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## **Redefining “Made in China”**

The Synergy of Government, Economy, and the Middle Class in  
Driving Domestic Market Growth

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*Ai miei genitori,*

*con la promessa che  
l'amore che mi avete dato  
e i valori che mi avete trasmesso*

*non cadranno nel vuoto,  
ma un giorno daranno i loro frutti.*

*Ju dua pafund.*

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## **Abstract**

China's economy and market have undergone significant and transformative changes throughout history. Being the second world economy and first exporter of goods, China of course plays a big role in shaping the global stage.

This thesis aims at examining the current dynamics of China's domestic market. To this end, this work analyzes the economic reforms and incentives of the government to boost the domestic market, as well as the situation of domestic demand.

The thesis is mainly composed of four chapters. The first chapter provides a historical overview of the situation of the economy and the market before the rise of the middle class. In other words, it will analyze China's economic scenario during the Maoist period and after the launch of the economic reforms under the leadership of Deng Xiaoping. The second chapter focuses on the concept of the middle class, offering both an international and a Chinese perspective; besides, this chapter explores the ongoing international and Chinese debate that surrounds situation of the middle class in modern and contemporary China. As the middle class acts both as a driver and a beneficiary of the positive transformation of the domestic market, the third chapter analyzes key industries in which China is gradually affirming its leadership. With this aim, this includes research of the main players and the situation of the demand of each sector. The fourth and final chapter dives into the impact of the Chinese domestic market on the global stage, identifying emerging trends and potential future developments.

By investigating these topics, this thesis aims to highlight the interconnection between government control, economic policy, and domestic consumption and how China's domestic market is shaping the international arena.

## 摘要

有史以来，中国经济和市场经过了可观又深刻的变化。作为全世界第二大的经济实体和最大的商品出口国，中国毫无疑问在塑造全球格局中起到了关键作用。

本论文的目的在于分析目前中国国内市场的动态。为此，本文分析了政府为刺激国内市场所推行的经济改革和激励措施，以及国内需求的现状。

本论文主要由四章构成。第一章对中产阶级崛起之前的经济和市场情况进行历史概述。换言之，第一章研究毛泽东时期和邓小平的改革开放下的经济形势。第二章以国际和中国两种视角专注于分析中产阶级的概念。此外，本章也研究了当前国内外关于中国现当代中产阶级状况的相关讨论。因为中产阶级既作为推动者，又作为国内市场积极转型的受益者，第三章分析中国正在逐步确立领导地位的数个关键产业。本章研究了每种产业的主要参与者与需求情况。第四章深入探讨了中国国内市场在全球范围上的影响，包括新兴发展趋势与潜在的未来发展机遇。

通过研究这些主题，本论文旨在介绍政府控制，经济政策，和国内消费的关系，及中国国内市场如何正在影响国际格局。

## **Introduction**

After the Reform and Opening Up, China's influence on the global stage has been increasing year after year. The country's rapid rise positioned it as the second-largest economic superpower, the largest exporter, the largest consumer market, and a thriving hub for doing business. In recent years, economic growth has decreased, raising concern among society and businesses. While this could seem a negative trend, this represents a pivotal moment of transformation in which all the main players—from the government and economy to the demand and supply—are experiencing a significant shift.

From a strong emphasis on export, Chinese economy is now trying to shift towards a consumption-led growth. However, this is not easy, as it requires that supply meets the demand. The former has undergone a qualitative enhancement. The “Made in China” label has disrupted its original perception which used to link it to low quality and cheap prices. Now, “Made in China” is about high quality, technological advancements, and Chinese culture. But is the demand ready to help the economy gravitate to a consumption-led growth?

The purpose of this master's degree thesis is to analyze the evolution and recent developments of the Chinese domestic market. In pursuit of this goal, this study examines the role of the government in promoting consumption, the overall situation of the demand, with an emphasis on the middle class, and the role of the supply, highlighting the advancements of Made in China goods.

The first chapter provides an overview of the economic policies implemented during the Maoist period and the Reform and Opening Up launched by Deng Xiaoping. In particular, the thesis starts with an analysis of the policies adopted during the early Maoist stage, the Great Leap Forward, and the Cultural Revolution, and it briefly describes their impact. Afterwards, it examines broadly the main features of the reforms launched by Deng Xiaoping and shows how these have been effective in driving economic growth and improving people's living standards.

The second chapter seeks to analyze the evolution of the Chinese middle class, from its inception to its expansion. However, the boundaries which define a middle class are not clear-cut, as there is a high degree of subjectivity and many variables to take into account. Hence, the chapter firstly provides an overview of the different ways to define this social stratum, leveraging both international and Chinese perspectives. Subsequently, the chapter leverages studies and researches to define the growth trend of the Chinese middle class. To provide a comprehensive picture, the chapter shows other indicators such as the Gini coefficient, income inequalities, and household per capita incomes.

The third chapter shows how China is shifting towards a new growth standard and outlines the new objectives of the Chinese government, and the strategies adopted to address the economic slowdown. The adoption of the “dual circulation” strategy had an impact on the nature of imports and exports, and the “Made in China 2025” program plays a crucial role in the achievement of the government’s objectives. In order to offer a thorough view, the chapter addresses also two essential topics, namely the consumer expenditure and the labor market dynamics.

Finally, the fourth chapter consists of a market analysis of three sectors that are tied to and are representative of the evolving concept of “Made in China.” Through an overview of the smartphones, electric vehicles, and fashion and luxury markets, the aim is to showcase how both consumer behavior and market are developing.

The research was conducted using various kinds of sources, combining market analyses, official reports, and academic papers to provide a thorough outlook.

The public opinion describes China as an economic superpower, that sooner or later will establish global dominance. Its growing independence is often framed as a threat. However, this is just the tip of the iceberg, as there are many aspects that shape these dynamics. This research aims to contribute to break down this overarching view and investigate in more depth the synergy between the main players: government, demand and supply.

## 前言

改革开放以后，中国对全球格局的影响逐年增长。中国的快速发展使其成为第二大的经济实体、最大的商品出口国、最大的消费市场、以及一个繁盛商业中心。近年来，经济增长速度下降，引起了社会和企业的关注。虽然这似乎是一个消极的趋势，但是这实际上代表着一个关键的转型时刻。所有主要参与者，包括政府、经济、需求和供应都在经历重大转变。

中国经济从过去的出口主导型增长正在寻求转变为消费主导型增长。不过，这并不容易，因为这需要供给满足需求。前者已经享受了质量提升。《中国制造》的标签已经打破了人们对它的原有印象，过去人们把它与低质量和低价格联系在一起。现在，《中国制造》是高质量、技术进步和中国文化的代表名。可是，目前形势需求能不能帮助经济转向消费主导型增长？

本硕士论文旨在分析中国国内市场的演变和最新发展。为了实现这一目标，本研究探讨政府在促进消费的作用、以中产阶级为重点的需求总体情况，以及供应方面的作用，尤其是中国制造商品的进步。

第一章概述毛泽东时期实施的经济政策和邓小平发起的改革开放。具体而言，论文首先分析毛泽东主义早期阶段、大跃进和文化大革命期间所采取的政策，并简单地介绍这些政策的影响。其次，论文大致探讨邓小平发起的改革的主要特点，并说明这些改革是如何有效推动经济增长和提高人民生活水平的。

第二章试图分析中国中产阶级的演变过程，从初期到壮大。界定中产阶级的界限并不清晰，因为有高度的主观性和许多需要考虑的因素。因此，本章首先依靠国际和中国的视角，概述了界定这一社会阶层的不同方法。随后，本章通过研究和调查来界定中国中产阶级的增长趋势。为了提供全面的情况，本章还介绍其他指标，比方说基尼系数、收入不平等和家庭人均收入。

第三章介绍了中国如何转向新的增长标准，概述中国政府的新目标以及为应对经济放缓而采取的战略。《双循环》战略的实施对进出口的性质产生了可观影响，而《中国制造2025》计划则在实现政府目标的过程中发挥了至关重要的作用。为了提供一个全面的视角，本章还讨论两个重要主题，即消费支出和劳动力市场动态。

最后，第四章对与《中国制造》概念相关且具有代表性的三个行业进行了市场分析。通过对智能手机、电动汽车以及时尚和奢侈品市场的概述，本章旨在展示消费者行为和市场

是如何发展的。

研究采用了多种资料来源，将市场分析、官方报告和学术论文结合起来，以提供全面的分析。

舆论将中国描述为一个经济超级大国，迟早会确立全球主导地位。中国日益增长的独立性常常被视为一种威胁。不过，这只是冰山一角，还有许多方面影响着这些动态。本研究旨在打破这一总体观点，更深入地研究政府、需求和供应这三主要参与者之间的协同作用。

## **Chapter One**

### **China before a middle class**

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### **China before a middle class**

China exerts a massive influence on the global stage. The land of the Red Dragon is currently the second largest economy in the world after the United States, one of the largest consumer markets in the world, and the leading export country worldwide, with almost 3.4 trillion US dollars in 2023.<sup>1</sup> Despite recent economic challenges and a deceleration in growth, China still plays a central role in shaping economy in the global landscape.

About 70 years ago, the situation was completely different – almost upside down. Often referred to as the Maoist era, the years between 1949 and 1978 saw a number of challenges and difficulties that caused the economy fluctuations, with periods of modest growth, drawbacks, and stagnation. The economic framework was entirely unique compared to what is today. Strong centralization, (over-)ambitious industrialization, and a large-scale collectivization program were its defining features. Self-reliance played a crucial role in forming the economic policies of this era, which were mostly based on ideology. Despite the early gradual growth, this era is mainly marked by massive disruptions and upheavals, not only in economy, but also in society, where famine caused numerous fatalities.

The Maoist Era served as a prelude to transformation. What followed that period represents the driving force that lead China to redefine its place in the global economy establishing itself as one of the leading superpowers. The economic reforms launched by Deng Xiaoping in 1978, known as “Reforms and Opening-up” (in Chinese, 改革开放 *gaige kaifang*), fundamentally altered China. New concepts and strategies were introduced in the economic framework. Living standards significantly increased, and domestic market – which was basically absent in the previous period – emerged and gained a growing importance.

This chapter provides an overview of the Maoist period and the Deng Xiaoping era, up until the rise of the Chinese middle class. While these historical contexts are widely recognized, understanding them is essential to seize the magnitude and relevance of the reforms and their impact on subsequent developments. Besides, by examining the economic policies, market conditions and key events of these periods, this chapter sets the stage for analyzing the current conditions of The Asian Giant. This approach facilitates a smoother comparison of past and present frameworks, enabling the recognition of commonalities and differences.

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<sup>1</sup> Statista (April 2024), *Leading export countries worldwide in 2023 (in billion U.S. dollars)*, Economy & Politics, Economy, retrieved from <https://www.statista.com/statistics/264623/leading-export-countries-worldwide/> (last accessed on December 14<sup>th</sup>, 2024)

## 1.1 The Maoist period

China under the leadership of Chairman Mao Zedong was characterized by top-down state determinism, which, in other terms, is often defined as a centrally planned economy. This implied that the government was in charge of controlling a large share of the country's economic output, as well as allocating resources, controlling prices, and setting production goals.<sup>2</sup> The economic policies aimed at boosting growth were based on five-year plans. These were aimed at boosting development by overcoming the “three major gaps” (三大差别 *sanda chabie*), which are between the industrial working class and the peasantry, between urban life and rural life, and between mental labor and manual labor.<sup>3</sup> What Chairman Mao promised is to achieve an enriching egalitarianism with improved material living conditions for all, including employment, health care, education, and pensions. To do that, Mao adopted the Soviet model. However, as Deng K. and Shen J.H. (2019) note, this was not done after adequate testing. Instead, it was adopted because the model had never been tested before, and previous models had failed to assist China in overcoming poverty, inequality and underdevelopment for much of the 19<sup>th</sup> century.<sup>4</sup> However, as will be shown in the next chapters, the Soviet model was proved to be unsuccessful exactly as the previous. The main reason behind this failure lies in the incompatibility of such model with the Chinese conditions. Indeed, the priority of the economic development under the Soviet model was heavy industry. However, when Stalin implemented his model, the Soviet Union's industrial foundation was relatively stronger. Instead, China was predominantly an agrarian country. Moreover, as a primarily agrarian society, China in 1949 lacked skilled labor force and the right technology which could sustain this development. As shown in the next chapters, agriculture and consumer goods were sacrificed in favor of heavy industry. This focus, combined with other key features of the economic policy, such as the collectivization of agriculture and the emphasis on self-reliance, led China to face significant economic challenges that proved the inefficiency of this model.

### 1.1.1 Economic policies and landscape

Although the Maoist era is frequently viewed as a single, overarching period, it could actually be broken down into smaller periods according to the economic policies and strategies adopted by the central power.

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<sup>2</sup> Morrison, W. M. (last updated in June 25th, 2019), “*China's Economic Rise: History, Trends, Challenges, and Implications for the United States*”, Congressional Research Service, p.2

<sup>3</sup> Deng, K. & Shen J. H. (July 2019), “*From State Resource Allocation to a ‘Low Level Equilibrium Trap’: Re-evaluation of Economic Performance of Mao's China, 1949-78*”, The London School of Economics and Political Science, Economic History Working Papers, No:298, p.7

<sup>4</sup> *Ibid.*, p.5

The period which follows the rise of Mao Zedong as the Chairman of China until the launch of the Great Leap Forward (1949-1957) served to establish the foundation of the socialism with the adoption of the Soviet-style central planning. As previously mentioned, economy underwent a centralization process. China's market-based resource allocation was replaced by state-run resource allocation.<sup>5</sup> The state gradually took control over private industries; landlordism was abolished, meaning that lands were redistributed to peasants. Besides, during the 1950s, China's household farms were collectivized into large communes,<sup>6</sup> albeit the pinnacle of this process happened during the Great Leap Forward. Of greatest importance, that has been the policy priority during the entire Maoist period, is the Import Substitution Industrialization (ISI)<sup>7</sup>. With this policy, Chairman Mao aimed to reach industrial growth and self-reliance. Making China's economy self-sufficient was a central goal of the Chinese government. Hence, foreign trade was generally limited to obtaining those goods that could not be made or obtained in China.<sup>8</sup> As shown in the next chapters, rapid industrial growth and self-sufficiency had the priority over improving the material living conditions of the population, hindering the access to consumer goods or better services.<sup>9</sup>

What followed was the period of "The Great Leap Forward" (大跃进 *dayuejin*), which goes from 1958 to 1961. This is the moment when Chairman Mao rejected the gradualism of the Soviet model. He aimed at boosting the economy to reach the goals of self-reliance and industrialization. As Deng K. and Shen J.H. (2019) state, "*Mao personally fantasized the possibility of 'surpassing Great Britain and catching up with the United States' in a short space of time to forficate China's 'dashing into communism'*".<sup>10</sup> The process of collectivization of agriculture reached the highest peak through the development of the communes; mass mobilization and participation was the core in increasing the agricultural production; backyard furnaces were employed to produce steel, in order to boost the industrialization process. However, also this program turned out to be a disaster: back-yard furnaces ended up in producing mountains of useless outputs, the population was hit by a

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<sup>5</sup> *Ibid.*, p.7

<sup>6</sup> Morrison, W. M. (last updated on June 25<sup>th</sup>, 2019), "*China's Economic Rise: History, Trends, Challenges, and Implications for the United States*", Congressional Research Service, p.2

<sup>7</sup> "Import substitution industrialization (ISI) is a theory of economics that's typically adhered to by developing countries or emerging market nations as they seek to decrease their dependence on developed countries. The approach targets the protection and incubation of newly-formed domestic industries to fully develop sectors so the goods produced are competitive with imported goods. The process makes local economies and their nations self-sufficient under ISI theory." [Segal, T. (updated in June 5<sup>th</sup>, 2024), "*Import Substitution Industrialization (ISI): Definition and Example*", Investopedia, reviewed by Brock, T., retrieved from <https://www.investopedia.com/terms/i/importsubstitutionindustrialization.asp> (last access on December 15<sup>th</sup>, 2024)]

<sup>8</sup> Morrison, W. M. (last updated in June 25<sup>th</sup>, 2019), "*China's Economic Rise: History, Trends, Challenges, and Implications for the United States*", Congressional Research Service, p.2

<sup>9</sup> Deng, K. & Shen J. H. (July 2019), "*From State Resource Allocation to a 'Low Level Equilibrium Trap': Re-evaluation of Economic Performance of Mao's China, 1949-78*", The London School of Economics and Political Science, Economic History Working Papers, No:298, p.7

<sup>10</sup> *Ibid.*, p.8

mass starvation which cost 30 million lives, severe de-industrialization and de-urbanization brought on by the great leap's failure.<sup>11</sup>

The three years that followed (1962-1965) were characterized by an economic readjustment and recovery from the damages caused by The Great Leap Forward. Unfortunately, this brief period was succeeded by a decade-long era (1966-1976) that Deng K. and Shen J.H. described as “Mao’s economic suicide”: the Cultural Revolution, which caused damage far greater than all the previous crises put together, including that of the Great Leap Forward.<sup>12</sup> In this period, the focus shifted from economy to ideology. The objective was to reach ideological purity and eliminate capitalist elements from society through class struggle. Factories and schools were closed and production was disrupted. This led to a political chaos of the country, which was illiterate in terms of modern economic growth and development.<sup>13</sup>

Deng K. and Shen J.H. (2019) provide very insightful empirical data relevant to understand Chinese Economy during the Maoist Era. From 1958 to 1978, the Chinese predominantly rural, with a urban-rural ratio equal to 0.19 (16% : 84%).<sup>14</sup> Moreover, the pre-industrial employment pattern along with the growth in industrial workers slower than that of China’s population lead the economy to a process of “de-industrialization”, with a growth deficit of -0.27 per annum in relation to China’s population.<sup>15</sup> Deng K. and Shen J.H. (2019) gathered valuable data from the National Bureau of Statistics, which clearly show the slow growth in industrial workforce:<sup>16</sup>

| Year                 | Total population<br>(A) | Industrial workers<br>(B) | B/A (%) |
|----------------------|-------------------------|---------------------------|---------|
| 1959                 | 672.1                   | 45.5                      | 6.8     |
| 1964                 | 705.0                   | 36.4                      | 5.2     |
| 1969                 | 806.7                   | 40.9                      | 5.1     |
| 1974                 | 908.6                   | 59.1                      | 6.5     |
| Annual %             | 2.03                    |                           | 1.76    |
| Annual deficit (B-A) | -0.27                   |                           |         |

**Sources:** Adapted from Deng, K. & Shen, J. H. (July 2019), 'From State Resource Allocation to a “Low Level Equilibrium Trap”', The London School of Economics and Political Science, Economic History Working Papers, No. 298. Original data from: Data for the industrial workforce is based National Bureau of Statistics, *Zhongguo Laodong Tongji Nianjian*, 1998 (China’s Labor Statistic Yearbook, 1998) (Beijing: China’s Statistics Press, 1998): 81. Data for China’s population are based on National Bureau of Statistics, China’s Statistic Yearbook, 1986: 91.

<sup>11</sup> *Ibid.*

<sup>12</sup> *Ibid.*

<sup>13</sup> *Ibid.*

<sup>14</sup> *Ibid.*, p.12

<sup>15</sup> *Ibid.*, p.13

<sup>16</sup> National Bureau of Statistics, “*Zhongguo Laodong Tongji Nianjian*” (China’s Labour Statistical Yearbook), 1998, p. 81; National Bureau of Statistics, *China’s Statistical Yearbook*, 1986, p. 91, as cited in Deng, K. & Shen, J. H. (July 2019), 'From State Resource Allocation to a “Low Level Equilibrium Trap”', *The London School of Economics and Political Science, Economic History Working Papers*, No. 298, p. 14.

Under the leadership of Chairman Mao, the forced ruralization policy did not produce the desired results. It was ineffective and slowed down growth in rural China rather than bringing about a radical change. Additional labor only led to decreasing returns for the agriculture industry in the absence of technological breakthroughs.<sup>17</sup> According to China’s official figures, Mao’s economy mainly relied on the secondary sector, with a nominal GDP of 48.6%.<sup>18</sup> This data appear unreliable, as it implies that China was more industrialized than many developing and developed countries, in spite of the stagnant level of industrial workforce.

As Deng and Shen (2019) note, the general view on China’s economy during the 17 years under Chairman Mao’s leadership suggests that the economic growth rate went well, with the Great Leap Forward (1958-1960) serving as the pinnacle of the first wave of growth acceleration and thus dividing Mao’s era in two sub-periods (1949-1960 and 1961-1966). But, if we eliminate institutionalized GDP inflation and take population growth into account, we have significantly different picture of China’s economy growth rate. The higher growth rate occurred during the years 1949-1955, known as “Pre-Socialist period” (or “New Democratic Period”), in part due to China’s economic recovery following multiple conflicts during the 1910s.<sup>19</sup> After 1956, during the “Socialist period” (1956-1966) growth significantly slowed<sup>20</sup>, as shown by this table:

| Period  | Nominal | Real | Net  |
|---------|---------|------|------|
| 1949-55 | 14.0    | 11.3 | 11.1 |
| 1956-66 | 6.1     | 2.3  | 2.3  |
| 1949-66 | 9.2     | 5.9  | 5.7  |

**Source:** Adapted from Deng, K. & Shen J. H. (July 2019), “From State Resource Allocation to a ‘Low Level Equilibrium Trap’: Re-evaluation of Economic Performance of Mao’s China, 1949-78”, The London School of Economics and Political Science, Economic History Working Papers, No:298.

**Note:** Net GDP is obtained by discounting China’s population growth of 2.6 percent per annum (He 1994: 7). Figures in parentheses – GDP without discount.

Deng and Sheng (2019) in their study highlighted that in per capita terms China’s economy became stagnant after 1955, showing the inability of the economic structure to keep pace with the rapidly growing population.

Another negative symptom of the China’s economy during the Maoist era is the deteriorating capital efficiency. Based on a study by He (1994:8), Deng and Sheng state that “from 1953 to 1980, China’s average return-to-investment ratio was 0.30 and its return-to-reinvestment

<sup>17</sup> Deng, K. & Shen, J. H. (July 2019), “From State Resource Allocation to a “Low Level Equilibrium Trap””, The London School of Economics and Political Science, Economic History Working Papers, No. 298, p. 14

<sup>18</sup> *Ibid.*, p.15

<sup>19</sup> *Ibid.*, p.17

<sup>20</sup> *Ibid.*, p.17-18

ratio was only 0.18, a clear case of diminishing returns to the capital invested.”<sup>21</sup> As their study shows, these wasteful and “pointless” investments (盲目投资 *mangmu touzi*) continued to have negative effect in the post-Maoist period, causing capital unproductivity and pushing state-owned enterprises (the main recipients of state capital investment) to the brink of bankruptcy.<sup>22</sup>

To sum up, Mao’s struggle to boost economic development during his leadership was undoubtedly too ambitious. The main mistake behind the economic strategy and policies lies in trying to adapt the Soviet model to China, which at that time mainly relied on the agrarian sector. The slogan of that period was “more, faster, better, with less inputs” (多快好省 *duo kuai hao sheng*),<sup>23</sup> emphasizing key concepts of the socialist ideology, namely frugality and self-sufficiency. However, what this strategy in reality caused was an unbalanced growth between the agricultural and industrial sector. According to data presented by Deng and Sheng (2019), originally derived from Cui (1997: 13, 19) and Lu (1999: 46), while Chairman Mao was in charge (1958-1978), the government siphoned off enormous sums of money from the agricultural sector—around 990 billion yuan, nearly double the amount invested in industry.<sup>24</sup> By 1978, the total asset of the agricultural sector (excluding land) amounted to 15 billion *yuan*,<sup>25</sup> so, to fund the industrial sector, the state was taking 167% of the value of agricultural assets every year, much more than the sector could generate.<sup>26</sup> To put it simple, the industrial sector came at the expense of agriculture. This overall situation undoubtedly negatively impacted people’s living standards.

### **1.1.2 Consumer Market and People’s living standards**

The Socialist system and ideology adopted by Chairman Mao promised a good material life and improved living standards for the population. This helped ease the public’s acceptance of the government’s takeover of private and corporate industrial assets, as well as the forced collectivization of agriculture, which eliminated land ownership and personal control over land and labor. But these had an adverse impact respectively on urban elite and rural masses.<sup>27</sup> Indeed, this prospect generated incentives among the Chinese population to work hard until 1960.<sup>28</sup> Almost all aspects of the economy were controlled and planned by the central government; as a consequence, no market mechanism based on supply and demand could efficiently allocate resources, but it was a

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<sup>21</sup> *Ibid.*, p.20

<sup>22</sup> *Ibid.*, p.21

<sup>23</sup> *Ibid.*, p.11

<sup>24</sup> *Ibid.*, p.29

<sup>25</sup> *Ibid.*, citing Guo (1998:54)

<sup>26</sup> *Ibid.*

<sup>27</sup> *Ibid.*, p.7

<sup>28</sup> *Ibid.*

responsibility of the state plans. Besides, workers, farmers, and firms basically only cared about achieving production goals set by the government because they weren't rewarded for their working efficiency or for making better-quality goods.<sup>29</sup>

As already mentioned, ISI was core to the economic policies of the Maoist period. The main objective had always been to boost industrialization through self-reliance. Hence, China needed to finance growth internally, and, as previously stated, this happened at the expense of agriculture. The consequences were a deteriorating agricultural sector and widespread poverty among the peasantry. Cited by Deng and Shen (2019), Chen and Han (1995: 14-15) claimed that till the end of the 1980s, the incomes the Chinese peasantry received were 45% lower than what they deserved.<sup>30</sup>

Under Mao's rule, forced savings were partly derived from wages. Nominal wages were frozen, in contrast to real wages which experienced a significant erosion due to inflation. For instance, in the industrial sector real average wage declined to half as compared to 1957.<sup>31</sup> According to Deng and Shen (2019), the table (adapted from Lippit, 1987 and Zhao) illustrates Nominal and Real Annual Wages in the State sector in *yuan* from 1957 to 1978:

| Year | Nominal | Index | Real (1957 price)* | Index |
|------|---------|-------|--------------------|-------|
| 1957 | 637     | 100   | 637                | 100   |
| 1961 | 537     | 71    | 493                | 77    |
| 1965 | 652     | 93    | 539                | 85    |
| 1970 | 609     | 88    | 429                | 67    |
| 1976 | 605     | 86    | 327                | 51    |
| 1978 | 644     | 88    | 310                | 49    |

**Source:** Adapted from Deng, K. & Shen, J. H. (2019), "*From State Resource Allocation to a 'Low Level Equilibrium Trap': Re-evaluation of Economic Performance of Mao's China, 1949-78*," Economic History Working Papers, No. 298, p.30. Original data from V. D. Lippit, *The Economic Development of China* (Armonk, New York and New York: M. E. Sharpe, 1987), p. 150; cf. Zhao, "Path, Stages and Main Lessons."

**Note:** Conversion is based on the average inflation rate of 2.01% per year for the period of 1950 to 1978 (Li, 'Macro Control', pp. 49-50).

Stalin's model of "total employment" was the solution Chinese economic policy adopted to overcome the problem the declining real wages, which consisted in employing a large number of workers to share the same task but for a minimal wage.<sup>32</sup> Both the industrial and agricultural sectors

<sup>29</sup> Morrison, W. M. (last updated in June 25th, 2019), "*China's Economic Rise: History, Trends, Challenges, and Implications for the United States*", Congressional Research Service, p.2

<sup>30</sup> Deng, K. & Shen, J. H. (July 2019), 'From State Resource Allocation to a "Low Level Equilibrium Trap"', The London School of Economics and Political Science, Economic History Working Papers, No. 298, p. 29

<sup>31</sup> *Ibid.*, p.30

<sup>32</sup> *Ibid.*, p.31

were hit by a problem of “unneeded laborers”, which were a burden on economic growth, caused diminishing returns, and negatively affected labor productivity.<sup>33</sup>

High capital formation for more annual capital investment was the solution adopted by the policy makers under the leadership of Chairman Mao to manage diminishing return and declining labor productivity, as long as compensating losses.<sup>34</sup> In a self-reliant, closed economy like China’s, this translated into heavy taxation. According to data provided by Yang (1995: 44), cited by Deng and Shen (2019), in 1980 the tax burden on the industrial sector was at an average of 86%.<sup>35</sup>

However, high capital investment, low wages, and low consumption were core elements of the economic growth under the Maoist leadership. Indeed, improving material life of the population, increasing wages, and expanding the availability of consumer goods had never been part of the Soviet-style economic plan.<sup>36</sup> This is clear if we analyze food availability during the Maoist era. In fact, during that time, the government adopted a famine diet approach, through which food availability for ordinary people was kept artificially low. Once again, the main concern was industrialization: the aim was to fix human food consumption so that more grain was made available for industrial production.<sup>37</sup>

During Mao’s era, discussing poverty was a taboo, despite the economic struggles and the lacking living standards of people. As shown by Deng and Shen (2019), “in terms of “relative poverty”, in rural China, by 1978, two-thirds of the rural population saw conditions worsen in living standards compared to 20 years earlier, while the remaining one-third experienced a decline compared to 40 years prior.”<sup>38</sup> In terms of “absolute poverty” instead, as showed by Chen Zongsheng (2000), by 1978, “half of China’s population has lived on or below the official poverty line.”<sup>39</sup>

This situation of poverty, combined with the centralization of economy under the State’s control, contributed to create also a situation of deep inequality: the state sector held the majority of resources, while the general public owned too little.<sup>40</sup> Deng and Shen (2019), through data provided by Zhang (1994: 41), show a rising inequality in the Chinese society throughout the Maoist era:

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<sup>33</sup> *Ibid.*

<sup>34</sup> *Ibid.*

<sup>35</sup> *Ibid.*, p.32

<sup>36</sup> *Ibid.*

<sup>37</sup> *Ibid.*, p.33

<sup>38</sup> *Ibid.*, p.34

<sup>39</sup> *Ibid.*

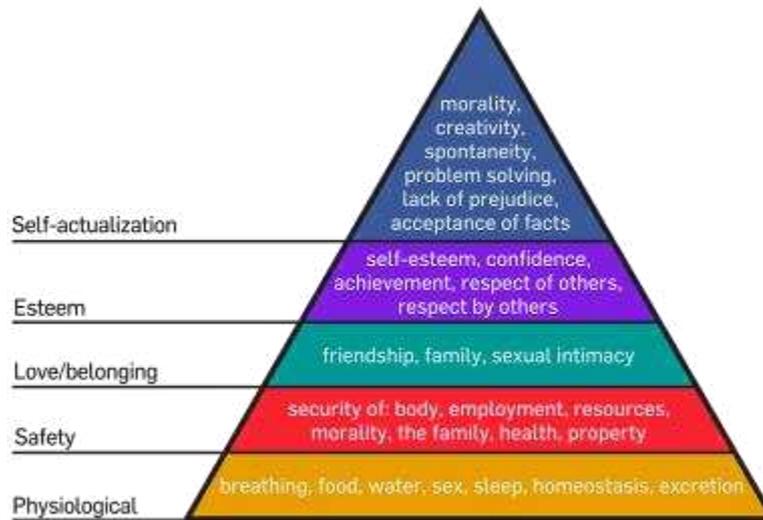
<sup>40</sup> *Ibid.*, p.35

|                     | Gini coefficient | Index |
|---------------------|------------------|-------|
| 1952 (early Maoism) | 0.25             | 100   |
| 1978 (late Maoism)  | 0.31             | 124   |

**Source:** Adapted from Deng, K. & Shen, J. H. (2019), "From State Resource Allocation to a 'Low Level Equilibrium Trap': Re-evaluation of Economic Performance of Mao's China, 1949–78," Economic History Working Papers, No. 298, p.30. Original data from Zhang 1994: 41.

At first glance, this Gini coefficient may appear positive, as a lower value typically suggests a better income equality. However, in this case, the low value is due to a uniform poverty spread among the population. Indeed, the Maoist era was characterized by a zero-sum situation between the state and individual citizens, as well as between the privileged urban sector and the disadvantaged rural sector.<sup>41</sup>

In other terms, income equality in the Maoist case is just a negative symptom of the central power of the state who promoted and forced collectivism and egalitarian ideology leaving no space for individual aspirations. This is even clearer if we apply the Maslow's Hierarchy of Needs:<sup>42</sup>



**Source:** Wikipedia, *File: Maslow's Hierarchy of Needs.svg*, retrieved from: [https://en.m.wikipedia.org/wiki/File:Maslow%27s\\_Hierarchy\\_of\\_Needs.svg](https://en.m.wikipedia.org/wiki/File:Maslow%27s_Hierarchy_of_Needs.svg) (last accessed in December 22<sup>nd</sup>, 2024)

<sup>41</sup> *Ibid.*, p.37

<sup>42</sup> Abraham Harold Maslow (1908-1970) was an American psychologist, philosopher, and eugenicist. He is known for his conceptual framework of the Hierarchy of Needs, which deeply impacted the way theorists analyze human behavior. According to this pyramid scheme, human needs are based on five stages of growth: psychological needs, safety needs, love and belonging, esteem, self-actualization. Therefore, they range from the most basic needs (base of the pyramid) to the most complex (tip of the pyramid). [School of Philosophy and Economic Science (September 1<sup>st</sup>, 2023), "Abraham Maslow 1908-1970", Philosophy and Psychology, retrieved from <https://schoolofphilosophy.org/blogs/philosophy-blog/abraham-maslow-1908-1970> (last access on November 23<sup>rd</sup>, 2024)]

Originally cited in Matterson & Ivancevich (1966), and later reported by Geren (2011), Maslow explained: *“For the man that is extremely and dangerously hungry, no other interests exist but food. He dreams food, he remembers food, he thinks about food, he emotes only food, he perceives only food, and he wants only food... such a man may fairly be said to live by bread alone.”*<sup>43</sup> This perfectly pictures the situation of the mass during the Maoist era, especially when starvation and famine reached the highest peak during The Great Leap Forward. Basic-level needs were the only focus of the population. People cared about surviving, rather than ascending the pyramid toward self-actualization and personal growth values. The government gave priority to the State’s goals, at the expense of the individual needs.

