs US\$ 605).

The Chinese High Income Class: Geographical Distribution

2. Urban areas are bigger in Coastal Provinces



The highest urbanization rate (Shanghai 90%) is 3 times than the lowest (Tibet and Guizhou)

Hence

Chinese High Income Class

is more widespread

in the Eastern areas,

especially in urban centers.

What about future developments?

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12th Five-Year Plan (2011-16)

Stable and relatively fast economic development.

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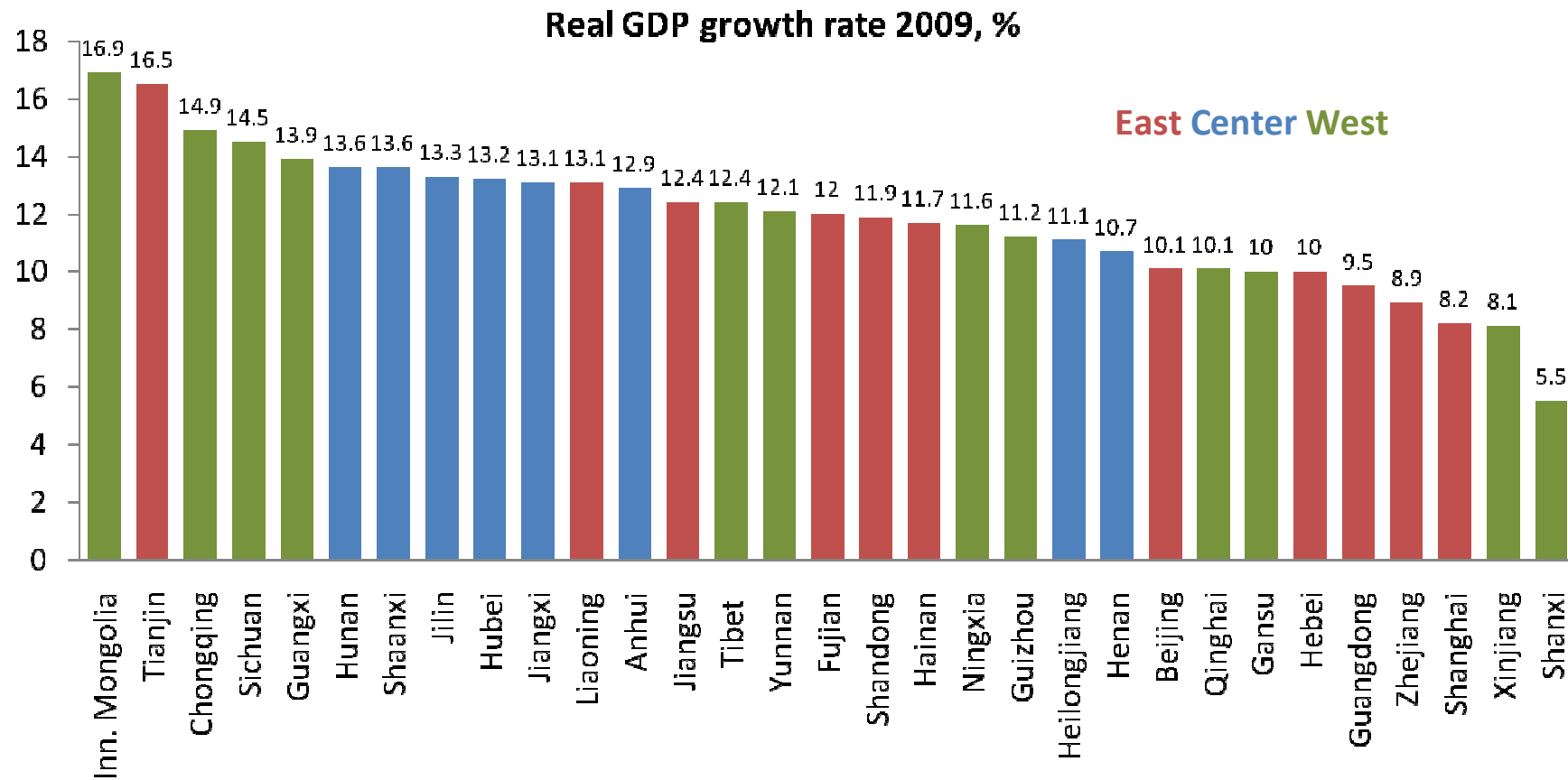
Building universal social security system for both urban and rural areas;

Building a basic healthcare system covering all urban and rural residents.

