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Chinese Consumer

Understand new Chinese consumers, their purchasing power, lifestyle and demand

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<p>Abstract</p> <p>The large population and the growing purchasing power of Chinese consumer have made China become an important market for many businesses, and to understand the needs and aspirations of China's new and potential consumers is an essential for winning this market. However it can be a challenge as today's Chinese consumers are so different, there has been the emergence of new interests and trends in consumption. After several decades of rapid economic growth, Chinese consumers are benefited with higher incomes and greater livelihoods, resulting in a changing lifestyle and different spending behaviours. Meanwhile, the widening income gap and uneven development brought different demands with different group of consumers. In order to give a realistic perspective about the new consumers in China, this thesis laid emphasis on the different lifestyle and consuming behaviour which reveal by different social categories. Sources from the latest news and the research data that focus on Chinese market and consumers were used to analyse the current situation and future trends of China's society and its consumer market. This study also tried to indicate the reasons for the changes and give the solutions for the improvements. It intends to give some ideas to the readers who interested in what happened and the trends of Chinese consumer market.</p>	
Keywords	China, changing consumer market, new consumers

Abstract

The large population and the growing purchasing power of Chinese consumer have made China become an important market for many businesses, and to understand the needs and aspirations of China's new and potential consumers is an essential for winning this market. However it can be a challenge as today's Chinese consumers are so different, there has been the emergence of new interests and trends in consumption. After several decades of rapid economic growth, Chinese consumers are benefited with higher incomes and greater livelihoods, resulting in a changing lifestyle and different spending behaviours. Meanwhile, the widening income gap and uneven development brought different demands with different group of consumers. In order to give a realistic perspective about the new consumers in China, this thesis laid emphasis on the different lifestyle and consuming behaviour which reveal by different social categories. Sources from the latest news and the research data that focus on Chinese market and consumers were used to analyse the current situation and future trends of China's society and its consumer market. This study also tried to indicate the reasons for the changes and give the solutions for the improvements. It intends to give some ideas to the readers who interested in what happened and the trends of Chinese consumer market.

Keywords: China; changing consumer market; new consumers.

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1 Introduction

China has 1.3 billion potential customers, with increasing purchasing power. The country has become one of the fastest growing emerging markets in the world, and it attracts much attention as many are eager to share the benefit from the seemingly limitless market with numerous new consumers.

However, the Chinese consumers can be very complex to understand not only as they are divided into so many different categories by income, generation, and location, but also the different categories' consumers have different concerns, perceptions and priorities. Moreover, due to the rapid economic growth and changing economic environment, the Chinese consumer behaviour is very different today: the rising purchasing power, the increase in demand, the abundance goods and services, the sway of fashion all encouraged Chinese consumers to adopt new lifestyles and identities. In order to profit from the Chinese market businesses have to keep pace with this changing market, in addition provide goods and services that will correctly gauge the needs of the target consumer group, because a generous payback will only feed into those who successfully win the preference and built brand loyalty among the new Chinese consumers.

The Chinese government, on the other hand, considers increasing domestic demand as one of the priorities in its national agenda. Chinese consumers have benefited from the reform and rapid economic growth. Meanwhile, the unbalanced economy dragged the future development of the country, with those people who left behind are struggling for life, and unable to consume much. To ensure the long-term economic growth and maintain the social stability, the government has formed policies aimed to adjust the uneven development and stimulate consumer consumptions, which include rising income level, provide subsidies for purchasing, cutting tax on certain goods and services, etc., and hopefully it will give the interest to whole society.

2 The power of Chinese consumer

With potential of 1.3 billion consumers, China's domestic market presents enormous buying power. Chinese consumers are experiencing rising income and mobility, better jobs and education, rapid urbanization and economic growth. They are growing to become more modern and mature consumers, which turned the country to an important market for consumer goods and have attracted attention from domestic and international companies.

During the global economic downturn, while U.S. consumers reduced spending on clothing, food, groceries, restaurants and entertainment, and any other unnecessary expenditure, the Chinese consumers experienced a large scale shopping boom. According to the CLSA Asia-Pacific Markets analyst report (2011), 42% of Chinese people increased their income and 54% of Chinese believe their income would increase in the coming year (2012). The prospects of income increasing stimulate an increase in consumer spending (The Wall Street Journal, 2011). As the demand and confidence of American consumer continue to decline, Chinese consumer, on the other hand, keep fast expending. China, according to a McKinsey & Company report (2012), will be the world's largest growth market for many years, and it will be a great opportunity for many companies.

In 2011, McKinsey & Company, in "Chinese consumer study" survey, forecast that by 2020, China's real consumption will have doubled to \$4.8 trillion and China will then be the world's second-biggest consumer market after the United States. In fact, China, as the world's most populous country, has already become a major market for many businesses. In 2010, China outstripped America in automobile market with sales of 13.5 million cars compare to Americans' 11.6 million (The Economist, 2011). By the end of 2011, there were almost one billion mobile phone subscriptions in China which count for one sixth of the world total subscriptions (BBC News, 2012). In 2012, China was the top consumer of luxury goods with 25 percent market share of global luxury goods consumption (Zhang Rui, 2013). Companies have set their marketing objective for selling products to Chinese consumers and many of them have been offered huge rewards by winning the Chinese market, which include Louis Vuitton, Procter & Gamble, Starbucks, Apple, etc.. Companies that intend to gain a share in this emerging market

will need to have a better understanding about China's current economic environment and new Chinese consumers.

3 Economic environment in China

3.1 Economic conditions of China

Since the reform and opening of the economy, China has experienced a fast economic growth. An average GDP per capita rose at over 9.8 percent annually for the past 34 consecutive years, thus enabling China to become the second largest economy in the world in 2010. (People's Daily Online, 2012) However, there has been a lot of debate about the quality and pace of the China's economic growth. Experts suggested that China should focus more on expanding domestic demand, especially consumer demand, than increasing investment.

In recent years, consumer spending rose rapidly in China. Besides the effect of inflation, it is more attributed to the changing market environment and increased purchasing power. As China's living standards are rising with the economic growth, more and more consumers are able and willing to spend more on goods and services; it in turn, gives the advantage of economic growth.

3.2 The changing consumer market

After establishment of the People's Republic of China in 1949 Chinese consumers were under the centrally planned economy for the first thirty years. When other countries, such as the U.S.A., with the market economy were developing modern consumer societies, the PRC tried to develop its economy with as little integration into those capitalist economies as possible. The government made policies to limit the availability of consumer goods as all resources were priority allocated to the heavy industry, "producer goods" (e.g. steel and chemicals) considered more important than the "consumer goods" (e.g. soap and bicycles). Consequently, there were little consumer goods to buy on the market. (Karl Gerth, 2010)

Before 1979, all essential consumer goods are provided under a rationing system, which included meat, egg, cloth, cooking oil, rice, etc.. People need to use ration tickets, which issued based on monthly rations, to purchase daily necessities. Moreover,

because the shortage of consumer goods Chinese consumers often had to wait in long lines to get what they needed. It was a hard time for Chinese people, they lived in an inadequate house, food and clothing supplies were barely sufficient, and service sector was inefficient. It was hardly to see any foreign brands on the market, because foreign trade was generally limited; private enterprises and foreign invested firm was barred (Wu Jinglian 2009: 76-84).