The aim of the economic policies during the Maoist era was to lead the country towards progress and development; however, centralization, self-sufficiency, collectivization, and the lack of incentives which could empower the masses brought the country to what Deng and Shen (2019) defined as “a low-level equilibrium trap.”<sup>44</sup>

## 1.2 Deng Xiaoping’s economic reforms

As previously shown, Mao’s economic policies proved ineffective and led to sever downturns. Chinese government statistics claim that China’s real GDP grew at an average rate of 6.7% from 1953 to 1978, but, according to some analysts, Chinese officials distorted production levels.<sup>45</sup> According to Angus Maddison, the actual annual real GDP growth is around 4.4%.<sup>46</sup> China doubled its per capita GDP on a purchasing power parity (PPP) basis between 1950 and 1978, but experienced two periods of falling living standards, in particular by 20.3% from 1958 to 1962, and by 9.6% from 1966 to 1968.<sup>47</sup>

In 1978, after the death of Chairman Mao in 1976, the Chinese government took an opposite route compared to the Maoist period, under a new slogan which lead and influenced decision-making for the following years:

*“黑猫白猫，只要能抓老鼠就是好猫。”*

*“Black cat, white cat, what does it matter what color the cat is as long as it catches the mice?”*

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<sup>43</sup> Geren, B. (2011), *“Motivation: Chinese theoretical perspectives”*. Journal of Behavioral Studies in Business. New York Institute of Technology, Bahrain., p.3

<sup>44</sup> Deng, K. & Shen, J. H. (July 2019), *“From State Resource Allocation to a “Low Level Equilibrium Trap,””* The London School of Economics and Political Science, Economic History Working Papers, No. 298, p.43

<sup>45</sup> Morrison, W. M. (last updated in June 25<sup>th</sup>, 2019), *“China’s Economic Rise: History, Trends, Challenges, and Implications for the United States”*, Congressional Research Service, p.2

<sup>46</sup> *Ibid.*

<sup>47</sup> *Ibid.*, p.2-3

This metaphor aptly reflects the approach adopted by the Chinese government from 1978, implementing economic policies and reforms which certainly did not align with socialism, but rather leaned toward capitalism; however, the priority was achieving development and fostering growth.

### 1.2.1 Economic reforms

After Chairman Mao's death in 1976, the reins were taken by Deng Xiaoping, known as the architect of the policies of "Reforms and Opening Up" (改革开放 *gaige kaifang*) which lead China to a socialist market economy, or "Socialism with Chinese characteristics". The main goal of these reforms was to improve ordinary people's living standards and enable them to achieve a "modest prosperity" (小康 *xiaokang*).<sup>48</sup>

First of all, China under the leadership of Deng Xiaoping departs from the Maoist era for its decollectivization measures. This approach had an impact both on agriculture and the market. Indeed, on one hand, price and ownership incentives were granted to farmers, empowering them to sell a portion of their crops on the free market.<sup>49</sup> The Household Responsibility System increased both productivity and living standards of the rural population.

On the other hand, provincial and local governments were granted economic power over a variety of businesses, and they were typically free to function and compete according to free market principles rather than being guided by state planning.<sup>50</sup> State-Owned Enterprises were allowed to sell surplus at market prices. The decentralization of the economy led also to the establishment of non-state enterprises which were more efficient, productive, and market-oriented.<sup>51</sup>

The decentralization of economic power also resulted in the abandonment of the self-sufficiency ideology, in favor of a more open approach toward the external world. This was possible through the establishment of Special Economic Zones. These were designated as open cities and development zones, where free market principles and tax and trade incentives had to attract foreign direct investment.<sup>52</sup>

Opening up to the external world also translated into a new focus on export, made possible by an increasing manufacturing.

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<sup>48</sup> Deng, K. & Shen, J. H. (July 2019), 'From State Resource Allocation to a "Low Level Equilibrium Trap"', The London School of Economics and Political Science, Economic History Working Papers, No. 298, p.45

<sup>49</sup> Morrison, W. M. (last updated in June 25<sup>th</sup>, 2019), "*China's Economic Rise: History, Trends, Challenges, and Implications for the United States*", Congressional Research Service, p.4

<sup>50</sup> *Ibid.*

<sup>51</sup> *Ibid.*, p.7

<sup>52</sup> *Ibid.*, p.4

The effect of these policies was completely different from those of the Maoist era, as China's economy has grown significantly faster. China was able to double the size of its economy in real terms every eight years between 1978 and 2018, with an average annual real GDP of 9.5%.<sup>53</sup> When addressing China's impressive growth, economists and analysts tend to attribute its causes to two main factors, which are large-scale capital investment (financed by large domestic savings and foreign investment) and rapid productivity growth.<sup>54</sup> Higher efficiency in the economic system significantly raised output and increased resources for additional investment in the economy.<sup>55</sup> The reallocation of resources toward more productive uses was also essential to determining this improvement.<sup>56</sup> This high efficiency of the economy and production helped China to become the largest manufacturer in the world.<sup>57</sup> Coupled with its large volumes of exports, this earned the country the title of "world's factory." Another key factor determining China's economic growth was Foreign Direct Investment (FDI). Morrison (2019) reports data from "Invest in China" and China's 2021 Statistical Yearbook showing the growth of the share of foreign-invested enterprises (FIE) in China's Industrial Output: from 2.3% in 1990, to 35.9% in 2003, before declining to 25.9% in 2011.<sup>58</sup>

## **1.2.2 Consumer Market and People's living standards**

The economic policies and reforms launched by Deng Xiaoping proved to be very effective, as they deeply impacted people's life, raising their living standards significantly. According to the World Bank,<sup>59</sup> China transitioned from low-income to low-middle-income in 1997 and then to upper-middle-income in 2010. At \$8,690 per capita, China's 2017 GNI was 38.7% less than what it would require to become a high-income country.<sup>60</sup>

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<sup>53</sup> *Ibid.*, p.5

<sup>54</sup> *Ibid.*, p.6

<sup>55</sup> *Ibid.*, p.7

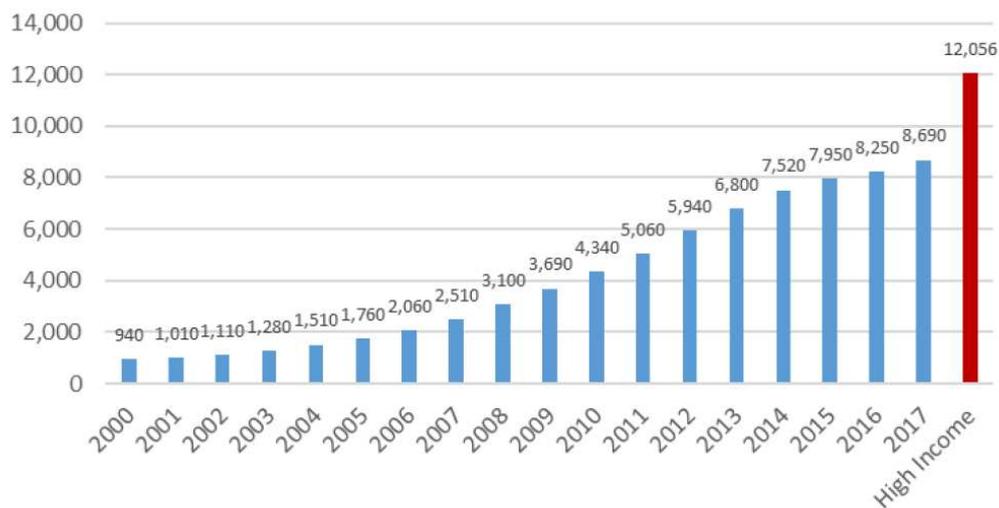
<sup>56</sup> *Ibid.*

<sup>57</sup> *Ibid.*, p.11

<sup>58</sup> *Ibid.*, p.14

<sup>59</sup> The World Bank uses gross national income (GNI) per capita to classify economies. These categories—low-income, lower-middle-income, upper-middle-income, and high-income economies—are updated yearly to take into account modified income thresholds.

<sup>60</sup> Morrison, W. M. (last updated in June 25<sup>th</sup>, 2019), "China's Economic Rise: History, Trends, Challenges, and Implications for the United States", Congressional Research Service, p.7-8



**Source:** Adapted from Morrison, W. M. (last updated in June 25<sup>th</sup>, 2019), “China’s Economic Rise: History, Trends, Challenges, and Implications for the United States”, Congressional Research Service. **Original data** from: World Bank. **Notes:** Bar in red indicates the level China would need to reach to become a high-income economy.

This growth is also reflected in the rise of average monthly wages. Converted to US dollars, the average monthly wage in China in 1990 was \$55. It increased by a noteworthy 263% between 2007 and 2018, reaching \$990 by that year.<sup>61</sup>

Once again, government intervention was crucial for the promotion of this new ideal. If frugality had been the core value of the Maoist period —encapsulated in the slogan “more, faster, better, with less inputs” (多快好省 *duo kuai hao sheng*) —the mantra under the leadership of Deng Xiaoping was “To get rich is glorious” (致富光荣 *zhifu guangrong*). Deng and party officials aimed to encourage individuals in China to actively pursue economic prosperity. Achieving this required an approach designed to make people embrace the economic reforms and modernization efforts. Schram (1984) cites the words of Hu Yaobang,<sup>62</sup> who, on April 13<sup>th</sup>, 1983, during an inspection tour of Henan and Hubei said: “*The primary concern of our policies must be to enrich the peasants as fast as possible. If the peasants become prosperous, the people’s realm will be stable... Do not fear prosperity.*”<sup>63</sup> People who sought and reached prosperity were considered as “vanguard elements in implementing the policies of the Third Plenum.”<sup>64</sup>

The increased living standards of the population, together with a decentralization of the economy, and this promotion of prosperity values, contributed to the development of the domestic

<sup>61</sup> *Ibid.*, p.13. Original data from: Economist Intelligence Unit.

<sup>62</sup> Hu Yaobang was General Secretary of the CPC Central Committee in 1980-87 and Chairman of the CPC CC in 1981-82.

<sup>63</sup> Schram, S. R. (1984). “*Economics in Command?*” *Ideology and Policy since the Third Plenum, 1978-84*, The China Quarterly, 99, p.454

<sup>64</sup> *Ibid.*

consumer market. People started buying goods which were unavailable in the past, including foreign products. The values of the population began to evolve, reflecting a transition in Maslow's hierarchy of needs—from a focus on basic survival to aspirations for esteem and self-actualization. To cite Jonathan Spence (1999): *“The ‘Four Musts’ were no longer enough. The ‘Four Musts’ that had set a limit of materialist yearnings under Maoism had been a bicycle, a radio, a watch, and a sewing machine. In the new world of Deng Xiaoping they were replaced by the ‘Eight Bigs’: a color television, a refrigerator, a stereo, a camera, a motorcycle, a suite of furniture, a washing machine, and an electric fan.”* From a former frugal society, Chinese people started having a different perception of wealth and status. A striking example of this is the case of a Chinese teenager who sold his kidney to buy an iPad 2.<sup>65</sup>

The synergy of economic liberalization, rising living standards, and growing consumerism has led China to become one of the biggest consumer markets in the world and an economic superpower, as long as to the expansion of the Chinese middle class. However, this remarkable growth has not been without its downsides. The continued existence of significant inequalities is still one of the most urgent problems. Disparities between urban and rural areas, as well as between various socioeconomic strata, have greatly expanded, despite overall improvements in wealth and quality of life. In order to overcome these disparities, more inclusive policies are required. This widening divide threatens societal cohesiveness and casts doubt on the viability of China's development model.

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<sup>65</sup> Patience, M. (June 3<sup>rd</sup>, 2011). *China: Teenager 'sells kidney for iPad'*, BBC News, retrieved from: <https://www.bbc.com/news/world-asia-pacific-13639934> (last accessed on December 27<sup>th</sup>, 2024)

## **Chapter Two**

### **Growing middle class in China**

## Chapter Two: Growing middle class in China

### 2.1 Defining a “middle class”: an overview

When analyzing the economic growth of any state in the world, the existence of the middle class is a crucial pillar in determining its performance. Indeed, this income group plays an essential role in fostering social stability, political cohesion, robust consumer demand, and market expansion – both domestically and internationally. With greater purchasing power than the working class but lower than that of the elites, the middle class is widely considered the key to an economy’s sustainable development and market growth. In the words of Homi Kharas<sup>66</sup>:

*“The middle class has played a special role in economic thought for centuries. It emerged out of the bourgeoisie in the late fourteenth century, a group that while derided by some for their economic materialism provided the impetus for an expansion of a capitalist market economy and trade between nation states. Ever since, the middle class has been thought of as the source of entrepreneurship and innovation — the small businesses that make a modern economy thrive. Middle class values also emphasize education, hard work and thrift. Thus, the middle class is the source of all the needed inputs for growth in a neoclassical economy—new ideas, physical capital accumulation and human capital accumulation.”<sup>67</sup>*

In other terms, we can also define the middle class as the backbone of the market economy.<sup>68</sup> Based on an empirical study in which he compared a large number of countries (2001), American economist William Easterly concludes that countries with a middle class consensus<sup>69</sup> have a higher level of income and growth.<sup>70</sup> In the same study, he quotes Landes (1998): “the ideal growth and development society would have a relatively large middle class.”<sup>71</sup> He also notes that a substantial body of theoretical literature advocates a strong correlation between a small middle class and low growth, as well as low human capital accumulation.<sup>72</sup> Consequently, the creation and enlargement of a middle class becomes the priority and a policy goal for developing countries,

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<sup>66</sup> British economist, as well as senior fellow in the Center for Sustainable Development, housed in the Global Economy and Development program at Brookings (see <https://www.brookings.edu/people/homi-kharas/>).

<sup>67</sup> Kharas, H. (2010), “*The Emerging Middle Class in Developing Countries*”, OECD Development Centre Working Papers, No. 285, OECD Publishing, Paris, p. 7

<sup>68</sup> Birdsall N., Graham C., and Pettinato S. (2010), “*Stuck In The Tunnel: Is Globalization Muddling The Middle Class?*”, Center on Social and Economic Dynamics, Working Paper No. 14, pp.1

<sup>69</sup> Easterly defines a middle class consensus as a national situation where there are neither strong class differences nor ethnic differences.

<sup>70</sup> Easterly, W. (2001), “*The Middle Class Consensus and Economic Development*”, *Journal of Economic Growth* 6, 317–335, pp. 332

<sup>71</sup> *Ibid.*, p.318

<sup>72</sup> *Ibid.*

which foster a sustainable growth with an equitable wealth distribution.

Hence, the importance of a well-developed middle class is already widely acknowledged. However, a unique portrayal of middle class remains elusive, as its definition is not clear-cut, but it's complex and varies across context. Many researchers and theorists have proposed their own definition of "middle class". While most rely primarily on income thresholds, international analysis consider additional factors, such as consumption patterns and social mobility, to address this issue. This makes the boundaries of the middle class inherently fuzzy and theoretically controversial.<sup>73</sup>

The term "middle-class" in its modern usage can be traced back to T. H. C. Stevenson's 1913 social class scheme, which conceived society as divided into three basic social classes - the upper, middle and working classes – based on a classification which mixed occupational and industrial groups.<sup>74</sup>

The Cambridge Dictionary defines "middle class" as "a social group that consists of well-educated people, such as doctors, lawyers, and teachers, who have good jobs and are not poor, but are not very rich."<sup>75</sup> At first glance, this definition appears unchanged from the current conception of the middle class. Although the concept itself has remained stable, historically there have been a variety of approaches to define the middle class.<sup>76</sup> As originally discussed by Charles Morazé (1966) and Lenore O'Boyle (1966), and cited by Peter N. Stearns, the concept "middle class" is one of the most enigmatic yet frequent in social sciences.<sup>77</sup> Stearns further for outlining class as a subjective and evolving concept, since social classes are shaped by historical forces and cannot be reliably defined through a single, cross-sectional analysis that applies uniform criteria at one moment in time.<sup>78</sup> He suggests that the middle class is best understood as a heuristic device.<sup>79</sup> As a result, China's middle class does not coincide with European middle class.<sup>80</sup>

This chapter provides an overview of the main approaches adopted to define the concept and social group of the middle class, examining how various methods affect understandings of middle-class composition and identity. Beginning with a general perspective and then focusing more on the Chinese context, this chapter will provide a foundation for analyzing and understanding how economic policies and social dynamics have fostered and expanded China's middle class,

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<sup>73</sup> Li, H. (2006), "*Emergence of the Chinese Middle Class and Its Implications*", *Asian Affairs*, 33(2), 67–83., pp. 69

<sup>74</sup> Rose, D. (1995), "*Official Social Classifications in the UK*", *Social Research Update*, University of Surrey, retrieved from <https://sru.soc.surrey.ac.uk/SRU9.html> (last accessed on November 11<sup>th</sup>, 2024)

<sup>75</sup> Cambridge dictionary, "*Middle Class*", Cambridge University Press, retrieved from <https://dictionary.cambridge.org/dictionary/english/middle-class> (last access on November 11<sup>th</sup>, 2024)

<sup>76</sup> Li, H. (2006), "*Emergence of the Chinese Middle Class and Its Implications*", *Asian Affairs*, 33(2), 67–83., pp. 69

<sup>77</sup> Stearns, P. N. (1979), "The Middle Class: Toward a Precise Definition", *Comparative Studies in Society and History*, 21(3), pp. 377

<sup>78</sup> *Ibid.*, p.380

<sup>79</sup> *Ibid.*

<sup>80</sup> Li, H. (2006), "*Emergence of the Chinese Middle Class and Its Implications*", *Asian Affairs*, 33(2), 67–83., pp. 70

promoting the nation's economic development, market growth, and social stability, and a gradual reduction of inequalities.

### 2.1.1 Approaches to define a “middle class”

Nowadays we can't identify a universally defined category which corresponds to the so-called “middle class”, and probably we will never be able to. As Kharas writes, middle class is as much a social designation as an economic classification, and the choice between the various approaches to define this status depends on the purpose at hand.<sup>81</sup> To fully understand this concept, an examination of the different perspectives adopted is necessary. As already mentioned, throughout history there has been a variety of approaches to define the middle class. According to some, it is “a group of consumers who merely imitate a certain lifestyle found in the media without the commonly accepted social and moral values implied when using the term ‘middle class’.”<sup>82</sup> Other scholars argue that belonging to the middle class is tied to an individual's belief or self-perception.<sup>83</sup> Hasík (2021), quoting Eulau (1956), states that Aristotle is the father of this subjective approach, asserting that social class depends on how individuals perceive themselves, rather than depending on physical characteristics, such as income or property.<sup>84</sup> He also mentions Richard Centers, who states that social classes are psychological clusters that depend only on the individual members' awareness that they belong to that specific class.<sup>85</sup> However, given the critical role of this class in driving economic development and shaping the political and social environment of any nation, the subjective approach proves inadequate and impractical when addressing and analyzing this topic. This necessitates the adoption of more objective and empirical approaches to ensure an understanding of its implications.

Income-based classification is perhaps the most straightforward way, widely used by economists. According to this approach, individuals' or households' income levels compared to national or international thresholds determine the middle-class status. For instance, the World Bank (2007) adopts an absolute definition by arbitrarily defining the middle class as those with incomes falling between the mean level in Brazil and Italy, or USD4000 to USD17000 in 2000 purchasing power parity terms.<sup>86</sup> Superficially, this method may seem easy to adopt and apply; however, it has

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<sup>81</sup> Kharas, H. (2010), “*The Emerging Middle Class in Developing Countries*”, OECD Development Centre Working Papers, No. 285, OECD Publishing, Paris, p. 11

<sup>82</sup> He, L. (2006), “*Emergence of the Chinese Middle Class and Its Implications*”, *Asian Affairs*, 33(2), 67–83., pp. 69

<sup>83</sup> *Ibid.*

<sup>84</sup> Hasík, G. (2021). “*Middle class: ways of defining and the special case of China*”, *Köz-gazdaság*. 16. 10.14267/RETP2021.02.08., p.103

<sup>85</sup> *Ibid.*

<sup>86</sup> Kharas, H. (2010), “*The Emerging Middle Class in Developing Countries*”, OECD Development Centre Working

some limitations. First, actual personal income varies a lot from region to region.<sup>87</sup> Besides, this kind of classification does not consider significant variables, namely cost of living, purchasing power, or social expectations.

Many scholars use occupation as a criterion.<sup>88</sup> In fact, as Birdsall, Graham, and Pettinato (2010) note, subsequent to the change of economies and societies in Europe caused by industrialization, sociologists started identifying a third group of people which was distinct from Marx's classes of capitalists and workers.<sup>89</sup> Therefore, the concept of middle class at first emerged as a consequence of new kinds of production;<sup>90</sup> the authors argue that occupational categories, especially when combined with some information on education have provided a basis for defining the middle class that has been broadly understood and reasonably comparable across countries.<sup>91</sup> Acemoglu and Zilibotti (1997) instead define the role of the middle class as a source of entrepreneurs.<sup>92</sup> This theory is subsequently rejected by Banerjee and Duflo (2007): the average middle class person is not an entrepreneur in waiting, the middle class is larger than the number of entrepreneurs, and the business they run is usually very small.<sup>93</sup> Quoted by Birdsall, Graham, and Pettinato (2010), Bagu (1949) considers the middle class as those who in the production process supply intellectual and bureaucratic work, or any type of job and small capital.<sup>94</sup> Other theorists, instead, extend their analysis beyond income and the job itself; Max Weber (1947), for instance, considers also job security and opportunities for upward mobility.<sup>95</sup> Besides, as elaborated by Erik Olin Wright (2007) and then cited by Hasík (2021), the German sociologist also identified three different clusters within the middle class:

- Old middle class: entrepreneurs and owners of small companies.
- Higher middle class: educated professionals with high social capital, such as doctors, lawyers, intellectuals, and architects.
- Lower middle class: consisting of employees, dependent on their employers by definition, such as teachers, social workers, nurses and officials.

The elite or higher class represents 1% of people which is at the top of the society. The lower class

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Papers, No. 285, OECD Publishing, Paris, p. 11

<sup>87</sup> He, L. (2006), "*Emergence of the Chinese Middle Class and Its Implications*", Asian Affairs, 33(2), 67–83., pp. 69

<sup>88</sup> *Ibid.*, p.70

<sup>89</sup> Birdsall N., Graham C., and Pettinato S. (2010), "*Stuck In The Tunnel: Is Globalization Muddling The Middle Class?*", Center on Social and Economic Dynamics, Working Paper No. 14, p.2

<sup>90</sup> *Ibid.*, p.3

<sup>91</sup> *Ibid.*

<sup>92</sup> Kharas, H. (2010), "*The Emerging Middle Class in Developing Countries*", OECD Development Centre Working Papers, No. 285, OECD Publishing, Paris, p. 10

<sup>93</sup> *Ibid.*

<sup>94</sup> Birdsall N., Graham C., and Pettinato S. (2010), "*Stuck In The Tunnel: Is Globalization Muddling The Middle Class?*", Center on Social and Economic Dynamics, Working Paper No. 14, p.2

<sup>95</sup> *Ibid.*

and unemployed people are below the middle class.<sup>96</sup>

Hasík (2021) reports another objective qualitative approach developed by Wright (2000). It's based on three categories and each one is divided into subcategories:

- Means of production: those who own the means of production are managers as owners, which are divided into the bourgeoisie and the small bourgeoisie (based on the size of the means of production they own).
- Level of authority (based on managerial experience): those who supervise other workers are managers.
- Expertise: figures with expertise.

The rest of the society is composed of workers, farmers and the unemployed. The small bourgeoisie, managers, and experts form the middle class.<sup>97</sup>

Another common method used to define middle class is by considering lifestyle and consumption patterns, instead of income or occupation. For instance, Kharas chooses to measure the middle class in terms of consumption levels.<sup>98</sup> He defined as global middle class those households with daily expenditures between USD10 and USD100 per person in purchasing power parity terms.<sup>99</sup> As the British economist says himself, the choice of a middle-class range is rather arbitrary. Indeed, Banerjee and Duflo (2008), through an analysis of household surveys in low- and middle-income countries, identified two distinct groups of households based on daily per capita expenditures at purchasing parity power (PPP): those spending between \$2 and \$4, and those with expenditures ranging from \$6 and \$10.<sup>100</sup> While this range may seem too low for a middle-class living standard, it remains significantly higher than that of the poor class of the examined countries<sup>101</sup> in Banerjee's and Duflo's work.<sup>102</sup> Other business houses, such as Nomura (2009), suggest that there is a shift in consumer demand curves at an income level of approximately USD 6000 per capita; beyond this level, the income elasticity for goods like consumer durables and services like insurance increases considerably until income level surpass USD 25000, at which point it begins to decrease again.<sup>103</sup> Continuing with lifestyle and consumption patterns as a method,

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<sup>96</sup> Hasík, G. (2021). "Middle class: ways of defining and the special case of China", *Köz-gazdaság*. 16. 10.14267/RETP2021.02.08., p.104

<sup>97</sup> Ibid.

<sup>98</sup> Kharas, H. (2010), "The Emerging Middle Class in Developing Countries", OECD Development Centre Working Papers, No. 285, OECD Publishing, Paris, p. 11

<sup>99</sup> Ibid.

<sup>100</sup> Abhijit V. Banerjee and Esther Duflo (2008), "What is Middle Class about the Middle Classes around the World?", *Journal of Economic Perspectives*, Volume 22, Number 2, p. 4

<sup>101</sup> Namely: Guatemala, India, Indonesia, Ivory Coast, Mexico, Nicaragua, Panama, Pakistan, Papua New Guinea, Peru, South Africa, Tanzania, and East Timor.

<sup>102</sup> Abhijit V. Banerjee and Esther Duflo (2008), "What is Middle Class about the Middle Classes around the World?", *Journal of Economic Perspectives*, Volume 22, Number 2, p. 5

<sup>103</sup> Kharas, H. (2010), "The Emerging Middle Class in Developing Countries", OECD Development Centre Working

again Birdsall, Graham, and Pettinato (2010) cite a definition by Goldthorpe et al. (1976): people belonging to the middle class look to the future and thus see saving and education as essential.<sup>104</sup>

Still addressing the topic of consumption patterns, Hasík (2021) proposes also car ownership as a criterion to identify middle class. This approach has some advantages. First of all, due to the mandatory registration of cars, car ownership is an easily accessible and trustworthy data.<sup>105</sup> Besides, being the car a financially demanding item which implies costs of maintenance, fees, taxes in addition to the cost of the car itself, car ownership is a real indicator of belonging to the middle class. However, this approach has some limitations as well, since it can't be used wherever in the same way. Indeed, while in developed countries almost every household has a car, in developing countries owning a car is a sign of relative prosperity and a social status.<sup>106</sup>

Finally, some researchers prefer to leave the economic approach in favor of a more sociological one. Indeed, they focus more on people's culture, values, and behavior to determine their belonging to the middle class. Adopting such approaches can reveal that, beneath the seemingly homogeneous category of the middle class, there may actually be groups of people which are very different from each other. As Stearns (1979) observes:

*“Think of what the word can connote: the triumphant industrialist, with his satellite professionals as allies, ultimately forming a new ruling class, revolutionary when needed but prone to a quick return to the policies of order and not revolutionary at all when aristocratic or Tory foes had been disposed of. Relatedly, a class imbued with strong cultural values which conveyed a personalized amalgam of Enlightenment-cum-Calvinist ideals and changed the mentality of society, through “social control,” well beyond the class itself. But also the Nazis and anti-Semites, the fighters against modernity, and not only in Germany. Property owners but also nonowners who picked up a perhaps “false” but durable class-consciousness. Finally, the pervasive bourgeois, a term applicable to both modernizers and anti-modernizers. The cultural philistine, the husband who slept, and may still sleep, at concerts he was dragged to by his wife. The avaricious early capitalist, the gaudy social climber, but also the reader of serialized romantic stories or, more recently, the housewife glued to soapoperas.”<sup>107</sup>*

All these different approaches and views are legitimate and have a certain degree of reliability and truth. However, to cite Stearns (1979) once again, “classes represent averages,

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Papers, No. 285, OECD Publishing, Paris, p. 11

<sup>104</sup> Birdsall N., Graham C., and Pettinato S. (2010), “*Stuck In The Tunnel: Is Globalization Muddling The Middle Class?*”, Center on Social and Economic Dynamics, Working Paper No. 14, p.2

<sup>105</sup> Hasík, G. (2021). “*Middle class: ways of defining and the special case of China*”, *Köz-gazdaság*. 16. 10.14267/RETP2021.02.08., p.107

<sup>106</sup> *Ibid.*

<sup>107</sup> Stearns, P. N. (1979), “*The Middle Class: Toward a Precise Definition*”, *Comparative Studies in Society and History*, 21(3), p.377

disproportionately-occurring traits, and this fact need offend no ideological or disciplinary view.”<sup>108</sup> While the middle class can be defined in relative or absolute terms, it follows that, regardless of the chosen range and approach, some degree of arbitrariness is inevitable.

Having analyzed and understood these general methods of identifying the middle class, and considering that different approaches might lead to variations in the definition of middle-class groups, we can notice that an overarching group identification seems to emerge across all the approaches: the large groups of households that are neither wealthy nor poor, but that form the backbone of both the market economy (and of democracy in most advanced societies).<sup>109</sup>

## 2.1.2 Defining a Chinese middle class

The “term” middle class is relatively new within the Chinese context. Even though individuals and groups embodying the ideals, lifestyle, and living standards which are commonly associated with the middle class were already existing, the term itself remained a taboo until the early 2000s. Being deeply rooted in Marxism, the Chinese Communist ideology did not see middle class as a separate or legitimate social class.<sup>110</sup> Even in the 1990s, during a period of rapid advancements and continuous market growth under the effect of Deng Xiaoping’s Economic Reforms, this social stratum was still regarded as a result of capitalism.<sup>111</sup> Private entrepreneurs, business owners, private employees, and intellectuals were considered as a part of the working class, rather than a specific group.<sup>112</sup>

The first sign of change emerged in 2000. During this period, as shown by Qiang (2016) quoted by Hasík (2021), the Central Party School of the Communist Party of China published the “Classroom classifications in contemporary China”. This publication marked a clear shift, since the central government decided to classify new layers; the newly formed groups were no longer joined to a single common class, but were separated instead.<sup>113</sup> Hower, according to Lu (2012) cited by Hasík (2021), the publication of the “Social Class Review in modern China” in 2002 represented the most significant advancement in the perception of social classes in the Chinese government regime.<sup>114</sup> Even though this book did not provide a clear-cut definition of middle class, it recognized 10 social strata divided into five categories (“higher, medium higher, medium medium,

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<sup>108</sup> *Ibid.*, p.380

<sup>109</sup> Birdsall N., Graham C., and Pettinato S. (2010), “*Stuck In The Tunnel: Is Globalization Muddling The Middle Class?*”, Center on Social and Economic Dynamics, Working Paper No. 14, p.2

<sup>110</sup> Hasík, G. (2021). “*Middle class: ways of defining and the special case of China*”, *Köz-gazdaság*. 16. 10.14267/RETP2021.02.08., p.108

<sup>111</sup> *Ibid.*

<sup>112</sup> *Ibid.*

<sup>113</sup> *Ibid.*

<sup>114</sup> *Ibid.*

medium lower, and lower"). Nowadays, the middle class is not only considered a firm component of society but, as will be discussed later in this thesis, the Chinese government is committed to enlarging it, making it a key objective of the 14<sup>th</sup> five-year plan.

The Chinese definition of middle class is in line with the concepts discussed earlier. Baidu, the main search engine in China, provides the following definition:

“中产阶级，又名中产阶层，社会阶级之一。中产阶级是指人们低层次的“生理需求，安全需求”得到满足，且中等层次的“感情需求和尊重需求”也得到了较好满足，但不断追求高层次的“自我实现需求”的阶级（或阶层）；由于家庭是社会的细胞，且大部分人的财富是以家庭为单元拥有的“中产家庭”组成。”<sup>115</sup>

*“The Middle Class, also known as the Middle Stratum, is one of the social classes. The middle class refers to people whose lower-level ‘psychological needs and safety needs’ have been met, and whose mid-level ‘emotional needs and esteem needs’ are also well satisfied, yet who continuously strive to fulfill higher-level ‘self-actualization needs.’ Since the family is the basic unit of society and most people’s wealth is owned at the family level, the middle class is primarily composed of ‘middle class families.’”*

This definition is based on a slightly different conceptual framework as compared to the previous approaches. It seems based on the notions coming from Maslow’s Hierarchy of Needs, highlighting how Chinese middle class can meet basic needs, while being characterized by a desire to satisfy higher ones. While using a different concept, the focus is still on the family, and the representation is consistent with the definitions analyzed so far. Indeed, this perspective is adopted by various studies and researches, such as the one conducted by China Power (2017) where middle class households are defined as those having enough income to satisfy their primary needs (food, clothing, and shelter) with some disposable income for additional consumption and savings.<sup>116</sup> However, the same study analyzes China’s middle class situation through persons’ spending, which is set as ranging from \$10 to \$50 per day.<sup>117</sup> This class is further broken down into two echelons, namely the lower-middle (from \$10 to \$20) and the higher-middle (from \$20 to 50\$) bands.<sup>118</sup>

The National Bureau of Statistics (NBS)<sup>119</sup> gives more specific boundaries to determine the

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<sup>115</sup> Baidu, 中产阶级 *zhongchanjieji*, retrieved from:

[https://baike.baidu.com/item/%E4%B8%AD%E4%BA%A7%E9%98%B6%E7%BA%A7/61166?fr=ge\\_al](https://baike.baidu.com/item/%E4%B8%AD%E4%BA%A7%E9%98%B6%E7%BA%A7/61166?fr=ge_al) (last accessed on: November 19<sup>th</sup>, 2024)

<sup>116</sup> China Power Team (April 26<sup>th</sup>, 2017), "How Well-off is China’s Middle Class?", China Power. Updated: September 30, 2021., retrieved from <https://chinapower.csis.org/china-middle-class/> (last access on November 30<sup>th</sup>, 2024)

<sup>117</sup> *Ibid.*

<sup>118</sup> *Ibid.*

<sup>119</sup> The National Bureau of Statistics (国家统计局 *guojiatongjiju*) of the People’s Republic of China is an agency directly under of the control of the State Council. It’s the body in charge of organizing, leading, and coordinating the national statistical work and ensuring that the statistical data are true, accurate, and timely. Among the numerous

middle class. This body defines the “middle-income group” as a typical three-person household that earns between RMB 100,000 to RMB 500,000 (approx. US\$14,844 to US\$74,221 in 2022) per year.<sup>120</sup> This is the most common definition in China, which is used in communications and reports from China’s state media.<sup>121</sup> On the other hand, Hurun<sup>122</sup> takes also the city of residence into consideration, underlining the relevance of the cost of living in different cities. Indeed, in the *Hurun 2018 China New Middle-Class Report* middle class is defined as urban residents with an annual household income of more than RMB 300,000 (approximately US\$42,647) in first-tier cities (namely, Beijing, Shanghai, Guangzhou, and Shenzhen) and more than RMB 200,000 (approximately US\$28,431) in new first-tier cities (such as Chengdu, Hangzhou, Chongqing, Wuhan, Xi’an, Suzhou, and Tianjin) and other cities.<sup>123</sup> This raises an important element which complicates the process of defining a middle class: the geographic and socioeconomic diversity of China’s large population. Indeed, families in high-cost cities need a higher income to maintain a middle-class lifestyle compared to families in smaller cities or rural areas. Hence, given the huge differences between developed cities (such as Beijing and Shanghai) and third-tier cities and/or rural areas, the income per se is not the only criterion to consider neither in the Chinese case.