Reform and opening-up:

Marked progress in the reform of fiscal, financial, factor market pricing, monopolized sectors.

The catching up process from Center and West to East China



Source: NBS and Deutsche Bank

Today

1/2 of urban consumers and 3/4 of High Income individuals live in Coastal regions;

the same may be in 5 years;

in the medium-long period

2nd tier cities and Central regions

will gain relevance

as the process of catching up consolidates

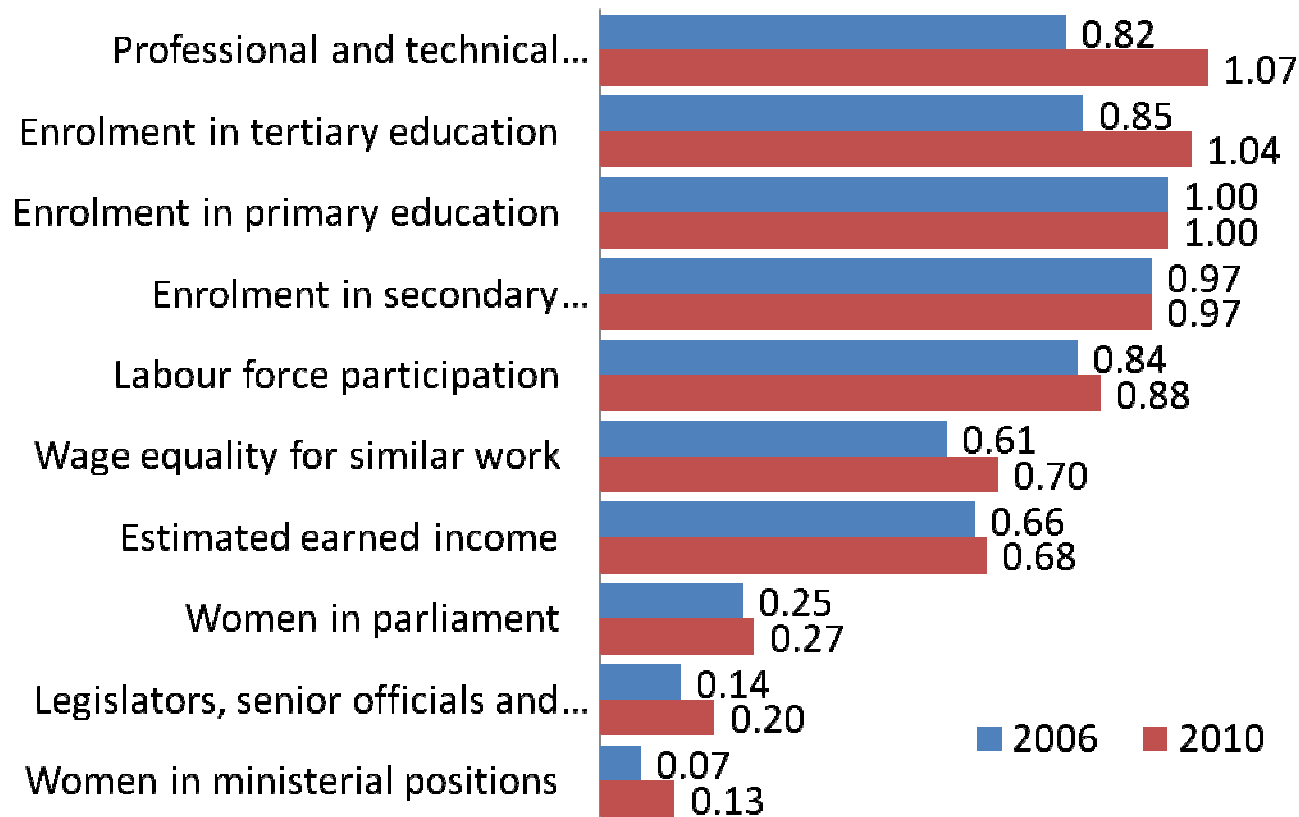
within the framework of the 12th 5YP

TO SUM UP...