This situation gradually changed since 1978 when the economic reform began. By allowing a private economy to develop from the bottom up and encouraging foreign trade, the more market-oriented economy was formed. Unlike a centrally planned economy, where the state has command over most resources, in a market economy individuals have more freedom to join the economic activities. This development gave the opportunity to Chinese people to gain wealth by working hard and by becoming entrepreneurial (Wu Jinglian 2009: 76-84).

As China transformed to a more market orientated economy, Chinese consumers profited by having much wider selection of goods and services to choose in the market. Unlike the centrally planned economy where the production and price are set by the government with little consideration to consumer demand and preference, in a market economy, enterprises are forced to become more efficient since there were more competitions in the market. To win favour with today's Chinese consumers, who currently enjoy higher disposable incomes and better living standards, business will need to make the effort to better understand the different behaviours and needs of the Chinese consumers.

3.3 Different government policy towards private consumption

Figure 1 illustrates how China's GDP growth has slowed down since 2008. Sustaining economic growth will rely more on consumption than investment and exports.

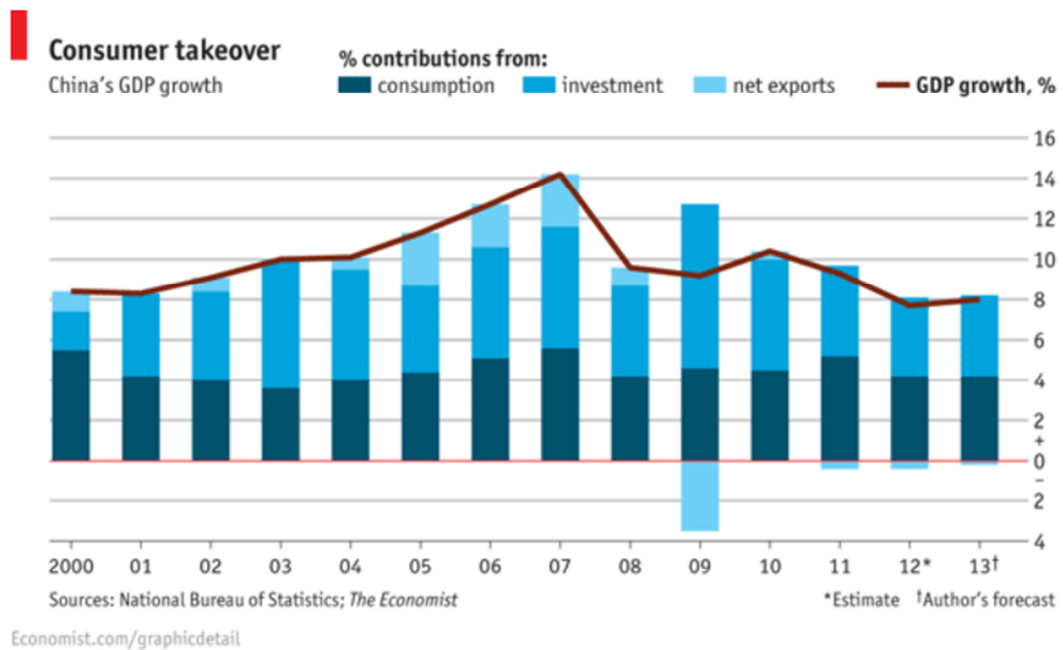


Figure 1 GDP growth in China, 2000 – 2013, Source from Economist.com. Chinese growth: China faces a more sober economy in 2013.

For a long period of time, China has depended on export and investment to stimulate the economic growth. In the late 1970s, China implemented the economic reform towards a market-oriented economy and opened trade to the outside world. The policy encouraged foreign investment and international trade, which enabled the low-cost "Made in China" products to become very popular in international markets. Since the late 1970s, exports have grown rapidly, and have started to play a major role in China's growth; therefore, China's economic growth has been characterised as "export-led growth". However, after 2008 China's exports dropped sharply due to the global recession. The country now needs to look to reduce its reliance on exports and to balance its economy by moving toward to more sustainable course. (Tom Doctoroff 2012: 48-50)

Investment, on the other hand, has taken at least one third of the GDP in the last two decades (see Figure 1). Xinhua News (2008) reported in 2008 the Chinese government launched a RMB 4 trillion (€493 billion) stimulus package, which mainly focused on infrastructure. This stimulus program helped boost China's GDP growth under the circumstances of the global financial crisis, and it has been remarkably successful in the short run. In the long run, an addiction to using investment to boost the economy can be harmful to the society. After decades of massive fixed assets investment, the

benefits of such investments bring to the economy will decrease. Problems such as overcapacity, rising public debt, excessive government intervention and price signals distortion has started to appear as the Chinese economy continues to develop.

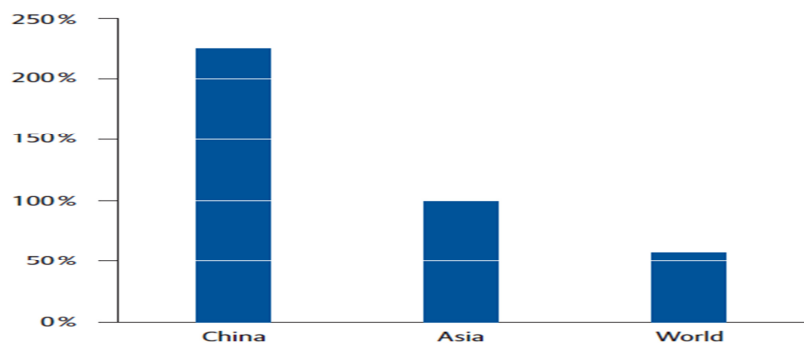
The Chinese government has realised that it need to rebalance the economy, which will increasingly rely on the consumer led growth. Private consumption will become an important source of domestic consumption, which will drive the further economic growth. In the current five-year plan– the 12th Five-year Plan that has been implemented since 2011 – the government states that they would like a steady increase in domestic consumption and to shift the economy from relying on exports and investment to pay more attention to domestic consumption. In 2012, consumption contributed to 57.7% of Chinese GDP growth, and for the first time in over a decade consumption overpassed investment (which shares 49.4% of the growth) to become the leading force of the economy. (The Wall Street Journal, 2012)

This could be considered good news to those companies who are selling their products to Chinese market and expecting Chinese consumers to spend more. However consumption is not only about spending money, but also about consumer confidence, perceptions and aspirations. In order to keep domestic consumption expanding the Chinese government should improve the consumption environment not only by maintaining the policies on increasing income and reform income distribution, but also on encouraging development of small and middle - sized enterprises (SMEs) to create jobs, lower taxes of consumer goods, and improving the social security and welfare systems.

4 The new consumer

4.1 Increased purchasing power in China

In the past decade (2000 – 2010), the growth of global per capita income¹ was almost 60%. Asia, as a whole had nearly double the global growth amount. Specifically in China, per capita income rose dramatically by 225%. (See Figure 2)



Source: Datastream, Allianz GI Capital Market Analysis as of June 2011

Figure 2 Growth in per capita income 2000 to 2010, Source from China's middle-class boom, CNNMoney.

Figure 3 shows the average disposable income of urban Chinese rose to around \$3000 per capita in 2010, according to an analysis of official government statistics by China Market Research Group. It was as low as \$280 annually in 1980.



SOURCE: CHINA MARKET RESEARCH GROUP

Since 1980, yearly earnings for an average Chinese household multiplied ten times over.

Figure 3 China's income boom, Source from China's middle-class boom, CNNMoney.

