

China Strives To Enhance Consumer Spending And Rebalance The Economy

Contributed by Euromonitor
Monday, 14 December 2009
Last Updated Tuesday, 26 January 2010

China is striving to shift the economy's focus towards private consumption in order to reduce export dependence and rebalance the economy.

The provision of basic medical insurance, announced in early 2009, will encourage consumers to save less, but will unlikely make a significant impact on poorer households.

China is the world's third largest economy (behind the USA and Japan in US\$ terms), with the largest population (1.3 billion in 2008).

However, it is only the sixth largest consumer market (behind the USA, Japan, France, the UK and Germany, in US\$ terms), with private consumption totalling RMB10.6 trillion or 35.2% of GDP in 2008;

- The average Chinese household saved 31.6% of its disposable income in 2008, which was nearly ten times the 3.4% savings rate for US households;

- Chinese households are reluctant to spend as a lack of social security forces them to save for the soaring costs of healthcare, education and pensions. In 2008, combined government expenditure on education, healthcare and social security accounted for only 6.6% total government spending, compared to 65.2% in Japan and 67.0% in the EU.

Implications

Amid an economic downturn, in November 2008 the government launched a stimulus package worth RMB4.0 trillion:

- This package aims at boosting domestic demand to offset collapsed foreign demand. Stimulus measures range from sales tax cuts for automobiles to rebates for rural consumers in 2009;

Â -Retail sales have consequently been on the rise. In particular, passenger car sales rose 90.2% year-on-year in August 2009.

In January 2009 the government also announced healthcare reform:

- RMB850 billion (US\$124 billion) will be spent during 2009-2011 to provide basic medical insurance to 90.0% of the population, build 29,000 community clinics and upgrade existing public hospitals. The government aims to provide universal access to basic healthcare by 2020;

- It is hoped that this healthcare reform will eventually enable the Chinese consumer to spend more and save less.

Greater consumer spending can bring about positive knock-on effects to the wider economy:

- Industrial production will increase, which in turn will enhance job opportunities. Greater employment will boost disposable income and consumer spending;

- Rising private consumption will help rebalance the Chinese economy and buffer it from future global demand shocks. In 2008, exports accounted for 39.9% of GDP, down from 43.3% in 2007. The global economic downturn since 2008 has highlighted the danger of economies being too reliant on exports;

- Increased Chinese consumer spending can open up China as an exports market for other Asian economies and reduce their dependence on demand from the USA and other developed economies. In 2008, 33.8% of ASEAN exports had destination in the EU, the USA and Japan.

Prospects

- Analysts predict that the healthcare reform will unlikely raise China's private consumption significantly before 2025, not least because a reversal of saving to spending in the Chinese consumer's mentality will take time. However, the potential remains enormous if attitudes change as China provides the world's largest consumer base;

- The proposed basic medical insurance will not be sufficient to prevent poverty brought about by serious sickness, especially for poorer people and those living in rural areas. Therefore, it will not significantly change the spending habits of poorer households;

- In the short term, growth in domestic demand will continue to be dependent on the government's stimulus package.

China's annual real GDP growth is forecast at 8.5% in 2009 and 9.0% in 2010.

For further related articles, please visit [Euromonitor International](#) .

20 NovemberÂ 2009