Given the size of the Chinese middle class – the largest in the world, with 1.2 billion people estimated by 2027<sup>124</sup> - this group has also become a subject of study in the Western world. Researchers have used common parameters with the aim of comparing it with the middle class of other countries. Hasik (2021) reports a table from a study conducted by Rakesh (2015), which outlines the various parameters employed by different institutions to analyze this group.

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responsibilities, the NBS also formulates plans for national conditions and national strength censuses in coordination with relevant departments. [National Bureau of Statistics (NBS) 国家统计局, “*Function of NBS 机构职能*”, retrieved from: <https://www.stats.gov.cn/jg/jgzl/> (last accessed on: November 23<sup>rd</sup>, 2024)]

<sup>120</sup> Huld, A. & Interesse, G. (May 24, 2023), “*China’s Middle Class – Growth, Policy, and Consumption*”, China Briefing, retrieved at: <https://www.china-briefing.com/news/china-middle-class-growth-policy-and-consumption/> (last access on November 23<sup>rd</sup>, 2024)

<sup>121</sup> *Ibid.*

<sup>122</sup> Established in the UK in 1999, Hurun Inc. is a research, media and investments group, promoting entrepreneurship through its lists and research. [Hurun, “*About Hurun Inc.*”, retrieved from <https://www.hurun.net/en-us/home/aboutus> (last access on November 23<sup>rd</sup>, 2024)]

<sup>123</sup> Huld, A. & Interesse, G. (May 24, 2023), “*China’s Middle Class – Growth, Policy, and Consumption*”, China Briefing, retrieved at: <https://www.china-briefing.com/news/china-middle-class-growth-policy-and-consumption/> (last access on November 23<sup>rd</sup>, 2024)

<sup>124</sup> Kharas, H., Dooley, M., (Oct. 2020), “*China’s influence on the Global Middle Class*”, Global China. Assessing China’s growing role in the world, The Brookings Institution, p.1

| Institution   | Middle class definition                     | Estimated size [mil.] |
|---------------|---|-----------------------|
| Pew           | 10,01-20\$<br>[consumption/person/day]      | 235 [2011]            |
| McKinsey      | 60000-229000 RMB<br>[household income/year] | 460 [2012]            |
| Credit Suisse | 50000–500000 \$<br>[personal property]      | 109 [2015]            |
| Ernst & Young | 10–100 \$ [person/day]                      | 150 [2010]            |
| Goldman Sachs | 16–82 \$ [person/day]                       | 149 [2013]            |

Source: Hasik, G. (2021). “Middle class: ways of defining and the special case of China”, *Köz-gazdaság*. 16. 10.14267/RETP2021.02.08., p.112

Although relying on numbers could seem the most objective approach, defining the boundaries of the still involves some subjectivity.

Occupation is often considered to define also Chinese middle class. The CASS’s Institute of Sociology<sup>125</sup> identified five categories considered to be part of the middle class: party and state cadres, business managers, private entrepreneurs, professionals, and office staff.<sup>126</sup> He Li (2010) cites also two other approaches to consider profession as a benchmark for middle class. First of all, he mentions theories around the composition of the future middle class in China, as including the following five categories of people: scientific development entrepreneurs, Chinese managerial staff working in foreign firms in China, middle level managerial staff in state-owned financial institutions, professional technicians in various fields, especially in intermediary firms, and some self-employed private entrepreneurs.<sup>127</sup> Afterward, he highlights an interesting factor that shows how the Chinese middle class is different from the European one: besides including the intellectuals and professionals in private and foreign-owned enterprises, managers of small and middle-sized businesses, it also includes the middle and lower-level cadres under the payroll of the party-state.<sup>128</sup> As Hasík (2021) explains, many entrepreneurs are members of, or close to, the party that has often

<sup>125</sup> Established 1977, the Chinese Academy of Social Sciences is a leading academic organization and comprehensive research center in the fields of philosophy and social sciences. The Institute of Sociology of the CASS was founded on January 18<sup>th</sup>, 1980. It is the earliest sociological institute after the restoration of sociological research and has been playing an important “think-tank” role. [International Science Council, “China, Chinese Academy of Social Sciences (CASS)”, retrieved from: <https://council.science/member/china-chinese-academy-of-social-sciences-cass/>, (last access on November 23<sup>rd</sup>, 2024); Institute of Sociology, “Chinese Academy of Social Sciences” retrieved from: [http://cse.cnssn.cn/Institute\\_of\\_Sociology/Site\\_About\\_IOS/About\\_IOS\\_Introduction/](http://cse.cnssn.cn/Institute_of_Sociology/Site_About_IOS/About_IOS_Introduction/) (last access on November 23<sup>rd</sup>, 2024)]

<sup>126</sup> He, L. (2006), “Emergence of the Chinese Middle Class and Its Implications”, *Asian Affairs*, 33(2), 67–83., p. 70

<sup>127</sup> *Ibid.*

<sup>128</sup> *Ibid.*

helped them to gain their actual wealth.<sup>129</sup> Hence, this connection has sparked a debate among researchers and theorists. The middle class has historically been a driving force behind political and social change on the global stage. However, given that the Chinese middle class is also composed by members with close connections with the central power, two contrasting perspectives emerge. On the one side, some researchers believe that middle class will drive and encourage democratization; on the other hand, other theorists argue that the middle class on the contrary is a source of power and legitimacy for the CCP.<sup>130</sup> The potential future political impact of the middle class does not fall within the purview of this thesis, as addressing it would require a different approach focused more on socio-political issues. Nevertheless, it is worth noting that this social stratum, which may appear homogeneous at first glance, is far more diverse and complex within. The adoption of any approach – whether numerical, occupation-focused, or subjective - has strengths on one side, but also limitations on the other side. Moreover, no single method can be applied universally or satisfy all criteria. For this reason, throughout this thesis, the term “middle class” will refer to the social stratum between the working and the upper class, which played and still plays an important role in making China the largest middle-class consumer market in the world.<sup>131</sup>

## **2.2 The Chinese middle class in numbers**

A thorough analysis of the middle class's historical evolution is necessary to understand its current composition, size, and importance in China. This socioeconomic group's development has been affected by China's distinct path of social and economic change, which started with Deng Xiaoping's policies in the late 1970s. However, it is hard to completely understand the features and difficulties of China's middle class without placing its development within the larger context of the nation's social and economic inequality.

Prior to exploring the current situation of the Chinese middle class, it is important to start with an analysis of some research and data that describe its historical development. A lot of studies have delved into the group's explosive growth, recognizing correlations between China's economic policies, and changes in income distribution, consumption patterns, urbanization and the development of a middle-class population. Inequality and disparities within society are an essential element to take into consideration when analyzing the rise of the middle class.

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<sup>129</sup> Hasik, G. (2021). “*Middle class: ways of defining and the special case of China*”, *Köz-gazdaság*. 16. 10.14267/RETP2021.02.08., p.102

<sup>130</sup> *Ibid.*, p. 110

<sup>131</sup> Kharas, H., Dooley, M., (Oct. 2020), “*China's influence on the Global Middle Class*”, *Global China. Assessing China's growing role in the world*, The Brookings Institution, p.3

Leveraging existing data and academic research, this chapter attempts to give an overview of the quantitative aspects of China's middle class and the impact of inequalities that shape Chinese society. It starts with an analysis of some data of China's past and its development to the present. For each referenced research, an explanation of the methodologies employed to measure the middle class and inequalities will be provided. The aim of this chapter is to provide a broad picture which can facilitate our understanding of the middle class's role as both a driver and a consequence of China's socio-economic development.

### 2.2.1 Past development

The prevailing discourse around inequalities and disparities within Chinese society tends to identify their roots and causes in the reforms of the late 1970s, resulting in the development of a market-oriented economy. In fact, this is not totally accurate, as shown by Kanbur and Zhang (2004). The authors were able to construct a comprehensive time-series of regional inequality in China from 1952 to 2000 using a dataset of provincial and national data covering the second half of XX century.<sup>132</sup> Furthermore, they could decompose data in rural-urban and inland-coastal components and, through an econometric analysis, they established that the degree of openness, the degree of decentralization, and the proportion of heavy industry in gross output value are the three main policy variables that explain regional disparity to varying degrees in different phases.<sup>133</sup> The main conclusion of their study is that throughout China's history inequality among China has peaked three times: during the Great Famine, at the end of The Cultural Revolution, and in the current period of global integration.<sup>134</sup> In fact, as shown in the table below, China's regional inequality Gini coefficient in 2000 is higher than the levels attained during the Great Famine in 1960—precisely, 16 percent higher—and the conclusion of the Cultural Revolution in 1976.<sup>135</sup> Comparably, inequality in China has experienced three major troughs: in 1952, at the beginning of the data series; in 1967, at the end of the Great Famine recovery and before the effects of the Cultural Revolution; in 1984, at the conclusion of the rural reform era and the beginning of the expansion based on global integration.<sup>136</sup>

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<sup>132</sup> Kanbur, R., Zhang, X. (2004), *"Fifty years of regional inequality in China: A journey through central planning, reform, and openness"*, World Institute for Development Economics Research, Research Paper No.2004/50, p.1

<sup>133</sup> *Ibid.*

<sup>134</sup> *Ibid.*, p.6

<sup>135</sup> *Ibid.*

<sup>136</sup> *Ibid.*

| <b>Year</b> | <b>Gini (%)</b> | <b>GE (%)</b> | <b>Rural–Urban</b> | <b>Inland–Coast</b> |
|-------------|-----------------|---------------|--------------------|---------------------|
| 1952        | 22.4            | 9.0           | 6.9                | 0.6                 |
| 1953        | 24.7            | 10.7          | 8.6                | 0.7                 |
| 1954        | 23.2            | 9.4           | 7.9                | 0.6                 |
| 1955        | 22.0            | 8.6           | 7.3                | 0.3                 |
| 1956        | 22.9            | 9.4           | 8.2                | 0.2                 |
| 1957        | 23.8            | 9.8           | 8.5                | 0.1                 |
| 1958        | 24.4            | 10.2          | 8.8                | 0.2                 |
| 1959        | 29.7            | 14.3          | 11.6               | 0.2                 |
| 1960        | 32.2            | 16.6          | 13.5               | 0.3                 |
| 1961        | 30.3            | 14.5          | 11.2               | 0.2                 |
| 1962        | 28.5            | 13.1          | 10.7               | 0.2                 |
| 1963        | 27.6            | 12.4          | 9.6                | 0.2                 |
| 1964        | 28.2            | 12.8          | 9.5                | 0.2                 |
| 1965        | 26.7            | 11.8          | 8.7                | 0.2                 |
| 1966        | 26.6            | 11.7          | 9.1                | 0.2                 |
| 1967        | 25.5            | 10.8          | 8.5                | 0.2                 |
| 1968        | 26.3            | 11.3          | 8.7                | 0.3                 |
| 1969        | 27.1            | 12.2          | 9.9                | 0.3                 |
| 1970        | 27.0            | 12.1          | 9.8                | 0.3                 |
| 1971        | 26.9            | 12.1          | 9.8                | 0.3                 |
| 1972        | 28.1            | 12.8          | 9.8                | 0.3                 |
| 1973        | 27.9            | 12.7          | 9.9                | 0.3                 |
| 1974        | 28.8            | 13.5          | 10.3               | 0.3                 |
| 1975        | 29.5            | 14.2          | 11.2               | 0.5                 |
| 1976        | 30.9            | 15.5          | 12.1               | 0.5                 |
| 1977        | 30.8            | 15.4          | 12.1               | 0.5                 |
| 1978        | 29.3            | 14.0          | 11.0               | 0.4                 |
| 1979        | 28.6            | 13.3          | 10.1               | 0.4                 |
| 1980        | 28.2            | 13.1          | 9.9                | 0.5                 |
| 1981        | 27.0            | 12.0          | 9.1                | 0.6                 |
| 1982        | 25.6            | 10.6          | 7.2                | 0.5                 |
| 1983        | 25.9            | 11.1          | 6.8                | 0.4                 |

|      |      |      |      |     |
|------|------|------|------|-----|
| 1984 | 25.6 | 10.9 | 6.3  | 0.4 |
| 1985 | 25.8 | 11.1 | 6.6  | 0.5 |
| 1986 | 26.8 | 11.9 | 6.9  | 0.5 |
| 1987 | 27.0 | 12.0 | 6.8  | 0.6 |
| 1988 | 28.2 | 13.1 | 7.7  | 0.8 |
| 1989 | 29.7 | 14.4 | 9.3  | 1.0 |
| 1990 | 30.1 | 14.9 | 9.5  | 1.0 |
| 1991 | 30.3 | 14.9 | 9.9  | 1.2 |
| 1992 | 31.4 | 16.0 | 10.2 | 1.5 |
| 1993 | 32.2 | 16.8 | 10.9 | 1.7 |
| 1994 | 32.6 | 17.2 | 10.8 | 2.0 |
| 1995 | 33.0 | 17.7 | 11.5 | 2.3 |
| 1996 | 33.4 | 18.2 | 11.7 | 2.6 |
| 1997 | 33.9 | 18.9 | 11.7 | 2.7 |
| 1998 | 34.4 | 19.6 | 12.2 | 2.9 |
| 1999 | 36.3 | 23.4 | 12.8 | 3.2 |
| 2000 | 37.2 | 24.8 | 13.9 | 3.8 |

**Source:** Kanbur, R., Zhang, X. (2004), *“Fifty years of regional inequality in China: A journey through central planning, reform, and openness”*, World Institute for Development Economics Research, Research Paper No.2004/50, p.7-8. Based on author’s calculations.

**Note:** GE refers to the generalized entropy index with  $c=0$ . GE with  $c=1$  was also calculated but the results are similar and not reported here.

Inland-coastal inequality played (and still plays) a significant role in shaping inequality in China, especially in the post-reform period. In fact, during the Maoist era, central planning empowered the central government with the authority to distribute and use financial resources to reach the goal of equity, even at the expense of efficiency.<sup>137</sup> After the economic reforms, local governments obtained more authority to allocate resources and take on duties. Therefore, they were also motivated to promote economic growth; however, differences in historical development level and geographical locations made the rate of growth differ across regions.<sup>138</sup> For example, as originally shown by Zhang et al. (2004), on one hand agriculture-based regions are forced to rely on mandatory apportionment and levies, which hampers economic growth; on the other hand, regions with a more varied economic structure and a wider revenue base are empowered to finance their

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<sup>137</sup> *Ibid.*, p.9

<sup>138</sup> *Ibid.*

economic development.<sup>139</sup>

Rural-urban divide was a relevant feature as well. As shown in the table above, rural-urban inequality increased up to 1960. After the Great Famine, agriculture was given priority and, consequently, the share of heavy industry fell and the rural-urban divide narrowed.<sup>140</sup> However, in the end of The Cultural Revolution the rural-urban inequality reached its peak due to a lack of incentives in the agricultural sector and investment in heavy industry and military.<sup>141</sup> The rural-urban divide (as well as overall inequality) decreased again during the first five years of the post-1979 reforms, thanks to the market-oriented strategies which drove a growth in agricultural output and the drop of heavy industry.<sup>142</sup>

Starting from the mid-1980s, China began its process of global market integration and attracted a growing number of FDIs. The key factor to achieving growing openness was the introduction of Special Economic Zones in coastal cities which had favorable tax breaks. This policy is biased against inland regions and has deepened the inland-coastal disparity.<sup>143</sup> In other terms, the reforms of opening up brought outstanding growth, but the gains have not been evenly distributed across regions.<sup>144</sup> Kanbur and Zhang (2004) mention the example of the disparity between Guangdong and Sichuan provinces. The authors of this research also did an econometric analysis through various tests—namely, the Chow-test,<sup>145</sup> the Phillips-Ouliaris test (PO test),<sup>146</sup> and the KPSS test (Kwiatkowski et al. 1992)<sup>147</sup>—showing that:

- during the pre-reform period, the rural-urban gap is mainly caused by heavy-industry development strategy;
- during the reform period of the 1980s and the 1990s, the rapid increase in inland-coastal disparity is a consequence of openness and decentralization.<sup>148</sup>

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<sup>139</sup> *Ibid.*

<sup>140</sup> *Ibid.*

<sup>141</sup> *Ibid.*

<sup>142</sup> *Ibid.*

<sup>143</sup> *Ibid.*, p.12

<sup>144</sup> *Ibid.*

<sup>145</sup> “A Chow test is a statistical test developed by economist Gregory Chow that is used to test whether the coefficients in two different regression models on different datasets are equal. The Chow test is typically used in the field of econometrics with time series data to determine if there is a structural break in the data at some point.” [For more details, see Bobbitt, Z. (January 20<sup>th</sup>, 2021). “What is a Chow Test? (Explanation & Example)”, Statology, retrieved from: <https://www.statology.org/chow-test/> (last access on January 10<sup>th</sup>, 2025)]

<sup>146</sup> “The Phillips-Ouliaris test (PO test) is a test designed to detect the presence of a unit root in the residuals of regressions among the levels of time-series.” (Kanbur, R., Zhang, X. (2004), “Fifty years of regional inequality in China: A journey through central planning, reform, and openness”, World Institute for Development Economics Research, Research Paper No.2004/50, p.14)

<sup>147</sup> “The Kwiatkowski–Phillips–Schmidt–Shin (KPSS) test figures out if a time series is stationary around a mean or linear trend, or is non-stationary due to a unit root. A stationary time series is one where statistical properties — like the mean and variance — are constant over time.” [For more details, see Statistics How To, “KPSS Test: Definition and Interpretation”, retrieved from: <https://statisticshowto.com/kpss-test/> (last access on January 11<sup>th</sup>, 2025)]

<sup>148</sup> Kanbur, R., Zhang, X. (2004), “Fifty years of regional inequality in China: A journey through central planning,

This study shows how inequalities defined the history of Chinese society also before the origin of middle class. However, it's important to note that inequalities had the deepest impact on Chinese society after the economic reforms turned China into a social market economy, where domestic consumption played an essential role in the development. In other terms, this is the moment when living standards of the population began to increase resulting into the expansion of a new social stratum: the middle class. This is caused by a new perspective which did not condemn people for increasing their income and living standards anymore.

Hasik (2021) shows the growth rate of the Chinese social classes from 1982 to 2006. He breaks down the middle class into subgroups:

- new middle class: specialists and managers.
- old middle class: small business.
- marginal middle class and private entrepreneurs.

| <b>Year</b> | <b>Capitalist class</b> | <b>New middle class</b> | <b>Old middle class</b> | <b>Marginal middle class</b> | <b>Working class</b> |
|-------------|-------------------------|-------------------------|-------------------------|------------------------------|----------------------|
| <b>1982</b> | 0.0                     | 13.9                    | 0.1                     | 19.7                         | 66.3                 |
| <b>1988</b> | 0.1                     | 17.2                    | 3.2                     | 23.8                         | 55.7                 |
| <b>1990</b> | 0.5                     | 19.6                    | 2.2                     | 19.9                         | 57.8                 |
| <b>1995</b> | 0.6                     | 22.1                    | 5.5                     | 26.6                         | 45.2                 |
| <b>2001</b> | 1.5                     | 16.6                    | 10.3                    | 33.2                         | 38.4                 |
| <b>2002</b> | 1.1                     | 23.6                    | 11.1                    | 29.1                         | 35.1                 |
| <b>2005</b> | 1.6                     | 21.0                    | 9.7                     | 31.4                         | 36.3                 |
| <b>2006</b> | 0.6                     | 18.8                    | 19.6                    | 25.4                         | 35.7                 |

**Source:** Adapted from Hasik, G. (2021). "Middle class: ways of defining and the special case of China", *Köz-gazdaság*. 16. 10.14267/RETP2021.02.08., p.110. **Original data from:** Hsiao, M. (2015).

What immediately emerges from the above data is the rapid increase in the middle class at the expense of the working class. As Hasik states, in 2006, according to the specific Chinese definition of social classes, middle class represented 60% of the population.<sup>149</sup> However, the author's analysis is in line with the data of the previously mentioned research (Kanbur & Zhang, 2004), recognizing rising income inequality as one of the main problems of the expansion of the middle class. Indeed, as he highlighted, the value of the Gini coefficient has almost doubled from

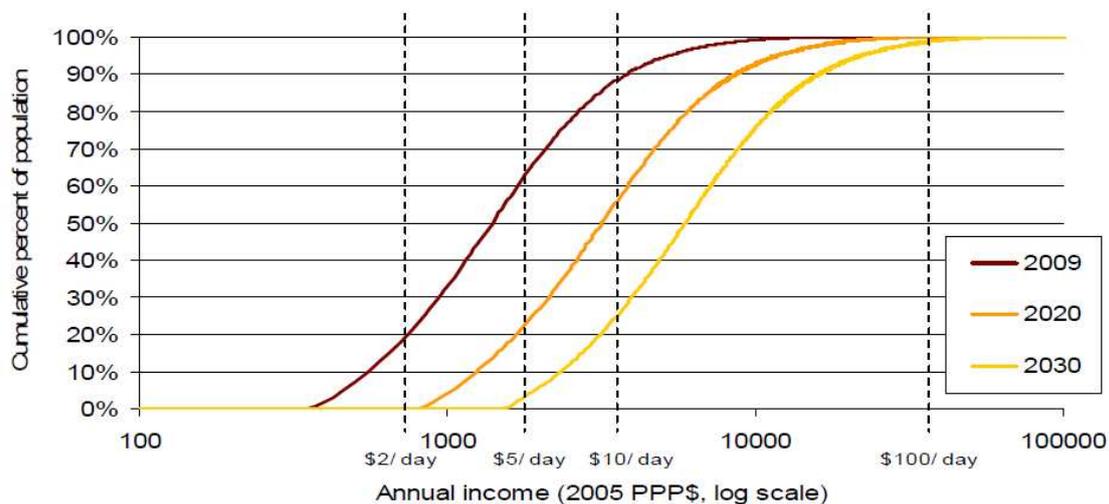
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*reform, and openness*", World Institute for Development Economics Research, Research Paper No.2004/50, p.17

<sup>149</sup> Hasik, G. (2021). "Middle class: ways of defining and the special case of China", *Köz-gazdaság*. 16. 10.14267/RETP2021.02.08., p.110

0.28 to 0.55 in 2015 since the 1980s.<sup>150</sup>

According to Kharas (2010), addressing income inequality could seem a solution to enlarge the middle class, but in fact this is not straightforward. As he observes, on one hand, solving China’s large income inequality—according to data he reported, China’s Gini coefficient (adjusted for spatial cost of living differentials) has risen to 45.3 by 2005—in the short term could have an undesired effect because it could slow down the growth for the emerging middle class as a result of income redistribution.<sup>151</sup> However, on the other hand, China needs to be careful not to fall into an inequality trap. Indeed, access to healthcare and education is closely linked to income levels; therefore, groups with low-income levels tend to have low capital formation, which results in reduced earnings and, as a consequence, increasing inequality among society.<sup>152</sup> So, as the author suggests, addressing inequality not only in terms of income, but also in terms of access to education is an essential long-term strategy. Rather, increasing the share of consumption in GDP—which was well lower for China compared to the global average and economies such as Vietnam, Indonesia, India, and Thailand at the time of the paper's publication—could be the right strategy in the medium term.<sup>153</sup> To achieve that, it’s essential to increase the share of household income,<sup>154</sup> as this could empower with stronger consumption ability and boost domestic demand. This perspective is in line with a projection the author makes about the growth of the middle class for the consecutive 25 years.



**Source:** Kharas, H. (2010), “*The Emerging Middle Class in Developing Countries*”, OECD Development Centre Working Papers, No. 285, OECD Publishing, Paris, p.27

<sup>150</sup> *Ibid.*, p.112

<sup>151</sup> Kharas, H. (2010), “*The Emerging Middle Class in Developing Countries*”, OECD Development Centre Working Papers, No. 285, OECD Publishing, Paris, p.31

<sup>152</sup> *Ibid.*

<sup>153</sup> *Ibid.*

<sup>154</sup> *Ibid.*

At the time this study was published (2009), the graph above displays the proportion of the Chinese population that made less than a given income level (horizontal axis). The assumption behind this prediction is that the share of income for the middle class remains constant, rather than maintaining a steady income distribution across all groups. Middle class is represented by those people earning USD 10 to USD 100 per day per capita. This graph illustrates how many people can move into the middle-class category with even a slight increase in income.<sup>155</sup> Therefore, the growth scenario is consistent with the previously discussed strategies. Given the potential deep impact on the size of the middle class, the economic policies targeting low-income population and middle-class become essential. To achieve this, GDP growth should not be the only objective, but also addressing disparities should be a priority.

However, as Knight (2014) explained, measuring inequality in China is not an easy task. Indeed, the primary sources of information on income inequality have some limitations. On one hand, the National Bureau of Statistics (NBS) household surveys provides a large yet not detailed dataset, given the limited number of questions; on the other hand, the China Household Income Project (CHIP), through a higher number of questions, provides thorough findings yet with smaller sample sizes.<sup>156</sup> Before showing the result of his analysis, the author highlighted the difficulties in using these datasets, including the exclusion of rural-urban migrants from the urban sample<sup>157</sup> and the different definitions of income used by the two data providers, which influences the comparability of data.<sup>158</sup> After this introduction, Knight starts by decomposing inequality and his analysis is in line with what has been discussed so far. Equality was made possible through central planning and the *danwei* (work unit) system; starting from the 1980s, market reforms and productivity rewards lead the urban sector to increased wage disparities.<sup>159</sup> Indeed, the Gini coefficient increased from 0.21 in 1988 to 0.33 in 1995 and 2007.<sup>160</sup> Furthermore, rural-urban divide was still the main component of inequality. Another source of inequality is the situation of migrant workers who generally don't have access to urban benefits due to their rural *hukou*. As already explained, the estimate of inequality can be complicated by the migrant workers who return to their rural households with their wage and, as a consequence, increase the rural household income. The 2002 CHIP surveys permitted an estimate of the urban Gini coefficient both with and without migrants and the result showed an increase by 2 percentage points after the inclusion of

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<sup>155</sup> *Ibid.*, p.27

<sup>156</sup> Knight, J. (2014), "*Inequality in China: An Overview*", The World Bank Research Observer, vol. 29, no. 1, p.3

<sup>157</sup> Generally, rural-urban migrants maintain a rural *hukou* (namely, the household registration system).

<sup>158</sup> Knight, J. (2014), "*Inequality in China: An Overview*", The World Bank Research Observer, vol. 29, no. 1, p.3

<sup>159</sup> *Ibid.*, p.5

<sup>160</sup> *Ibid.*, original data from Deng & Gustafsson (2013)

migrants.<sup>161</sup> At the same time, migration was a double-edged sword on rural areas: in fact, while nonfarm labor and remittances helped to alleviate poverty, they also lead to unequal income development. The 1995, 2002, and 2007 CHIP surveys showed that wage income contributed respectively 21 percent, 40 percent, and 41 percent to income inequality.<sup>162</sup> The rural-urban divide characterized China even under the central planning; however, in the analysis by Knight (2014), based on CHIP surveys, it reached the highest peak in 2007, with wages in cities more than four times greater than those in rural areas (adjusted ratio for special differences in prices: 2.91).<sup>163</sup> The author does also an analysis of regional inequality. Given the size of China's territory, regional income differences inevitably exist, with an intricate relationship between divergence and convergence. In fact, on one hand disparities between coastal and inland provinces were exacerbated by early economic reforms; on the other hand, trade liberalization and fiscal decentralization were important factors in favoring wealthier regions. Consistently with the previously mentioned research conducted by Kanbur and Zhang (2004), Knight (2014) showed that geographic advantages, preferential policies, and trade liberalization benefited coastal provinces and, as a result, increased inequalities with inland regions.<sup>164</sup> What further exacerbated income inequality among provinces was the fiscal recentralization of 1994: despite the central government had the power to redistribute revenue to poorer provinces, the two-thirds of transfers were negotiated and ended up in being disequalizing.<sup>165</sup> The study conducted by Knight (2014) continues by focusing on people's financial situation. As he notes, from 53% in 1980 to 18% in 1988 and 8% in 2001, the percentage of households living below the official absolute poverty line declined, with the majority of the poor living in rural areas.<sup>166</sup> According to a research on subjective well-being, relative deprivation, as measured by comparisons with local reference groups, has a considerable impact on happiness, and rural-urban disparities exacerbate discontent.<sup>167</sup> Hence, life satisfaction did not follow the rapid economic growth because of inequalities and social insecurities. To address this problem of inequality, also Knight (2014), like the other mentioned researchers, thinks that redistributive policies, subsidies, abolition of agricultural taxes, and educational reforms are essential.

Another interesting study focused on the situation and future projections of the middle class is the one conducted by Barton Dominic with contributions from Remes Jaana, Chen Yougang, Jin

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<sup>161</sup> *Ibid.*, original data from Khan & Riskin (2007)

<sup>162</sup> *Ibid.*, p.6

<sup>163</sup> *Ibid.*

<sup>164</sup> *Ibid.*, p.7

<sup>165</sup> *Ibid.*

<sup>166</sup> *Ibid.*, p.8. Original data from Ravallion and Chen (2007)

<sup>167</sup> *Ibid.*

Amy, and Bush Janet published in 2013. The analysis starts immediately with interesting data that shows the robust increase in the middle class, which in the study is defined as those with annual household disposable income of between RMB60,000 and RMB229,000. According to the data, the percentage of middle-class households in urban areas increased from 4% in 2000 to 68% in 2012, and was expected to reach 76% by 2022 (equal to 630 million, 45% of the entire population).<sup>168</sup> Inequality is characterized by an average urban income per capita which is “roughly triple that in the countryside.”<sup>169</sup> The table below shows the projections of the Chinese social classes in terms of numbers.

| Average annual household income (class)<br>- US\$ |                  | Urban households - Millions |                       |                        |   |
|---|------------------|-----------------------------|-----------------------|------------------------|---|
|   |                  | 100% = 165<br>2002, %       | 100% = 256<br>2012, % | 100% = 357<br>2022E, % | Change in number of<br>households 2002-22, millions |
| Affluent  | >34,000          | 1                           | 3                     | 9                      | 29  |
| Upper middle class                                | 16,000 to 34,000 | 2                           | 14                    | 54                     | 188   |
| Mass middle class                                 | 9,000 to 16,000  | 7                           | 54                    | 22                     | 66  |
| Poor  | <9,000           | 90                          | 29                    | 16                     | -92   |

**Source:** Barton, D. (2013), “*The Rise of the Middle Class in China and Its Impact on the Chinese and World Economies*”, US-China Economic Relations in the Next, 10, 138-148., p.2. **Original data** from: McKinsey Insights China – Macroeconomic model update, April 2012

According to Barton’s analysis, which is in line with the previously mentioned researches, the expansion of the middle class is intrinsically linked with industrialization, urbanization, the increasing number of skilled workers (who contribute to productivity), and the investment of the government in benefits for the population, such as insurance. Barton (2013) does one step forward compared to the previous studies, showing how also the structure of the middle class is changing as well. He identified two subgroups among middle class:

- Mass middle class: people with annual household income of RMB 60 000 to RMB 106 000, equal to US\$ 9 000 to US\$ 16 000.
- Upper middle class: people with annual household income of RMB 106 000 to RMB 229 000, equal to US\$ 16 000 to US \$34 000.

As the above table shows, in 2012 the mass middle class accounted for 54%, as compared to 14% of the upper middle class.<sup>170</sup> By 2022, this proportion was expected to reverse drastically, with the upper middle class accounting for 54% of total urban household and 71% of all middle class

<sup>168</sup> Barton, D. (2013), “*The Rise of the Middle Class in China and Its Impact on the Chinese and World Economies*”, US-China Economic Relations in the Next, 10, 138-148., p.2

<sup>169</sup> *Ibid.*

<sup>170</sup> *Ibid.*, p.3

households.<sup>171</sup> Besides, 56% of urban private consumption and roughly 49% of all private consumption was expected to be generated by the upper middle class, compared to roughly 13% by the mass middle class.<sup>172</sup> To cite Barton, the upper middle class at that time was expected to become “the new mainstream”, and that is what made China a market full with opportunities for businesses, as the difference between the two subgroups lies in the annual household income and the willingness to pay for various products. Another important shift is in the location of the middle class growth. The share of China’s urban middle class living in Tier 1 cities was expected to decrease from 40% in 2002 to 16% in 2022.<sup>173</sup> The share of urban middle class living in Tier 2 and Tier 3 cities was expected to grow respectively from 43% and 15% in 2002 to 45% and 31% in 2022.<sup>174</sup> This implied a decreasing inequality in terms of share of middle class between inland and coastal cities, expected to reach respectively 39% and 61%.<sup>175</sup>

The expansion of the middle class is described as a driver of economic growth, by supporting domestic consumption and private investment.<sup>176</sup> In fact, by 2022 private consumption by China’s middle class was expected to amount to US\$ 2.3 trillion, more than the double of that of 2012, and account for 24% of GDP.<sup>177</sup> Furthermore, another consequence of this expansion is innovation and technological advancement, as Chinese middle class receives better education that provides the skills to boost productivity.<sup>178</sup>

## **2.2.2 The current situation**

The analysis of the research discussed so far set the stage for this chapter, which is focused on the current situation of the Chinese middle class. By analyzing data coming from research published in the years after the break-up of COVID-19 pandemic, this chapter will show if the situation of recent years is in line with the projections of the research discussed earlier. In doing so, it analyses both international and Chinese sources, to see if the two perspectives are consistent.