¹ Per capita income is the annual average income of the population of a country.

With economic prosperity over the last 30 years, the income and living standard of average Chinese people has substantially grown. The increased income makes it possible for Chinese consumers to purchase more goods and services, and it also brings rising expectations for future wealth, which will encourage consumers to spend more in the present and relieve the worries of money shortage on later needs. With the rising purchasing power, Chinese consumers are able and willing to pay more for higher quality, brand names and differentiated features.

4.2 Moving across spending patterns

In Figure 4, it can be seen that the largest proportion of urban households' income is spent on food, which was about 57% of total expenditures in 1991, food expenditure dropped to just above 30% in 2011. During the same period, the percentage of urban household spending on household facilities, health care services, education and recreation had a steady and dramatic increase.

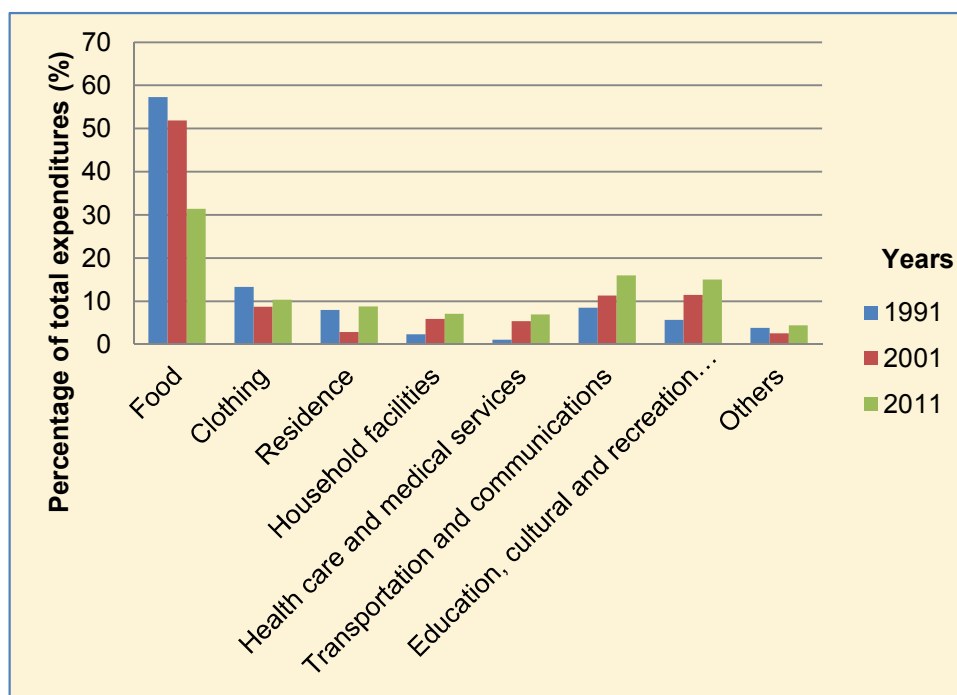


Figure 4 Average Per Capita Annual Expenditure of Urban Households in China (Comparison of the year 1991, 2001 and 2011), Source from China Statistical Yearbook 2011, China Statistics Press 2012.

Over the period of 1991 to 2011, consumer spending on basic needs such as food and clothing reduced. Urban household demand shifted from spending mainly on essentials to buying more expensive goods such as cars, electronic appliances and jewellery. As consumers become wealthier they will be able to make discretionary purchases beyond meeting the basic needs.

In addition, there has been a growing proportion of spending on service sectors; urban consumers start to have more concerns on medical care, education, and personal finance, which tend to strong demand for communication services, cultural services, personal care, financial services and insurance, etc.. These changes can be seen as a signal of Chinese consumer's transition to modernism. Their spending patterns are becoming more typical of developed countries.

More rural residents have begun moving to the cities. Rural residents were once the poorest in the country, whose consumption has been greatly restricted. By migrating to the cities for higher-paying jobs, they steadily climb up the income ladder and raise their purchasing power, which develops them into future spenders. Furthermore, their spending patterns are influenced by the urban dwellers.

4.3 The changing lifestyle of Chinese consumer

Historically, Chinese consumers have been extremely price-sensitive and have tended to spend money only on the basic necessities. For China's old generation, who have experienced economic hardship, paying thousands yuan for the latest mobile phone is far beyond their comprehension. As consumers get wealthier the demand for more sophisticated and quality products and services increases. According to McKinsey & Company's report (2012), "From mass to mainstream - Keeping pace with China's rapidly changing consumers", the younger Chinese, who were born after China's opening to the world in 1978, have different spending patterns than their parents. Young Chinese consumers have become more brands oriented than purely price sensitive, and they are willing to pay a premium for better quality.

The post-80s' and post-90s' generation who are influenced more by western culture have more interest and exposure to the world outside China and tend to be more self-expressive and assertive. As consumers, they are fast adopters of the newest trends and latest products; they are more aware of brand, especially in fashion. Pierre Xiao Lu (2011:62) deems that three modern values: youth, modernity, and individualism have gradually taken root among Chinese consumer, especially among the urban youth. That change in consumer behaviour has led to products and services that allow them to show their own tastes. (Pierre Xiao Lu, 2011)

Another visible change among the Chinese consumer is the increasing influence by mass media and advertising. The advertising industry is relatively new in China, which was first established in the early 1980s. Before the 80's all promotions Chinese people saw on billboards or television was limited to political propaganda. (China Daily, 2012) When the market-oriented era came advertising started to play an important role in the spread of brand awareness and helped to build brand loyalty for both international and domestic products.

Due to the culture and mass media influence, there is a trend that Chinese consumers are taking more emotional considerations in purchase decisions. For example, recently in China the luxury market is expanding rapidly, Chinese consumers, especially the younger consumers are more likely to prefer certain brands and products such as Louis Vuitton and Apple iPhone (McKinsey, 2012). These luxury goods are not only purchased by wealthy Chinese consumers, McKinsey report (2011) indicated that the middle-class, with income between RMB 60,000 and 200,000 (€ 7,418 and 24,732) a year comprise 51% of luxury consumers. Although a LV handbag could cost as much as one month salary of middle-class consumers, they are willing to pay to enjoy the happiness of owning a luxury brand, which will make them feel special and different among colleagues and friends.

To understand what Chinese consumers want from the brand and how to communicate with the customers to retain them will be critical for the success of brands in China. As Ray Wright (2006:260) states in his book: "Consumer emotions, stimulated by advertising will encourage the consumer to try particular products and brands. If the feel-good factor is reinforced, repeat purchase will take place." It needs to be notice that Chinese consumers have different emotional fulfilments in different brands and

products, the differentiation can be divided into categories based on income, age, location, occupation and education. (Ray Wright, 2006)

5 Different income group, different demand

5.1 Rising number of millionaires with extraordinary spending power

Wealth accumulation in China is quickly growing. According to the Hurun Report (2012), a ranking of the wealthiest individuals in China, those with assets worth more than RMB 10 million (€1.23 million), surpassed the one million mark with an increase of 6.3% over the previous year. Furthermore, the super-rich (individuals with RMB 100 million, which about €12.3 million) increased 5.8% compared with a year earlier, reached 63,500.