- ✓ Consumption in China will grow rapidly in the coming years and Chinese HI class will develop fast;
- ✓ China looks more like a **continent** than a country (high disparities);
- ✓ The **coastal area** (especially the urban areas) can be already considered like an advanced country for its GDP per capita level (urban GDP per capita \$20,000 PPP 2005, like Portugal; total GDP per capita \$10,000); moreover $\frac{3}{4}$ of Chinese HI class live there
- ✓ In the future, consumption trends will be affected by (among many other factors): **Catching-up** process from west to east; Changing **age structure** (a older population consume less and have different preferences); Role of **women** (increase in their purchasing power may shift preferences); **computerization** levels (reduces distances).

Role of women

The growing relevance of Chinese women (female to male ratio, 1=equality)



Source: author's calculations on Global Gender Gap Report data

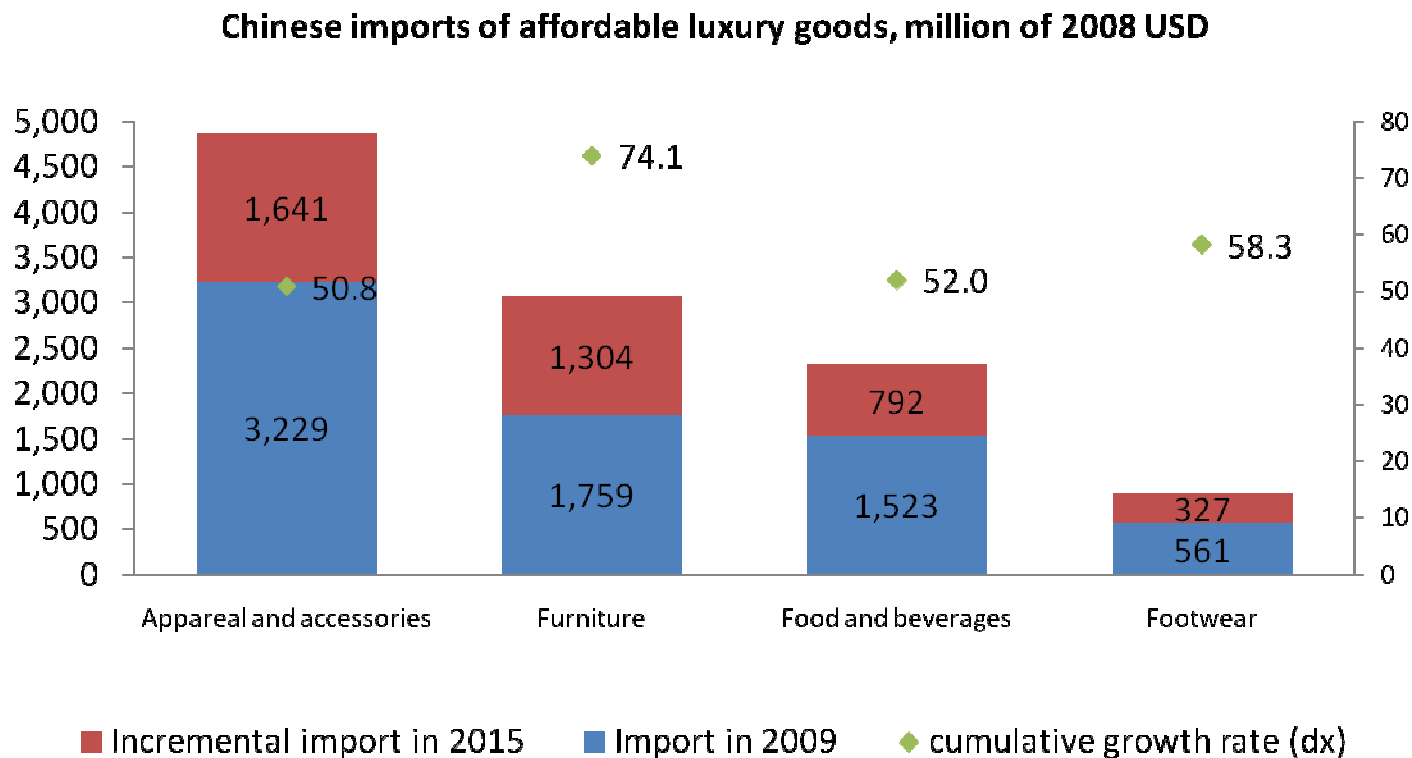
In the paper you will find also two focuses:

1.A Focus on Chinese Consumption of Affordable Luxury Goods (derives from previous work).

2.A Focus on Disparities in the Level of Computerization in China

1. Chinese Consumption of Affordable Luxury Goods

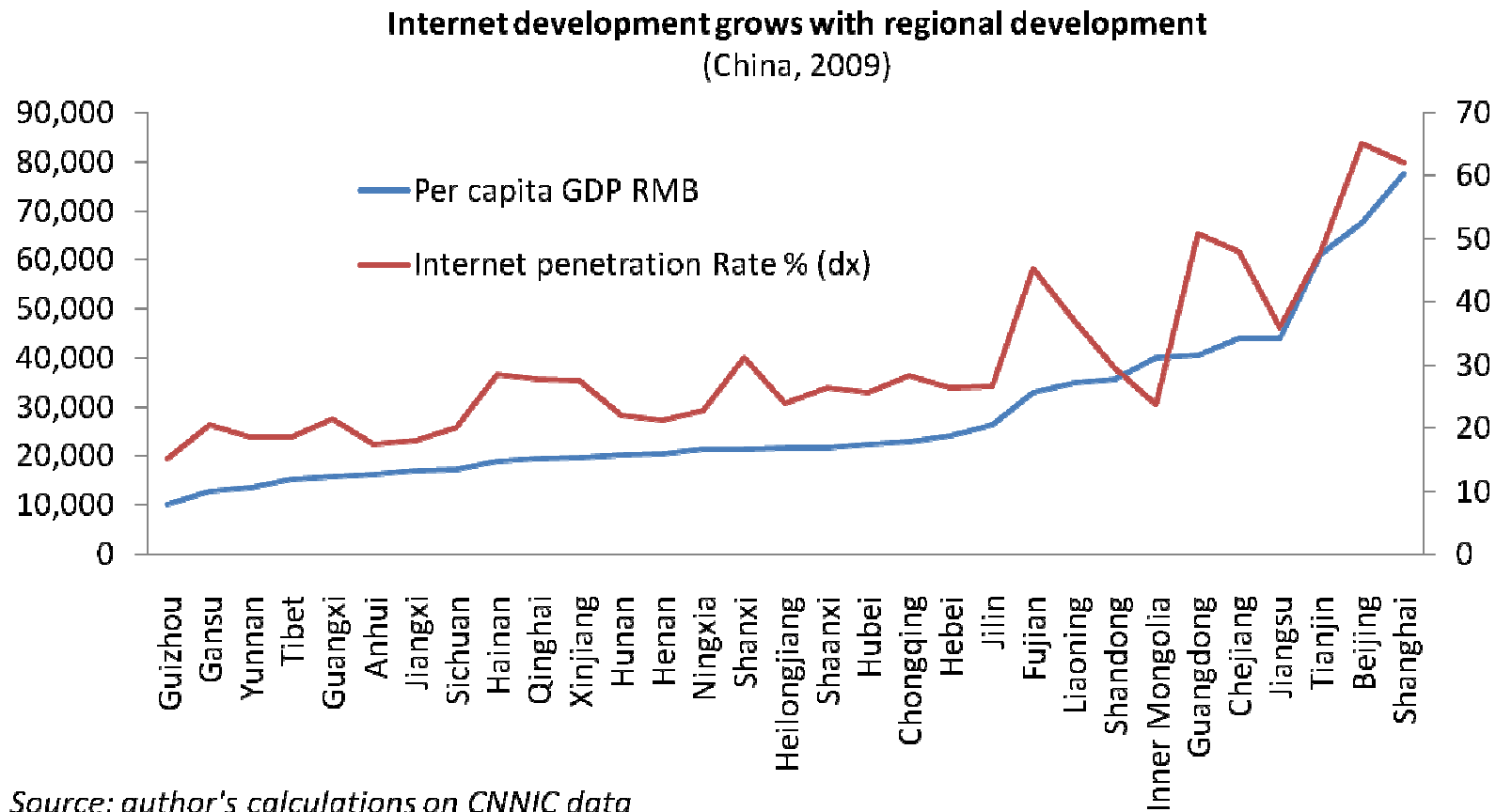
Chinese imports of affordable luxury goods will grow rapidly in the next five years