### **2.2.2.1 The international perspective**

ChinaPower published a study on Chinese middle class based on data of the World Bank and Pew Research Center. Following Pew’s income band classification, China’s middle class has

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<sup>171</sup> Ibid.

<sup>172</sup> Ibid., p.4

<sup>173</sup> Ibid., p.5

<sup>174</sup> Ibid., p.5-6

<sup>175</sup> Ibid., p.6

<sup>176</sup> Ibid., p.7

<sup>177</sup> Ibid.

<sup>178</sup> Ibid.

increased from 39.1 million people (equal to 3.1% of the population) in 2000 to roughly 707 million (equal to 50.8% of the population) in 2018, resulting to be among the fastest-growing in the world.<sup>179</sup> However, inconsistently with the projection of Barton (2013), 68% of China’s middle class is part of the lower-middle class category.<sup>180</sup> Also in this study, inequality is described as one of the negative effects of the expansion of the middle class, “as the benefits of economic growth have not been shared equally throughout Chinese society.”<sup>181</sup> The study show a shift in the Gini coefficient from 32.2 in 1990 to 43.7 in 2010, and to 38.5 in 2016.<sup>182</sup> Despite the decrease, China’s Gini coefficient is still considered to be significant. To address the downsides of the middle class increase, in recent years China’s provinces and municipalities have increased the minimum wage on a regular basis, adopted measures to expand unemployment insurance to migrant workers, and cut taxes.<sup>183</sup>

Huld and Interesse (2023) do a comprehensive analysis of the growth of the middle class, income per capita, and average expenditure per capita in the latest years using data coming from the National Bureau of Statistics (NBS). The table below shows the quintal distribution of disposable income per capita as of 2022.

| Annual Per Capita Disposable Income Quintile Distribution, 2022 |                  |                  |                  |
|---|------------------|------------------|------------------|
| Quintile (20%)  | Total population | Urban population | Rural population |
| Low-income households   | RMB 8,601        | RMB 16,971       | RMB 5,025        |
| Lower-middle-income households                                  | RMB 19,303       | RMB 31,180       | RMB 11,965       |
| Middle-income households  | RMB 30,598       | RMB 44,283       | RMB 17,451       |
| Upper-middle-income households                                  | RMB 47,397       | RMB 61,724       | RMB 24,646       |
| High-income households  | RMB 90,116       | RMB 107,224      | RMB 46,075       |

*Note: Under the quintile income distribution, all surveyed households are arranged from low to high according to the per capita income level, and the averages are divided into five equal groups.  
Source: National Bureau of Statistics.*

**Source:** Huld, A. & Interesse, G. (May 24, 2023), “China’s Middle Class – Growth, Policy, and Consumption”, China Briefing, retrieved from: <https://www.china-briefing.com/news/china-middle-class-growth-policy-and-consumption/> (last access on January 16<sup>th</sup>, 2024). **Original data** from: National Bureau of Statistics.

What emerges is that in 2022, the distribution of disposable income per capita across the three middle population quintiles ranged from RMB 19,303 (approximately US\$ 2,744) to RMB

<sup>179</sup> China Power Team (April 26, 2017), "How Well-off is China’s Middle Class?", China Power. Updated: September 30<sup>th</sup>, 2021. Accessed on: January 15<sup>th</sup>, 2024, retrieved from: <https://chinapower.csis.org/china-middle-class/>

<sup>180</sup> Ibid.

<sup>181</sup> Ibid.

<sup>182</sup> Ibid.

<sup>183</sup> Ibid.

47,397 (approximately US\$ 6,738).<sup>184</sup> China's median disposable income per capita has increased from RMB 15,632 in 2013 to RMB 31,370 in 2022, demonstrating an increase of over twofold; however, the 2022 year-on-year growth rate was equivalent to 4.7%, showing a decrease in the growth rate.<sup>185</sup> The trend of per capita expenditure is in line with the growth of the distribution of disposable income per capita. Indeed, it grew from RMB 13,220 (approximately US\$ 1,879) in 2013 to RMB 24,538 (approximately US\$ 3,488) in 2022, showing almost twofold increase.<sup>186</sup> Besides, also the expenditure growth slowed down in 2022. Data show that both distribution of disposable income per capita and per capita expenditure were hit by the COVID-19 pandemic. However, according to the analysis, this shift is far from indicating a serious downturn in the economy. In fact, citing the *2023 China's Future Consumer Report* by the Boston Consulting Group (BCG), Huld and Interesse show that, during the period between 2022 and 2030, the middle and upper classes are projected to increase by an additional 80 million individuals, 70% of which, notably, will come from third-tier cities or below.<sup>187</sup> By that time, China's middle and upper classes will represent nearly the 40% of the total population, indicating that the population will continue to become wealthier.<sup>188</sup>

Sicular, Yang, and Gustafsson (2021) published an interesting study which analyzes China's middle class in the global stage. The aim of their study is to define the size of China's middle class using international standards so as to compare it with other countries' middle class. The authors used the same criteria for all countries and throughout the whole study period (from 2002 to 2018). They set the cutoff between lower and middle classes at 60% of median income per equivalent person. The cutoff between the middle and the upper classes instead is set at 200% of the median income. Afterwards, they converted the cutoffs into different currencies using purchasing power parity exchange rates for 2018.<sup>189</sup> Below is the size of the middle class along the research period according to the calculations of the authors using the China Household Income Project (CHIP) data.

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<sup>184</sup> Huld, A. & Interesse, G. (May 24, 2023), "*China's Middle Class – Growth, Policy, and Consumption*", China Briefing, retrieved from: <https://www.china-briefing.com/news/china-middle-class-growth-policy-and-consumption/> (last accessed January 16<sup>th</sup>, 2024)

<sup>185</sup> *Ibid.*

<sup>186</sup> *Ibid.*

<sup>187</sup> *Ibid.*, original data from Boston Consulting Group (BCG), *2023 China's Future Consumer Report*

<sup>188</sup> *Ibid.*, original data from Boston Consulting Group (BCG), *2023 China's Future Consumer Report*

<sup>189</sup> Sicular, T., Yang, X., & Gustafsson, B. (2021), "*The Rise of China's Global Middle Class in International Perspective*", IZA - Institute of Labor Economics, p.7-10

|      | Size<br>(millions) | Share of<br>population (%) | Average annual<br>growth in size<br>(%) | Average annual<br>growth of GDP<br>per capita (%) |
|------|--------------------|----------------------------|---|---|
| 2002 | 7.5                | 0.58                       | --                                      | --  |
| 2007 | 26.7               | 2.02                       | 29.1                                    | 11.0  |
| 2013 | 187.9              | 13.81                      | 38.4                                    | 8.6   |
| 2018 | 344.2              | 24.67                      | 12.9                                    | 6.5   |

**Source:** Sicular, T., Yang, X., & Gustafsson, B. (2021), “*The Rise of China’s Global Middle Class in International Perspective*”, IZA - Institute of Labor Economics, p. 24. **Original data** from: Authors’ calculations using the CHIP data with region x urban/rural/migrant population weights; urban and rural consumer price indexes are from <http://www.stats.gov.cn/tjsj/ndsj/2019/indexeh.htm>, and GDP per capita growth rates are from the WDI dataset of the World Bank <https://databank.worldbank.org/home>.

**Note:** Average annual growth of GDP per capita is in constant prices. Here and elsewhere, the authors estimate the sizes and shares of the middle class by counting the numbers of individuals in the survey samples whose household per capita income falls within the middle class cutoffs (with weights). When the authors calculate the share and size of China’s middle class for 2002, 2007 and 2013, they deflate the middle-class income cutoffs separately for urban and rural areas using the urban consumer price index for the urban and migrant samples and using the rural consumer price index for the rural sample.

The growth in China’s global middle class was impressive, expanding from less than 1% in 2002 to almost 25% in 16 years. This growth, however, has not been uniform within society, enhancing inequalities between rural and urban citizens, as shown in the table below.

|      | Urban | Rural | Migrant | All |
|------|-------|-------|---------|-----|
| 2002 | 83.51 | 14.49 | 2.00    | 100 |
| 2007 | 81.96 | 4.03  | 14.01   | 100 |
| 2013 | 80.30 | 6.63  | 13.07   | 100 |
| 2018 | 73.99 | 6.84  | 19.17   | 100 |

**Source:** Sicular, T., Yang, X., & Gustafsson, B. (2021), “*The Rise of China’s Global Middle Class in International Perspective*,” IZA - Institute of Labor Economics, p.24. **Original data** from: Authors’ calculations using the CHIP data, with region x urban/rural/migrant population weights.

**Note:** Urban refers to living in urban areas and having an urban hukou; rural refers to living in rural areas and having a rural hukou; migrant refers to living in urban areas and having a rural hukou.

The extent of the inequalities among urban and rural China are even more visible when comparing the China’s overall middle class and urban China’s overall middle class to high-income countries. The authors show relevant data in the table below.

|              | Lower<br>class (%) | Middle<br>class (%) | Upper<br>class (%) | Size of<br>middle<br>class<br>(mlns) | Median<br>household<br>income per<br>equivalent<br>person (PPP\$) | GDP per<br>capita<br>(PPP\$) |
|--------------|--------------------|---------------------|--------------------|--------------------------------------|---|------------------------------|
| China        | 74.3               | 24.7                | 1.1                | 344.2                                | 23  | 15,614                       |
| China, urban | 60.1               | 38.2                | 1.6                | 320.9                                | 31  | 27,657                       |
| USA          | 9.9                | 55.1                | 35.1               | 179.9                                | 97  | 62,997                       |
| Canada       | 7.0                | 67.5                | 25.6               | 25.0                                 | 89  | 50,078                       |
| Europe       | 20.4               | 68.7                | 11.0               | 337.4                                | --  | 44,466                       |
| Greece       | 52.4               | 46.3                | 1.3                | 5.0                                  | 36  | 29,535                       |
| Poland       | 46.1               | 52.1                | 1.8                | 19.8                                 | 39  | 31,851                       |
| Hungary      | 50.4               | 48.3                | 1.2                | 4.7                                  | 37  | 32,086                       |

**Source:** Sicular, T., Yang, X., & Gustafsson, B. (2021), “*The Rise of China’s Global Middle Class in International*

Perspective,” IZA - Institute of Labor Economics, p.25. **Original data** from: For China, authors’ calculations using the CHIP data, with region x urban/rural/migrant population weights. For other countries, class shares are calculated using LIS individual income data. Growth of mean household income per capita is from the OECD (<https://data.oecd.org/hha/household-disposable-income.htm>). GDP per capita is from the World Development Indicators (WDI) (<https://api.worldbank.org/v2/en/indicator/NY.GDP.PCAP.PP.CD?downloadformat=excel>).

**Note:** All numbers in this table are for 2018; PPP\$ are in 2018 prices. Except for the USA and Mexico, LIS income data are not available for 2018. For these countries the authors estimate the 2018 class shares and median incomes by multiplying the LIS income data from the most recent available year by the growth rate of mean household income per capita between that year and 2018. For Europe the authors combine the 25 European countries for which the LIS gives the needed data (Austria, Belgium, Czech Rep, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Lithuania, Luxembourg, Netherlands, Norway, Poland, Slovakia, Slovenia, Spain, United Kingdom, Denmark, Sweden, Iceland, Serbia, Switzerland). GDP per capita for Europe is the World Development Indicators aggregate for 28 EU member countries.

Although China’s middle class has expanded rapidly, data show that the size is still relatively small as compared to the high-income countries. Besides, another significant difference with high-income countries is that in the case of China, the majority of the remaining population belongs to the lower class. Instead, in North America and some high-income European countries the remainder was largely upper class.<sup>190</sup> However, by examining only the data of urban China, the gap with those countries narrows substantially, especially with countries like Greece, Poland, and Hungary. Besides, according to data shown by the authors, in 2018 China’s middle class was larger than BRICS countries except for Russia.

What emerges from this study is consistent with the other data showed in previous studies: the Chinese middle class continues to expand. A further implication of this study is that, due to its expansion and size, the center of the global middle class will gradually shift towards Asia and the worldwide demand will not be limited to North America and Europe anymore.

Nevertheless, the expansion of the middle class currently has slowed down in recent years, as shown by Chinese data mentioned in the following chapter.

### **2.2.2.2 The Chinese perspective**

Including information and analysis offered by domestic research and official sources is essential when analyzing the development of China’s middle class; as shown in the previous section, international perspectives generally have different criteria to cluster middle class. Therefore, analyzing also the Chinese perspective is useful to obtain more refined data, which are influenced by the different historical background, socio-economic circumstances, and governmental regulations.

In September 2024, Chinese data provider Quest Mobile published the *2024 New Middle Class Insight Report*. The key finding of the report is that the new middle class continued to

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<sup>190</sup> Sicular, T., Yang, X., & Gustafsson, B. (2021), “The Rise of China’s Global Middle Class in International Perspective,” IZA - Institute of Labor Economics, p.11

increase, reaching 257 million people in July 2024, reflecting a year-on-year increase of 4.8%.<sup>191</sup> The reports made by Quest Mobile are generally based on data collected by online users. Therefore, this report might present some limitations and not reflect the actual current situation of the middle class. However, being the mobile phone a ubiquitous tool owned by nearly everyone (especially in a digitally active society like the Chinese one), data collected and shown in this report are faithful to reality and can be considered as consistent with the general trend.

Finding Chinese data about the size of the middle class is not straightforward and easily accessible, as official bodies and institutions do not show clear-cut data regarding the composition and stratification of social classes. However, some official bodies provide other relevant data that are relevant to understanding and having an overall picture of the current situation of the Chinese society in terms of income, expenditure, and inequalities.

According to the *2024 Residents' income and consumption expenditure report*, the per capita disposable income of residents nationwide was 41,314 yuan, showing a nominal increase of 5.3% over the previous year, and a real increase of 5.1% after adjusting for price factors.<sup>192</sup> In particular, the fourth quarter performed better as compared to the first three. Indeed, in the fourth quarter the nominal and real growth rates have somewhat increased respectively by 0.1 and 0.2 percentage points.<sup>193</sup> Even by breaking this data into rural and urban areas, we can notice an increase in the per capita disposable income. Indeed, urban residents' 2024 disposable income was equal to 54,188 yuan, showing a year-on-year growth of 4.6% and a growth of 4.4% after adjusting for price factors.<sup>194</sup> On the other hand, the per capita disposable income of rural residents was 23,119 yuan, showing an increase of 6.6%, and an increase of 6.3% after adjusting for price factors.<sup>195</sup> The report further breaks down the disposable income by income source, namely wage income, net business income, net property income, net transfer income. All these sources registered a rise on a year-on-year basis.<sup>196</sup> This is consistent with data reported by the National Bureau of Statistics concerning Average annual salary of urban employees in the previous year.

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<sup>191</sup> Quest Mobile (September 10th, 2024), "*QuestMobile2024新中产人群洞察报告*" ("2024 New Middle Class Insight Report")

<sup>192</sup> National Bureau of Statistics of China (2025, January 17), *2024年居民收入和消费支出情况* (2024 Residents' income and consumption expenditure situation), National Bureau of Statistics, retrieved from: [https://www.stats.gov.cn/sj/zxfb/202501/t20250117\\_1958325.html](https://www.stats.gov.cn/sj/zxfb/202501/t20250117_1958325.html) (last access on January 21<sup>st</sup>, 2025)

<sup>193</sup> Zhang, Y. (January 17<sup>th</sup>, 2025). "*Residents' income and economic growth sync, residents' consumption expenditure steady growth.*" China Economic Net, retrieved from the National Bureau of Statistics website: [https://www.stats.gov.cn/sj/sjtd/202501/t20250117\\_1958335.html](https://www.stats.gov.cn/sj/sjtd/202501/t20250117_1958335.html) (last access on January 21<sup>st</sup>, 2025)

<sup>194</sup> National Bureau of Statistics of China (2025, January 17), *2024年居民收入和消费支出情况* (2024 Residents' income and consumption expenditure situation), National Bureau of Statistics, retrieved from: [https://www.stats.gov.cn/sj/zxfb/202501/t20250117\\_1958325.html](https://www.stats.gov.cn/sj/zxfb/202501/t20250117_1958325.html) (last access on January 21<sup>st</sup>, 2025)

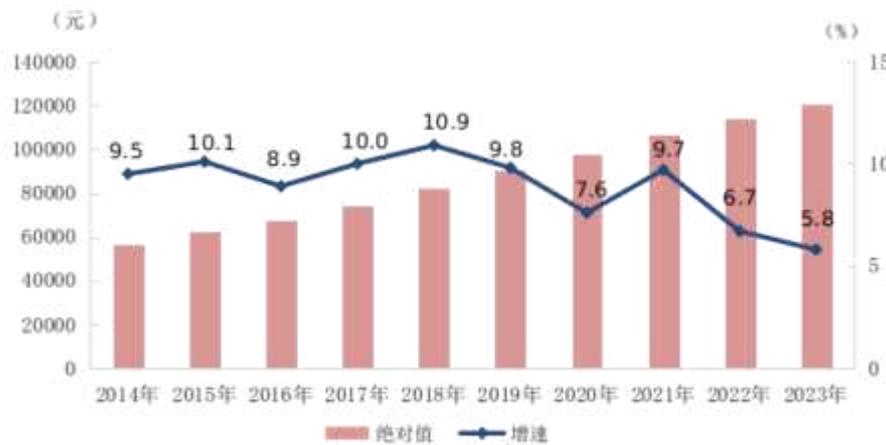
<sup>195</sup> *Ibid.*

<sup>196</sup> *Ibid.*



Average annual salary and growth rate of employees in urban non-private units from 2014 to 2023 (in yuan)

**Source:** National Bureau of Statistics of China, (2024, May 17). “2023年城镇单位就业人员年平均工资情况” ( “Average annual salary of urban employees in 2023 ” ), retrieved from: [https://www.stats.gov.cn/sj/zxfb/202405/t20240520\\_1950434.html](https://www.stats.gov.cn/sj/zxfb/202405/t20240520_1950434.html) (last access on January 21<sup>st</sup>, 2025)



Average annual salary and growth rate of employees in urban private units from 2014 to 2023 (in yuan)

**Source:** National Bureau of Statistics of China, (2024, May 17). “2023年城镇单位就业人员年平均工资情况” ( “Average annual salary of urban employees in 2023 ” ), retrieved from: [https://www.stats.gov.cn/sj/zxfb/202405/t20240520\\_1950434.html](https://www.stats.gov.cn/sj/zxfb/202405/t20240520_1950434.html) (last access on January 21<sup>st</sup>, 2025)

The average annual salary of employees in both urban private and non-private units, despite slowing down the growth pace, nonetheless is expanding. As stated in the *Report 19 on the Series on the Achievements of 75 Years of Economic and Social Development of New China*, the struggles of the Government have been very effective in improving people’s living standards since the launch of the Reform and Opening Up. In fact, in 1978, the average wage of employees in urban non-private sectors was 615 yuan, while the per capita disposable income of urban people was 343 yuan; by 2023, the average salary of employees in urban non-private sectors attained 120,698 yuan, while the per capita disposable income of urban people reached 51,821 yuan.<sup>197</sup> Furthermore, between

<sup>197</sup> National Bureau of Statistics of China (NBS), (2024, September 23). “沧桑巨变换新颜 城市发展启新篇——新 中国75年经济社会发展成就系列报告之十九” (“Tremendous Changes Bring New Faces, Urban Development Opens a New Chapter — Report 19 on the Series on the Achievements of 75 Years of Economic and Social Development of New China”). Retrieved from: [https://www.stats.gov.cn/sj/sjjd/202409/t20240923\\_1956628.html](https://www.stats.gov.cn/sj/sjjd/202409/t20240923_1956628.html) (last access on

2013 and 2023, more than 140 million new urban jobs were generated, while unemployment rate was kept below 5.5% during all years, with the exception of 2020 and 2022 which were hit by the COVID-19 pandemic.<sup>198</sup> In 2024, generally employment remained stable, with the average urban unemployment rate equal to 5.1%, showing a 0.1% decrease compared to the previous year.<sup>199</sup>

The increase in the per capita disposable income is a positive sign; however, the gap between urban and rural residents continues to be significant, as shown also by the analysis of the median per capita disposable income.<sup>200</sup> In 2024, the national median per capita disposable income of residents was 34,707 yuan, showing a growth of 5.1%, and the median was 84.0% of the average. The median per capita disposable income of urban residents was 49,302 yuan, up to 4.6% of increase, and the median was 91.0% of the average; instead, the median per capita disposable income of rural residents was 19,605 yuan, showing the same growth rate (up to 4.6%), yet a lower proportion on the average income (84.8%).<sup>201</sup> These data suggest that a significant portion of the population earns less than the average income. Besides, inequalities continue to persist within society, especially in rural areas. This is proved also by data shown in the China Statistical Yearbook 2024. The tables below show per capita disposable income respectively of urban and rural households by income quintile.

| Group                  | 2017  | 2018  | 2019  | 2020  | 2021   | 2022   | 2023   |
|------------------------|-------|-------|-------|-------|--------|--------|--------|
| Lowest 20% Households  | 13723 | 14387 | 15549 | 15598 | 16746  | 16971  | 17478  |
| Second 20% Households  | 24550 | 24857 | 26784 | 27501 | 30133  | 31180  | 32202  |
| Third 20% Households   | 33781 | 35196 | 37876 | 39278 | 42498  | 44283  | 46276  |
| Fourth 20% Households  | 45163 | 49174 | 52907 | 54910 | 59005  | 61724  | 65430  |
| Highest 20% Households | 77097 | 84907 | 91683 | 96062 | 102596 | 107224 | 110639 |

**Source:** National Bureau of Statistics of China (NBS), *China Statistical Yearbook 2024*, section 6-7: “Per Capita Disposable Income of Urban Households by Income Quintile” (expressed in yuan), retrieved from: <https://www.stats.gov.cn/sj/ndsjs/2024/indexeh.htm> (last access on February 9<sup>th</sup>, 2025)

January 21<sup>st</sup>, 2025)

<sup>198</sup> *Ibid.*

<sup>199</sup> Zhang, Y. (January 17<sup>th</sup>, 2025). “Residents’ income and economic growth sync, residents’ consumption expenditure steady growth.” China Economic Net, retrieved from the National Bureau of Statistics website: [https://www.stats.gov.cn/sj/sjtd/202501/t20250117\\_1958335.html](https://www.stats.gov.cn/sj/sjtd/202501/t20250117_1958335.html) (last access on January 21<sup>st</sup>, 2025)

<sup>200</sup> “Average” or “mean” income “measures collective incomes across a population. It is useful and easy to calculate but can be skewed higher by extremely high outlier incomes at the top end.

Median arranges incomes from lowest to highest, then identifies the middlemost income where an equal number fall above and below. This eliminates the outsized influence of outliers.” [Conde, A. (Ed.), (2023, November 30), “What is the meaning of median vs. average income?”, SmartReads/Personal Finance, retrieved from: <https://www.smartreads.com/what-is-the-meaning-of-median-vs-average-income> (last access on January 21<sup>st</sup>, 2025)]

<sup>201</sup> National Bureau of Statistics of China (2025, January 17), *2024年居民收入和消费支出情况* (2024 Residents’ income and consumption expenditure situation), National Bureau of Statistics, retrieved at [https://www.stats.gov.cn/sj/zxfb/202501/t20250117\\_1958325.html](https://www.stats.gov.cn/sj/zxfb/202501/t20250117_1958325.html) (last access on January 21<sup>st</sup>, 2025)

| Group                  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  |
|------------------------|-------|-------|-------|-------|-------|-------|-------|
| Lowest 20% Households  | 3302  | 3666  | 4263  | 4681  | 4856  | 5025  | 5264  |
| Second 20% Households  | 8349  | 8508  | 9754  | 10392 | 11586 | 11965 | 12864 |
| Third 20% Households   | 11978 | 12530 | 13984 | 14712 | 16546 | 17451 | 18479 |
| Fourth 20% Households  | 16944 | 18051 | 19732 | 20884 | 23167 | 24646 | 25981 |
| Highest 20% Households | 31299 | 34043 | 36049 | 38520 | 43082 | 46075 | 50136 |

**Source:** National Bureau of Statistics of China (NBS), *China Statistical Yearbook 2024*, section 6-12: “Per Capita Disposable Income of Rural Households by Income Quintile” (expressed in yuan), retrieved from: <https://www.stats.gov.cn/sj/ndsj/2024/indexeh.htm> (last access on February 9<sup>th</sup>, 2025)

The per capita disposable income of both urban and rural households show a great economic stratification within society.

From 2017 to 2023, the highest quintile of urban households experienced a much larger absolute and percentage increase as compared to the lowest. Indeed, the former showed 43.51% of increase, the latter instead showed only 27.36% of increase. Moreover, in 2017 the richest group earned roughly 5.6 times more than the lowest. This gap increased to 6.3 times in 2023, meaning that the income gap among urban income groups has widened over time.

Per capita disposable income of rural households by income quintile instead showed a different trend, though still a wide income gap among income quintiles. In 2017 the ratio between the highest income quintile and the lowest was roughly 9.5. In 2023, the ratio resulted again roughly 9.5, meaning that the income gap has persisted over time. Indeed, the disposable income growth of the highest quintile (60.18%) was slightly larger than that of the lowest quintile (59.41%). What’s worth noting is that in 2023 the per capita disposable income of highest income quintile was almost twofold the per capita disposable income of the fourth income quintile.

Nevertheless, according to data shown by Zhang Yi (2025), the gap between urban and rural areas is narrowing, as the income growth of rural residents continued to be faster than that of urban residents. Indeed, the nominal and real growth rate of the per capita disposable income of urban residents were respectively 4.6% and 4.4%; instead, the nominal and real growth rate of the per capita disposable income of rural residents were respectively 6.6% and 6.3%, which means they are respectively 2.0% and 1.9% faster than urban rates.<sup>202</sup> As a result, the ratio between the income of urban and rural residents dropped from 2,39 to 2,34.<sup>203</sup>

<sup>202</sup> Zhang, Y. (January 17<sup>th</sup>, 2025). “Residents’ income and economic growth sync, residents’ consumption expenditure steady growth.” China Economic Net, retrieved from the National Bureau of Statistics website: [https://www.stats.gov.cn/sj/sjtd/202501/t20250117\\_1958335.html](https://www.stats.gov.cn/sj/sjtd/202501/t20250117_1958335.html) (last access on January 21<sup>st</sup>, 2025)

<sup>203</sup> Ibid.

## **Chapter Three**

### **Redefining “Made in China”**

## Chapter Three: Redefining “Made in China”

### 3.1 Economic policies

China’s real GDP growth dropped dramatically as its economy matured, from 14.2% in 2007 to 6.6% in 2018,<sup>204</sup> to 5.4% in 2024.<sup>205</sup> Despite meeting the official target of 2024 and showing a slight increase as compared to the period hit by the COVID-19 pandemic, this decrease is yet significant. However, the Chinese government has set this slower economic growth as the new standard, emphasizing the commitment of the government to shift towards a new growth model that relies less on fixed investment and exporting, and more on private consumption, services, and innovation to drive economic growth.<sup>206</sup> This is necessary to avoid the “middle-income trap”, which leads countries to diminishing economic growth rates due to their inability to embrace new sources of economic progress, such as innovation. Being aware of the economic challenges the country is facing, the leadership is committed to address these by implementing policies aimed at increasing the role of the market in the economy, boost innovation, and make consumer spending the driving force of the economy.<sup>207</sup> Hence, the Chinese government in 2015 launched the “Made in China” initiative. The goals of this project are to make Chinese industries more competitive, promote Chinese brands, increase innovation, and lower China’s reliance on foreign technology.<sup>208</sup> In order to achieve this, the government promised to give assistance to ten key sectors: new generation information technology, new energy and energy-saving vehicles, high-end computerized machines and robotics, energy equipment, aerospace, agricultural machines, maritime equipment and high-tech ships, new materials, advanced railway transportation equipment, biopharma and high-tech medical devices.<sup>209</sup>

The focus on domestic and consumer market is explicit in the *Outline of the 14th Five-Year Plan (2021-2025) for National Economic and Social Development and Vision 2035 of the People's Republic of China*. Indeed, one of the main objectives of the Chinese Communist Party is to

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<sup>204</sup> Morrison, W. M. (last updated in June 25<sup>th</sup>, 2019), “*China’s Economic Rise: History, Trends, Challenges, and Implications for the United States*”, Congressional Research Service, Summary

<sup>205</sup> Statista, “*Quarterly gross domestic product (GDP) growth rate in China from 4th quarter 2021 to 4th quarter 2024*”, Economy & Politics, Economy, retrieved from <https://www.statista.com/statistics/271769/quarterly-gross-domestic-product-gdp-growth-rate-in-china/> (last access on January 22<sup>nd</sup>, 2025)

<sup>206</sup> Morrison, W. M. (last updated in June 25<sup>th</sup>, 2019), “*China’s Economic Rise: History, Trends, Challenges, and Implications for the United States*”, Congressional Research Service, Summary

<sup>207</sup> *Ibid.*, p.1

<sup>208</sup> *Ibid.*, Summary

<sup>209</sup> Congressional Research Service (updated December 12<sup>th</sup>, 2024), “*Made in China 2025 and Industrial Policies: Issues for Congress*”, retrieved from: <https://crsreports.congress.gov/product/pdf/IF/IF10964> (last access January 24<sup>th</sup>, 2025)

establish “A Robust Domestic Market and a New Development Paradigm.” As we can read in Chapter 12: “*More reliance on the strong domestic market, and more seamless connection of economic processes, such as production, distribution, circulation, and consumption, will help remove impediments to rational flows of factors of production, and contribute to supply-demand equilibrium, conducive to creating a virtuous economic circle.*”<sup>210</sup> Subsequently, Chapter 14 states: “*Strategies to expand domestic demand will be implemented to enhance the role of consumption in economic growth and allow investment to play a key role in improving the supply structure. This shift is expected to lead to a stronger domestic market and stronger demand for consumption and investment.*”<sup>211</sup> First of all, both central and local authorities are committed to improving the quality of product and services, and to establishing a positive consumption environment by introducing policies and initiatives.<sup>212</sup> Other policies were introduced to protect consumer rights and foster consumer confidence, such as the establishment of product quality and safety regulations.<sup>213</sup> This way unsafe products were removed from the market and it was made sure that consumers could buy only good quality products. Finally, in 2008 the government issued the State Administration for Market Regulation (SAMR), an authority in charge of market regulation and enforcement.<sup>214</sup>

However, boosting the domestic market doesn’t imply excluding the overseas one. In fact, the Chinese leadership is committed to shift towards a “dual circulation” development paradigm which gives relevance both to domestic and overseas market, either by bringing in foreign investments or investing in foreign countries.<sup>215</sup> This is not possible to achieve without addressing some issues and challenges that shape China’s economy and society, like narrowing inequalities within society, developing human capital, fostering innovation, research, and development across industries, and so on. Improving people’s living standards has always been an objective of the Chinese leadership, since the Mao era with the pursuit of a modest prosperity (小康 *Xiaokang*). In a document published by the National Development and Reform Commission in 2021, the expansion of the middle class is described as the key to reach “common prosperity” (共同富裕 *gongtong fuyu*).