Table 1. Rich and Super-Rich Broken Down by Region

Province	Number of Millionaires*	Percentage	Rank	Number of Super Rich**	Percentage	Rank
Beijing	179,000	18%	1	10,500	17%	1
Guangdong	167,000	16%	2	9,500	15%	2
Shanghai	140,000	14%	3	8,200	13%	3
Zhejiang	133,000	13%	4	7,800	12%	4
Jiangsu	73,000	7%	5	4,800	8%	5
Fujian	38,600	4%	6	2,400	4%	6
Shandong	35,000	3%	7	2,000	3%	8
Liaoning	30,800	3%	8	2,050	3%	7
Sichuan	25,500	3%	9	1,800	3%	9
Henan	17,300	2%	10	1,200	2%	13
National	1,020,000			63,500		

*individuals with more than RMB 10 million

**individuals with more than RMB 100 million

Source: GroupM Knowledge – Hurun Wealth Report 2012

Table 1 illustrates how the distribution of rich and super-rich in China were very unbalanced between the provinces. Most of these rich and super-rich are concentrated in big cities, such as Beijing, Shanghai, Guangzhou, for the cities offer comforts of modern life such as easy access to better education for their children; more completed infrastructural facilities; variety of entertainment such as high-end shopping malls, VIP clubs, high-class restaurant; advanced medical treatment with multiple hospitals and specialized doctors; etc.

As consumption is related to the level of personal income, these rich and super rich consumers will have different lifestyles and consumer choices compared to other income groups. With more disposable income, the wealthy Chinese consumers are not only able to afford famous brands and high-quality imported products with higher prices, but they also become the main and frequent buyer of this kind of goods. (McKinsey & Company, 2010)

5.1.1 Luxury brands

The wealthy are the group of consumers who tend to purchase the top luxury brand that low and average income consumers cannot afford. Wealthier consumer groups have high degree of brand loyalty; for them, the quality of the product and service is much more important than the price. The luxury brands allow them to feel that they have access to something elite which matches their status. (McKinsey, 2010)

Research carried out by McKinsey & Company (2010) about China's Luxury Market estimated that from 2010 to 2015, the wealthy consumers in China will drive 38% of the growth in luxury market.

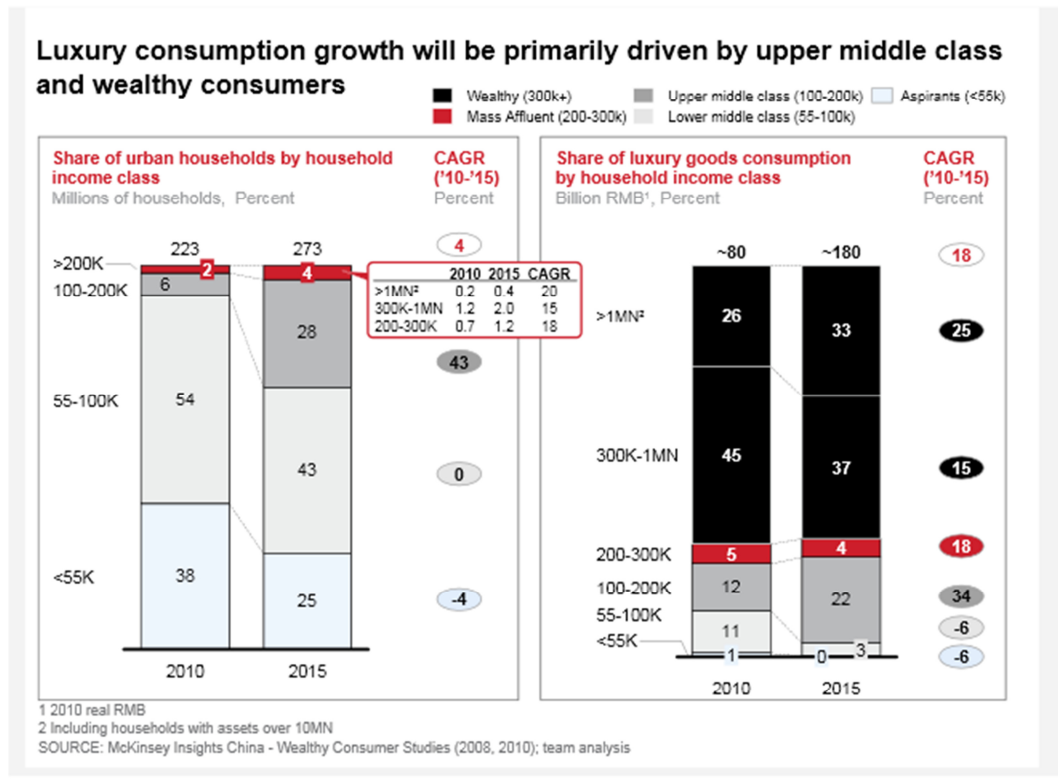


Figure 5 Analyses driven force for luxury consumption by different income groups, Source from Understanding China's Growing love for Luxury, McKinsey & Company.

From Figure 5, it can be seen that although the number of wealthy households (with household income over RMB 1 million) in China makes up only 4 percent of the urban population, they are expected to purchase more luxury goods in the following years. These minority consumers are going to reveal their dramatic purchasing power by taking one third of the luxury consumption by 2015. (McKinsey & Company, 2010)

McKinsey Chinese Luxury Consumer Survey (2012) points out that unlike the ordinary luxury buyer who can purchase middle-range luxury products, such brands as Louis Vuitton, Gucci and Omega, the super-rich Chinese consumers tend to buy something more exclusive. They do not want the same brands as everyone else, instead, the limited collections and the exclusive brand (for example: Hermes, Ferraris, Patek Philippe) has become their favourite.

5.1.2 Health consumption

Over the past two decades, the money spent on health products in China has increased with an annual growth rate of 15 to 30 percent, far higher than in developed countries, which is 13 percent over the same period. (Liu Lu, 2012)

Nutritional supplements and health food have become hot commodities in China. While the wealthiest Chinese are paying more attention to their health, they are going after high-end health care products such as Chinese caterpillar fungus, which is considered as a health benefit herb and is used as a treatment for cancer. This caterpillar fungus is an extremely expensive health product. The retail price for good quality caterpillar fungus can be as high as RMB 700,000 (€ 86,278) per kilogram. (Want China Times, 2012)

Eating healthier food is also a trend showing an increased demand among the wealthy consumers; only the freshest and best quality foods will be picked. They have higher requirement for the food they purchase, natural ingredients can be more important than the good taste. In addition, more wealthy Chinese would like to take regular health examinations and personal physician are becoming more popular. (The Chinese Luxury Consumer White Paper, 2012)

5.1.3 Study abroad

The Hurun Report (2012) indicated that more than 85% of Chinese Millionaires intend to send their children to study abroad, while among the Chinese billionaires this figure reached as high as 90%. The United States, United Kingdom and Canada are the top three choices for overseas study destinations. The Report also shows that the booming overseas education for the children of wealthy families drives more overseas property investment. In order to give the best to their children, these wealthy parents are willing to buy accommodation in the country where their children study. (The Chinese Luxury Traveler White Paper 2012)

The increasing demand of foreign education among the wealthy Chinese can be attributed to several factors. Firstly, Chinese culture trends to influence Chinese families place special value on education and parents are prepared to pay any price they can afford for putting their children in a highly ranked school. For these wealthy families, sending their children overseas and giving the opportunity to let them attend a world-famous university is considered a critical investment. Secondly, there has been a

debate about whether China's exam-oriented education system will curb students' creativity. The wealthy parents who value integrated development education found foreign education are more attractive. Thirdly, many wealthy Chinese intend to move overseas, and it is a way for these wealthy families to immigrate by sending their children to study abroad at young age. Furthermore, most of Chinese believe English as an international business language is important for building a good future for their children. (Hurun Report, 2012)

5.1.4 Leisure time for the wealthy

Chinese wealthy people enjoy themselves with sports, travel, and beauty & health care. They are the group of people who have more financial freedom and time to seek a better work-life balance and enjoy leisure activities more frequently. (Hurun Report, 2013)

➤ Sports

Golf, horse riding, yachting and skiing gives the new and unique experience to Chinese consumers. These kinds of sport have something in common: they demand time and money for expensive equipment and membership fee.