Source: "Esportare la dolce vita. Le nuove opportunità per il lusso accessibile italiano", April 2010

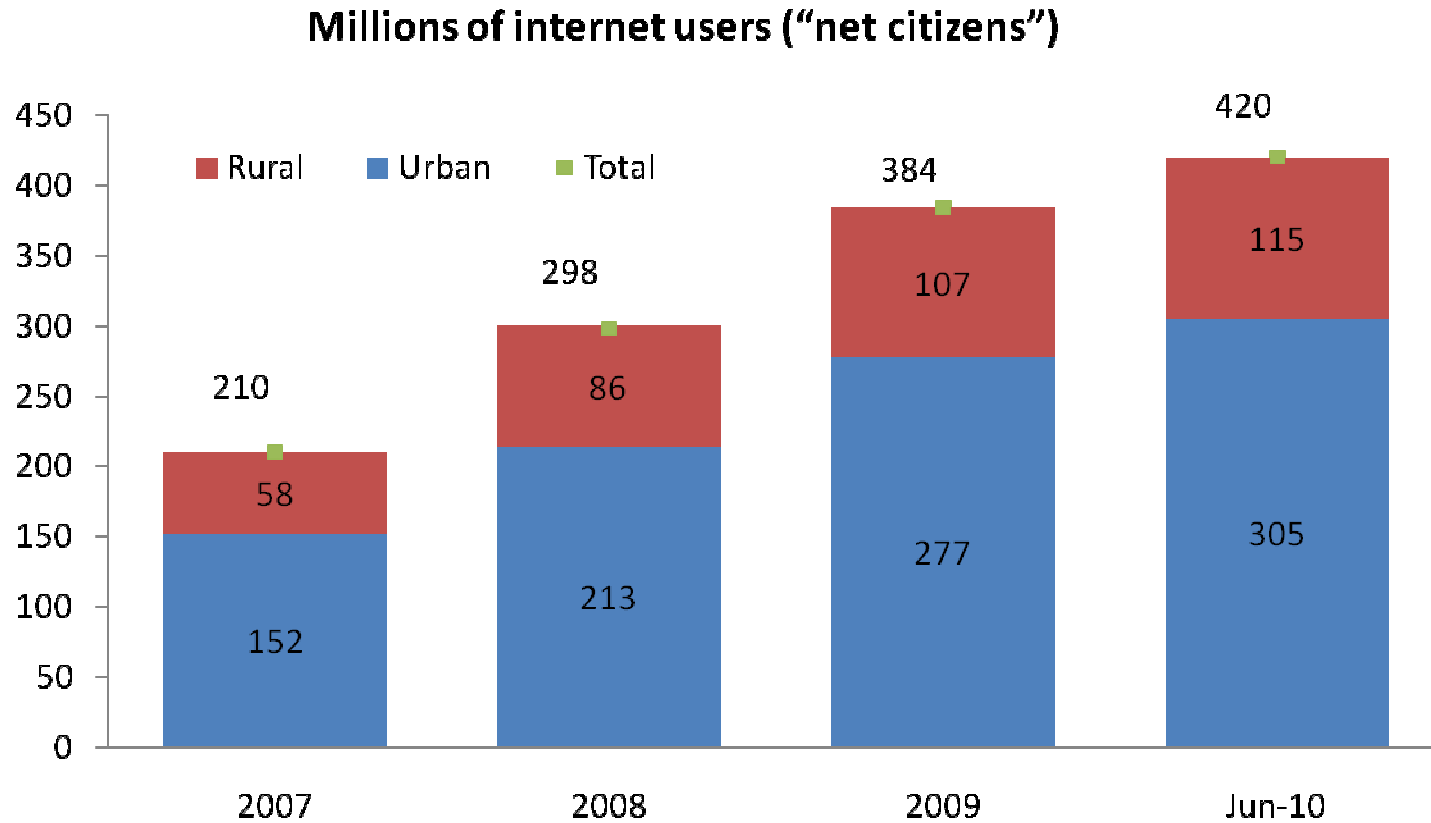
2. Disparities in the Level of Computerization in China