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<sup>210</sup> The People’s Government of Fujian Province (August 9<sup>th</sup>, 2021), “*Outline of the 14th Five-Year Plan (2021-2025) for National Economic and Social Development and Vision 2035 of the People’s Republic of China*”, retrieved from: [https://www.fujian.gov.cn/english/news/202108/t20210809\\_5665713.htm#C3](https://www.fujian.gov.cn/english/news/202108/t20210809_5665713.htm#C3) (last access on January 23<sup>rd</sup>, 2025), see Chapter 12

<sup>211</sup> *Ibid.*, see Chapter 14

<sup>212</sup> Huld, A. & Interesse, G. (May 24, 2023), “*China’s Middle Class – Growth, Policy, and Consumption*”, China Briefing, retrieved at: <https://www.china-briefing.com/news/china-middle-class-growth-policy-and-consumption/> (last access on January 24<sup>th</sup>, 2024)

<sup>213</sup> *Ibid.*

<sup>214</sup> *Ibid.*

<sup>215</sup> The People’s Government of Fujian Province (August 9<sup>th</sup>, 2021), “*Outline of the 14th Five-Year Plan (2021-2025) for National Economic and Social Development and Vision 2035 of the People’s Republic of China*”, retrieved from: [https://www.fujian.gov.cn/english/news/202108/t20210809\\_5665713.htm#C3](https://www.fujian.gov.cn/english/news/202108/t20210809_5665713.htm#C3) (last access on January 23<sup>rd</sup>, 2025), see chapter 12-13

The brief indeed starts by showing China's situation at that time: a country where Gini coefficient of residents' income amounts around 0.46 and middle-income group represents less than 40% of the total population.<sup>216</sup> This is represented as China having a “dumbbell” income distribution structure (哑铃型分配结构 *Yalingxing fenpei jiegou*), with a high amount of people having low and high income, and a few belonging to the middle-income group. Therefore, the objective is to expand the middle class and transition to a “olive-shaped” distribution structure (橄榄型分配结构 *Ganlanxing fenpei jiegou*).<sup>217</sup> In fact, as emerged from the *10th Meeting of the Central Financial and Economic Commission* held on August 17<sup>th</sup>, 2021, the plan of the leadership was to "expand the proportion of middle-income groups, increase the income of low-income groups, reasonably adjust high incomes, ban illegal incomes, and form an olive-shaped distribution structure with a large middle and small ends."<sup>218</sup> This is due to the fact that, even though in 2017 China's middle-income group became the largest middle-income group globally by exceeding 400 million people,<sup>219</sup> it still accounts for 30% of the total Chinese population (at that time, 1.4 billion people).<sup>220</sup> To expand the middle class, the brief suggests focusing on addressing issues like upward mobility, rural poverty, migrant workers, and elderly groups so that large portions of population can potentially elevate their status and join upper classes.<sup>221</sup> Finally, the brief also mentions Han Wenxiu (at that time, deputy director of the Central Financial and Economic Affairs Commission in charge of daily work), who thought that attaining common prosperity entails rewarding innovation and hard work, allowing some people get richer first, and encouraging wealth transfer to help others.<sup>222</sup> Furthermore, referring to the division in four stages of economic development by Michael Porter,<sup>223</sup> the document states that Cai Fang (key figure of the Chinese Academy of Social Sciences) claims that until 2035 China will be in the third and fourth stages, meaning that the country needs to combine innovation and wealth driven

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<sup>216</sup> 中华人民共和国国家发展和改革委员会 (National Development and Reform Commission), (September 24<sup>th</sup>, 2021), “中国中等收入群体已超4亿 中等收入大军如何“扩群”” (“China's middle-income group exceeds 400 million: How to further “expand the middle-income group””), Employment Department report, retrieved from: [https://www.ndrc.gov.cn/fggz/jyysr/jysrsbxf/202109/t20210924\\_1297381\\_ext.html](https://www.ndrc.gov.cn/fggz/jyysr/jysrsbxf/202109/t20210924_1297381_ext.html) (last access on January 23<sup>rd</sup>, 2025)

<sup>217</sup> *Ibid.*

<sup>218</sup> *Ibid.*

<sup>219</sup> The standard used for the middle-income group is three-people households with annual income between 100,000 yuan and 500,000 yuan.

<sup>220</sup> 中华人民共和国国家发展和改革委员会 (National Development and Reform Commission), (September 24<sup>th</sup>, 2021), “中国中等收入群体已超4亿 中等收入大军如何“扩群”” (“China's middle-income group exceeds 400 million: How to further “expand the middle-income group””), Employment Department report, retrieved from: [https://www.ndrc.gov.cn/fggz/jyysr/jysrsbxf/202109/t20210924\\_1297381\\_ext.html](https://www.ndrc.gov.cn/fggz/jyysr/jysrsbxf/202109/t20210924_1297381_ext.html) (last access on: January 23<sup>rd</sup>, 2025). Original source: National Bureau of Statistics.

<sup>221</sup> *Ibid.*

<sup>222</sup> *Ibid.*

<sup>223</sup> The first stage is factor-driven, relying on resources and labor; the second stage is investment-driven, with large-scale capital investment in coordination with resources; the third stage is innovation-driven, relying on technology and productivity improvement; the fourth stage is wealth-driven.

development.<sup>224</sup> Innovation needs to be achieved through the implementation of policies to strengthen social security, education, and rural development and to foster the growth of human capital by improving the skills of the population.

### 3.2 Impact of the strategy

Naturally, this newly adopted strategy had some consequences in the economic development of the country. The struggle of the leadership to achieve self-sufficiency by boosting domestic market has deeply impacted the nature of the imports and exports of the country, which changed dramatically



especially after the pandemic era.

Data: Export and Import growth decline in the post pandemic era; decrease of China’s exports to other regions.

**Source:** Dong, J., Xia, L. (September 12<sup>th</sup>, 2023), “China. Structural change of China’s international trade: “forced” imports substitution industrialization”, BBVA Research, Regional Analysis China. **Original source** from: BBVA Research and CEIC

As shown in the figures above, China has experienced a significant decrease both in terms of exports and imports. According to the report by BBVA Research, China economy is undergoing a “forced” Import Substitution Industrialization (ISI).<sup>225</sup> As during the Maoist era, China is now trying to reduce its foreign dependency by enhancing domestic production. However, according to this analysis, unlike in the past, this strategy is forced by US-China trade war and technology war, geopolitics, and weak external demand.<sup>226</sup> The most remarkable aspect, however, is that what is

<sup>224</sup> 中华人民共和国国家发展和改革委员会 (National Development and Reform Commission), (September 24th, 2021), “中国中等收入群体已超4亿 中等收入大军如何“扩群”” (“China’s middle-income group exceeds 400 million: How to further “expand the middle-income group””), Employment Department report, retrieved from: [https://www.ndrc.gov.cn/fggz/jyysr/jysrsbxf/202109/t20210924\\_1297381\\_ext.html](https://www.ndrc.gov.cn/fggz/jyysr/jysrsbxf/202109/t20210924_1297381_ext.html) (last access on: January 23rd, 2025)

<sup>225</sup> Dong, J., Xia, L. (September 12<sup>th</sup>, 2023), “China. Structural change of China’s international trade: “forced” imports substitution industrialization”, BBVA Research, Regional Analysis China, p.1

<sup>226</sup> *Ibid.*, p.2

being exported and imported changed deeply. The main changes highlighted by the report published by BBVA Research are summarized in the following points:

- Imports of large amounts of commodities and agricultural products continue, but imports of high-tech intermediate goods and high-tech final goods decreased.<sup>227</sup>
- More raw materials started to be imported, but less refined commodities are being imported.<sup>228</sup>
- More high-tech related products (especially, China's Electric Vehicles) are being exported.<sup>229</sup>
- Lower-end manufacturing exports are dramatically decreasing, while higher-end manufacturing are increasing.<sup>230</sup>

This is the evidence that China is committed to pursue technological innovation and advancements in order to avoid dependency from other countries' technology and become self-sufficient. China in the last years has significantly increased the quality of its exports. In the past, the country was considered "The World's Factory" due to its low-cost labor market and high volumes of exports. However, high volumes of lower-end manufacturing exports led the "Made-in-China" label to gain a negative meaning; products made in China have been a synonym of low quality for a long time. The recent development in China's R&D and improvement in Chinese exports have enabled Chinese products to demolish the negative country-of-origin effect it used to have in the past, and gain a synonym of high quality and advanced features. This was made possible also thanks to the "Made In China 2025" plan which set the goal for companies to spend 1,68% of their total revenue on R&D (in 2015 it amounted less than 1%) and to apply for more patents.<sup>231</sup>

By the beginning of the 2025, China showed strong performances in meeting the Government's objectives. Indeed, the country has emerged as a leader in some manufacturing (e.g. solar panels, electric vehicles, drones) and heavy industry (e.g., shipbuilding and high-speed rail) sectors.<sup>232</sup> Nevertheless, the plan proved mostly ineffective in other sectors, such as commercial aviation, where China continues to depend on Western supply, and semiconductor production, where China so far has been able to produce only mid-level chips.<sup>233</sup>

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<sup>227</sup> *Ibid.*

<sup>228</sup> *Ibid.*

<sup>229</sup> *Ibid.*, p.4

<sup>230</sup> *Ibid.*, p.4-5

<sup>231</sup> The Economist (January 16<sup>th</sup>, 2025), "*An initiative so feared that China has stopped saying its name*", China, The Economist, retrieved from: <https://www.economist.com/china/2025/01/16/an-initiative-so-feared-that-china-has-stopped-saying-its-name> (last access on January 27<sup>th</sup>, 2025)

<sup>232</sup> Congressional Research Service (updated December 12<sup>th</sup>, 2024), "*Made in China 2025 and Industrial Policies: Issues for Congress*", retrieved from: <https://crsreports.congress.gov/product/pdf/IF/IF10964> (last access January 24<sup>th</sup>, 2025)

<sup>233</sup> The Economist (January 16<sup>th</sup>, 2025), "*An initiative so feared that China has stopped saying its name*", China, The

Generally, the “Made in China 2025” plan seems to have brought good results. However, the overall picture changes if the fiscal expense is taken into account. As reported by The Economist, according to the Centre for Strategic and International Studies, the expenditure on industrial policy between 2017 and 2019 surpasses 1,7% of the GDP.<sup>234</sup>

As shown, the economic slowdown has spurred the Chinese leadership to embrace a new kind of development and growth, which thus far has been effective in some industries. However, on the other hand, some observers argue that these new policies and strategies have failed to encourage the population and help them maintain a sense of confidence and optimism, especially within the middle class, as claimed by NBC News. The article states: “*The [economic] slowdown means middle-class Chinese can no longer assume continuous economic gains or that their children’s quality of life will be better than theirs.*”<sup>235</sup> As the article shows, according to Scott Kennedy (senior adviser and trustee chair in Chinese business and economics at the Center for Strategic and International Studies), China’s stronger economic numbers have no effect in improving the public mood—which remains anxious—and the main responsibility for this is attributed to the long isolation due to the COVID-19 pandemic. Among the different industries, real estate is one of those who is currently suffering the most, and this is significant, as it’s the main asset for numerous households.<sup>236</sup> Another even more analysis is the one made by Forbes. Based on data provided by the Finance Ministry report on Beijing’s income tax revenues, in January and February 2024 personal income tax receipts experienced 16% decrease as compared to prior year levels.<sup>237</sup> Given that individuals earning less than 100,000 yuan a year typically are exempt from paying taxes, this decrease reflects an increase of household earning below this level. Consequently, since 100,000 yuan represents the lower end of the middle class according to the Chinese definition, this shift is consistent with a decrease of the middle-class group.<sup>238</sup>

Therefore, the “Made in China 2025” has been effective in boosting development in some fields. Nevertheless, the improvement in people’s living standard apparently didn’t keep pace with it. As a consequence, the domestic market didn’t experience the growth the leadership was aspiring to. The analysis made by the Economist argues that a different policy mix could have spurred greater

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Economist, retrieved from: <https://www.economist.com/china/2025/01/16/an-initiative-so-feared-that-china-has-stopped-saying-its-name> (last access on January 27<sup>th</sup>, 2025)

<sup>234</sup> *Ibid.*

<sup>235</sup> Mackey Frayer, J., & Jett, J. (April 10<sup>th</sup>, 2024), “*As China’s economy falters, so does middle-class confidence*”, NBC News, retrieved from: <https://www.nbcnews.com/news/world/china-economy-falters-middle-class-confidence-xi-business-rcna145809> (last accessed on January 26<sup>th</sup>, 2025)

<sup>236</sup> *Ibid.*

<sup>237</sup> Ezrati, M. (2024, June 7), “*China’s middle class is disappearing*”, Forbes, retrieved from: <https://www.forbes.com/sites/miltonezrati/2024/06/07/chinas-middle-class-is-disappearing/> (last access on January 26<sup>th</sup>, 2025)

<sup>238</sup> *Ibid.*

spending and efficient services, instead of capital spending and manufacturing power like the plan did. As stated in the article: *“As people grow richer, they devote a higher share of their budgets to education, health and recreation rather than manufactured clutter. Stronger consumer spending would, therefore, have been a boon to China’s service firms, which account for the majority of employment. That, in turn, might have bolstered the labour market and created more of the kinds of jobs that China’s millions of university graduates are equipped to fill.”*<sup>239</sup> According to this analysis, in fact, the supply of Chinese factories is currently too large as compared to the domestic demand, leading China to export the “surplus” of goods produced.<sup>240</sup> Moreover, as reported by the NBC News, in February 2024 the savings rate hit the highest peak, while consumer confidence is close to a record low.<sup>241</sup>

These analyses are not in line with the Chinese perspective, since official figures tend to show a more positive view regarding domestic consumption and expenditure. Indeed, as reported by the NBS, in 2024, the per capita consumption expenditure of the national residents was 28,227 yuan, showing a nominal increase of 5.3% year-over-year, and a real increase of 5.1% after adjusting for price factors. Consumption expenditure shows an increase even by breaking down the above data into rural and urban expenditure:

- the per capita consumption expenditure of urban residents was 34,557 yuan, showing an increase of 4.7% year-over-year, and a real increase of 4.5% after adjusting for price factors;
- the per capita consumption expenditure of rural residents was 19,280 yuan, an increase of 6.1% YoY, and a real increase of 5.8% after adjusting for price factors.<sup>242</sup>

Also by further breaking down the data into the main sectors, the 2024 results are consistent with a growth on a YoY basis. Below is the list of the growth rates of the per capita consumption expenditure of the various sectors in 2024 according to data reported by the National Bureau of Statistics:<sup>243</sup>

- Food, tobacco and alcohol: 8,411 yuan, an increase of 5.4%.
- Clothing: 1,521 yuan, an increase of 2.8%.
- Housing: 6,263 yuan, an increase of 2.8%.

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<sup>239</sup> The Economist (January 16<sup>th</sup>, 2025), *“An initiative so feared that China has stopped saying its name”*, China, The Economist, retrieved from: <https://www.economist.com/china/2025/01/16/an-initiative-so-feared-that-china-has-stopped-saying-its-name> (last access on January 27<sup>th</sup>, 2025)

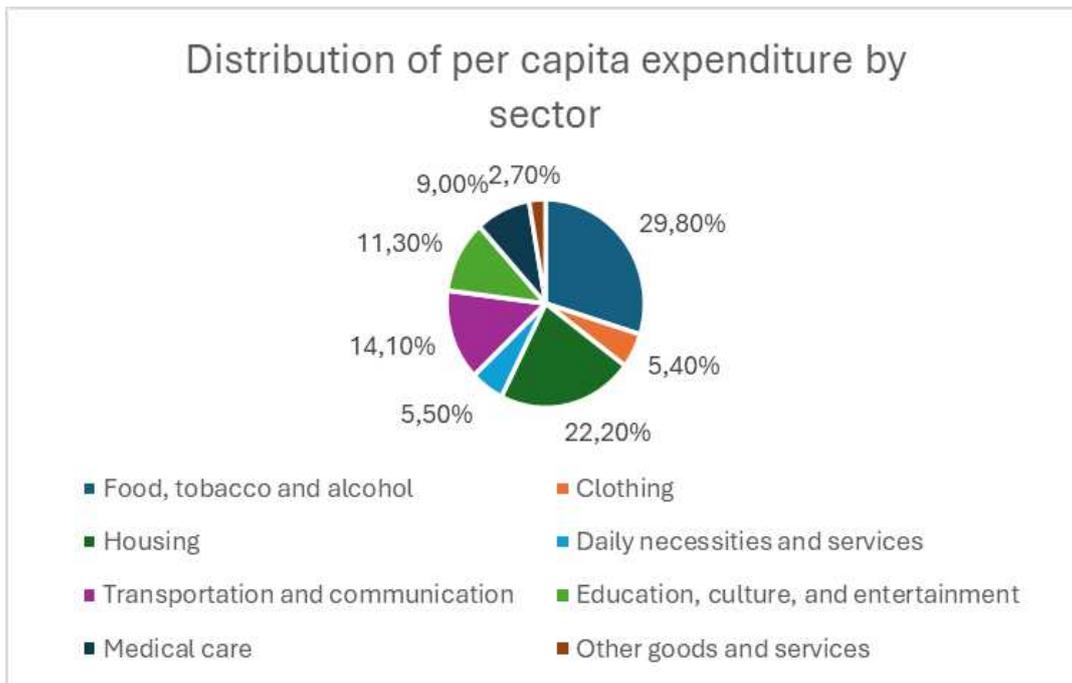
<sup>240</sup> *Ibid.*

<sup>241</sup> Mackey Frayer, J., & Jett, J. (April 10<sup>th</sup>, 2024), *“As China’s economy falters, so does middle-class confidence”*, NBC News, retrieved from: <https://www.nbcnews.com/news/world/china-economy-falters-middle-class-confidence-xi-business-rcna145809> (last accessed on January 26<sup>th</sup>, 2025)

<sup>242</sup> National Bureau of Statistics of China (NBS), (2025, January 17). *“2024年居民收入和消费支出情况”* (“2024 Residents’ income and consumption expenditure situation”), National Bureau of Statistics, retrieved at [https://www.stats.gov.cn/sj/zxfb/202501/t20250117\\_1958325.html](https://www.stats.gov.cn/sj/zxfb/202501/t20250117_1958325.html) (last access on January 21<sup>st</sup>, 2025)

<sup>243</sup> *Ibid.*

- Daily necessities and services: 1,547 yuan, an increase of 1.4%.
- Transportation and communication: 3,976 yuan, an increase of 8.9%.
- Education, culture and entertainment: 3,189 yuan, an increase of 9.8%.
- Medical care: 2,547 yuan, an increase of 3.6%.
- Other goods and services: 773 yuan, an increase of 10.8%.



**Source:** National Bureau of Statistics of China (NBS), (2025, January 17). “2024 年居民收入和消费支出情况” (“2024 Residents’ income and consumption expenditure situation”), National Bureau of Statistics, retrieved at [https://www.stats.gov.cn/sj/zxfb/202501/t20250117\\_1958325.html](https://www.stats.gov.cn/sj/zxfb/202501/t20250117_1958325.html) (last access on January 21<sup>st</sup>, 2025)

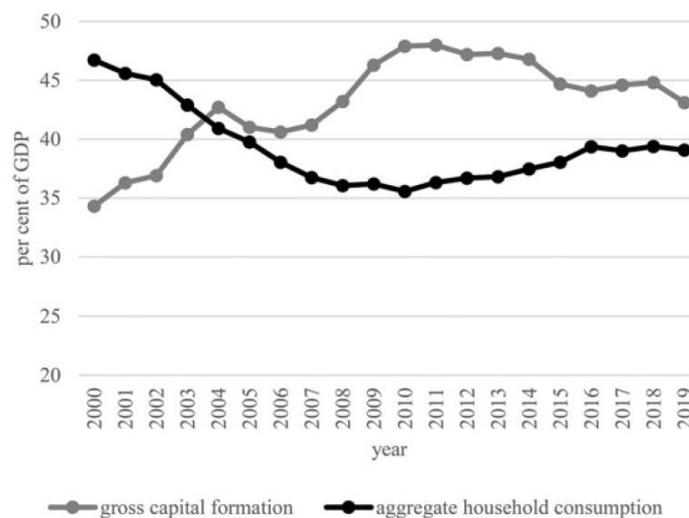
Also the service consumption expenditure increased in 2024. Indeed, as reported by Zhang Yi (director of the Household Survey Department of the National Bureau of Statistics), in 2024, the national per capita service consumption expenditure accounted for 13,016 yuan, showing an increase of 7.4% over the previous year.<sup>244</sup> However, he also pointed out that the household income growth is under pressure, meaning that earning more money is a challenge; besides, even though consumer spending increased, the growth rate has slowed down.<sup>245</sup> Hence, employment, household income, and promotion of consumption should be addressed by the government. Moreover, despite the increase of the per capita expenditure might seem a positive indicator, it still presents some limitations. For example, it is essential to analyze which income group is responsible for driving

<sup>244</sup> Zhang, Y. (January 17<sup>th</sup>, 2025), “Residents’ income and economic growth sync, residents’ consumption expenditure steady growth,” China Economic Net, retrieved from the National Bureau of Statistics website: [https://www.stats.gov.cn/sj/sjtd/202501/t20250117\\_1958335.html](https://www.stats.gov.cn/sj/sjtd/202501/t20250117_1958335.html) (last access on January 21<sup>st</sup>, 2025)

<sup>245</sup> *Ibid.*

this growth; if it is caused by upper classes or low income groups (buying lower-end products), it follows that middle class doesn't play a significant role in shaping the consumption growth, meaning that the policies to reinforce middle class did not have the desired effect. Another key point is that, in the face of real expenditure growth, if wages are not increasing at the same rate, the actual financial burden on the population is relevant. Ultimately, it is essential to analyze and assess if the consumption growth achieved thus far has a crucial role in driving economic growth.

A study conducted by Yang, Sicular, and Gustafsson (2024) analyzes the impact of consumption on economic growth during the period between 2000 and 2019 (because the period hit by the COVID-19 pandemic doesn't represent long-term trends as they were marked by exceptional economic conditions). Firstly, the study provides a macroeconomic picture based on statistics published by the National Bureau of Statistics. The figure below shows the shares in GDP of gross capital formation and aggregate household consumption from 2000 to 2019:

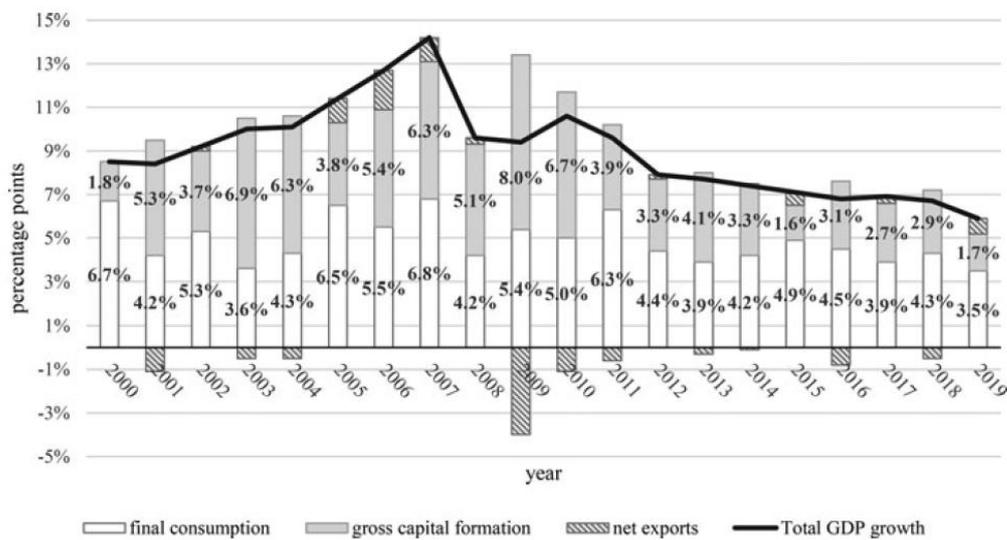


**Source:** Yang, X., Sicular, T., & Gustafsson, B. (2024), “China’s prosperous middle class and consumption-led economic growth: Lessons from household survey data”, *The China Quarterly*, 258, 479–494. <https://doi.org/10.1017/S0305741023001261>, p.482. **Original data** from: NBS 2021

Despite continuous fluctuations, throughout this period the gross capital formation always accounted for high shares. Indeed, middle and upper-middle countries generally are characterized by shares of gross capital formation between 15 and 30 percent. As shown by the graph above, China started with a share of 34% in 2000, and, starting from 2003, it always accounted for less than 40%, despite some fluctuations. Shares of aggregate household consumption instead were very low. In fact, starting from 2006, the share was always under 40%. Generally, the share of the household consumption in other upper-middle income countries is above 65% and rarely drops

below 50%.<sup>246</sup> Starting from 2010, data seem to show a rebalancing, but it's not the case. First of all, China's investment share in GDP should have decreased even more to below its high level before the global financial crisis, but this didn't happen.<sup>247</sup> Second, rebalancing would need a steady increase in the GDP share of household consumption.<sup>248</sup> This is not evident from the statistics. After 2016, the consumption share stalled at a level significantly lower than before the global financial crisis, although it had recovered from its lowest points during the crisis.

The table below instead shows the contributions of growth in consumption, gross capital formation, and change in net exports to China's overall GDP growth according to data coming from the NBS.



**Source:** Yang, X., Sicular, T., & Gustafsson, B. (2024), “China’s prosperous middle class and consumption-led economic growth: Lessons from household survey data”, *The China Quarterly*, 258, 479–494. <https://doi.org/10.1017/S0305741023001261>, p.482. **Original data** from: NBS 2021

**Note:** Labels show percentage point values for the contributions of final consumption and gross capital formation. The NBS estimates these contributions by calculating the change in each component of GDP and dividing by the change in total GDP.

As shown by the picture above, gross capital formation was the main driver of GDP growth in the majority of the year between 2000 and 2010. Consumption took over as the biggest contributor starting from 2010. These data may suggest that China from that moment shifted to consumption-led development; in reality, this is the effect of the decline in investment’s contribution that took place when China’s stimulus response to the global financial crisis came to an end.<sup>249</sup> Moreover, the contribution of consumption to GDP growth did not increase after 2010; on

<sup>246</sup> Yang, X., Sicular, T., & Gustafsson, B. (2024), “China’s prosperous middle class and consumption-led economic growth: Lessons from household survey data”, *The China Quarterly*, 258, 479–494. <https://doi.org/10.1017/S0305741023001261>, p.482.

<sup>247</sup> *Ibid.*

<sup>248</sup> *Ibid.*

<sup>249</sup> *Ibid.*, p.483

the contrary, after 2011 it decreased in terms of percentage points. To sum up, by looking at macroeconomic data, Yang, Sicular, and Gustafsson (2024) concluded that by 2019 China has not successfully shifted towards a consumption-led growth.

The authors of this research state that there are mainly two prerequisites for China to achieve consumption-led growth. The first one is China’s ability to significantly enlarge its prosperous middle class. The second one is that this middle class has a propensity for consumption.<sup>250</sup> Therefore, the table below reports estimates of China’s prosperous middle class (based on the authors’ income cut-offs for the prosperous middle class<sup>251</sup>) and the shares of the different income classes within China’s population.

| Year | Size of Prosperous Middle Class (mil) | Population shares (%) |                          |                     |
|------|---------------------------------------|-----------------------|--------------------------|---------------------|
|      |                                       | <i>Lower income</i>   | <i>Prosperous middle</i> | <i>Upper income</i> |
| 2002 | 10.1                                  | 99.2                  | 0.8                      | 0.0                 |
| 2007 | 86.5                                  | 93.4                  | 6.6                      | 0.0                 |
| 2013 | 148.3                                 | 88.9                  | 10.8                     | 0.3                 |
| 2018 | 292.3                                 | 78.3                  | 20.8                     | 0.9                 |

**Source:** Yang, X., Sicular, T., & Gustafsson, B. (2024), “China’s prosperous middle class and consumption-led economic growth: Lessons from household survey data”, *The China Quarterly*, 258, 479–494. <https://doi.org/10.1017/S0305741023001261>, p.485. **Original data** from: Authors’ calculations based on CHIP data and their cut offs.

What emerges from the data in this table is that the prosperous middle class grew very rapidly, especially from 2013 to 2018. However, despite growing at the expense of the lower income group, the prosperous middle class is still a small group as compared to the overall Chinese population and the lower income group remains the largest one. The next step of the analysis conducted by Yang, Sicular, and Gustafsson is to understand whether the prosperous middle-class households are consumption-oriented and, as a consequence, an “upgrade” of lower class households to this income group coincides with an increase in consumption. The table below shows the Average Household Consumption Expenditures, Income and Propensity to Consume out of Income (APC) as of 2018. The latter is equal to the share of household income spent on consumption. This means that the higher is the APC, the more households consume, and the less they save of their income.

<sup>250</sup> *Ibid.*, p.485

<sup>251</sup> “The prosperous middle class is defined as comprising members of Chinese households that have disposable income per person that is neither poor nor rich by EU standards.”

|   | Lower Income | Prosperous Middle | Upper Income | All    |
|---|--------------|-------------------|--------------|--------|
| a. Consumption expenditures (yuan)                                | 43,060       | 88,707            | 158,710      | 54,889 |
| b. Income (yuan)  | 57,514       | 162,213           | 491,996      | 86,325 |
| c. Average household propensity to consume out of income (APC, %) | 85.0%        | 57.2%             | 36.5%        | 77.9%  |

**Source:** Yang, X., Sicular, T., & Gustafsson, B. (2024), “China’s prosperous middle class and consumption-led economic growth: Lessons from household survey data”, *The China Quarterly*, 258, 479–494. <https://doi.org/10.1017/S0305741023001261>, p.487. **Original data** from: Authors’ estimates based on CHIP data.

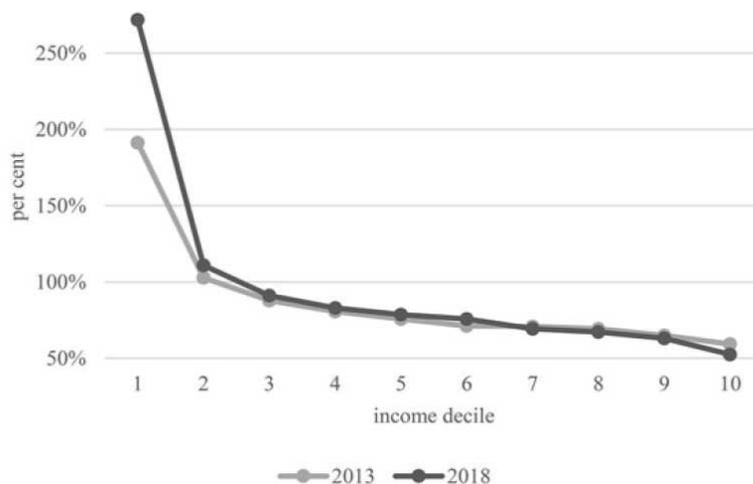
**Note:** All values are per household, not per person. The APC is the per cent of income spent on consumption. The authors estimate the APC for each class by first dividing consumption expenditures by income for each household and then taking the average of the household APCs within each class. Richer households spend a lower percentage of their income on consumption than poorer households do, thus, the average class APCs calculated are higher than the ratio obtained by dividing average class consumption (row a) by average class income (row b).

As shown in the table above, in absolute terms China’s prosperous middle class spent about 46,000 yuan more than lower-income households in 2018. However, this gap is calculated on the basis of an average middle class household and an average lower-class household. As noted by the authors, the expansion of the prosperous middle class is likely to consist of the shift from the top of the lower-income class to the bottom of the prosperous middle class. Hence, the gap between these two subgroups is narrower. It was estimated by the authors that the average consumption of the bottom third of the prosperous middle class was 31,000 yuan larger than that of the top third of the lower class in 2018.

The table also shows that the APC of households in China’s middle class is 57%, which is a low value, especially if compared to international values. Moreover, the APC of China’s lower-income households was significantly higher than that of the prosperous middle class. This shows the relationship between income and consumption across the distribution of income in China. Citing Zhang, Longmei, et al. (2018), the authors noted that in China the share of savings increases and the share of consumption declines with household income.<sup>252</sup> This correlation is shown also in the graph below, which shows the APC by income decile for 2013 and 2018, ranging from the 10 percent group with the lowest income to the 10 percent group with the highest income.

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<sup>252</sup> *Ibid.*, p.488



**Source:** Yang, X., Sicular, T., & Gustafsson, B. (2024), “China’s prosperous middle class and consumption-led economic growth: Lessons from household survey data”, *The China Quarterly*, 258, 479–494. <https://doi.org/10.1017/S0305741023001261>, p.487. **Original data** from: Authors’ estimates based on CHIP data.

**Note:** The household average propensity to consume out of income (APC) is the per cent of household income spent on consumption. The authors calculated the average household APC by income decile by first calculating each household’s APC and then taking the average of the APCs for all households in the relevant income decile.

The graph above shows that, the poorest households’ consumption expenses were higher than their income, as their APC is higher than 100%. The second poorest households instead consumed all their income and saved nothing as their APC is about 100%. Thereafter, the trend shows that the richer is the household, the less it consumes, revealing that the top decile consumed about half and saved about half of their income.

Yang, Sicular, and Gustafsson (2024) further enhanced their analysis by exploring an additional dimension. They delved deeper by decomposing the increase in National Aggregate Consumption by the change in population versus the change in Average Household Consumption during the period between the 2013 and 2018, which is summarized by the table below.

|  | Contributions          |
|--|------------------------|
| <i>Step 1: Decomposition of the increase in aggregate household consumption</i>  |                        |
| i. Contribution of the change in the national population of households   | 6.5%                   |
| ii. Contribution of the change in national average household consumption   | 93.5%                  |
| <i>Step 2: Decomposition of the increase in national average household consumption</i>   |                        |
| iia. Contribution of the change in average household consumption: <ul style="list-style-type: none"> <li>• within the lower-income class</li> <li>• within the prosperous middle class</li> <li>• within the upper-income class</li> </ul> | 53.9%<br>9.0%<br>-1.3% |
| iib. Contribution of the movement of households from: <ul style="list-style-type: none"> <li>• lower income to prosperous middle</li> <li>• prosperous middle to upper income</li> </ul>   | 34.4%<br>4.0%          |

**Source:** Yang, X., Sicular, T., & Gustafsson, B. (2024), “China’s prosperous middle class and consumption-led economic growth: Lessons from household survey data”, *The China Quarterly*, 258, 479–494. <https://doi.org/10.1017/S0305741023001261>, p.489. **Original data** from: Authors’ estimates based on CHIP data.

**Notes:** The authors assumed that the movement of households from the lower-income class to the prosperous middle class equals the change in the population share of lower-income class households (-10.5 percentage points); similarly, they assumed that the movement of households from the prosperous middle to the upper-income class equals the change in the population share of upper-income class households (+0.6 percentage points). All estimates are calculated in constant 2018 prices and deflated using the NBS national consumer price index.

