

Urbanization Eases China's Urban-Rural Divide in Consumption

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Summary

Due to institutional hurdles, mainly the urban registration system (*hukou*), there had been a large rural-urban divide in China in both economic development and people's living standards over the last 50 years. In the recent decade, as economic growth and urbanization gather pace, income and living standards between the rural and urban areas started to converge, especially in the consumption of consumer durables. The narrowing of rural-urban divide in the consumption of home appliances was particularly significant between 2001 and 2011, as technologically advanced durables spread from the city to the countryside. Surveys indicate that the demand for consumer durables is highest in small cities and small towns at county or township level. This could be the result of an acceleration of urbanization and changes in lifestyles. The young generation also plays a key role in generating new demands. Compared with older generations, the young generation across areas tends to form a similar vision of life and thus a demand for similar products is evident. At the same time, rural ownership of and especially demand for consumer durables also increase significantly, due to either the rise in income or product differentiation. In particular, residents in rural areas and small cities have strong demand for mobile phones, at levels that are comparable to that in large cities or even higher than that in medium-sized common cities. As the demand for consumer durables converges across regions, from big cities to rural countryside, China will not necessarily see the rural-urban economic divide develop into a digital and technological divide.

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China's Rural-Urban Consumption Divide Narrows

- In the last half century, there was a large divide between urban and rural areas in terms of both economic development and people's living standards in China. It was largely due to China's registered permanent residence system which limited migration from rural to urban areas, developed cities with centralized resources, and protected urban residents' welfare.
- Data from the National Bureau of Statistics showed that consumer spending in urban areas was two times that of rural areas in the 1980s and 1990s, while from 2001 to 2005, the divide expanded three times.
- But the urban-rural income divide has been narrowed since the last decade as the central government adopted a series of policies to promote the social and economic development of rural areas: better rural infrastructure, higher agriculture product prices, abolishment of agricultural tax and the nine-year compulsory education tuition fees.
- In addition, the process of urbanization in China has advanced rapidly and some rural residents have benefited from the process when their economic income and living standards show a great improvement.
- As a result, the divide in household durable appliance consumption in urban and rural areas has narrowed, and the expansion process for new varieties of electrical appliance and electronic durable home appliances that spreads from cities to rural areas has sped up. Technologically advanced durable home appliances, which used to be affordable only to the urban residents, have made a foothold in the countryside, resulting in the expansion of urban lifestyle to rural areas.
- In terms of future purchasing demand for durable home appliances, there has been a surprising development: demand for consumer durables is highest in small cities and small towns at county or township level largely due to the rapidly advancing urbanization process.
- In the past 10 years, the county has had the most rapidly growing population; some towns have

very high population densities. The initial impetus for expansion came from the exploitation of the rural area by the government for the development of real estate projects, gradually moving residents of counties and towns from cottages to apartments.

- Accompanying the shift is a change in lifestyle from traditional rural lifestyle to urban lifestyle. These lifestyle changes stimulate the demand for durable home appliances.
- At the same time, in recent years, with the development of county and rural areas, some migrant workers return and many of them no longer want to return to rural areas. They often buy a property in the town and settle there. Those who work in big cities but are unable to afford a flat also buy houses in counties or towns, and live with their parents and children.
- In addition, the centralization of locations of senior high schools, a policy implemented as part of this century's education policy also results in rapid concentration of population in small cities. These developments tend to encourage urbanization and thus stimulate the local consumption of durable home appliances and act as a driving force.
- The demand for durable home appliances in rural areas is also on the rise, fast catching up with the pace in urban areas, as the urbanization of small cities and towns gradually gathers pace.
- Although there are still major differences in possession rates of more expensive consumer durables, there are no such differences in terms of the demand for major consumer durables. In fact, the strongest demand for certain products, such as mobile phones, comes from residents in rural areas as well as small cities. There is thus less technological or digital divide between the rural and urban areas as the income difference would suggest.

Divide in the Possession of Durable Goods

2.1 According to the research based on the national sample survey data collected by the Institute of Sociology (CASS) in 2001 and 2011, the possession rate of basic family electrical appliances in rural families was significantly lower than that for urban areas.

2.2 As shown in Figure 1, in 2001, three basic appliances—TVs, refrigerators and washing machines—owned by urban families have a high possession rate of around 90% in provincial level cities, prefectural level cities and counties or township level cities. The refrigerator possession rate was 85.7%, 69.6% and 61.1% in municipalities/provincial cities, municipality level cities and counties or township level cities, while washing machine possession rates were 83.2%, 76.2% and 68.2% respectively.