**Disparities among provinces
are not in income only.**



Source: author's calculations on CNNIC data

Chinese “net citizens” are growing especially in urban areas



Source: author's calculations on CNNIC data

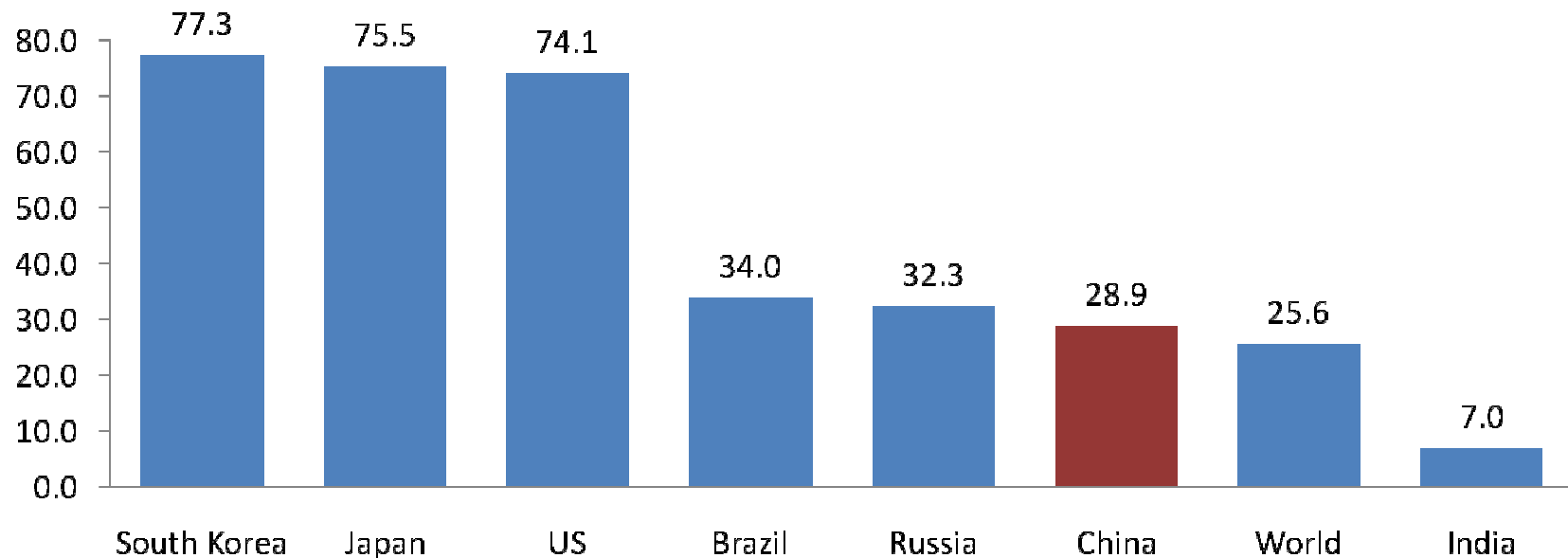
China surpassed the US in 2009 for the number of net citizens.

Net citizen” is a Chinese citizen older than 5 who has used the internet in the first half year.

We follow the definition by China Internet Network Information Centre (CNNIC).

Internet penetration in China is still lower than developed countries

Internet penetration rate, end 2009



Source: www.internetworldstats.com

“Internet Penetration Rate” corresponds to the percentage of the total population of a given country or region that uses the Internet. We follow the definition by Internet World Stats.



Thanks

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