The two main components of the increase in aggregate household consumption are the growth in China’s population of households and the increase in national average household consumption. According to the estimates by Yang, Sicular, and Gustafsson (2024), reveal that from 2013 to 2018 the increase in aggregate consumption in China is mainly caused by the growth in national average household consumption (accounting for 93.5%). The increase in the population of household had a minimal impact (less than 7%). China’s population of households increased by only 2.3% between the two years, while average household consumption grew by 39% in real terms.<sup>253</sup>

The second step of the analysis focuses on decomposing the increase in national average household consumption between the contributions of the different income classes. In particular, the analysis first decomposes the growth in average household consumption within income classes; afterwards, it measures the impact of the movement of households between income classes. Based on the estimates, the largest contributions to the increase in national average household consumption between 2013 and 2018 are attributed to consumption growth within the lower income classes (accounting for 54%) and to the movement of the households from the lower-income class into the prosperous middle class.<sup>254</sup> All the other contributions were minimal, in total accounting for roughly 10% of the increase in national average household consumption. By multiplying the movement of households from the lower-income class into the prosperous middle class by the

<sup>253</sup> *Ibid.*, p.490

<sup>254</sup> *Ibid.*

increase in national average household consumption, the authors estimated that from 2013 to 2018, the expansion of the prosperous middle class contributed to 32.2% of the increase in aggregate household consumption.<sup>255</sup> However, this estimation is somewhat unrealistic, as it assumes that the lower-income households' consumption increases by the difference between their average consumption and the average consumption of the prosperous middle class, when they shift from the lower-income to the middle-class. As the authors claimed, the households were more likely to move from a position which was better off than the poorest households, to a position which was below-average of the prosperous middle class.<sup>256</sup> By assuming that the expansion of the prosperous middle class was the result of movement of households from the top third of the lower-income class into the bottom third of the prosperous middle class, the authors concluded that the expansion of the middle class contributed to 21.9% of the increase in aggregate consumption.<sup>257</sup> In conclusion, from 2013 to 2018, at most a third, but probably around a fifth of the growth in aggregate consumption is attributable to the expansion of China's prosperous middle class, which represents a significantly smaller impact as compared to the one of the increasing consumption within the lower-income class.

Finally, the analysis also decomposes the increase in aggregate consumption in the same years between the contributions of household income growth versus change in the aggregate APC. The table below summarizes the estimates of the authors.

|                            | % Increase | Contribution to the increase in aggregate consumption |
|----------------------------|------------|---|
| Aggregate household income | 40.7%      | 97.8%   |
| Aggregate APC              | 0.8%       | 2.2%  |

**Source:** Yang, X., Sicular, T., & Gustafsson, B. (2024), "China's prosperous middle class and consumption-led economic growth: Lessons from household survey data", *The China Quarterly*, 258, 479–494. <https://doi.org/10.1017/S0305741023001261>, p.491. **Original data** from: Authors' estimates based on CHIP data.

The table above shows that the rise in household incomes accounted for nearly all of the increase in aggregate consumption (97.8%). Changes in the aggregate APC had almost no impact on aggregate consumption (2.2%). This is due to the fact that during that period the APC barely changed. However, as the authors clarified, this slight change between 2013 and 2018 hides the changes within and between the income groups. During this period, while the APCs for the middle- and upper-income groups decreased, that of the lower income group rose. At the same time, households moved from lower-income classes with higher APCs into higher-income classes with lower APCs.<sup>258</sup>

<sup>255</sup> *Ibid.*

<sup>256</sup> *Ibid.*

<sup>257</sup> *Ibid.*

<sup>258</sup> *Ibid.*, p.491

The findings of this study brought the authors to some conclusions that are in line and consistent with the government's strategies to achieve the objective of shifting towards a consumption-led growth. First of all, being the largest income group and having a high propensity to consume, the government should not overestimate lower income class, but should implement economic policies that promote growth for their household incomes.

Second, the expansion of the prosperous middle class might be challenging to maintain. Therefore, policies to promote income growth for the rural population and workers outside the formal and public sectors are necessary.

Third, the low propensity to consume of China's middle class might prevent China from shifting to a consumption-led economic growth. Hence, specific measures are needed to make households consume more. This requires a holistic approach that encompasses strategies to improve social welfare programs, pension, access to education, and households' living standards. As a result, households will feel less anxious about the future, which will motivate them to spend more and save less.

Despite focusing on the pre-pandemic period, the analysis by Yang, Sicular, and Gustafsson (2024) briefly outlines the economic situation of the years affected by the COVID-19 Pandemic. What emerged is that household income growth has stagnated, and unemployment (especially among youth) has risen. This deeply affected the average propensity to consume out of income, which dropped below pre-pandemic levels.<sup>259</sup> Measures to address household income growth, strengthen consumer confidence, improve the *hukou* system, and reduce inequalities are key to enable households to rebalance between consumption and saving.

This chapter emphasizes how, although acknowledging the necessity of tackling these issues, the Chinese leadership tends to highlight the improvements achieved, even when advancements are modest. However, the numbers reveal that the Chinese economy is still at the beginning of the journey towards the shift to a consumption-led growth, which requires a multifaceted approach tackling both short-term challenges and long-term structural issues.

### **3.3 China's Labor Market in the Dual Circulation Strategy**

As shown in this chapter, the dual circulation strategy had implications in the nature of the imports and exports of the country. With the aim of reducing the foreign dependency, China on one hand started to import less intermediate and high-tech final goods, in favor of raw materials. On the other hand, more high-end and high-tech products are being exported. The final objective of this

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<sup>259</sup> *Ibid.*, p.492

strategy is to boost domestic production. However, this implies a structural change of the economy and a change in the composition of the labor market.

Despite not being the main focus of this thesis, given the importance of this topic, an overview of China's labor market is necessary. Indeed, there's a strong link between economic growth, consumption, demand, and supply. For instance, economic inequality shapes not only which goods are consumed, but also which goods are produced. This concept is well explained by the economist Debraj Ray in his book on *Development Economics* (2014). As he noted, when consumers generate demand for a certain product, businesses need to supply them. However, to fulfill this demand, they need specific resources, among which the right labor and capital to produce that product. Thus, the demand for goods and services leads to a derived demand for factors of production, and this affects the distribution of payments into wages (for unskilled and different grades of skilled labor), returns on capital equipment, rents on properties, and so on.<sup>260</sup> To answer the question whether historical inequalities persist through time, the author assumes that there are only two inputs of production (capital and labor) and two goods that are produced (a mass consumption good and a luxury good). Besides, he supposes that everyone has the same amount of labor but different amounts of capital (those with more capital enjoy a higher income) thanks to returns to capital. As noted by the author, with a high inequality rate, there is a proportionally higher demand for the luxury good in the economy. To firmly assess the impact on inequality, we need to appraise whether the luxury good is capital-intensive or labor-intensive (relative to the mass consumption good). In the first case, inequality leads again to inequality: greater demand for the luxury good results in a proportionally higher demand for capital, which boosts returns on capital and, as a result, preserves or exacerbates the inequality that began.<sup>261</sup> On the contrary, in the second case the demand for labor relative to capital increases, and, as a consequence, inequality is reduced in the future.<sup>262</sup> Although these observations in reality are not this clear-cut as there are many factors and variables to take into account, this theory suggests that in China (where inequality is still a significant issue) demand risks shifting toward capital intensive or high-end products, with a decline in the demand for low-skilled labor. In this case, solving income uneven distribution and inequalities within society becomes more difficult with impediments towards an increase of the middle income class capable of consuming a wider variety of goods and services.

To further clarify this concept, the author makes the example of the U.S. and England during the 19<sup>th</sup> century. At that time, in the U.S. there was a large middle class that boosted mass

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<sup>260</sup> Ray, D. (2014). *Development Economics*, Princeton University Press, Chapter 7.2.7: Inequality and demand composition

<sup>261</sup> *Ibid.*

<sup>262</sup> *Ibid.*

production through a demand for lower-quality products, which created jobs; England, instead, focused on high quality products produced by skilled artisans.<sup>263</sup> Currently China’s objective is to replicate the U.S. model of that time: enlarge a middle class that increases domestic consumption. However, as already mentioned, one of the focuses of the “Made in China 2025” is on strengthening the quality of goods produced domestically and establish leadership on certain high-tech industries. Therefore, this could hinder the creation of low skilled jobs. Afterwards, the author also shows how the U.S. government during the two World Wars and the Great Depression was successful in increasing equality by increasing demand for low-skilled labor through growing government spending.<sup>264</sup> This once again suggests the need for China to implement specific policies to address inequalities within society.

The author leveraged these two examples to introduce a theory which has been broadly debated among economists and theorists: the “trickle-down” effect. The assumption behind this theory is that economic growth firstly benefits rich people, who in turn will invest money, create jobs (including a demand for low-skilled labor), and increase wages. Therefore, with little intervention to correct income inequality, economic growth will eventually benefit also the poorest groups of the society.<sup>265</sup> In the case of China, the data shown thus far regarding inequality and income distribution reveal that the economic growth has not “trickled down” to all workers: despite the slight improvement in inequalities among society, the benefits of the economic development has not reached everyone.

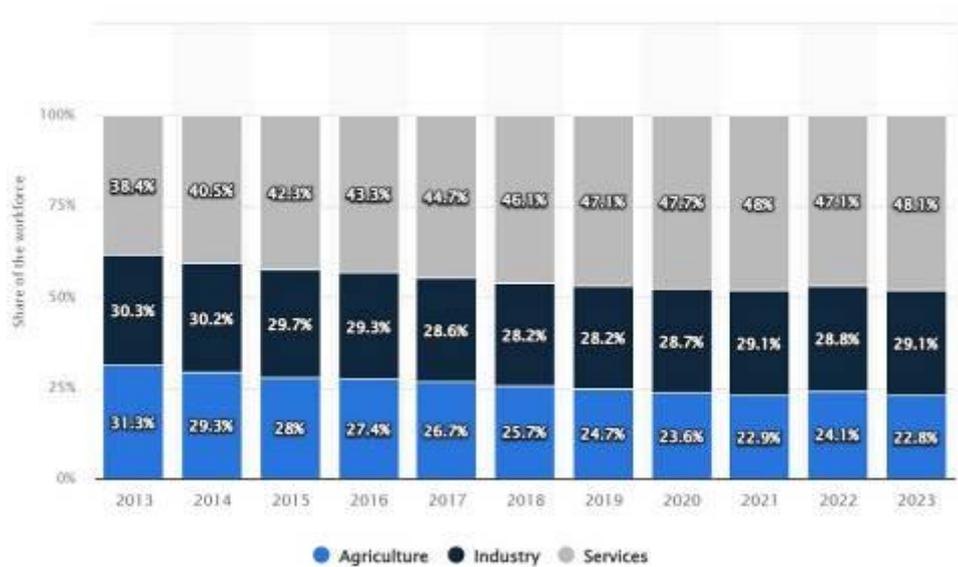
This can be seen also in China’s labor market dynamics, where currently there is no strong evidence that economic benefits reach all levels of society. The two graphs below show the evolution of the distribution of the workforce across economic sectors in China from 2013 to 2023. While the first one follows the traditional three-sector economic model, the second one instead provides a more thorough examination of structural changes in production by separating manufacturing as a distinct sector.

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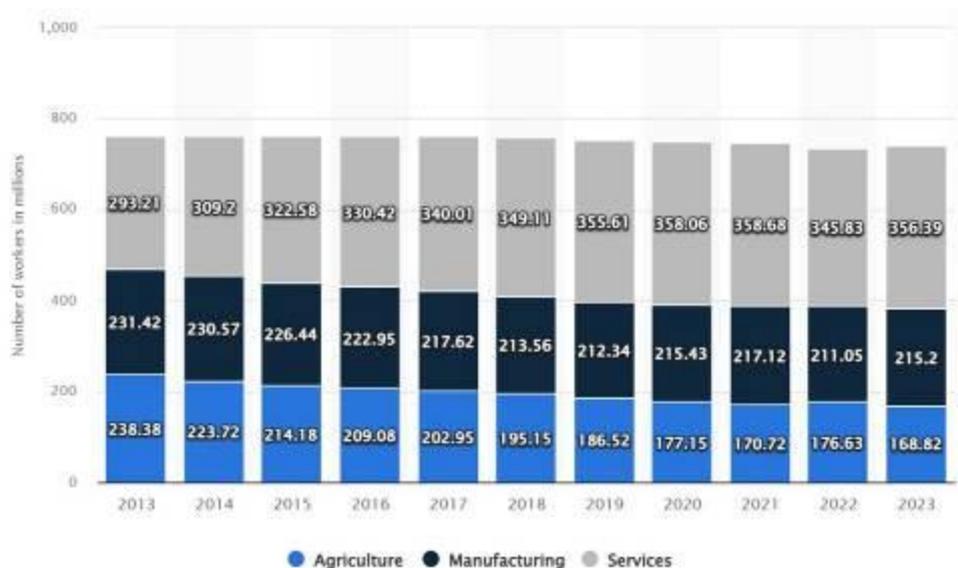
<sup>263</sup> *Ibid.*

<sup>264</sup> *Ibid.*

<sup>265</sup> *Ibid.*



Source: Statista (June 2024), “Distribution of the workforce across economic sectors in China from 2013 to 2023”, Economy & Politics, Economy, retrieved from <https://www.statista.com/statistics/270327/distribution-of-the-workforce-across-economic-sectors-in-china/> (last access on February 3<sup>rd</sup>, 2025)



Source: Statista (August 2024), “Breakdown of the workforce across economic sectors in China from 2013 to 2023 (in millions)”, Economy & Politics, Economy, retrieved from <https://www.statista.com/statistics/278346/economic-sector-distribution-of-the-workforce-in-china/> (last access on February 3<sup>rd</sup>, 2025)

Despite showing two slightly different data, the results of these two graphs are consistent and in line with each other. What emerges is that China experienced a notable shift in the labor market across the different sectors. From 2013 to 2023, the agriculture sector decreased by 29.18%, the manufacturing sector decreased by 7.01%, and the service sector increased by 21.55%. The decrease in agriculture and manufacturing in favor of service reflects China’s shift towards a service-oriented economy, which has been made possible thanks to various factors, such as

digitalization, automation, and technology development. This is evident also by the data provided by the China Statistical Yearbook 2024, which further divides the sector in the different industries.

(in 10 000 persons)

| Year | Persons Employed in Various Sectors | Agriculture, Forestry, Animal Husbandry and Fisheries | Mining | Manufacturing | Production and Supply of Electricity, Heat, Gas and Water | Construction | Wholesale and Retail Trade | Transport, Storage and Post | Health and Caring Services | Information Transmission, Software and Information Technology | Financial Intermediation | Real Estate | Leasing and Business Services | Scientific Research and Technical Services | Management of Water Conservancy, Environment and Public Facilities | Services to Individuals, Except Other Services | Education | Health and Social Services | Culture, Sports and Entertainment | Public Management, Social Security and Social Organization |
|------|-------------------------------------|---|--------|---------------|---|--------------|----------------------------|-----------------------------|----------------------------|---|--------------------------|-------------|-------------------------------|--|--|--|-----------|----------------------------|-----------------------------------|--|
| 2002 | 11464.0                             | 445.3   | 598.2  | 3210.9        | 299.9   | 525.5        | 541.0                      | 813.9                       | 181.2                      | 130.1   | 339.3                    | 145.5       | 218.5                         | 227.7                                      | 180.4  | 53.9   | 1483.2    | 598.9                      | 422.5                             | 1240.8   |
| 2003 | 13851.5                             | 375.7   | 582.0  | 3637.2        | 319.5   | 1267.5       | 535.1                      | 621.1                       | 289.2                      | 188.8   | 478.1                    | 211.8       | 319.1                         | 292.3                                      | 218.9  | 60.2   | 1581.9    | 632.5                      | 131.4                             | 1428.5   |
| 2004 | 14413.3                             | 358.5   | 611.8  | 4888.3        | 334.7   | 1724.9       | 647.5                      | 662.9                       | 342.7                      | 212.9   | 935.3                    | 248.8       | 286.6                         | 296.5                                      | 230.3  | 69.9   | 1617.8    | 679.1                      | 138.0                             | 1467.6   |
| 2005 | 16236.4                             | 338.9   | 631.0  | 4582.0        | 344.6   | 3070.3       | 711.6                      | 667.5                       | 265.1                      | 200.6   | 827.9                    | 373.7       | 292.3                         | 338.7                                      | 243.8  | 62.1   | 1653.4    | 719.3                      | 137.7                             | 1541.5   |
| 2006 | 18188.4                             | 294.8   | 636.5  | 5257.9        | 404.8   | 2121.9       | 800.6                      | 848.2                       | 384.4                      | 307.3   | 837.9                    | 373.7       | 421.9                         | 387.8                                      | 259.2  | 72.3   | 1887.2    | 770.8                      | 147.0                             | 1587.9   |
| 2007 | 19277.8                             | 284.6   | 686.0  | 5243.1        | 403.7   | 2921.2       | 888.6                      | 881.4                       | 289.3                      | 336.3   | 936.7                    | 462.2       | 449.4                         | 488.0                                      | 289.1  | 75.4   | 1727.3    | 810.4                      | 146.8                             | 1698.3   |
| 2008 | 19982.5                             | 279.0   | 546.8  | 5869.7        | 396.0   | 2796.9       | 883.3                      | 854.4                       | 276.1                      | 349.9   | 626.9                    | 417.3       | 474.0                         | 418.6                                      | 273.3  | 75.2   | 1736.5    | 841.6                      | 149.1                             | 1637.8   |
| 2009 | 17888.1                             | 263.2   | 436.9  | 4893.8        | 387.6   | 2734.7       | 876.0                      | 848.5                       | 289.7                      | 384.1   | 685.2                    | 431.7       | 488.4                         | 419.9                                      | 269.5  | 75.4   | 1729.2    | 867.9                      | 158.8                             | 1672.6   |
| 2010 | 17643.6                             | 254.4   | 455.4  | 4835.5        | 377.6   | 2543.2       | 842.6                      | 843.9                       | 285.9                      | 395.4   | 688.9                    | 444.8       | 522.6                         | 428.4                                      | 266.5  | 78.2   | 1738.9    | 887.9                      | 152.2                             | 1725.6   |
| 2011 | 17259.2                             | 192.6   | 414.4  | 4178.3        | 368.2   | 2710.9       | 823.5                      | 819.0                       | 269.8                      | 424.3   | 688.0                    | 460.0       | 529.5                         | 411.5                                      | 260.5  | 77.4   | 1735.6    | 842.4                      | 148.6                             | 1617.5   |
| 2012 | 17181.8                             | 154.1   | 387.7  | 3832.8        | 373.1   | 2276.5       | 829.0                      | 815.5                       | 265.0                      | 485.3   | 828.1                    | 510.3       | 560.4                         | 434.3                                      | 294.5  | 86.3   | 1688.3    | 1004.2                     | 151.2                             | 1585.8   |
| 2013 | 17839.1                             | 85.7  | 352.1  | 3885.5        | 379.7   | 2153.3       | 796.9                      | 812.2                       | 266.4                      | 487.1   | 818.0                    | 525.4       | 543.9                         | 471.2                                      | 245.0  | 82.8   | 1688.9    | 1011.9                     | 149.5                             | 1672.2   |
| 2014 | 17814.5                             | 86.8  | 344.8  | 3628.6        | 382.6   | 1971.9       | 797.6                      | 798.1                       | 265.3                      | 519.2   | 818.8                    | 429.3       | 480.3                         | 458.1                                      | 252.6  | 85.9   | 1671.9    | 1054.7                     | 151.7                             | 1685.8   |
| 2015 | 16700.7                             | 78.9  | 340.9  | 3738.4        | 375.3   | 1836.2       | 786.3                      | 776.2                       | 265.8                      | 528.3   | 738.6                    | 511.8       | 738.3                         | 468.8                                      | 253.6  | 90.1   | 1668.8    | 1114.6                     | 148.8                             | 1686.8   |
| 2016 | 16268.3                             | 68.3  | 328.3  | 3677.8        | 361.6   | 1638.1       | 782.4                      | 767.9                       | 289.4                      | 529.5   | 652.4                    | 589.4       | 827.8                         | 451.7                                      | 257.9  | 85.2   | 1648.3    | 1126.9                     | 147.0                             | 1685.8   |

**Source:** National Bureau of Statistics of China (NBS), “China Statistical Yearbook 2024”, section 4-6: “Number of Employed Persons in Urban Non-Private Units at Year-end by Sector” (in units of 10 000 people), retrieved from: <https://www.stats.gov.cn/sj/ndsj/2024/indexeh.htm> (last access on February 6<sup>th</sup>, 2025)

The table above is not fully comprehensive, as it focuses on urban areas only, excluding rural employment, and takes only non-private units into account, excluding the private sector. However, the data provided by the China Statistical Yearbook nonetheless represent a large portion of the population. Hence, despite having some limitations, it’s still useful to analyze general trends shaping China’s social and economic development.

The results of the data above are in line with those provided by Statista. In particular, Manufacturing peaked in the years 2013 and 2014 and then started decreasing, until it reached the lowest point in 2023. On the other hand, sectors like “Scientific Research and Technical Services” as well as “Information Transmission, Software and Information Technology” from increased respectively by nearly twofold and by roughly 4 times.

The shift from manufacturing to services is usually typical of advanced economies, as it can be caused by an upgrade in industry, a focus on high-tech, improvements in automation, technological advancements. However, this change provides also drawbacks. Indeed, generally manufacturing jobs are paid more than service jobs. The increase in service jobs therefore further enhances inequalities among society.

Besides, this shift impacted also the economic growth of the country. A study conducted by Wu, Yang, Xia, Zhang, Huo, Cai, and Sun (2022) clearly shows the impact of the dynamics of labor

market on China economic growth rate, which began to slow after reaching its peak at 14.2% in 2007, to less than 6% in 2019. As already mentioned, the Government and domestic scholars have embraced this new kind of development, defining this as the “New Normal”.<sup>266</sup> Nevertheless, many policymakers argue that the roots of this economic slowdown are in the supply side. This study claims that, being an essential part of the supply, labor might have a relevant effect on economic downturn. In particular, the effect on economic growth is decomposed into three main components: labor input effect, labor reallocation effect, and labor productivity effect. The table below shows the three effects of the labor force separated from China’s cumulative economic growth in selected years.

| Year | Economic Growth | Economic Growth Effect (%) |                    |                    | Contribution Rate of Economic Growth Effect (%) |                    |                    |
|------|-----------------|----------------------------|--------------------|--------------------|---|--------------------|--------------------|
|      |                 | Labor Input                | Labor Reallocation | Labor Productivity | Labor Input                                     | Labor Reallocation | Labor Productivity |
| 1990 | 0.0             | 0.0                        | 0.0                | 0.0                | 62.3  | 0.4                | 37.3               |
| 1995 | 0.9             | 0.1                        | 0.1                | 0.7                | 10.6  | 12.1               | 77.4               |
| 2000 | 1.8             | 0.2                        | 0.1                | 1.5                | 11.4  | 5.1                | 83.6               |
| 2005 | 3.5             | 0.4                        | 0.3                | 2.8                | 10.9  | 9.5                | 79.7               |
| 2010 | 6.6             | 0.5                        | 1.0                | 5.2                | 7.2   | 14.4               | 78.6               |
| 2015 | 10.2            | 0.5                        | 1.9                | 7.8                | 5.2   | 18.3               | 76.7               |
| 2019 | 13.5            | 0.6                        | 2.1                | 10.9               | 4.1   | 15.4               | 80.6               |

**Source:** Wu, S., Yang, D., Xia, F., Zhang, X., Huo, J., Cai, T., Sun, J. (2022), “*The Effect of Labor Reallocation and Economic Growth in China*”, Sustainability, 14, 4312. <https://doi.org/10.3390/su14074312>, p.9

Note: The economic growth in the table is based on the fixed growth rate with 1989 as the base year. For example, the economic growth in 2010 was 6.6, which means that the total economic growth in 2010 was 6.6 times higher than that in 1989. In addition, the data in the table are rounded; for example, “0.0” indicates that the data is less than 0.05.

The data show that the cumulative contribution rate of labor input effect to economic growth is decreasing, which is strongly linked to the annual decline in China's birth population, most likely due to the One-Child Policy. The cumulative distribution of labor reallocation effect to economic growth instead increased and reached its highest peak in 2014, and then declined. Indeed, with the access to the World Trade Organization, China started to integrate into the global market and the demand for China’s industrial products increased. As a consequence, an big amount of labor has been transferred to the industrial field.<sup>267</sup>

The author further breaks the data down into yearly contributions from 1990 to 2019.

<sup>266</sup> Wu, S., Yang, D., Xia, F., Zhang, X., Huo, J., Cai, T., Sun, J. (2022), “*The Effect of Labor Reallocation and Economic Growth in China*”, Sustainability, 14, 4312. <https://doi.org/10.3390/su14074312>, p.2

<sup>267</sup> *Ibid.*, p.9

| Year | Economic Growth (%) | Economic Growth Effect (%) |                    |                    | Contribution Rate of Economic Growth Effect (%) |                    |                    |
|------|---------------------|----------------------------|--------------------|--------------------|---|--------------------|--------------------|
|      |                     | Labor Input                | Labor Reallocation | Labor Productivity | Labor Input                                     | Labor Reallocation | Labor Productivity |
| 1990 | 3.91                | 2.43                       | 0.01               | 1.46               | 62.3  | 0.4                | 37.3               |
| 1991 | 9.29                | 1.16                       | 0.51               | 7.64               | 12.5  | 5.4                | 82.2               |
| 1992 | 14.22               | 1.02                       | 1.21               | 12.01              | 7.2   | 8.5                | 84.5               |
| 1993 | 13.87               | 1.00                       | 1.70               | 11.19              | 7.2   | 12.3               | 80.7               |
| 1994 | 13.05               | 0.98                       | 2.11               | 9.98               | 7.5   | 16.2               | 76.5               |
| 1995 | 10.95               | 0.91                       | 1.86               | 8.20               | 8.3   | 17.0               | 74.9               |
| 1996 | 9.93                | 1.31                       | 1.63               | 7.00               | 13.2  | 16.4               | 70.5               |
| 1997 | 9.23                | 1.28                       | 0.34               | 7.63               | 13.8  | 3.7                | 82.6               |
| 1998 | 7.84                | 1.18                       | -0.56              | 7.22               | 15.1  | -7.1               | 92.1               |
| 1999 | 7.67                | 1.08                       | -0.71              | 7.30               | 14.1  | -9.2               | 95.2               |
| 2000 | 8.49                | 0.49                       | -0.72              | 8.74               | 5.7   | -8.5               | 102.9              |
| 2001 | 8.34                | 1.15                       | -0.40              | 7.60               | 13.8  | -4.9               | 91.2               |
| 2002 | 9.13                | 1.15                       | -0.18              | 8.17               | 12.6  | -2.0               | 89.5               |

| Year | Economic Growth (%) | Economic Growth Effect (%) |                    |                    | Contribution Rate of Economic Growth Effect (%) |                    |                    |
|------|---------------------|----------------------------|--------------------|--------------------|---|--------------------|--------------------|
|      |                     | Labor Input                | Labor Reallocation | Labor Productivity | Labor Input                                     | Labor Reallocation | Labor Productivity |
| 2003 | 10.04               | 0.97                       | 0.79               | 8.29               | 9.6   | 7.9                | 82.6               |
| 2004 | 10.11               | 0.99                       | 2.63               | 6.50               | 9.8   | 26.0               | 64.3               |
| 2005 | 11.40               | 0.94                       | 3.31               | 7.18               | 8.2   | 29.0               | 63.0               |
| 2006 | 12.72               | 0.80                       | 2.90               | 9.03               | 6.3   | 22.8               | 71.0               |
| 2007 | 14.23               | 0.77                       | 2.23               | 11.25              | 5.4   | 15.7               | 79.1               |
| 2008 | 9.65                | 0.71                       | 2.21               | 6.78               | 7.3   | 22.9               | 70.2               |
| 2009 | 9.40                | 0.65                       | 1.04               | 7.71               | 7.0   | 11.1               | 82.0               |
| 2010 | 10.64               | -0.88                      | 2.78               | 8.76               | -8.2  | 26.1               | 82.4               |
| 2011 | 9.55                | -1.01                      | 2.87               | 7.74               | -10.6   | 30.1               | 81.0               |
| 2012 | 7.86                | 0.39                       | 1.82               | 5.67               | 5.0   | 23.1               | 72.1               |
| 2013 | 7.77                | 0.37                       | 2.83               | 4.59               | 4.7   | 36.4               | 59.1               |
| 2014 | 7.42                | 0.36                       | 2.10               | 4.97               | 4.8   | 28.2               | 67.0               |
| 2015 | 7.04                | 0.31                       | 0.70               | 6.05               | 4.4   | 9.9                | 85.9               |
| 2016 | 6.85                | 0.23                       | -0.21              | 6.84               | 3.3   | -3.0               | 99.8               |
| 2017 | 6.95                | 0.12                       | 0.14               | 6.67               | 1.8   | 2.0                | 96.1               |
| 2018 | 6.75                | -0.01                      | 0.34               | 6.45               | -0.2  | 5.1                | 95.5               |
| 2019 | 5.95                | -0.11                      | 1.31               | 4.76               | -1.8  | 21.9               | 80.0               |

**Source:** Wu, S., Yang, D., Xia, F., Zhang, X., Huo, J., Cai, T., Sun, J. (2022), “*The Effect of Labor Reallocation and Economic Growth in China*”, *Sustainability*, 14, 4312. <https://doi.org/10.3390/su14074312>, p.10-11

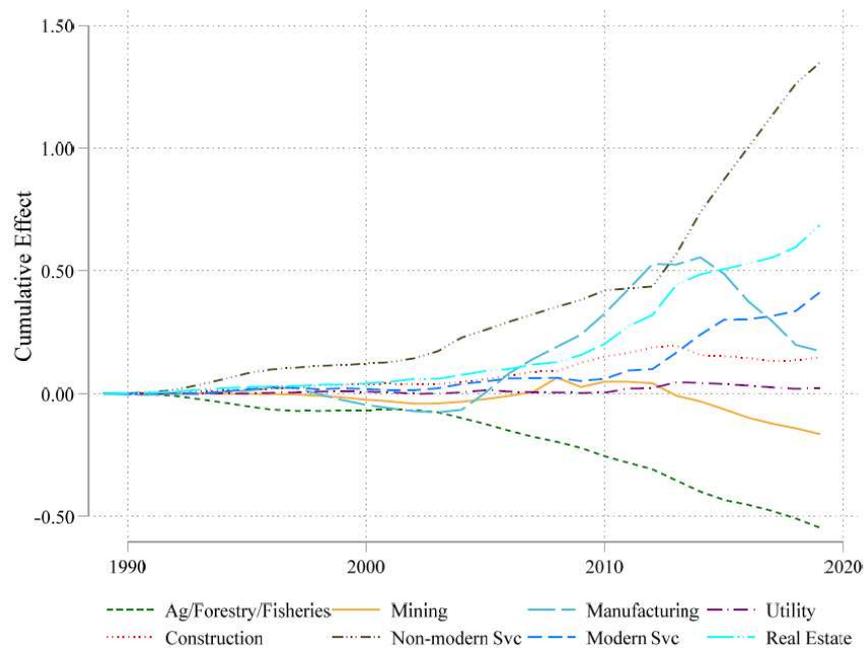
**Note:** The economic growth in the table is the current year’s data, for example, 10.64 in 2010, which indicates that GDP in 2010 increased by 10.64% compared with 2009. The “-” indicates a slowdown in economic growth. The data in the table have been rounded off.

The above data show that labor input effect increased until 2005, then it began to decrease, and the economic drag took place in 2010-2011 and 2018-2019. The labor reallocation effect positively affected economic growth in most years, in particular from 1992 to 1996 and from 2004 to 2014. It became negative after the implementation of the reform of state-owned enterprises in 1998 and in 2016.<sup>268</sup> The very first table showing the effect on cumulative economic growth shows that labor input and labor reallocation have contributed to China’s economic growth by an average of 1.9% per year from 1989 to 2019. The last two tables instead reveal that the same two effects have promoted economic growth by an average of 0.56% per year in the past five years, with a decrease

<sup>268</sup> *Ibid.*, p.10

of 1.34%. As the authors note, labor force input and labor force reallocation can explain 50% of China’s economic slowdown, while technological progress caused the other 50%.<sup>269</sup>

The study extends further by analyzing the impact of the three effects on each sector. The graph below shows the cumulative labor reallocation effect by sector from 1989 to 2019.



**Source:** Wu, S., Yang, D., Xia, F., Zhang, X., Huo, J., Cai, T., Sun, J. (2022), “The Effect of Labor Reallocation and Economic Growth in China”, *Sustainability*, 14, 4312. <https://doi.org/10.3390/su14074312>, p.13  
 Note: The data are obtained from the statistical yearbooks of China and its provinces and are calculated by the authors.

Data show that the negative effect of labor reallocation on agriculture started after China’s entrance in WTO. The authors note that after the reform and opening up, even though non-agricultural economy has developed quickly, the numbers of jobs created each year is still relatively small. Besides, the transformation of the agricultural labor force into non-agricultural jobs (especially manufacturing jobs) will continue until China is fully integrated in the global market. The labor reallocation effect of the entire secondary industry reached its peak in 2012, with a contribution rate of 0.78 times to economic growth, accounting for 9.7%. By 2019, the contribution decreased to 0.18 times (equal to 1.3%).<sup>270</sup> This trend suggests that labor shifted from the secondary industry to the tertiary industry. Being the largest employment sector of the secondary industry, manufacturing should be analyzed also as a separate entity. The labor reallocation effect of the manufacturing sector negatively impacted economic growth after 1998 until China’s entry into the WTO. In the period between 2003 and 2012 it experienced a fast increase as compared to the other

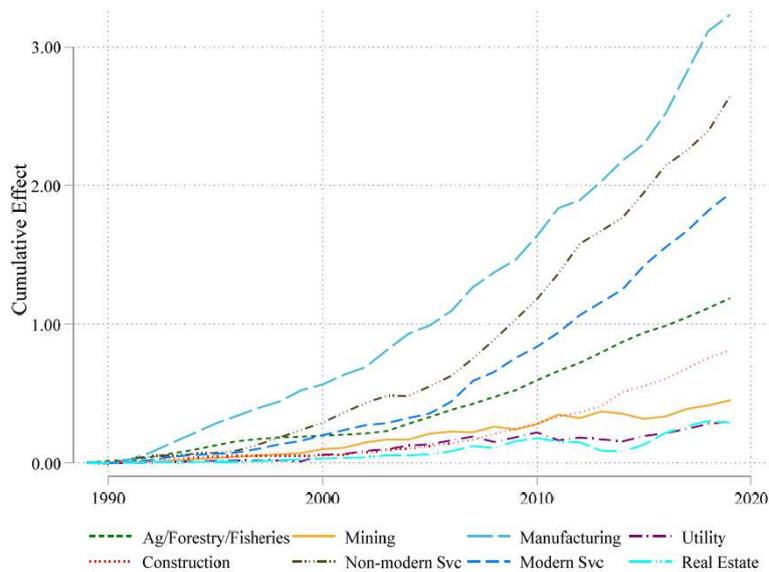
<sup>269</sup> *Ibid.*, p.11

<sup>270</sup> *Ibid.*, p.13

sectors, from -7.6% to 52.8%, equal to 60.4% of China’s economic growth.<sup>271</sup> After reaching the highest point in 2014 (promoting growth by 0.56 times and contributing 5.9% to cumulative economic growth), it started declining dramatically. According to data shown in the study, also the other sub-sector experienced a decrease after reaching a peak, reflecting the industry’s declining capacity to absorb employment.