2.2 However, the possession rate in peri-urban rural areas was far higher than that for common rural families; nearly half (48%) of peri-urban rural families had refrigerators and washing machines while in common rural families the possession rate was only 16.5% and 33.6%, respectively. The TV possession rate in rural families and urban families shows a relatively small divide, 78.4% in peri-urban rural families, and 55.2% in other rural families.

2.3 The possession rates of air conditioners were lower in 2001. With the exception of families in municipalities and municipalities/provincials (43.3%), other cities and rural areas have very low possession rate: 12.5% for municipality level cities, 16.9% for counties or township level cities and only 7.9% and 2.3% for rural and peri-urban rural areas.

Figure 1

2.4 Figure 2 shows the possession rate of durable home appliances in different regions in 2011. Television sets and mobile phones were common in urban areas with a possession rate of more than 95%; refrigerators and washing machines were also popular, at a rate that was usually higher than 80%.

2.5 For family consumption products such as computers and air conditioners, their possession rate

among people in municipalities/provincial and common cities was more than 50%. The possession rate for computers was 73.4% and 62.5% in municipalities / provincial and common cities respectively, while air conditioner possession rate was a respective 70.8% and 53.8%. In comparison, county and township residents had slightly lower possession rates of 47.3% and 31.2% respectively. Televisions and mobile phones in rural areas registered a possession rate of more than 90%.

2.5 Meanwhile, there is a remarkable increase in possession rates among rural and peri-rural households. In 2011, most rural residents also had refrigerators and washing machines. Refrigerator possession rate in peri-urban areas was 71.3% while that for rural areas was 52.3%. Possession rate of washing machines was 66.1 % for per-urban areas and 63.1% for rural areas. Rural residents had lower possession rates of computers and air conditioners. Computer possession rates in peri-urban rural areas and rural countryside were 32.5% and 24.2% and air conditioners had a possession rate of 24.2.1% and 8.8%, respectively.

Figure 2

2.6 Figures 3 and 4 illustrate the divide between the possession rates for urban and rural areas in 2001 and in 2011 for durable home appliances. A comparison of the two figures shows that the divide in possession rate of durable home appliances in urban and rural areas had significantly narrowed. The possession rate divide for TV sets and mobile phones in rural and urban areas was very obvious in 2001, a sharp contrast to that in 2011.

2.7 TV sets and mobile phones are tools for cultural transmission and communications. As such they are apt to create a digital divide between the haves and have-nots. Since the divide in their possession rate in urban and rural areas has narrowed, the digital divide in information dissemination and communication between urban and rural households has also diminished. This may in a large extent be due to the government's investment boost in communications, electricity and other infrastructure construction programs (since the late 1990s) in rural areas.

2.8 The divide in the possession rate for refrigerators and washing machines in rural and urban areas was prominent in 2001, but this divide had narrowed significantly in 2011. In particular, while the possession rates of different types of urban residents were very small, the divide in urban and rural areas was still evident. Since refrigerators and washing machines are essentials to modern family life, the narrowing of divide in possession rate of refrigerators and washing machines between urban and rural areas shows that urban family lifestyle has expanded to the rural areas.

Figure 3

Figure 4

2.9 Figure 5 lists the divide in the possession rate of various kinds of durable home appliances in 2001 and 2011, reflecting growth in durable home appliance possession in the past decade. The figure shows that in terms of growth in ownership, computer predominated the urban areas, while mobile phones led in the rural areas which also witnessed very impressive growth in the possession rate of refrigerators, televisions and washing machines. Possession rate of air conditioners in common urban families also shows a fast-growing rate.

Figure 5

2.10 The possession growth rate of traditional home appliances reflects a gradient effect from the urban areas to the rural areas, first in the municipalities / provincial cities, followed by common cities, before infiltrating the counties / towns and peri-urban rural areas, and finally, spreading to the rural areas.

2.11 However, the new generation of durable goods, such as computers and mobile phones, shows a totally

different gradient progression model: urban and rural areas almost simultaneous possession of such goods, in particular with regard to mobile phone.

2.12 In the last two years, factors like the popularization of smart phones (with Internet connections), and the prevalence of online shopping and logistics facilities in both urban and rural areas further closed the digital divide between urban and rural consumption.