In China, to be a participator of these sports can be seen as a symbol of success. Take golf for example, it is regarded as a rich man's sport in China, where a lifetime membership in a club can cost RMB 6 million (€ 741 thousands), (Beijing Country Golf Club, 2013), which keeps the general public away.

Most wealthy Chinese businessmen join a golf club to express their social status and use it as a means to entertain their clients or business partners, in order to get future commercial success by establish a good "GuanXi" (relationship) connection.

Health is also a primary concerns to join sport activities. Just like everyone else in China, the wealthy group is looking for the balance between busy working and healthy life. Many of wealthy Chinese have membership in top sports clubs near their offices or homes, activities like yoga, swimming, and tennis are very popular. Personal trainers are rising in numbers by require to help the wealthy people getting more fit and healthy. (Hurun Report, 2012)

➤ Travel

The wealthy Chinese travel more often than others, according to Hurun 2012 Survey, per annum, rich people travel 3.6 times domestically and 2.4 times internationally on average; the super-rich have even more trips where the average travel time is 4.2 for domestic and 3.4 for overseas travel. Within China, their favourite destinations are Sanya (in Hainan Island), Hong Kong and Yunnan; France, US and Australia are the most popular when they travel overseas. 64% of the Chinese wealthy travellers own a vacation house, either domestically or abroad. (Hurun Report, 2013)

The report also gives the main reasons for international travels: most of the wealthy people go abroad as tourists or for business.

Table 2. Main Reasons for Travelling Abroad

%	2012
Travel	65
Business	51
Shopping	32
Visiting relatives and friends	17
Other	2

Source: Hurun Best of Best Survey 2012

Travel abroad is still considered as a luxury leisure activity among the Chinese people. Normally, people will save one year for a trip. They cannot go travel regularly due to time and money restrictions. When people become wealthier, they tend to be able to travel more frequently, and have more options from which to choose.

- Beauty and Health care

Decades ago, in China, it was shameful if a woman cared much about her appearance. Nowadays, most of people pursue a beautiful face and excellent figure. Receiving a skin care treatments or a massage treatment in a luxurious beauty salon is a part of the daily life for Chinese rich people, especially for the rich females.

Another trend among the Chinese wealthy people is overseas medical tourism. There is increasing number of rich Chinese consumers are willing to pay high price for taking good quality and privacy healthcare service in US, Switzerland, South Korea, and Japan. About 60,000 Chinese will go to these countries annually to seek medical treatment like anti-aging therapy, cancer screening, child birth and for treatment of chronic disease. (Yang Wanli and Liu Zhihua, 2012)

5.1.5 Investment

Wealthy Chinese make investments to protect their money from rising inflation. A report from Bank of America (2011) pointed out that stocks and real estate properties are the favourite investment sectors for rich Chinese. In 2010, wealthy people in China put 42 percent of their investment in stock markets, and 27 percent went to real estate. Due to the tightening control on real estate market by Chinese government, investment in property abroad will become more and more popular. (China Daily, 2011)

The falling price in U.S. real estate during the housing-crisis is one of the reasons that attracted Chinese wealthy to invest. Along with the restrictions on property purchases are driving Chinese to look overseas. Canada, UK and Australia are also prime markets for Chinese property investors. These wealthy consumers, who have cash and desire to invest, inject billions of dollars into the markets. The Wall Street Journal reported that in 2011, buyers from China and Hong Kong spent \$9 billion in the U.S. residential-real-estate market leading to an 89 percent increase from 2010 purchases (Lauren A. E. Schuker, 2012). This trend will continue as Chinese wealthy people do not just invest overseas properties for making profit but also invest for immigration purposes and an anticipation of their children's education.

According to the statistics released by United States Department of Homeland Security, there were 1,971 investment immigrants. Investment immigrants are required to invest at least \$500,000 in the U.S. from China's mainland in order to successfully get approved to settle in U.S.. (China Daily, 2010) Hurun wealth report (2012) indicated

there is a growing trend of wealthy people leaving China in the past few years: "More than 16% Chinese millionaires have already emigrated or have already submitted immigration applications, while 44% have plans to do so in the near future (Hurun Wealth Report, 2012)."

It seems that wealthy Chinese and their money are floating out of China. By moving their families abroad and gaining foreign residency, China's rich are attempting to secure of their wealth. As Rupert Hoogewerf, who compiles the Hurun Rich List said in 2012, "If there is political unrest or suddenly things change in China, they (the wealthy Chinese) already have a passport to go overseas. It's an additional safety net." The rich people may feel insecure with their wealth as an affect of the memories of the Cultural Revolution, they fear the government will change the policies and take all their money back. Another motivation of invest to emigrate is certain concerns about family. According to Hurun Report (2013) nearly 60 percent of the wealthy people surveyed said worries over their Children's education are the reason for them to leave China. China's test-oriented education is too stressful, and parents would like to provide better education for their children. Wealthy Chinese also may be attracted to more well developed commercial environments, or they may just simply look forward to the clearer air and safer food. (Hurun Report, 2013)

5.2 The rising middle class – the main body of consumers

From 1980s until now, China experienced tremendous economic growth, a new middle class with better income, increased purchasing power, and improved living standard have emerged. Due to the sheer size, China have majority of the middle class population among the developing countries, and if China can keep the further expansion with the size and income of its middle class, the consumption of China will have a significant increase which could rebalanced China and even the global economies. (Tom Doctoroff, 2005)

Chinese government have noticed the importance of the middle class, as Chinese President Xi Jinping presented at the Communist Party's 18th National Congress in last September, "in the next 20 years, the most important symbol of Chin's rise to a rich,

strong, and prosperous nation will whether the majority of citizens have entered the middle class (Fred Hu, 2013)."

China Daily write: "Chinese consumption, largely driven by the middle classes, will account for \$6.2 trillion (4.6 trillion euros), just under a quarter, of the \$26 trillion of additional global consumption in the 15 years up to 2025 (Andrew Moody and Lv Chang, 2013)." Thus, Chinese middle class could hold the key to converting China's economic growth pattern from "export and investment-led growth" to "consumption-led growth".

Outside of China, Western media and business analysts also have the similar perceptions of the importance of Chinese middle class. Over the years, there are many studies and reports about "The powerful middle class in China" (CNN Money, 2012). McKinsey estimated Chinese middle class will have rapid growth in the numbers as well as consumption potential for the next two decades. To make profit, businesses need to understand the growth in consumption from the Chinese emerging middle class. (McKinsey, 2012)

5.2.1 Who are they?

It is hard to give a clear definition to China's middle class as there are so many different ways to classify them with different measurements. Some research use income level as a measurement; some define them by purchasing power; some categorize middle class on the basis of families' assets.