The tertiary industry is the one with the most significant labor reallocation effect on economic growth. From 1989 to 2019, it has boosted growth by 2.45 times, contributing 18.2% to economic growth.<sup>272</sup> By breaking down the tertiary sector, data show differences in the trends of the three sub-groups. Indeed, the cumulative effect of labor reallocation in non-modern service ranked first in all years except for 2012, when it was outperformed by the manufacturing sector. After that year, it increased notably. The labor reallocation effect of the modern service and real estate sector instead increased respectively after 2012 and 2008 (after the rapid development of real estate sales market in 2008).

Below instead is the cumulative labor productivity effect by sector from 1989 to 2019.



**Source:** Wu, S., Yang, D., Xia, F., Zhang, X., Huo, J., Cai, T., Sun, J. (2022), “*The Effect of Labor Reallocation and Economic Growth in China*”, Sustainability, 14, 4312. <https://doi.org/10.3390/su14074312>, p.13

**Note:** The data are obtained from the statistical yearbooks of China and its provinces and are calculated by the authors.

As illustrated in the graph above, from 1989 to 2019 the effect of agricultural labor productivity showed steady increase, boosting China’s economic growth by 1.19 times and contributing 8.8% to the cumulative economic growth rate.<sup>273</sup> However, the productivity effect of other sectors had a stronger impact on economic growth. Indeed, the secondary industry promoted China’s economic

<sup>271</sup> *Ibid.*

<sup>272</sup> *Ibid.*

<sup>273</sup> *Ibid.*, p.14

growth by 4.79 times and contributed 35.6% to economic growth.<sup>274</sup> Exactly as for the labor reallocation effect, manufacturing is the sector with the highest impact. The impact of the labor productivity effect of the tertiary industry was slightly higher than that of the second sector, promoting China's economic growth by 4.87 times and contributing 36.2% to economic growth.<sup>275</sup> Both non-modern service and modern service had a great labor productivity effect, promoting China's economic growth respectively by 2.64 and 1.94 times.<sup>276</sup> The real estate sector had the lowest impact.

The key findings of this study can be summarized as follows:

- the economic contribution rate of labor input effect declined during the period between 1989 to 2019 and had recently shown a negative value;
- the economic contribution rate of labor relocation effect peaked in 2014 and then rapidly declined;
- labor productivity effect has always been an essential contributor to China's economic growth, with an annual contribution rate of 80%.

One of the causes for China's economic slowdown is the decrease in labor input, which is linked to the One-Child Policy. Besides, the weakening labor reallocation effect is caused by a huge shift from high-productivity sectors (in particular, manufacturing) to low-productivity sectors (usually, non-modern services), and from agriculture to non-modern services without manufacturing.

As explained in this paper, China has to maintain an annual economic growth rate of at least 4.3% to 5.8% to reach the income levels of moderately developed countries by 2035.<sup>277</sup> This won't be easy, especially if considering the negative labor input and weakening labor reallocation effect. To achieve that, both short-term and long-term strategies should be implemented. On one hand, the government should introduce policies to optimize the allocation of labor resources and strengthen the ability of the manufacturing sector to absorb employment. On the other hand, the government should invest more on research and development and address issues such as household registration system, education system, and employment barriers which hinder labor force mobility.

This will be a big challenge for China, as at the same time the modern industrial system based on advanced manufacturing requires skilled workers. As mentioned by China Briefing (July 2<sup>nd</sup>, 2024), a report from the Social Science Academic Press reveals that the nation is short of

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<sup>274</sup> *Ibid.*

<sup>275</sup> *Ibid.*

<sup>276</sup> *Ibid.*, p.16

<sup>277</sup> *Ibid.*, p.20

approximately 25 to 30 million digital talents.<sup>278</sup> However, also the demand for blue-collar jobs and in the service sectors continue to increase.

The shortage of digital talents highlights once a again the need for launching specific policies to improve employability and education. The aim of the government is to create jobs especially in advanced manufacturing, as well as the digital, eco-friendly, and elderly care sectors.<sup>279</sup> Some policies (such as targeting youth unemployment) have already been launched and some good results have been obtained. As reported by the State Council of the People’s Republic of China, 12 million urban jobs were created in 2023.<sup>280</sup> Besides, citing the ministry official Chen Yongjia, during the first nine months of 2024, 10.49 million new urban jobs were created.<sup>281</sup>

Although recognizing these two positive results, it is important to note that increasing job demand is not enough to help the country in achieving its objectives, as there are many socioeconomic conditions that need to be solved, such as inequality and income distribution.

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<sup>278</sup> Wu, Y. (July 2<sup>nd</sup>, 2024), “*Navigating China’s New Employment Trends and Implications*”, China Briefing, retrieved at: <https://www.china-briefing.com/news/navigating-china-new-employment-trends-and-implications/> (last accessed on: February 8<sup>th</sup>, 2025)

<sup>279</sup> Xinhua. (January 24<sup>th</sup>, 2024), “*China creates over 12 million urban jobs in 2023*”, The State Council of the People's Republic of China. Retrieved from [https://english.www.gov.cn/archive/statistics/202401/24/content\\_WS65b0b8f2c6d0868f4e8e36ff.html](https://english.www.gov.cn/archive/statistics/202401/24/content_WS65b0b8f2c6d0868f4e8e36ff.html) (last access on February 8<sup>th</sup>, 2024)

<sup>280</sup> *Ibid.*

<sup>281</sup> Xinhua. (October 25<sup>th</sup>, 2024), “*China increases policy support to meet annual job creation goal*”, The State Council of the People's Republic of China. Retrieved from [https://english.www.gov.cn/news/202410/25/content\\_WS671b57dfc6d0868f4e8ec4c9.html#:~:text=The%20country%20created%20a%20total,million%20urban%20jobs%20in%202024.](https://english.www.gov.cn/news/202410/25/content_WS671b57dfc6d0868f4e8ec4c9.html#:~:text=The%20country%20created%20a%20total,million%20urban%20jobs%20in%202024.) (last access on February 8<sup>th</sup>, 2024)

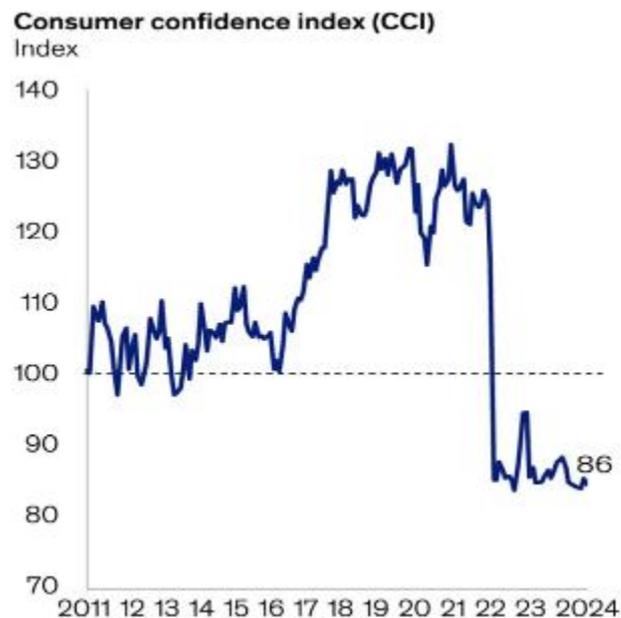
## **Chapter Four**

### **Made in China in the Domestic Market**

## Chapter Four: Made in China in the Domestic Market

China's economic growth has made it the global leading manufacturing, to the extent that the country has been considered as "the Factory of the World" for a long time. However, as shown in the previous chapters, the nature of economic growth has undergone new characteristics, taking a new form. The objective of the Chinese Government is to shift from an investment and export-driven economic growth, towards a consumption-led growth. This can be achieved if there's a strong synergy between the two main components of the market: supply and demand.

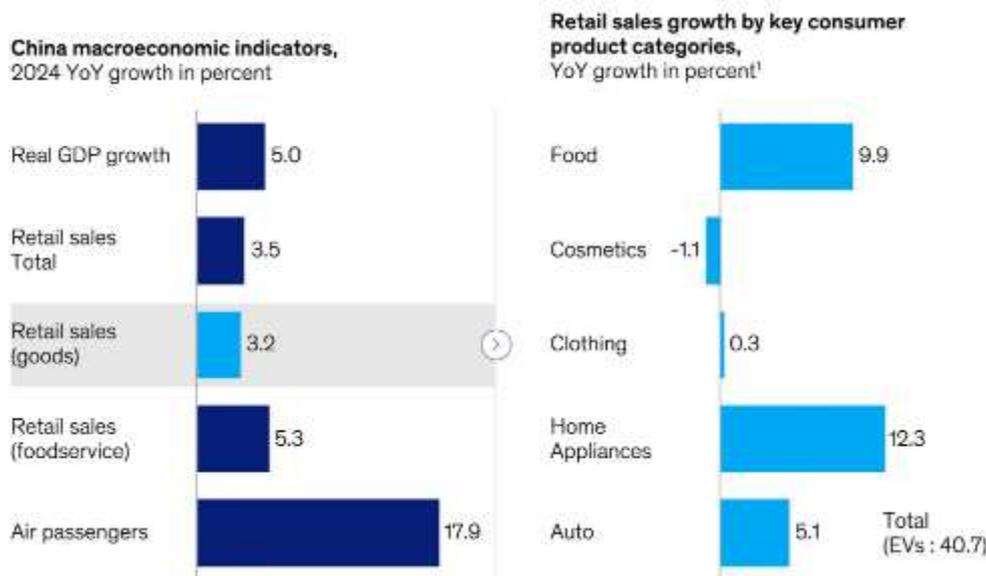
The previous chapters have outlined the situation of the demand. The data and studies mentioned show that the overall condition of the consumers is improving, albeit at a gradual pace, with modest progress. In fact, household incomes slightly increased in the past few years, and the income gap between urban and rural China is slowly narrowing. However, these subtle improvements are not reflected by a significant increase in consumption and expenditure. Indeed, as shown by Zipser (2025) citing data from the National Bureau of Statistics, consumer confidence has reached the lowest level in history in the past few years.



**Source:** Zipser, D. (January 28th, 2025), "China Consumption: Welcoming the Year of the Snake", McKinsey & Company, retrieved from: <https://www.mckinsey.com/cn/our-insights/our-insights/china-consumption-welcoming-the-year-of-the-snake> (last access on February 10<sup>th</sup>, 2025). **Original data** from: National Bureau of Statistics.

This reveals that the shift in economic growth, along with the COVID-19 pandemic, has deeply affected consumer spending. On one hand, this represents a potential obstacle towards the achievement of the Government's goal to shift towards a consumption-led economy by promoting

domestic expenditure. On the other hand, it led consumers to a more conscious consumption, which prioritizes daily necessities (almost 10% of YoY growth on food as of 2024) and higher-quality goods and services. The graph below shows how China retail sales growth is robust in key categories.



**Source:** Zipser, D. (January 28th, 2025), “China Consumption: Welcoming the Year of the Snake”, McKinsey & Company, retrieved from: <https://www.mckinsey.com/cn/our-insights/our-insights/china-consumption-welcoming-the-year-of-the-snake> (last access on February 10th, 2025). **Original data** from: National Bureau of Statistics, CATARC, CAAC.

**Note:** Autos are expressed in volume (CATARC), other categories are expressed in value.

Another key shift in consumer behavior is the new tendency to favor national brands over foreign brands. Indeed, economic development has impacted not only the demand side, but also the supply side. In the past products made in China were characterized by a negative Country-Of-Origin effect which conveyed the idea of cheap manufacturing, low price, and poor quality. Nowadays, made in China has completely demolished this view and became a synonym of high-quality and advanced technology. These products are not mostly bound to export anymore, but they’re also designed to meet the needs of the sophisticated demand of the domestic consumers. These advancements were made possible also thanks to the Government’s struggle to make China the leading country in various sectors and initiatives to promote domestic brands, such as the issuing of the China Brand Day. Celebrated on May 10<sup>th</sup> every year since 2017, this day a large exposition hosts Chinese brand showcasing their products with the aim of increasing society’s awareness of Chinese brand development, promoting high-quality advancements, and Chinese-style modernization.

Besides adopting strategies aimed at highlighting the good quality of Chinese brands, the government has also shown its commitment in promoting consumption. Indeed, in 2024 the

government implemented a trade-in subsidy policy. This initiative seeks to foster the substitution of outdated goods with more modern and sophisticated options. Indeed, consumers can trade old devices in exchange of subsidies for the purchase of new products. The program covers products from automobile and home appliances, to real estate. As reported by Xinhua, experts claim that this initiative, besides increasing consumer demand for better quality products, also boosts domestic spending, which in turn supports economic recovery.<sup>282</sup>

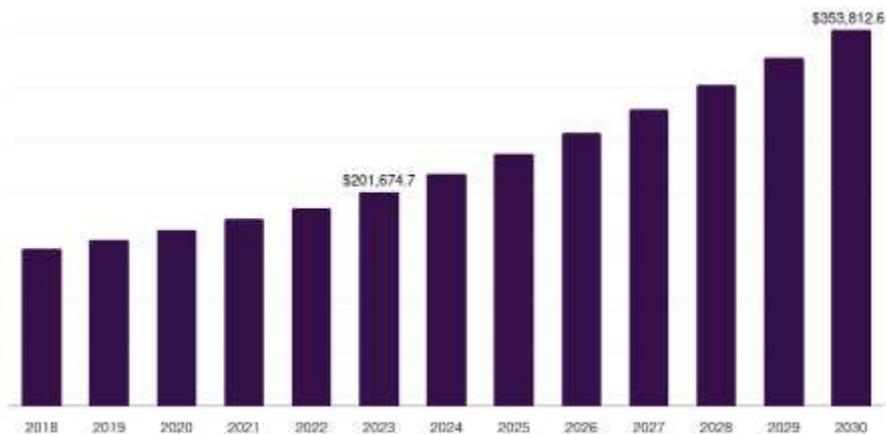
After analyzing the composition of demand in the previous chapters, this section will examine three key sectors shaping Chinese domestic market that have contributed to change the perception of Made in China. As shown previously, with the “Made in China 2025” plan, the Government’s strategy is to address ten key sectors. However, this section will focus on industries that are directly linked to consumer spending and thus reflect the situation of the Chinese middle class and overall society. For each sector, the analysis will show the market share, main competitors, and trends shaping it.

## **4.1 Consumer Electronics**

In a digitally active society like the Chinese, consumer electronics play an essential role in people’s daily life. The digitalization of the services promoted also by the Chinese government has made consumer electronics important tools everyone needs, chief among them are mobile phones, which are used for everything, from using public transportation, to ordering a meal at the restaurant, to paying. As a consequence, the consumer electronics market in China has continuously increased throughout time and is expected to continue growing, as shown in the graph below.

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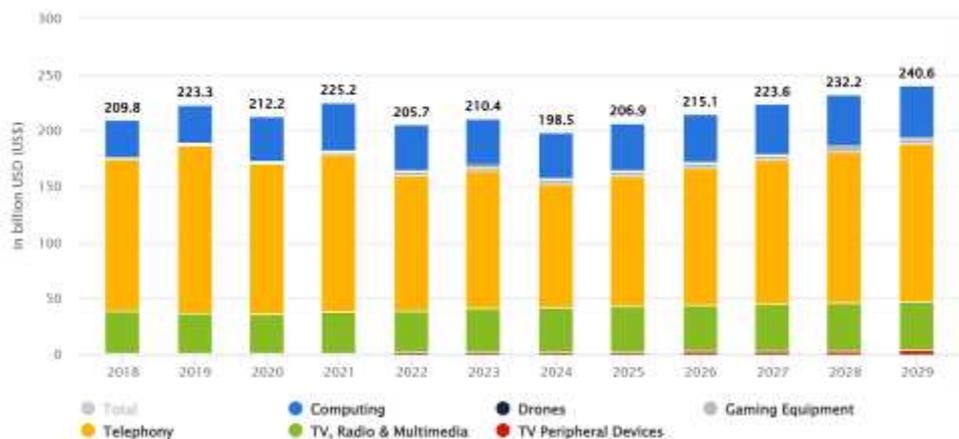
<sup>282</sup> Xinhua (August 24<sup>th</sup>, 2024), “*China's trade-in policy energizes consumer market,*” The State Council of the People's Republic of China, retrieved from [https://english.www.gov.cn/news/202408/24/content\\_WS66c9c4ccc6d0868f4e8ea39a.html](https://english.www.gov.cn/news/202408/24/content_WS66c9c4ccc6d0868f4e8ea39a.html) (last access on February 12<sup>th</sup>, 2024)



**Source:** Horizon Grand View Research, “China Consumer Electronics Market Size & Outlook”, retrieved from <https://www.grandviewresearch.com/horizon/outlook/consumer-electronics-market/china> (last accessed on: February 11<sup>th</sup>, 2025).

The China consumer electronics revenue in 2024 accounted for USD 214,405.3 million and projections claim that it will reach USD 347,701.8 million by 2030, growing at a Compound Annual Growth Rate of 8.4% from 2025 to 2030.<sup>283</sup> To really understand the size, it’s worth noting that in 2024, China accounted for 17.7% of the global consumer electronics market, making it the largest in the world.<sup>284</sup>

Thanks to industrial and technological continuous development, the consumer electronics market in China nowadays encompasses very different kinds of products with various types of usage. However, the largest segment of the market has always been represented by telephony. The graph below breaks down the revenues of the consumer electronics market into the different segments from 2018 to 2029.



**Source:** Statista (June 2024), “Consumer Electronics – China”, Market Insights, Consumer, retrieved from: <https://www.statista.com/outlook/cmo/consumer-electronics/china> (last accessed on February 11<sup>th</sup>, 2025).

**Note:** Data was converted from local currencies using average exchange rates of the respective year.

<sup>283</sup> Horizon Grand View Research, “China Consumer Electronics Market Size & Outlook”, retrieved from <https://www.grandviewresearch.com/horizon/outlook/consumer-electronics-market/china> (last accessed on: February 11<sup>th</sup>, 2025)

<sup>284</sup> *Ibid.*

According to data shown by Statista, in terms of revenue, the Telephony sector accounted for 109.5 billion USD in 2024 and is expected to grow and reach 141.1 billion USD by 2029.<sup>285</sup> However, this sector might seem towards saturation. Indeed, on the one hand the smartphone market has experienced a slowdown. According to the International Data Corporation (IDC) Worldwide Quarterly Mobile Phone Tracker, after two years of decline, the Chinese market shipped 286.2 million units, resulting in a 5.6% YoY growth.<sup>286</sup> This data suggests that despite the modest increase, opportunities for further sales growth persist. On the other hand, the Chinese smartphone sector is highly competitive, as the new Chinese brand continue to rise together with the well-established ones. The following table breaks down the smartphone market share among the main competitors and shows their Year-over-Year growth.



| Company      | 2024 Market Share | 2023 Market Share | YOY Growth  |
|--------------|-------------------|-------------------|-------------|
| 1. vivo      | 17.2%             | 16.5%             | 10.3%       |
| 2. Huawei    | 16.6%             | 11.7%             | 50.1%       |
| 3. Apple     | 15.6%             | 17.4%             | -5.4%       |
| 4. Honor*    | 14.9%             | 17.2%             | -8.1%       |
| 4. OPPO*     | 14.8%             | 16.8%             | -6.4%       |
| Others       | 20.8%             | 20.5%             | 7.0%        |
| <b>Total</b> | <b>100.0%</b>     | <b>100.0%</b>     | <b>5.6%</b> |

Source: IDC Quarterly Mobile Phone Tracker, 2024Q4

Note:  
 \* Data are preliminary and subject to change  
 \* All figures are rounded off  
 \* IDC declares a statistical tie in the worldwide smartphone market when there is a difference of 0.1% or less in the share of revenues or shipments among two or more vendors.

**Source:** IDC Research (January 28<sup>th</sup>, 2025), “China’s Smartphone Market Rebounds with 5.6% Growth in 2024”, *Fueled by vivo and Huawei*, retrieved from <https://www.idc.com/getdoc.jsp?containerId=prAP53146225> (last accessed on: February 11<sup>th</sup>, 2025)

According to the data above, Apple is still one of the main competitors of the market. However, data show that its market share in 2024 dropped from 17.4% to 15.6% and experienced a -5.4% YoY growth. The smartphone market growth was boosted by vivo and Huawei. Furthermore, even though Apple is still a big player in the market, what’s noteworthy is that the vast majority of the market share is owned by Chinese brands. The strength of Chinese brands lies in their capability

<sup>285</sup> Statista (June 2024), “Consumer Electronics – China”, Market Insights, Consumer, retrieved from: <https://www.statista.com/outlook/cmo/consumer-electronics/china> (last accessed on February 11<sup>th</sup>, 2025)

<sup>286</sup> IDC Research (January 28<sup>th</sup>, 2025), “China’s Smartphone Market Rebounds with 5.6% Growth in 2024, Fueled by vivo and Huawei”, retrieved from <https://www.idc.com/getdoc.jsp?containerId=prAP53146225> (last accessed on: February 11<sup>th</sup>, 2025)

to upgrade their products and implement continuous technological advancements, like the gradual integration of Artificial Intelligence. Besides, most importantly, their competitive advantage is their lower price as compared to Apple products. In this way, Chinese brands could effectively meet the needs of the local demand, which in recent years has become increasingly price sensitive due to the economic slowdown, the COVID-19 pandemic aftermath, and uncertainties about the future. In other terms, given the low consumer confidence, Chinese brands provide consumers with a cheaper option without compromising on quality.

The growth of Chinese brands in the smartphones market is expected to continue also thanks to Government policies which are aimed at promoting and boosting demand. Indeed, as reported by Xinhua, on January 8th, 2025 the State Council announced the expansion of the above-mentioned trade-in subsidy program by adding some new consumer goods, including smartphones. Consumer can enjoy subsidies of up to 15% for products with a price lower than 6,000 yuan.<sup>287</sup> This is a strategic measure, as it promotes consumption of smartphones while leaving out Apple iPhones, given their higher prices.

Chinese smartphones brands are growing their presence even beyond Mainland’s borders, showing that the quality of the smartphones is increasingly recognized worldwide.

| Global Smartphone Shipments Market Share (%) |         |         |         |         |         |         |         |
|--|---------|---------|---------|---------|---------|---------|---------|
| Brands                                       | Q1 2023 | Q2 2023 | Q3 2023 | Q4 2023 | Q1 2024 | Q2 2024 | Q3 2024 |
| Samsung                                      | 22%     | 20%     | 20%     | 16%     | 20%     | 19%     | 19%     |
| Apple  | 21%     | 17%     | 16%     | 23%     | 17%     | 16%     | 17%     |
| Xiaomi                                       | 11%     | 12%     | 14%     | 13%     | 14%     | 15%     | 14%     |
| OPPO*  | 10%     | 10%     | 9%      | 7%      | 8%      | 9%      | 9%      |
| vivo   | 7%      | 8%      | 7%      | 7%      | 7%      | 9%      | 9%      |
| Others                                       | 29%     | 33%     | 34%     | 34%     | 34%     | 32%     | 32%     |

**Source:** Counterpoint (November 25<sup>th</sup>, 2024), “Global Smartphone Market Share: Quarterly”, retrieved from: <https://www.counterpointresearch.com/insights/global-smartphone-share/> (last access on February 11<sup>th</sup>, 2025)

Globally, the smartphone market is dominated by the two historic giants Samsung and Apple. Nevertheless, the market of Chinese brands is increasing. Xiaomi is the Chinese brand with the highest shipments market share, accounting for 14% of the market share as of Q3 2024, only 3 percentage points less than Apple.

<sup>287</sup> Xinhua, (January 8th, 2025), “China to expand consumer goods trade-in program to spur growth”, The State Council of the People's Republic of China. Retrieved from [https://english.www.gov.cn/news/202501/08/content\\_WS677e22e4c6d0868f4e8ee9c4.html](https://english.www.gov.cn/news/202501/08/content_WS677e22e4c6d0868f4e8ee9c4.html) (last access on February 11th, 2024)

This growing competitiveness of Chinese brand has not gone unnoticed. In fact, led by national security concerns and geopolitical tensions with China, the U.S. government adopted a few measures to limit the influence of Huawei. First of all, in 2018 the National Defense Authorization Act prohibited the National Defense to procure certain telecommunications equipment or services from Huawei. In 2019 this was extended to all executive branch agencies. Afterwards, in May 2019 Huawei was added to the “Entity List,” so that the Commerce Department force the company to get the U.S. government approval to buy American technology. At the same time, government agencies were empowered to ban U.S. companies to from using telecommunications equipment made by firms, including Huawei.<sup>288</sup> The U.S. actions against Huawei further developed with a restriction of foreign sales of semiconductor chips to the Chinese company, a ban on the use of government funds to buy its equipment, and a reimbursement of U.S. carriers for removing Huawei equipment from their telecommunications networks.<sup>289</sup> This has certainly impacted Huawei’s business in terms of sales. Nevertheless, the company could still compete in the market. Indeed, according to the 2023 Annual Report, the company’s revenue accounted for 704,174 million yuan, resulting in a 9.6% YoY increase. By breaking down into regions, the Americas showed a 10.9% YoY increase.<sup>290</sup> In 2024, the company’s annual sales revenue had exceeded 860 billion yuan, resulting in a growth rate surpassing 22% and representing the second highest increase in its history.<sup>291</sup> According to the analysis by China Internet Watch, one of the keys to Huawei’s success is the continuous investment in R&D, which led the company to advancements in the chip technology, communications, and AI. As a consequence, enhanced product competitiveness has granted a larger market share. Even though it is not certain yet how the situation is going to evolve, these statistics show how Chinese smartphone brands impact is increasing and can effectively meet the demand not only of Chinese consumers, but also global ones.

## 4.2 Electric Vehicles

In the context of Made in China, nowadays Electric Vehicles are the most representative good of China’s technological improvements and advancements. Indeed, in the last years China could effectively drive innovations in this industry and become the world's leading manufacturer of

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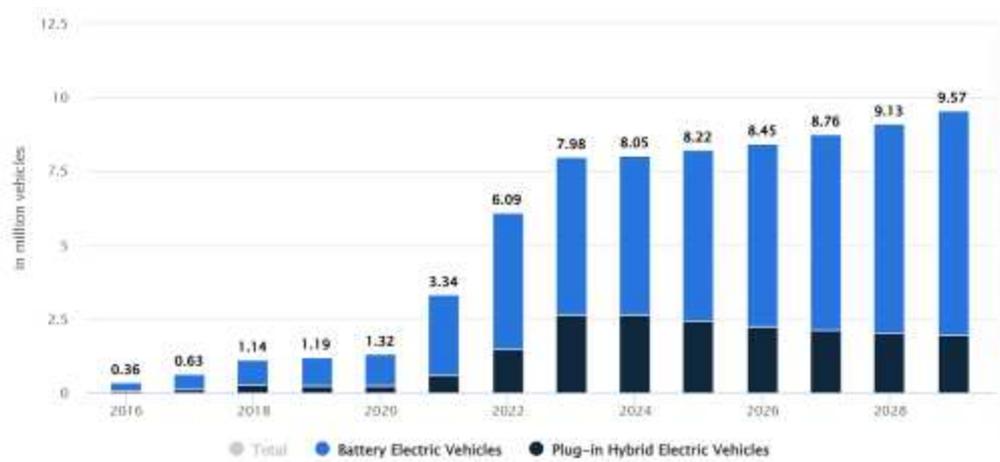
<sup>288</sup> Reuters, “U.S. actions against China's Huawei”, retrieved from: <https://www.reuters.com/graphics/USA-CHINA/HUAWEI-TIMELINE/zgvomxwlgvd/> (last access on February 12<sup>th</sup>, 2025)

<sup>289</sup> *Ibid.*

<sup>290</sup> Huawei Investment & Holding Co., Ltd., “2023 Annual Report,” retrieved from <https://www.huawei.com/en/annual-report/2023> (last access on February 12<sup>th</sup>, 2025)

<sup>291</sup> China Internet Watch (February 11<sup>th</sup>, 2025), “Huawei Achieves Over 860 Billion Yuan in Revenue: The Key to Its Success,” retrieved from <https://www.chinainternetwatch.com/47280/huawei-2024/> (last access on February 12<sup>th</sup>, 2025)

electric vehicles. As a result, in recent years the Electric Vehicle market share has dramatically increased and is expected to continue growing.



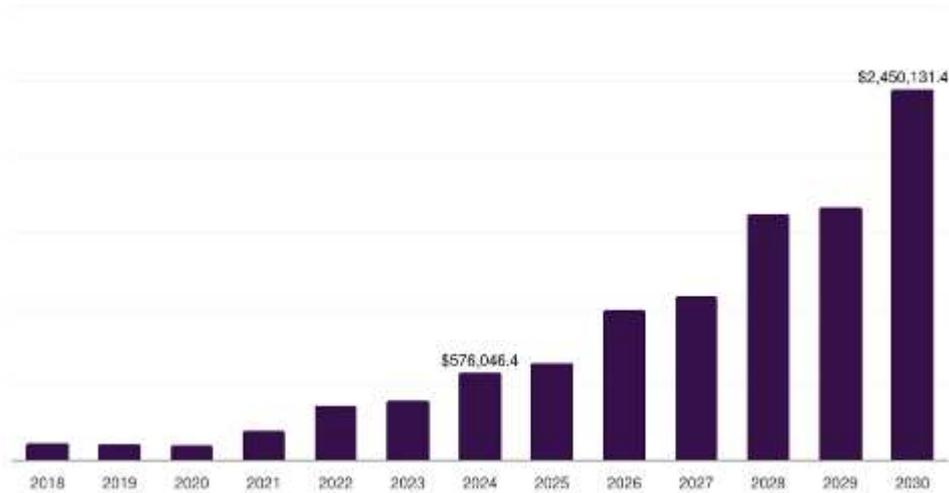
**Source:** Statista (last updated in November 2024), “*Electric Vehicle – China,*” retrieved from <https://www.statista.com/outlook/mmo/electric-vehicles/china> (last access on February 12<sup>th</sup>, 2025)

As the graph above shows, in 2024 China’s electric vehicle unit sales accounted for 8.05 million, including both battery electric vehicles and plug-in electric vehicles. This number is expected to reach 9.57 million by 2029. These numbers make China the largest automotive market in the world and reflect the wide manufacturing capabilities and strong domestic demand for both conventional and electric vehicles. According to Verbandes der Automobilindustrie (VDA, “Association of the Automotive Industry”), although only a moderate increase to 23.2 million vehicles is expected, in 2025 China will continue to be the largest single-country car market, maintaining a lead over U.S.A. and Europe.<sup>292</sup>

China’s electric vehicle market did stunning results also in terms of revenue. In 2024, it generated USD 576,046.4 million and is projected to reach USD 2,450,131.4 million by 2030, growing at a CAGR of 27.3% from 2025 to 2030<sup>293</sup>, as shown in the graph below.

<sup>292</sup> Bekker, H. (January 22<sup>nd</sup>, 2025), “*2025 (Outlook) Global: Worldwide Car Sales Forecast*”, Car Sales Statistics, retrieved from: <https://www.best-selling-cars.com/global/2025-outlook-global-worldwide-car-sales-forecast/> (last access on February 13<sup>th</sup>, 2025)

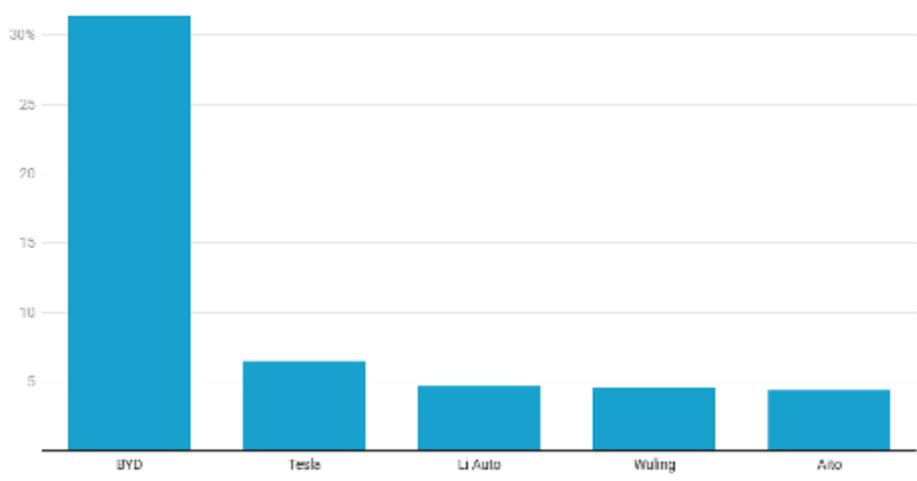
<sup>293</sup> Horizon Grand View Research, “*China electric vehicle market, 2018-2030 (US\$M)*”, retrieved from <https://www.grandviewresearch.com/horizon/outlook/electric-vehicle-market/china> (last access on February 13<sup>th</sup>, 2025)



**Source:** Horizon Grand View Research, “China electric vehicle market, 2018-2030 (US\$M)”, retrieved from <https://www.grandviewresearch.com/horizon/outlook/electric-vehicle-market/china> (last access on February 13<sup>th</sup>, 2025)

The largest segment of the market is represented by passenger cars, but revenues also encompass sales of scooters, motorcycles, three wheelers, buses, and trucks.<sup>294</sup>

The competition in the Chinese domestic market naturally is fierce. While Tesla globally is the most famous electric car brand, in the Chinese market its competitiveness is limited. Indeed, the Chinese market is dominated by BYD, as shown by the market share of the period between January and July 2024.



