

China's Rural Consumption Market: with Focus on the Suburbs of Beijing

Furong Jin Research Fellow, China's Regional and Provincial Research Team, Department of Asia-Pacific
(furongjin@kiep.go.kr)

Jonghyuk Oh Researcher, China's Regional and Provincial Research Team, Department of Asia-Pacific (ojh@kiep.go.kr)

1. Status of China's Rural Area Consumer Market

With the improvement of income and consumption levels, the size of China's rural area consumer market has expanded 2.8 times from RMB 1.3501 trillion in 2000 to RMB 3.7942 trillion in 2012. Even though the proportion of China's rural area consumer market to its total consumer market has constantly decreased because the urban population and urban area income level rapidly increased as urbanization progressed, its absolute size has increased at an annual growth rate of 9%,

invigorating rural area consumer market. Between 2000 and 2012, the size of the rural area consumer market in the outskirts of Beijing increased 3.2 times from RMB 10.5 billion to RMB 33.9 billion and its average annual growth rate reached 10.2% showing a faster growth rate than that of the entire rural area of China.

If China's urbanization rate increases 60%, and rural area per-capita net income increases to be twice that of 2010 by 2020 as the aimed of the Chinese government, the size of China's rural area consumer market will expand 1.4 times from that of 2010 by

increasing at an average growth rate of 3.6%. Meanwhile, assuming that the population of Beijing reaches 26 million, that is, urbanization rate is maintained at 90% and that its income level increases to twice that of 2010, we can estimate that the size of Beijing's rural area consumer market will increase at an average annual growth rate of 5% to reach 1.6 times that of 2010 by 2020.

As consumption structure has been changing due to the increase of the consumption level of the rural area, the proportion of expenditure in food to the total consumption expenditure has decreased, while the proportion of expenditure in services, such as medicine/health, transportation/communication and education/culture/leisure, has increased a certain degree. This trend has been revealed both in China's entire rural area and Beijing's rural area. However, while China's entire rural area showed an increase in the proportion of expenditure in household supplies and services in 2011 compared with that of 2000, Beijing's rural area showed a decrease of about 1%. The reason is that most in Beijing's rural area have durable consumer goods.

2. Constraints on Consumption Expansion in the Rural Area and Recent Consumption Activation Policies

The low income level of rural area is counted as the most fundamental factor that constrains expansion of consumption. Even though personal income has increased rapidly along with the rapid growth of the Chinese economy since China's reform and market opening, the urban area and the rural area showed different income growth rate because of dual economic structure. In the period of 2000–2012, the average annual growth rate of urban area per-capita disposable

income was 9.6%, which was 1.9% higher than that of rural area per-capita net income (7.7%). The urban-rural income gap increased to 3.1 times in 2012, while it was about 3.3 times between 2006 and 2009. The rural area per-capita net income was RMB 7,917 in 2012, smaller than the urban area per-capita disposable income in 2003 (RMB 8,472).

Another factor that hinders expansion of consumption in China's rural area is its lagging basic infrastructure. Even though investments have increased rapidly in China since 2000, most of them have been concentrated in the urban area. Consequently, infrastructure has been greatly improved in the urban area, while it is not the case in the rural area. Still, parts of the rural area suffer from insufficient basic infrastructure and services, including running water, electricity, roads, and gas, and such lack of infrastructure cannot support the expansion of consumption power in the rural area.

In addition, while the size of the rural area consumer market is expanding rapidly along with the increase of the consumption level in the rural area, the rural area residents cannot help but experience inconvenience because distribution networks are not sufficient to meet such expansion. This aspect is also regarded as the biggest barrier that blocks firms' advancement into the rural area.

To solve these problems, the Chinese government has been taking actions by propping up income of rural households, implementing short-term consumption expansion policy, improving social security system, and enhancing distribution networks and logistics infrastructure since the 2000s.

The government also abolished agriculture tax completely in January 2006 to increase income of rural households and is implementing agricultural subsidy policies of which the main

contents are direct subsidy for provisions, subsidy for excellent seeds, and agricultural tools as well direct subsidy for overall agricultural materials.

As a short-term consumption expansion policy, the Chinese government carried out the “Home Appliances Going to the Countryside Project” between December 2007 and January 2013. Under this policy, the government granted 13% subsidy that corresponds to the refund rate of export value-added tax for sales price when rural people purchased home appliances designated by the government.

To improve social security system, the Chinese government is pursuing a new type of rural area joint medical insurance system and a new type of rural area social senior insurance system. These will be implemented under the leadership of the government and by the voluntary participation of the rural area residents with costs borne jointly by the government and participating individuals.

In addition, the Chinese government has implemented the “Wan-chun-qian-xiang (万春千乡, 10,000 villages and 1,000 towns) Project” and the “Shuang-bai (双百, two hundred) Project” since 2005 to improve the lagging logistics and distribution networks in the rural areas. The “Wan-chun-qian-xiang Project” has been implemented under the supervision of the Ministry of Commerce to construct modern distribution networks. The “Shuang-bai Project” was another endeavor to improve the lagging distribution networks by constructing 100 large distribution firms and 100 large wholesale markets. Thanks to the implementation of policies to improve the distribution networks of the rural area as well as the improvement of purchasing power of the rural area residents, movement of foreign firms into China's rural area consumer market has been enhanced.