A report from the Chinese Academy of Social Science (CASS) estimated that in China, the middle-income class could number 230 million (nearly 20 percent of total population, 50 percent of urban population) in year 2011. CASS defines the middle class as people who earn annual income of \$6,000 to \$15,000, and spend 30 to 37.3 percent of their income on food. (People's Daily Online, 2011)

This number could be too high or too low, but in China, the middle class do have something in common: they are concentrated in big cities, normally white-collar employees who work for multinationals or state-owned companies with higher and stable income. Most of the middle-income class has tertiary education; moreover, they

should be able to afford at least one house in an urban area, a car, and other expensive goods.

For these middle class consumers, besides the spending on basic necessities, such as food and cloth, the higher income enables them to spend more on the discretionary items. This fast expanding group attracted most of the attention from the companies, both internationals and domestics, by their size and potential purchasing power.

5.2.2 How do they make the purchasing decision

China's middle class consumers are valued as a leading force in consumption, not only because of their strong purchasing power but also the higher consumption lifestyle. Compared to the low income group, the middle class are more confident to spend money. And same as the high income people, middle class consumers also like to go after high-end consumer goods, such as jewellery, cosmetics, foreign brand cloth and shoes, etc..

Chinese consumers' buying behaviour can be analysed by Maslow's Hierarchy of Needs.

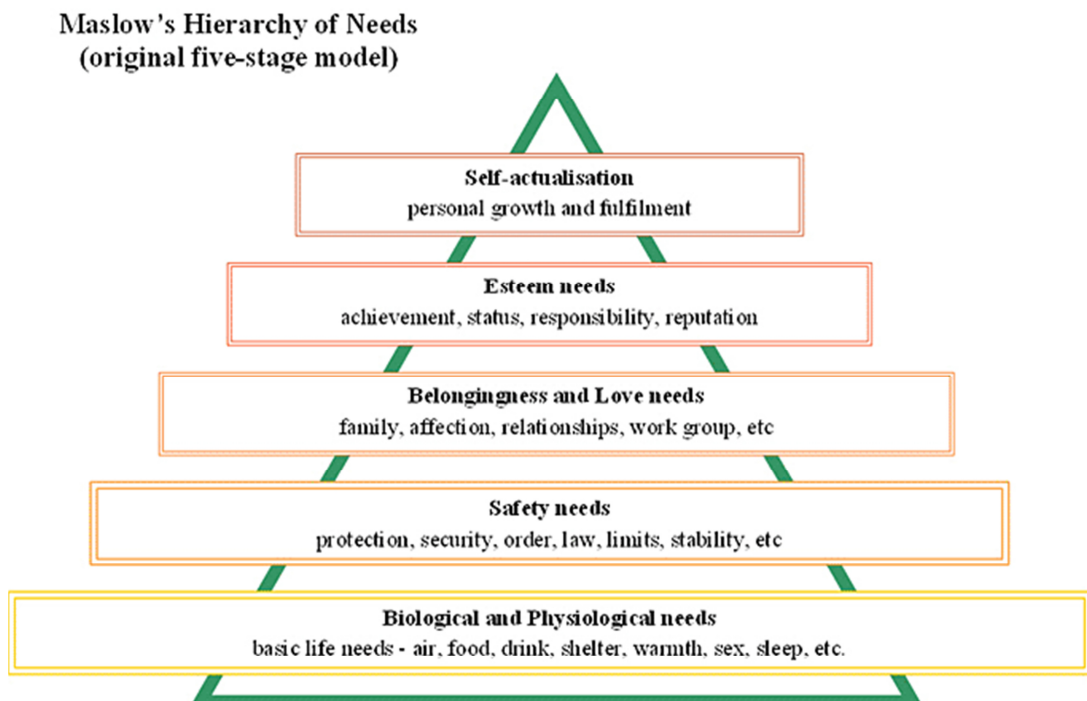


Figure 6 Maslow's Hierarchy of Needs, Source from Alan Chapman 2001-4, based on Maslow's Hierarchy of Needs.

The middle class consumers have more than enough income to cover their basic needs. When the necessities have been purchased, the consumer will buy expensive consumer goods which allow them to show off their success. They will spend money on well-known branded products which make them feel better about themselves. It is important that the goods and services will enable them to show their social status. This kind of emotion purchasing meets the needs of up level of Maslow's triangle. (Jim Blythe, 1997)

Even though there is a large income gap between the wealthy and middle-income group in China, it does not mean the Chinese middle-income consumers stopped spending on expensive luxury goods. While Chinese wealthiest people spend millions on top luxuries such as sport cars or private yachts, the middle-class consumers have more cautiously purchase small luxuries. They will compare prices and spend their money wisely. According to KPMG report (2013) of China Luxury, there is an increasing number of middle-class Chinese buying luxury goods outside the Chinese mainland, with the most popular items being cosmetics, watches and handbags. Lower price is one of the incentives for Chinese middle-income consumers buying luxury goods overseas, CLSA found in China the high import taxes on luxury goods means prices are between 30 percent and 70 percent higher than elsewhere.

In addition, the higher income and attitude to the new lifestyle are also contributing to the new interest of travelling abroad. The data from Hurun report (2012) shows that in 2011, Chinese tourists spent in average of 813 Euros on shopping abroad, leading to an outstanding increase of 44% compared with 12.5% by global travellers over the previous two years. There are more and more countries that are welcoming Chinese citizens by signing the tourism agreement and hoping it will benefit from the active consumption of Chinese tourists who are love to filling the luxury product shops and DFS in airports all over the world. (Hurun Report, 2012) Chinese government also introduced "a week of travel" what is a week-long holiday around National Day and Spring Festival to encourage people go traveling and spending.

5.2.3 Factors that weaken the middle class' purchasing power

Even though Chinese middle class consumers are becoming wealthier and more willing to spend, they still have to deal with high housing price, rising living cost, expensive educational expense, and a weak social welfare system. (Elisabeth Croll, 2006)

For Chinese, owning a home is “an essential component of the good life”. As property prices have surged over the past decade it has become harder for young graduates, for lower-income migrants, or even for the people already in the middle-income class to buy their own home, especially in big cities. CNBC report notes in 2013:

China has seen a boom in the property sector recently, with some cities seeing a 10-fold increase in prices, which have driven the average home buyer out of the market. According to estimates, the cost of a home in Shanghai would be around 45 times the average resident’s annual salary (Ansuya Harjani, CNBC Asia).

The skyrocketing housing price force many middle income people to become “housing slaveries”, after a high percentage of their income goes to repay the decades-long mortgages, the spending on other things will likely to reduce in order to keep their budget.

Middle class Chinese have stable incomes, but their spending power can be reduced when they have to face of uncertain social safety nets and the rising costs of public services for education and health care. The National Bureau of Statistics of China reports that people born after government implemented the “One Child Policy” in 1978 are the majority of today’s middle class in China. They have more financial pressure to support the retired population. Elisabeth Croll (2006) indicated that many Chinese young families need to support for four or more elders (their parents and grandparents), and take care of their own children. Due to the rising cost of health and education as well as the insufficient pension and medical services, these working middle class consumers will have more intention to save and less confidence on spending.

Moreover, China’s tax system relies heavily on middle income salaried workers. An article in China Daily pointed out that currently in China, the middle class is the main tax contributor, they are paying the highest percentage of their income for tax while the wealthy people have much smaller tax burden by having more sources of income and more ways of evading taxes (China Daily, 2013). As a result, the gap between the wealthy and middle class grows, and the distance between middle class and poor are shortens.