**Source:** Autovista24 (September 16<sup>th</sup>, 2024), “BYD stays ahead of its competitors in Chinese EV market”, retrieved from <https://autovista24.autovistagroup.com/news/byd-stays-ahead-of-its-competitors-in-chinese-ev-market/> (last access on February 13<sup>th</sup>, 2025)

**Note:** Electric vehicle category includes battery-electric vehicles and plug-in hybrids.

Besides the data of the graph above is limited to a few months, the trend it shows is in line with the overall EV market competition. In China, Tesla has to compete with the giant BYD, as well

<sup>294</sup> Ibid.

as with various Chinese EV manufacturers such as Li Auto, Wuling, Aito, Geely, Changan, Saic, and so on. Remarkably, also the two Chinese giant brands Huawei and Xiaomi entered the market. Huawei does not manufacture cars entirely on its own, but provides technological solutions and tools to brands and manufacturers it partners with. Xiaomi instead, while being a relatively new entrant, is actively participating with the launch of its models SU7 & SU7 Ultra. As for Apple in the smartphone industry, Tesla must navigate and respond to the challenges of the price war competition that Chinese brands have entered in to meet the demand of the market and gain a competitive advantage.

What's noteworthy is that the journey of China in the Electric Vehicles industry began later than the United States. While both governments have adopted similar policies and incentives to boost this industry, according to an analysis by Chengyi Lin, there three key factors that helped China become the global leader in this industry. First of all, unlike Tesla, BYD and Geely at their first stage started by experimenting in adjacent industries. While Tesla branding strategy positioned the brand as pioneer in EV, BYD and Geely started by focusing on respectively electric buses and motorcycles. Given their weight, purpose, and usage, buses need powerful batteries. By addressing all the challenges of these kind of batteries, BYD could develop high-capacity batteries and successfully enter North American and South American markets.<sup>295</sup> Geely instead successfully mastered the production of lighter and portable batteries for motorbikes.<sup>296</sup> Another key factor was that in order to develop practical solutions that would enhance basic battery technologies, Chinese EV manufacturers in ten major cities collaborated closely with taxi companies. For instance, they not only mapped the charging stations, but also experimented with different battery charging scheduling options that corresponded to the performance level of hybrid and fully electric cars.<sup>297</sup> The third factor that empowered Chinese manufacturers was their ability to foresee the pivotal role of the cost of batteries in EV manufacturing. This combined with Chinese brands' access to critical raw materials for the production of batteries gave them a competitive advantage. Furthermore, Chinese brands leveraged partnerships among them and acquisitions to bring innovations and establish global leadership in the EV industry.<sup>298</sup>

On the other hand, also the government's intervention was crucial to promote the manufacturing and purchase of electric vehicles. Indeed, during a visit to an electronic vehicle factory in Shanghai in May 2014, President Xi Jinping stated:

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<sup>295</sup> Lin, C. (January 3<sup>rd</sup>, 2024), "3 Drivers of China's Booming Electric Vehicle Market", Harvard Business Review, Operations Strategy, retrieved from: <https://hbr.org/2024/01/3-drivers-of-chinas-booming-electric-vehicle-market> (last accessed on February 13<sup>th</sup>, 2025)

<sup>296</sup> *Ibid.*

<sup>297</sup> *Ibid.*

<sup>298</sup> *Ibid.*

*“Developing new energy vehicles is essential for China’s transformation from a big automobile country to a powerful automobile country. We should increase research and development, seriously analyze the market, adjust existing policy and develop new products to meet the needs of different customers. This can make a strong contribution to economic growth.”*<sup>299</sup>

To encourage the adoption of New Electric Vehicles (encompassing electric vehicles, plug-in hybrid electric vehicles, and fuel cell vehicles), China has put into effect several tax exemptions and reduction policies. For instance, the government started with an exemption of 10% purchase tax on qualified NEVs. This policy started in 2014, and initially it was planned to expire in 2020, but it was extended to 2022 and 2023. On June 21<sup>st</sup>, 2023, the Ministry of Finance (MOF), State Taxation Administration (STA), and Ministry of Industry and Information Technology (MIIT) jointly released the *Announcement on Continuing and Optimizing the Vehicle Purchase Tax Reduction and Exemption Policy for New Energy Vehicles*, which established a new tax exemption from January 1<sup>st</sup>, 2024, to December 31<sup>st</sup>, 2027.<sup>300</sup> This newly extended policy grants an exemption from the purchase tax up to 30,000 yuan (approximately USD 4,170) per vehicle between January 1<sup>st</sup>, 2024, and December 31<sup>st</sup>, 2025; this amount will be reduced to the half (15,000 yuan, approximately USD 2,078) from January 1<sup>st</sup>, 2026, until December 31<sup>st</sup>, 2027.<sup>301</sup> In 2009, the government started offering subsidies for the purchase of electric vehicles (such as under the “Ten cities, thousand vehicles” program), but this measure proved to be costly.<sup>302</sup> Hence, while local governments still have the authority to provide subsidies, the central government opted for another impactful initiative, namely the adoption of the NEV credit system in 2019, through which automakers gain credits by manufacturing and selling NEV.<sup>303</sup> If automakers do not meet annual NEV credit quotas, they are subject to penalties. In simple terms, according to the mandate on manufacturers, a specific percentage of cars sold annually must be battery-powered. Manufacturers must gain a certain amount of points annually, which are given for each EV produced based on a complicated system that considers performance, energy efficiency, range, and other factors, in order to avoid financial penalties. The standards are increasingly stricter, with the aim of reaching the target of having EVs

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<sup>299</sup> Oxford Institute of Energy Studies, “*Guide to Chinese Climate Policy 2022*”, retrieved from: <https://chineseclimatepolicy.oxfordenergy.org/book-content/domestic-policies/vehicles/electric-vehicles/> (last access on February 13<sup>th</sup>, 2025)

<sup>300</sup> Interesse, G. (June 28<sup>th</sup>, 2023), “*China Extends NEV Tax Reduction and Exemption Policy to 2027*”, China Briefing, retrieved at: <https://www.china-briefing.com/news/china-extends-nev-tax-reduction-and-exemption-policy-to-2027/> (last accessed on: February 13<sup>th</sup>, 2024)

<sup>301</sup> *Ibid.*

<sup>302</sup> Stauffer, N. W. (April 29<sup>th</sup>, 2021), “*China’s transition to electric vehicles*”, MIT News, Massachusetts Institute of Technology, retrieved from: <https://news.mit.edu/2021/chinas-transition-electric-vehicles-0429> (last access on February 13<sup>th</sup>, 2025)

<sup>303</sup> Interesse, G. (June 28<sup>th</sup>, 2023), “*China Extends NEV Tax Reduction and Exemption Policy to 2027*”, China Briefing, retrieved at: <https://www.china-briefing.com/news/china-extends-nev-tax-reduction-and-exemption-policy-to-2027/> (last accessed on: February 13<sup>th</sup>, 2024)

account for 40% of all car sales by 2030.<sup>304</sup> This represents only a brief overview of the recent policies and strategies adopted by the Chinese government to become the global leader in the EV industry and promote economic growth. In reality, the foundation of the Chinese government's industrial policy has its roots in 2012, when the State Council released the "Energy-saving and New Energy Automotive Industry Development Program (2012–2020)". This provided details about supporting policies ranging from purchase subsidies, to technical requirements for EV (such as energy consumption efficiency), to directives for the development of charging infrastructure, and sales targets.<sup>305</sup>

Even though China is recognized as the global leader manufacturer of electric vehicles, its influence in terms of export has not been substantially high as compared to the domestic sales. Indeed, Chinese vehicle exports were up 19.3% in 2024, but they are expected to decrease and account for only 5.8% of increase in 2025.<sup>306</sup> This is influenced by the tariffs that the U.S., Canada, and European Union are imposing in order to hinder the sale of cheap vehicles in their markets. Indeed, the subsidies granted by the Chinese government to EV manufacturers enabled them to sell cars for cheaper prices and this has drawn criticism from these countries. Besides, China is also accused of attempting to dump their overproduction of cars in foreign markets.<sup>307</sup>

Given this geopolitical tension among China and big markets like the U.S., Canada, and Europe, it is difficult to assert with certainty how export and foreign market trends will evolve. Undeniably, China will continue to drive innovation in this sector. Nowadays, although in very limited numbers, driverless cars have begun to be adopted, reflecting the wide variety of new features that could be implemented. The continuous emphasis on R&D will continue fostering advancements, especially through the use of AI. Therefore, given this strength, it might be difficult for foreign countries to limit the influence of China, as the demand for such innovation could increase globally.

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<sup>304</sup> Stauffer, N. W. (April 29<sup>th</sup>, 2021), "China's transition to electric vehicles", MIT News, Massachusetts Institute of Technology, retrieved from: <https://news.mit.edu/2021/chinas-transition-electric-vehicles-0429> (last access on February 13<sup>th</sup>, 2025)

<sup>305</sup> Wang, X., "The indispensable role of industrial policy: the case of the Chinese EV industry", Emerging Economies, Turin Centre on Emerging Economies, Research Education Outreach, retrieved from: <https://www.osservatorio-economie-emergenti-torino.it/emerging-economies/78-26-january-2024/443-the-indispensable-role-of-industrial-policy-the-case-of-the-chinese-ev-industry.html> (last access on February 13<sup>th</sup>, 2025)

<sup>306</sup> VOA News (January 13<sup>th</sup>, 2025), "China's EV sales surge in 2024; foreign automakers struggle in shifting market", China News, retrieved from <https://www.voanews.com/a/china-ev-sales-surge-in-2024-foreign-automakers-struggle-in-shifting-market/7935351.html> (last access on February 14<sup>th</sup>, 2025)

<sup>307</sup> *Ibid.*

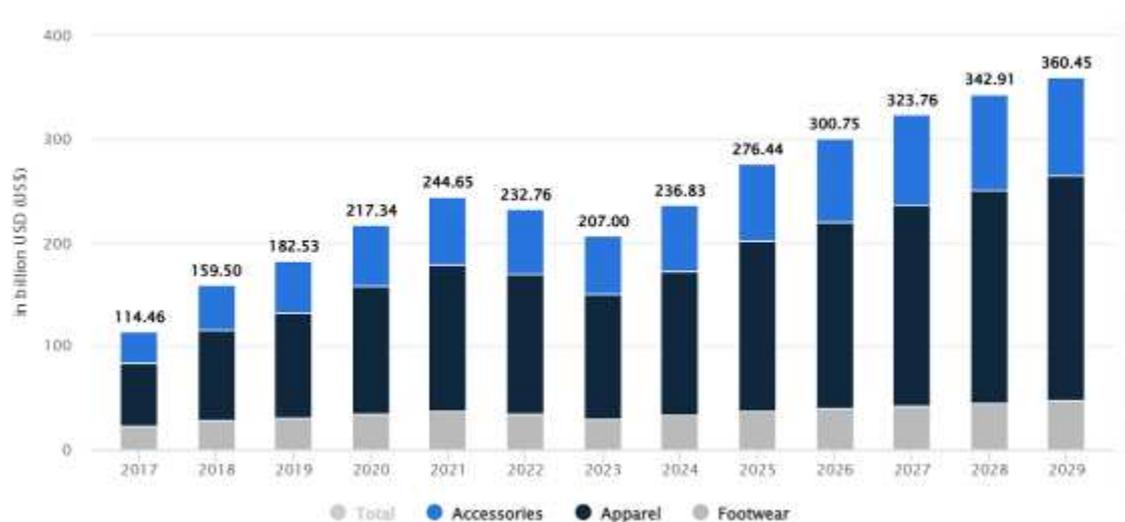
### 4.3 Fashion & Luxury

Even though it's not strictly tied to the "Made in China 2025" plan, fashion and luxury sectors are relevant in the wider context of made-in-China goods. Following the economic development, also this sector showed a significant shift, as both the demand and supply of goods have undergone a remarkable transformation. The latter has changed in terms of quality. Indeed, in the past made in China clothes were associated with low-quality and cheap prices. The fashion industry in the past valued efficiency and cost, which in turn boosted the bulk production of clothes. Hence, as China entered the World Trade Organization and global supply chains expanded, the country became the largest manufacturer and exporter of cheap clothes. Given the low price of manufacturing, lots of foreign brands and clothes outsourced their production to China. This dynamic led to the rise of a country-of-origin effect in consumer perception that positioned every made-in-China cloth as being cheap and low quality. But this perception has been disrupted in recent years, signaling a new era for fashion in China. Chinese manufacturers started to give more importance to craftsmanship, design, and innovation. This led to the rise of the first Chinese brands and new market trends. On the other hand, also the demand has undergone structural changes. After the reforms and opening up of China, lots of foreign brands started selling their goods in the Chinese market. The middle class's spending power increased along with China's economy, especially in the luxury market. Chinese consumers started buying foreign fashion brands, which were perceived as a status symbol. This is how the concept of the consumer behavior of the 土豪 *tuhao* ("nouveau riche") developed, indicating people who tend to flaunt their richness by wearing foreign expensive brand clothes. With the economic slowdown and the decrease in consumer confidence, consumers are more brand conscious and tend to prioritize quality over brand name and fame.

Despite these shifts and economic slowdowns, the fashion market continues to thrive. As reported by the China National Textile and Apparel Council (CNTAC), China's annual clothing retail sales could surpass US\$415 billion by 2025.<sup>308</sup> Strong performances persist also in terms of revenues, as shown by the table below.

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<sup>308</sup> Woodburn Accountants & Advisors, "Practical Guide on the Apparel and Fashion Industry in China", retrieved from: <https://www.woodburnglobal.com/post/practical-guide-on-the-apparel-and-fashion-industry-in-china> (last access on February 14<sup>th</sup>, 2025)



**Source:** Statista (last updated in March 2024), “Fashion – China”, Revenue, retrieved from: <https://www.statista.com/outlook/emo/fashion/china> (last accessed on February 14<sup>th</sup>, 2025)

The fashion market is expected to continue growing in terms of revenue, reaching a market volume of US\$360.40bn by 2029 at the pace of 6.86% annual growth rate between 2025 and 2029.<sup>309</sup> Within the overall fashion market, apparel is the largest segment. China’s influence in this industry used to be enormous. In fact, in the past the country accounted for more than half of the global textile and clothing production, and more than 30% of worldwide apparel exports.<sup>310</sup> Now the sector has slowed down; this doesn’t signal an economic downturn though, rather the country aims at developing a more sustainable, sophisticated, high-tech-driven textile and apparel industry.<sup>311</sup> Furthermore, the labor costs pushed the sector towards a highly automated and less labor-intensive direction. Due to the rising production costs, China’s clothing export value and global share have continuously declined from 2014 to 2020.<sup>312</sup>

Also luxury market is experiencing a shift in consumer behavior which is resulting in new market trends. Before the COVID-19 pandemic, one third of global sales of luxury goods came from Chinese consumers, who were the biggest spender in the world. Most of these purchases were made abroad, especially in Europe, with the remaining coming from domestic sales.<sup>313</sup> Unfortunately, in recent years, the economic slowdown and the decreasing consumer confidence have impacted on the shopping habits of consumers. First of all, the luxury market slowed down.

<sup>309</sup> Statista (last updated in March 2024), “Fashion – China”, Revenue, retrieved from: <https://www.statista.com/outlook/emo/fashion/china> (last accessed on February 14<sup>th</sup>, 2025)

<sup>310</sup> Woodburn Accountants & Advisors, “Practical Guide on the Apparel and Fashion Industry in China”, retrieved from: <https://www.woodburnglobal.com/post/practical-guide-on-the-apparel-and-fashion-industry-in-china> (last accessed on February 14<sup>th</sup>, 2025)

<sup>311</sup> *Ibid.*

<sup>312</sup> *Ibid.*

<sup>313</sup> Sguelgia, G. (November 14<sup>th</sup>, 2024), “Exploring China’s Luxury Market: Emerging Trends and Future Prospects”, China Briefing, retrieved from: <https://www.china-briefing.com/news/chinas-luxury-market-emerging-trends-prospects-strategies/> (last access on February 14<sup>th</sup>, 2024)

After recovering from the downturn caused by the pandemic in 2022, China's luxury market accounted for 449 billion yuan in 2023, resulting in a 12% YoY growth.<sup>314</sup> However, according to data from Bain & Company, in 2024 the luxury could not maintain this growth rate, but resulted in a 18-20% YoY decline, returning to 2020 levels.<sup>315</sup> In 2025, a challenging H1 is expected to be followed by an improving H2, which might result in a flat growth for the overall year.<sup>316</sup> The domestic luxury purchases are increasing thanks to product availability and a narrowing price gap in duty free offerings, especially in Hainan (which drew 6.7 million customers in 2023).<sup>317</sup> In the meantime, also overseas luxury spending by Chinese tourists is rebounding, accounting 40% of total Chinese luxury spending as of 2024.<sup>318</sup> As already mentioned, economic slowdown and uncertainty towards the future resulted in a dramatic drop in consumer confidence, which in turn increased price sensitivity in consumers, who are more inclined to conscious consumerism. As a consequence, in 2023 products that retain their value such as watches, jewels, and iconic bags saw an increase.<sup>319</sup> On the other hand, 2024 saw also the emergence of "luxury shame" concept, which led consumers to favor discreet and high-value items over ostentatious ones.<sup>320</sup> Another key trend revealing the shift in consumer behavior is the growth of second-hand luxury market, which experienced a 30% annual growth since 2020 according to data from Daxue Consulting.<sup>321</sup>

Besides this overall market slowdown, Western fashion brands also have to deal with competition with local brands, which are attracting an increasing number of consumers. Between 2013 and 2023, domestic brands increased their market share versus international brands by 6 percentage points. Besides, more than a half of Chinese consumers chose domestic brands, showing a 35% increase from 2011.<sup>322</sup> Following the increase in China's manufacturing, recent years saw the rise of many fashion brands, encompassing segments ranging from fast fashion (such as, SHEIN and Urban Revivo), to sportswear (like Li-Ning and Bosideng), to luxury brand (Shanghai Tang,

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<sup>314</sup> *Ibid.*

<sup>315</sup> Bain & Company (January 21<sup>st</sup>, 2025), "Luxury market in mainland China to stay flat in 2025", retrieved from <https://www.bain.com/about/media-center/press-releases/2024/luxury-market-in-mainland-china-to-stay-flat-in-2025/> (last access on February 15<sup>th</sup>, 2025)

<sup>316</sup> *Ibid.*

<sup>317</sup> Sgueglia, G. (November 14<sup>th</sup>, 2024), "Exploring China's Luxury Market: Emerging Trends and Future Prospects", China Briefing, retrieved from: <https://www.china-briefing.com/news/chinas-luxury-market-emerging-trends-prospects-strategies/> (last access on February 14<sup>th</sup>, 2024)

<sup>318</sup> Bain & Company (January 21<sup>st</sup>, 2025), "Luxury market in mainland China to stay flat in 2025", retrieved from <https://www.bain.com/about/media-center/press-releases/2024/luxury-market-in-mainland-china-to-stay-flat-in-2025/> (last access on February 15<sup>th</sup>, 2025)

<sup>319</sup> Sgueglia, G. (November 14<sup>th</sup>, 2024), "Exploring China's Luxury Market: Emerging Trends and Future Prospects", China Briefing, retrieved from: <https://www.china-briefing.com/news/chinas-luxury-market-emerging-trends-prospects-strategies/> (last access on February 14<sup>th</sup>, 2024)

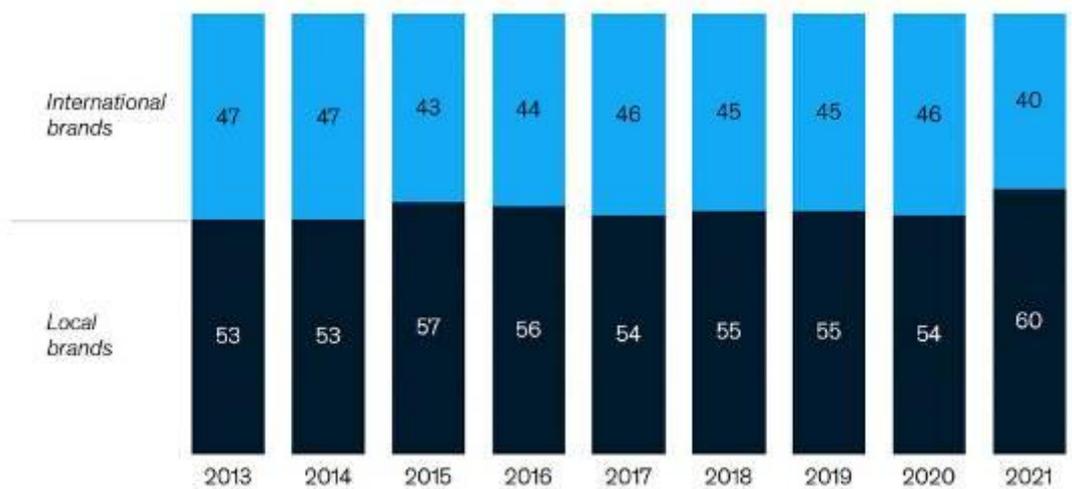
<sup>320</sup> *Ibid.*

<sup>321</sup> *Ibid.*

<sup>322</sup> The Business of Fashion (BOF) (November 28<sup>th</sup>, 2024), "Where Fashion Is Finding Growth in Asia as China Stalls", BOF Insights, McKinsey & Company, retrieved from <https://www.businessoffashion.com/articles/global-markets/the-state-of-fashion-2025-report-asia-china-india-japan-growth-markets/> (last access on February 15<sup>th</sup>, 2025)

Septwolves, and Gujin), to streetwear brands (ROARINGWILD, Sankuanz, CLOT). This reflects how China moved from just being the global manufacturer to representing a brand powerhouse.

The global presence of Chinese fashion brands is still limited. SHEIN is the only Chinese brand that successfully established a global footprint. However, given the cheap prices and low quality of its products, the brand is not representative of the advancement of Chinese manufacturing, but it's aligned with the old concept of made in China. Besides, SHEIN's low price strategy has raised concerns about its effect on the company's labor force conditions and the environmental impact. Given the high competition of the global fashion market and the economic challenges, Chinese fashion brands have not a strong presence yet. Nevertheless, they are gaining ground in the domestic market, as shown by the graph below which analyzes the overall trend of the apparel market of the top 20 Chinese local brands as compared to international brands in terms of percentage of total sales between 2013 and 2021.



**Source:** Consultancy.asia (May 9<sup>th</sup>, 2023), “Local apparel and fashion brands in China winning market share”, retrieved from <https://www.consultancy.asia/news/5200/local-apparel-and-fashion-brands-in-china-winning-market-share> (last access on February 15<sup>th</sup>, 2025). **Original data** from: Euromonitor; Fashionscope; McKinsey analysis.

The competitive advantage of Chinese brand as compared to international brands is their localization which enables them to meet the preferences of the local consumers and design products that resonate with local consumers. Indeed, the growing popularity of the Chinese brands in the domestic market is fueled by two trends that are shaping the domestic market: 国朝 *guochao* and 非遗 *feiyi*. The former is commonly translated as “national pride”, or “national wave”. It’s a movement which celebrates the Chinese history, culture, and identity. In particular, fashion products adopt Chinese elements in their design. The growing importance of this trend is giving new opportunities for growth to foreign companies, which started blending Chinese elements in their products. For instance, Adidas launched a limited-edition sweatshirt for the Chinese New Year in

December 2024 which featured the traditional Chinese frog closure. 非遗 *feiyi* instead translates to “intangible cultural heritage” and is defined by Jing Daily as “the next evolution of *guochao* 国朝”.<sup>323</sup> Indeed, *feiyi* differs from *guochao* for its emphasis on craftsmanship, heritage preservation, and authenticity. While *guochao* consists only in blending Chinese elements in a stylish and modern design, *feiyi* requires a well-rounded approach that is loyal to the traditional Chinese methods of production. This could represent a big opportunity for Chinese luxury brands where loyal production could represent a competitive advantage towards well-established Western brands.

Despite not being part of the “Made in China 2025” development plan, fashion and luxury market are still relevant in the broad context of “Made in China.” As shown, also this sector has undergone a significant shift both in the demand and supply of goods. On the one hand, the demand is becoming increasingly sophisticated. On the other hand, domestic brands are continuously bringing innovation and high-quality goods. Even though their presence is still limited to the domestic market, in the future there could be opportunities to establish their position also in the global fashion landscape.

#### 4.4 Employment rate

Naturally, technological advancements and economic growth in these fields have an impact on labor and employment rate. Generally, as high technology is increasingly implemented in production processes, automation reduces the need for labor force in manufacturing. However, this might not be the case of smartphone manufacturing in China. Indeed, according to data shown by the global market research company IBISWorld, smartphone manufacturing in China employed 964,387 people as of 2024.<sup>324</sup> This results in a 1.2% YoY growth.<sup>325</sup> Therefore, innovations in this field have not caused a decrease in a demand of labor. However, the employment growth rate has slowed down in the last years, resulting in a flat decrease. Over the five years between 2019 and 2024, the average number of workers in China's smart phone manufacturing industry increased by 1.3%.<sup>326</sup>

The growth of the electric vehicle industry is relatively new as compared to the smartphone sector. Hence, the demand for labor is steadily increasing. Generally, this sector is seen as an

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<sup>323</sup> Luo, J. (November 22<sup>nd</sup>, 2024), “*Feiyi: Luxury’s answer to ‘guochao’*”, Jing Daily, retrieved from: <https://jingdaily.com/posts/guochao-to-feiyi-heritage-still-hot-with-chinese-consumers> (last access on February 15<sup>th</sup>, 2025)

<sup>324</sup> IBISWorld (last updated in May 2024), “*Smart Phone Manufacturing in China - Employment (2004–2029)*”, retrieved from <https://www.ibisworld.com/china/employment/smart-phone-manufacturing/5019/> (last access on February 15<sup>th</sup>, 2025)

<sup>325</sup> *Ibid.*

<sup>326</sup> *Ibid.*

opportunity for a large job creation, as competition is fierce, and China aspires to maintain the global leadership. In fact, according to an analysis published by CNBC in December 2023, despite tech company layoffs and youth unemployment that hit recent years, China's EV giants (which rely on technical and high-skilled manufacturing) have expanded their headcount.<sup>327</sup> However, the analysis draws the attention to a challenge that this sector is experiencing: the mismatch between graduates' skills and available jobs. According to the analysis by CNBC, the number of workers with generalized skills is too large and there is a shortage of labor with the skills to work in the automobile sector.<sup>328</sup> If this problem persists, Chinese companies might face challenges in driving innovation. The China Labor Bulletin (中国劳工通讯 *Zhongguo laogong tongxun*) instead raises another issue. According to its analysis, while not reaching pre-pandemic levels, auto manufacturing has maintained employment above 4 million in recent years, and in 2023 it has increased.<sup>329</sup> Data show that electric vehicles industry is the main driver of employment growth. However, the China Labor Bulletin claims that automation will be increasingly adopted, like in the case of BYD (which is known to be labor-intensive) and Tesla, suggesting that both internal combustion engine and electric vehicle companies will reduce their workforce.<sup>330</sup> Whether companies will leverage automation or not is still uncertain. However, given the high competition and the price war strategy companies are adopting, saving labor force expenditure could be a solution for them to increase profit margin.

Apparel manufacturing has already experienced a sharp decrease in terms of employment. Indeed, it accounted for 3,533,693 people employed as of 2024.<sup>331</sup> This represented a 1.3% YoY increase, and an increase of 0.3% on average from 2019 to 2024.<sup>332</sup> After reaching the highest peak in terms of employment during the period from 2010 to 2013 (4,551,400 people employed as of 2013), employment declined dramatically.<sup>333</sup> The general trends suggest that employment in this industry will continue to decline. The reasons for this dramatic decline are basically two. On one hand, rising labor cost is pushing foreign companies to move their offshoring activities to cheaper

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<sup>327</sup> Cheng, E. (December 21<sup>st</sup>, 2023), "China's EV and chip giants need workers — not necessarily college grads", China economy, retrieved from: <https://www.cnbc.com/2023/12/22/chinas-ev-and-chip-giants-need-workers-not-necessarily-college-grads.html> (last access on February 15<sup>th</sup>, 2025)

<sup>328</sup> *Ibid.*

<sup>329</sup> China Labor Bulletin (CLB) (April 29<sup>th</sup>, 2024), "Auto workers bear the brunt of competition and EV transition in Chinese market, international just transition initiatives provide valuable lessons", retrieved from: <https://clb.org.hk/en/content/auto-workers-bear-brunt-competition-and-ev-transition-chinese-market-international-just> (last access on February 15<sup>th</sup>, 2025)

<sup>330</sup> *Ibid.*

<sup>331</sup> IBISWorld (last updated in November 2024), "Apparel Manufacturing in China - Employment (2004–2030)", retrieved from <https://www.ibisworld.com/china/employment/apparel-manufacturing/197/?utm> (last access on February 15<sup>th</sup>, 2025)

<sup>332</sup> *Ibid.*

<sup>333</sup> *Ibid.*

places, such as India. On the other hand, automation is cutting many jobs, as it grants higher efficiency and lower costs.

These overall trends reveal how labor is shifting following industrial development. Automation is challenging labor in well-established sectors, like apparel and smartphone manufacturing. Newly established sectors like the EV sector instead give rising job opportunities, but the threat of automation persists. With these continuous high-tech advancements, the challenge in the future will be to keep an occupational equilibrium. This requires policies that empower the labor force and qualify it to adapt to new production processes.

## Conclusion

Being born in 1999, I could experience and notice in first person how the concept of “Made in China” evolved throughout history. In Italy, as a kid it was not difficult to find the sign “Made in China” when looking at the label of any good, such as a cheap T-shirt or a low-end consumer electronic product. Indeed, after joining the World Trade Organization in 2001, China started exporting goods in large quantities and soon became “the world’s factory”, as its cheap manufacturing was appealing to many countries and businesses looking for the best place where to outsource their activities. This is how the “Made in China” label acquired the negative country-of-origin effect and Chinese products became symbols of cheap prices and low quality.

In recent years, the Chinese market has been shaped by a new trend known as *guochao* (国朝, “National trend”). This new wave is characterized by an increasing interest of Chinese consumers on domestic products. When I first got acquainted with this phenomenon, I was interested in learning how Chinese consumers shifted from an emulation of the Western lifestyle through the purchase of foreign brand products, to the purchase of domestically produced products promoted by a sense of national pride. One of the explanations is in the continuous improvements of Chinese manufacturing. The old negative country-of-origin effect has now been demolished, and “Made in China” now conveys the idea of technological advancements.

Thus, driven by an interest, I decided to delve deeper into this topic and soon, I realized that it encompasses many layers, dynamics, and complexities which have to do with domestic market, economic policies and demand. Throughout my research, three questions have been the *leitmotivs* that guided me:

- How did the government change economic strategy?
- What is the government doing to promote domestic consumption?
- Is there a strong demand to support the government’s plans?

To answer these questions, I decided to start with an overview of the Maoist period and the Reform and Opening Up launched by Deng Xiaoping, with the purpose of showing how China increased people’s living standards and established a large consumer market.

The focus of the second chapter was on the middle class. The chapter starts with an excursus of the main methodologies adopted to define the boundaries of the middle class, a term which in China was a taboo in the past. Subsequently, the chapter analyzes official reports and research papers which show relevant data about the situation of the Chinese society in terms of income and disparities.

The third chapter describes how China's economic growth strategy changed, recognizing the need to adapt to the new standard. This new standard made the government focus on new priorities, set new objectives and launch new policies and strategies.

Finally, the fourth chapter shows the development of Chinese manufacturing by analyzing the growth of three key sectors for domestic consumption: consumer electronics (with an emphasis on smartphone manufacturing), electric vehicles, and fashion and luxury.

The key findings of this research can be summarized as follows. The overall trend shows that Chinese economic growth is experiencing a decrease. However, instead of merely considering this as a negative trend, the Chinese leadership has embraced this as a new model. Currently, the main objective of the government is to fix investment and exporting, and, above all, boost domestic consumption, which is seen as the solution to avoid the "middle-income trap." This can be done by adopting a "dual circulation" development paradigm, which highlights the importance of both domestic and overseas markets. The final objective is to shift from an export-driven growth, towards a consumption-led growth. Consumption can increase if the supply meets a rising demand. The role of the government is crucial in achieving this. On the one hand, supply is continuously developing. With the help of the government which is adopting policies and strategies to promote Chinese products (such as, the "Made in China 2025" program), Chinese manufacturers are driving innovation in many different fields. On the other hand, increasing the demand represents a big challenge. The Chinese government aims at increasing people's living standards and shift towards an "olive-shaped" income distribution structure, where the middle class represents the largest income group within society. While official reports show that there has been a slight increase in household incomes, empirical data show that Chinese middle class is still relatively small, especially if compared with other developed countries. Furthermore, income inequality is still a significant issue shaping Chinese society. Due to the economic slowdown, rising costs, uncertainties towards the future, and the overall post-pandemic aftermath, consumer confidence has reached the lowest peak in history. The Chinese government is adopting measures in an attempt to manage to solve this issue, for instance, by issuing consumer protection laws and giving consumers subsidies and incentives. Unfortunately, it's too early to assess their impact. The electric vehicles industry is continuously increasing. Instead, smartphones and fashion industries showed flat growth. While these sectors do not show any decrease in market size, overall consumption is still relatively low, and far from being the main driver of economic growth.

In conclusion, the research shows that promoting production of high quality goods and giving incentives is not enough to boost domestic consumption. The government's priorities should

be narrowing disparities (not only in terms of money, but also in terms of services, such as education) and increasing consumer confidence.

Future research could investigate the importance of addressing other kinds of disparities among society, like education. Besides, other research could assess the impact of China's domestic market and middle class in the global stage.

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