3. Result of the Questionnaire Survey on the Purchasing Behavior of Beijing's Rural Area

According to the questionnaire survey on the purchasing behavior of consumers in Beijing's rural area conducted between the 22nd and 30th of April 2013, the rural area consumers pointed out quality as the most important deciding factor in purchasing products with cost as second. This means that the rural consumers prefer practical products with high quality and low price.

In terms of sources through which information is acquired, rural consumers mainly acquired product information through TV, followed by information gotten from acquaintances. Even though Internet penetration rate has increased a certain degree in the rural areas, the ratio of information acquisition through the Internet was still low and newspapers and magazines did not prove to be important sources of information for the rural area residents.

With regard to the question about experience in purchasing foreign products, the surveyed households showed a high level of purchasing experience (55.4%). In particular, experience in purchasing foreign products was more common in areas with higher urbanization rate and higher average monthly income. The deciding factors in purchasing foreign products were quality, price, design, brand, and service in the listed priorities and information on foreign products was mainly acquired through TV and acquaintances.

In terms of reputation of Korean products, affirmative (good) response rate was 37.1%, far higher than the negative (bad) response rate (5.8%), but the “so-so” response took the largest portion (57.1%).

In addition, 40.5% of the surveyed households showed to have purchased Korean products. In terms of region, respondents in Changping(昌平) and Shunyi(顺义), which revealed higher liking for Korean products, showed higher patronage of Korean.

The most important deciding factor in purchasing Korean products was quality, followed by price, design, and brand. The respondents showed that they acquire information on Korean products mainly through TV and acquaintances.

To the question of whether they have intention to purchase Korean products in the future, 28.2% of the respondents answered "Yes", while 47.8% replied "No" and 24% said "Don't Know". In terms of region, Changping(昌平), which has the highest liking for the Korean products, showed the highest level of intention to purchase Korean products; the higher the income, the higher the intention to purchase Korean products.

As for preferred Korean products, the most preferred products of the surveyed households were home appliances, followed by health food, stationery, infant goods, and cosmetics. Meanwhile, among home appliances, mobile phones were the most preferred products. Overall, respondents showed higher preference for products of which they have purchased before.

4. Cases of Firms that Entered the Rural Area Market

Most of the firms that succeeded in China's rural area market are China's local firms. Activities of foreign-capital firms, including Korean enterprises, are still limited mainly to the first-line large cities and have not sufficiently penetrated the rural area, a potential market. On one

hand, foreign-capital firms have insufficient understanding of the market environment of the rural area. On the other hand, they have a significantly lower competitiveness than local firms in terms of brand recognition, price, distribution network, and convenience of customer services.

In the cases of local firms, such as Haier(海尔) and Lenovo(联想) that have succeeded in China's rural area market, their key success factors were sufficient preliminary research, product development that reflects the demands of rural area consumers, establishment of extensive distribution and logistics networks, and hospitality services.

5. Measures for Advancement into Rural Area Market

Based on potential market size and change of composition of consumption, we can presume that promising areas for the advancement into China's rural area consumer market are room-heating equipment and hygiene equipment involved in housing, mobile phones among durable consumer goods, infant goods and cosmetics among daily commodities, mobile phone optional services among transportation/telecommunication services, and stationery among educational/cultural/leisure services.

In penetrating China's rural area consumer market that is being increasingly active, firms should establish advancement measures that are distinct to it.

First, they should not target remote rural regions but rural regions in the outskirts of large cities. Because the latter regions have a rather higher income and consumption level, purchasing power that have been formed to a certain degree, easy accessibility to the urban area, and large influence of urban consumer culture, pen-

etrating into such regions first will reduce risks of penetrating into difficult rural area.

Second, they should develop practical and inexpensive products. It is because rural area consumers prefer practical and reasonably priced products over high-priced more technologically advanced ones that feature various functions.

Third, they should develop specialized products to meet the natural environment of the rural area. In developing products, they should consider not only the characteristics of the rural area consumers but also the special environment factors (e.g., frequent thunderstorms, unstable utility power voltage) of the rural area.

Fourth, they should actively utilize existing distribution networks and establish extensive logistics networks. As direct sales require a large amount of initial expenses, it is hard for SMEs to adopt this sales approach. Therefore, they need to actively utilize indirect sales methods through local agents. In addition, if they do not secure proper logistics networks, logistics cost and product price will accordingly increase, and eventually hinder rural area consumption.

Fifth, they should utilize TV and word-of-mouth approach for product advertisement. Whereas urban area consumers acquire product

information mainly through the Internet and newspapers/magazines, rural area consumers primarily rely on TV and acquaintances to get information. Therefore, firms should advertise through such methods to reach and influence local purchasing behaviors.

Sixth, they should utilize marketing strategies to match rural traditions. As some rural regions still maintain the custom of consuming certain products on specific periods, such as long weekends or holidays, they need to actively work around such custom for marketing.

Furthermore, they should not disregard such advancement measures as precise preliminary research on the market, customized penetration through market segmentation and target market selection, establishment of extensive service networks for providing kind services, improvement of quality competitiveness, response to infringement on intellectual property rights, reinforcement of CSR, active utilization of government policies, and establishment of relations with the government, all of which are commonly applicable to the urban area market.

On the government side, it should exert efforts in reinforcing research on the rural area consumer market, establish networks between the central and local governments, and improve national image. **KIEP**