The increasing house prices, alongside the rising cost of education, the lack of safety net, the worries about health care in the event of accident or illness, and the growing disparities with the wealthy group have generated personal insecurity among the Chinese middle class. In order to fuel the engine of domestic consumption by releasing the purchasing power of China's middle class, the government will need to accelerated improvements in the social security system and carry on the further tax reform.

5.3 Rural migrant

Before the economic reform, in order to subsidize rapid industrialization in urban area with limited resources, Chinese government set prices and investments in a manner that discriminated against agriculture and rural areas. Since 1950s, China has separated urban and rural residents via a strictly enforced residential permit system (hukou). Under this system, the urban employees in China were provided with better jobs, health care, housing, education, and pension benefit, whereas the rural workers are only access to the basic health care and education, leading to sharp differences in the living standards of urban and rural residents (Shahid Yusuf and Anthony Saich 2008:41).

The uneven development in China force rural residents migrant to urban area for better income and life. Even though most of rural-urban migrants engage in low-paid, manual and services works, they are earning better than doing farm works in their home villages, plus there are more job opportunities in the cities. The large number of migration labours fills the jobs that are shunned by most urbanites, and they also increase consumption in urban area. These rural-migrants have become an important impetus for boosting the expansion of urban industries and services as well as stimulating the urban economy (C. Cindy Fan 2008: 65).

5.3.1 On-going urbanization

"The growing urban population is driving domestic consumption and generating more investment opportunities. It's helping to boost the economy at home, and will have a positive impact on the wider global economy" said Liu Zhiyan, from Chinese Academy of Social Sciences. (CCTV News, 2012)

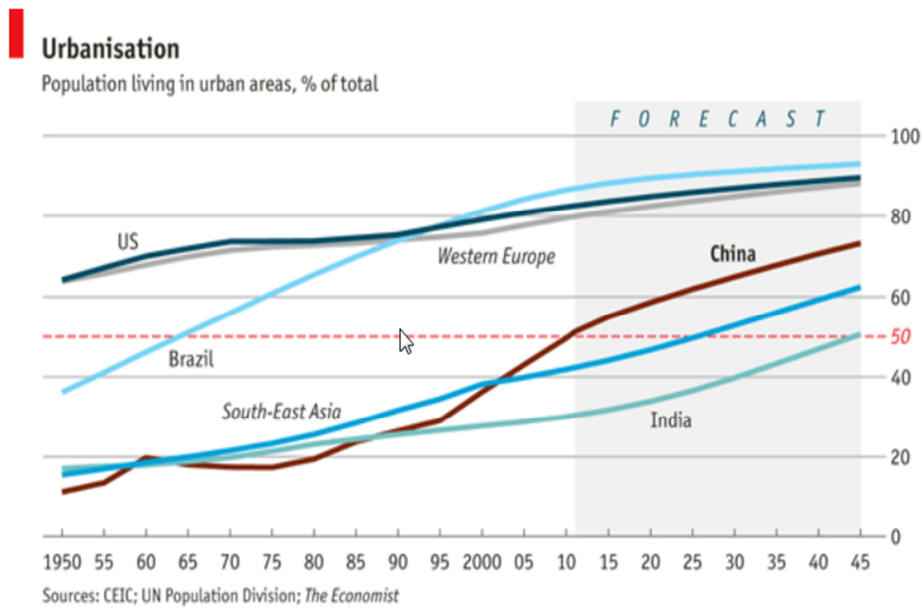


Figure 7 Comparison of urbanisation development, Source from Going to town, The Economist online (2012/01/18).

China has experienced an ever accelerating process of urbanization as a result of the economic reform in late 1970. Less than a fifth of China's population lived in the city in 1980. However, three decades later, according to the data from the National Bureau of Statistics, China's urban population has surpassed rural population to reach a new high of 51.3% in 2011. That means there are more than 700 million people living in urban area. Some studies prospect that this urbanization process will continue to develop in China, and by 2030, two thirds of Chinese will live in cities. (The Economist online, 2012)

5.3.2 The migrant workers

In China, large populations of rural workers move to cities and towns for a better paying job and a higher standard of living; they have become the driving force of the future urbanization. A report distributed at the Symposium on Demographic Challenges and Social Cohesion in 2012 noted that the migrant workers in China reached 230 million in 2011, and it estimates the number of rural migrant will keep growing in a fast speed, with 10 million annually between 2011 and 2015 (Xinhua, 2012). The question is: will they become the future market?

These migrant workers are concentrated in manufacturing jobs with low wages, or employed unskilled labourers such as construction workers, cleaners, or waiters/waitresses. They leave their families behind to live in shared lodgings or even just a bed on the work site. Most of them will only return home for a short time, normally about one week, during the Chinese New Year. (The Economist, 2010)

It is hard for rural migrants to settle in cities, they will remain as “second class” urban citizens under the “hukou” system², which made them not eligible for urban services such as housing, education, medical care, insurance, subsidies and other benefits generally available to urban residents (Kristie Lu Stout, 2013). That means, most of the migrants cannot afford accommodation for their family in urban areas; their children can’t join the state education system, but have to take the informal schools; they don’t have any personal allowances to support them with the repayment of medical costs; or even when they got the industrial injury, it will be very difficult for them to get the compensation if they have no employment contracts.

These obstacles make the rural migrants group feel the least safe financially. They will save any penny they can for future uncertainties. Moreover, they will send a large part of their income back to their families who stay behind in villages. This hard cash will help the migrants’ families to build better homes, pay for children’s education and purchase more durables goods and premium groceries. (Elisabeth Croll, 2006)

5.3.3 The government

Theoretically, urbanization can benefit domestic consumption. But first, the Chinese government needs to implement a profound structural reform to help those rural migrants turn into more desired urban consumers. (Shahid Yusuf and Anthony Saich, 2008)

Urbanization is not only about more perfected infrastructure contractions, modern buildings, and high-speed rails. More importantly, it is about people, more and more rural population come to cities seeking for better life, and they have profoundly affected China’s economic growth and directly implicated China’s urbanization process. To keep the migrant workers stay in the city where they have been working, and

² China’s household registration, it contains key information on every family, including marriages, births, deaths, and the city or village to which each person belongs.

encourage them to consume more in the cities, the government need to provide a better living environment for them.

Fan Jianping, a senior analyst at the State Information Center suggested the government should “issue certain residence policies to give migrant workers incentives to buy apartments and to include them in the social security safety net enjoyed by their counterparts born in cities. (Si Tingting, 2009)” In addition, create more job opportunities, raising the minimum wages and reinforce the lowest salary guarantee system, plus provide more subsidies to low-income employees will give the low-income rural migrants more confidence to spend.

In 2011, government raised the income tax threshold from RMB 2,000 to RMB 3,500 (€247 to €432) a month, which reduced the tax burden on low-income people and helped to reduce inequality (China Daily, 2013). Policy like this and along with other regulations that can give better protection to the rights of migrant workers will have positive impacts to accelerate China’s urbanization in both speed and quality.