2.12 However, the consumption divide in urban and rural areas could be traced to the income divide between urban and rural residents. Although the income divide between urban and rural areas has narrowed in recent years, the income of rural residents is still far below that of urban residents, and the income of residents of small and medium cities is far lower than that of large cities. This income divide between urban and rural consumption is set to continue.

2.13 The data in Table 1 shows that though TV sets are popular in both the urban and rural areas and displaying no significant differences, the same could not be said of color TV sets and more advanced and expensive LCD / plasma television sets. Urban residents—particularly people in the municipalities / municipalities/provincial cities— have a much higher possession rate of LCD / Plasma TV sets than residents of small towns and rural areas who still largely buy color TV sets.

2.14 The divide in the possession rate of different types of computers in urban and rural areas is however not so apparent. This may be due to the small price difference between different types of computers versus the big price gap between color TVs and LCD / Plasma TVs. This implies that the income divide between urban and rural residents is still a key factor in their consumption divide. Localities also play a role. Urban residents (especially people in large cities) tend to have higher income than those in small towns and rural areas, thus explaining the affordability factor.

Table 1: Percentage of different types of computers and TV sets in families that owned computers and TV sets

	Municipalities / municipalities / provincial cities	Common cities	Peri-urban rural areas	Counties / towns	Rural areas
Desktop	76.2	85.4	80.8	81.3	75.9
Notebook	47.7	33.8	26.5	32	32.5
Tablet	3.1	0.8	1.3	1.9	4
Color TV	74.8	83	94.9	89.3	97.2
LCD / plasma TV	40.2	26.7	11.8	19.3	8

2.15 However, this divide is reflected more and more in product prices, rather than necessarily in the types of products available. As rural-urban migration and product distribution between urban and rural areas speeds up, accessibility to new technology and advanced products almost equalizes in both the urban and rural areas. Although new products are always more expensive, domestic manufacturers are able to quickly make copies for people in smaller cities and rural areas, keeping rural residents on par with urban residents in consumption, but at a lower price.

Gaps in the Willingness to Buy Durable Home Appliances

3.1 The possession rate of durable home appliances reflects the purchasing demand of urban and rural residents in the past rather than in the future. In order to know their willingness to purchase in future, the CASS-CGSS survey of 2011 investigated whether respondents intended to buy durable home appliances within six months.

3.2 Figure 6 shows the consumption growth of seven durable home appliances, namely, television sets, refrigerators, washing machines, mobile phones, computers, air conditioners and cars from 2001 to 2011. It reflects the difference in possession rate of durable home appliances throughout the past decade.

3.3 Figure 7 lists the difference in possession rate of durable home appliances in urban and rural residents

in 2011, reflecting people's future requirements for purchasing durable home appliances in urban and rural areas. The changes in the purchasing requirements of durable home appliances in urban and rural areas in the past ten years and in the future can be concluded through a comparison of the two figures.

3.4 From 2001 to 2011, rural residents were the biggest buyers of TV sets, refrigerators and washing machines as urban residents had evidently reached a saturation point in the possession rate of these three durable home appliances in 2001.

3.5 In 2011 TV set consumption for big cities and small towns made a huge turnaround when urban residents replaced their color TV sets with LCD / Plasma TV sets and residents in small towns went for larger sized TV sets. After 2011, the purchasing trend for refrigerators and washing machines has seen the greatest demand in small towns and rural areas.

3.6 In the same period, the demand for mobile phones and computers surged. The situation remains even after 2011. Before 2011, the demand for mobile phones was greater than that for computers, but since 2011 a reverse is evident. After 2011, the smart phone with Internet access is the favorite product. Surprisingly, residents in small towns (counties / towns) and rural areas outrank those in common cities and peri-rural areas in terms of their demand for smart phones.

3.7 Changes in consumption demand for air conditioners follow the traditional model: it spread first from large cities to medium and small cities, then to small towns and rural areas around the city, and finally to rural areas. Before 2001, the consumption demand for air conditioners was mainly concentrated in large cities. From 2001 to 2011 common cities constituted the largest consumption demand for air conditioners, overtaken only in 2011 by residents in rural areas around the cities and small towns.

Figure 6

Figure 7

3.8 Surprisingly, the demand for durable home appliances in small towns (counties / towns) is the greatest. Figure 7 shows that in terms of demand for these six durable home appliances, county / town residents rank first or second place (with automobile consumption in third place).

3.9 A major reason for this phenomenon is urbanization. In recent years, urbanization occurred in many county/town areas and former rural residents moved to counties or towns. Meanwhile, a number of people who had worked for many years in big cities chose to settle in smaller cities instead of bigger ones. These two are likely buyers of new durable home appliances.

