



the changing face of the Chinese consumer



elite 精英
tuhao 土豪

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Not yet one percent, China's big spenders share some clichéd characteristics—shiny sports cars, exotic glitz and large bling. Often linked closely to political power, they scandalise, while fascinating local audiences, becoming magnets for:

...celebrity gossip.

The term 土豪 *tuhao*, referring originally to country landlords, was reinvented to describe the uncouth opulence of those brandishing gold-plated iPhones and similar paraphernalia. The word turned up enough on the Chinese net to earn the anglicised 'tuhao' a place in the Oxford English Dictionary in 2014.

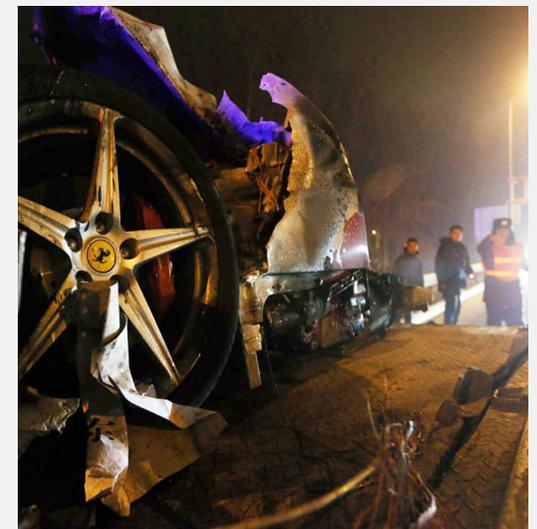


...revaluation.

Glamourised consumerism and erosion of values are repeat themes in Chinese media, though perhaps nowhere more unabashed than coming-of-age film *Tiny Times* (2013). Despite critical and public backlash, the film and its three sequels have all been blockbusters.

...calls for retribution.

Criticism of official excess reached fever pitch in 2012, when former CCP General Office chief Ling Jihua 令计划 attempted to cover up a fatal Ferrari crash involving his son. News circulated widely despite censorship, and Ling was demoted before becoming an early target in Xi's anti-corruption campaign.



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Announcing a bureaucratic reality check, incoming Party boss Xi Jinping 习近平 outlawed officials' unctuous ceremonial behaviour masquerading as action. In a further back-to-basics austerity move he decreed officials replace lavish banquets with spartan 'four dishes and one soup' meals and meetings take place in four- not five-star hotels. Initially taken as tokenism, anti-corruption has put a damper on conspicuous consumption. Economic consequences have rippled across luxury goods sales, alcohol distillers and Macau's casinos.

In reality, a much quieter elite linked to business, rather than the Party, exists behind the tabloid caricatures of China's wealthy. From manufacturing tycoons with footholds in Hong Kong and Taiwan, to executives who helped the first batch of Fortune 500 companies penetrate the Chinese market, this heterogeneous group shares a transnational outlook with pan-Asian counterparts.





urban middle class 城市中产

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Middle class 中产 refers to a smaller, wealthier cross-section of Chinese consumer than those who fall between median household income brackets.



Through increased access to foreign media, and exploding tourism, growing numbers of educated urbanites have tastes that converge with their developed-country counterparts. Nonetheless, spending and saving decisions still reflect strategic planning around lifetime purchases: homes, cars, and costly upward mobility options for children, particularly overseas education.

urban middle class 城市中产



To policymakers, this cohort is both an asset and a liability. Plugged into international trends and e-commerce, their buying power is proven; the issue is where in the economic cycle they consume. Chinese tourists' overseas spending on household goods in 2014 outstripped luxury consumption. This prompted the Ministry of Finance to cancel a raft of import tariffs in a bid to shore up domestic consumption. State Council's most recent trade policy promises to further slash duties.

Antagonising this middle class may have political repercussions—hence housing affordability is an area where their interests trump those of the elite. From 2012 to 2014, surging housing prices saw successive controls on speculation and owning multiple homes to keep real estate markets from further overheating. When prices reversed in spring 2014, support measures catered to middle class families: PBoC urged banks to ease mortgage requirements for first-time buyers, and then those upgrading homes, leveraging residents, not investors, to stimulate demand.





rural and migrant workers 农民工

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The rural and migrant workforce is no longer just seen as a factor of production; but as a latent driver of consumption. Harnessing its buying power to boost the macro economy is driving new policy initiatives:



...New Style Urbanisation Plan aims to move 100 million people from farms to small cities by 2020, integrating them into the urban workforce and public services. Critics, domestic and international, point out that 'small town urbanisation' is out-of-step with international experience; megacities enjoy scale economies and are more sustainable.

...rural e-commerce: private companies have been more nimble than the state in grasping the rural consumer market, and reciprocally developing online sales of fresh rural produce to urbanites. But the state was not far behind. In 2014, MOFCOM teamed up with eight e-retail giants, including Alibaba and Jingdong, to extend e-commerce platforms to farms. State Council has since latched onto the idea, pledging support for cold-storage logistics, IT infrastructure and brand development.



As manufacturing declines in eastern provinces however, migrants are returning home. Li Keqiang has urged former factory workers to start their own businesses, in a broader campaign to cut red tape inhibiting entrepreneurship.

rural and migrant workers 农民工

Banks and regulators are extending financial infrastructure to the countryside. They are building more banks, offering internet finance platforms tailored to rural customers (e.g. banking via secure SMS where internet is not available), and upgrading existing rural credit institutions to better provide consumer finance and expand rural banking beyond deposits.



Bringing consumer credit to rural groups is embryonic. Although access to credit and markets via virtual infrastructure can overcome physical infrastructure gaps, technology is not a panacea. Changing consumption patterns may depend less on access and more on disposable income. Without a social safety net, rural consumers' spending decisions will still revolve around meeting contingent healthcare and education costs.

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