3.9 Another factor influencing the decision of local farmers and migrant workers to move to the counties and the towns is education. Since the beginning of this century, the Ministry of Education shut down a number of education institutes and merged schools into a single large school to concentrate junior and senior high schools in the counties and towns. To provide better education for their children, some rural residents moved to the counties and towns. This urbanization process stimulates the purchasing demand for durable home appliances in small towns.

3.10 The consumption demand for cars is still large in China. Car possession rate was very low in China in 2001: 1.6% in the municipal / municipalities/provincial area, 1% in common cities, 1.7% in peri-urban rural areas, 0.8% in counties / towns, and 0.5% in rural areas. The possession rate in peri-urban rural areas is slightly higher than that of urban areas due to the demand for minivans for business transportation purposes in the rural area around the cities.

3.11 In 2011 the car possession rate in both urban and rural families increased significantly, to 25.1% in municipalities / municipalities/provincial cities, 18.6% in common cities, 9.9% in peri-urban rural areas, 13.6% in counties / towns, and 5% in rural areas. Urban residents have higher possession growth rates than

rural residents, especially in big cities and common cities which show the fastest growth.

3.12 The demand for cars showed a similar trend in 2011, with cities constituting the biggest; however, the divide between urban and rural areas. In addition, in urban areas, the purchasing demand for cars in common cities is larger than that in municipalities / municipalities/provincial cities. traffic congestion.

Factors Influencing Demand for Durable Home Appliances

4.1 Different factors such as economic income, educational level and age contribute to the diverging demand for appliances and consumer durables among residents in different areas in China.

4.2 Car is still a relative luxury good for ordinary Chinese households. There was an obvious divide in the demand for cars in urban and rural areas from 2001 to 2011. Residents of municipalities/provincial cities have the largest purchasing demand, followed by common city residents, residents of rural and peri-urban counties / towns, and rural residents.

4.3 In addition, the purchasing demand for cars seems to correlate with annual income and education levels. The factor of age also affects car purchasing demand: the younger working adults have higher purchasing demand than the older generation.

4.4 Although factors including education level and age were factors influencing the purchasing demand of cars in 2011, the effect of annual income was not so obvious for cars and computers. Before 2011 their consumption was mainly determined by the level of personal income; this was no longer true after 2011 for the demand of cars. With economy cars flooding the market and car loans made easily accessible, automobile prices were brought down to a level that was even affordable to young people without a high income.

4.5 In 2011, there was no major divides between urban and rural areas for common household appliances such as computers, refrigerators, air conditioners, TV sets and washing machines. As economic growth and urbanization progresses hand in hand, these products have become household necessities across all areas. Counties and towns or rural areas tend to have the strongest demand, followed by peri-rural areas, municipalities/provincial and common cities. Common cities tend to have the least demand since the possession rate is already high and demographic expansion there is lower than that of the large cities.

4.6 As disposable income rises and prices for the aforementioned appliances fall, there is a convergence in demand for these common household appliances. Income and education levels have limited impact on purchasing demand. In terms of age, a reverse scenario is discernible before and after 2011: for a working adult, the younger a person is, the greater his/her the purchasing demand is.

4.7 For mobile phones, the demand in counties / towns is highest, followed by municipalities / municipalities/provincial cities and rural areas; the purchasing demand in common cities and peri-urban rural areas is significantly lower than these three areas.

4.8 Factors including annual income and years spent in education have no significant influence on the purchasing demand for mobile phones, but the factor of age is both different and influential. The younger one is, the greater the purchasing demand. Mobile phone consumption is no longer limited to people with high income and high education level. It has become a mass consumer product.

4.9 There is no significant difference between the demand for smart phones in small cities and the countryside, though there is a divide based on pricing and branding. People in cities tend to go for high-end international brands, while those in small towns and rural areas are more likely to buy locally produced and cheaper smart phones that perform similar functions with same network access. There are no technological or digital divides between people of different areas, especially among the young.

4.10 In sum, rural demand for consumer durables has caught up with urban levels due to the combined effect of economic growth, social change and generation shift. As economic growth and urbanization gather

pace, rural and peri-rural demand for consumer durables will continue to rise. Regardless of their residence status, the young in China tend to converge in their desired lifestyles and expectations. Thus as far as the young generation is concerned, there is no digital divide between rural and urban China.