5.4 Rural area, where the consumers are left far behind

Consumers living in rural areas are an important segment that cannot be ignored. According to the latest figure from National Bureau of Statistics of China, there are more than 650 million people residing in the countryside, which makes up nearly half of China’s population. However, in China, the current economic growth profit appears mostly in urban centres leaving the vast rural areas behind. Despite the improved lifestyles of urban residents, in the countryside, a great number of rural poor continues to hover below or around the poverty line leading to sharp differences in living standards of rural and urban residents. (National Bureau of Statistics of China, 2012)

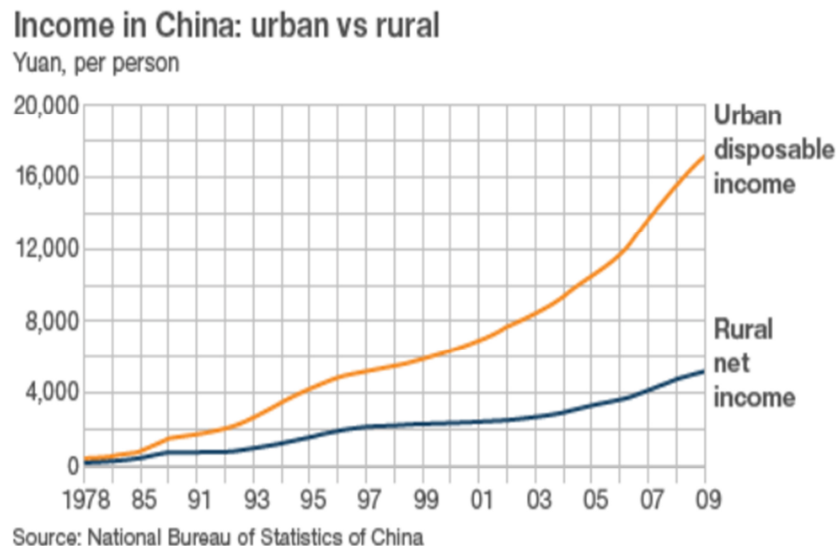


Figure 8 Urban and rural income in China, Source from National Bureau of Statistics of China (2012).

In 2011, the urban average disposable income per capita stood at RMB 21,810 annually, in contrast to net income of RMB 6,977 in rural areas (NBSC, 2012). That shows the rural-urban income gap was continuing to widen since the country launched its economic reform in 1978. In addition, rural farmers have to spend large percentage of their net income to purchase seeds, chemical fertilizer, pesticide and other instrument of production, if we deduct these productive expenses, the disposable income for rural residents was even lesser. (Dr Damian Tobin, 2011)

The uneven development between urban and rural area attributed to the recent history of promoting investment in urban areas by Chinese government. An article in China Daily (2009) pointed out beside the widening income gap, the inequalities between rural and urban area also reflected by the uneven development of public services. There are big differences for rural and urban residents in access to education, health care services, financial services, and even the basic services such as electricity and transport. Rural area is lagged behind in every aspect.

However, the demand for consumption in rural area cannot be ignored. A government document³ announced "the biggest potential for boosting domestic demand lies in rural areas; the foundation for securing steady and relative fast economic growth is based

³ The first joint document announced by Central Committee of the Communist Party of China and the State Council in 2009.

upon agriculture. (Central Committee of the Communist Party of China, 2009)“ Back to the year 2009, the Chinese government launched a program to boost rural consumption. By providing a 13 percent subsidy on home appliances, including colour TVs, refrigerators, mobile phones, washing machines and freezers for rural consumers, those items become more affordable to the rural consumers. (China Daily, 2009)

It is obviously that in the short term, government already implemented many measures to encourage the rural consumption. But more importantly, we need to keep eyes on increase income shares of rural households. Without enough income, people are unable to consume no matter what. The government need put more effort on adjusting income allocation--how much goes to citizens and how much goes to governments; what percentage distribute to rural areas and urban development. As the Xinhua News (2013) said to maintain the long-term stability and economic growth, increase productivity and expand domestic demand in the countryside, China should improve the livelihood of rural people: raise the village incomes, services and facilities; promote agricultural modernization; enhance financial support to agriculture and farmers; and maintain the social stability in rural areas.

6 China's high saving rate

Saving-first is an old habit for Chinese. Currently in China, even though consumers spend increasingly amounts of money, they will continue to save heavily. Compare to other countries, China's saving rate still dramatically high.

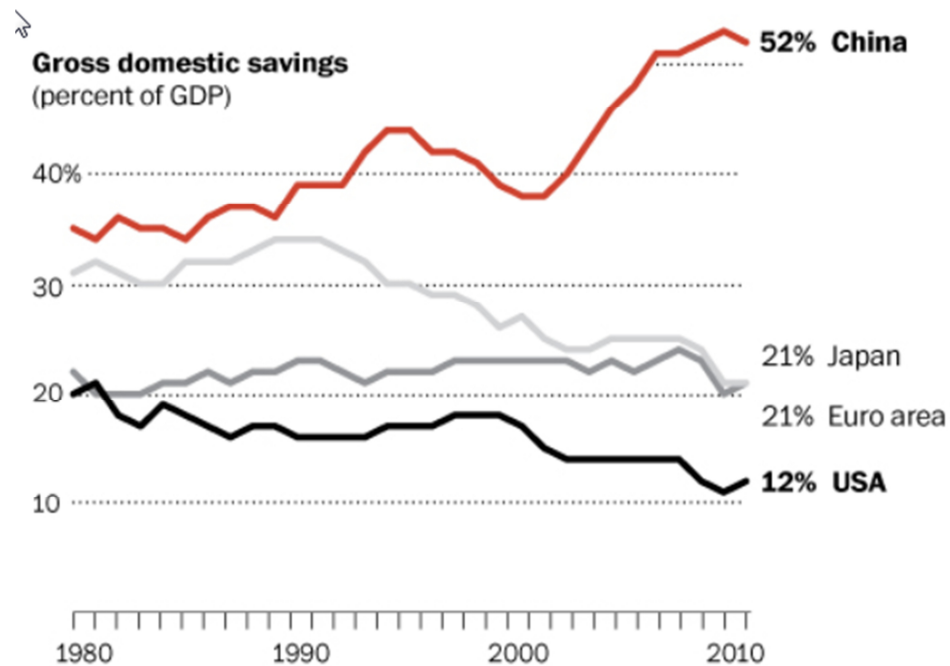


Figure 9 Compare domestic savings, Source from World Bank.

Figure 9 illustrates that the gross domestic saving in China has climbed up to over 50 percent of GDP in 2010. It is extremely high compare to other countries (domestic saving rate in U.S.A. is 12%, Japan and Europe are both 21% in the same year).

Chinese official figures showed by the end of 2009, China's aggregate household savings had surpassed 18 trillion yuan (€ 2.2 trillion), with per capita savings of 13,000 yuan (€ 1611). (Wu Yixue, 2012) Many blamed the high savings in China are related to the high housing price, however, the causes of high saving rate can be more complicated than that in the reality.

6.1 High saving rate among the old people

The high saving rate among the old people in China are caused by several reasons. Firstly, the old generation in China (people older than 50) bear more influences from traditional Chinese culture, which encourage people to save as much as possible. Secondly, Chinese elderly people have experienced the economic hardship, so that, they know the importance of having money in hands. Thirdly, the credit consumption is a very unfamiliar way to spend money for the elderly consumers, who prefer to save enough in advance before purchasing. Furthermore, those retired Chinese who do not qualify for the retirement pensions and benefits will save money to insure they can afford the medical care and other services when they need. (McKinsey, 2012)

6.2 Young diligent savers

Not only the elderly Chinese, the high saving rate is also contributed by the younger generations, who are worried about rising cost and redundancy. When housing, education, healthcare, pensions and other services are no longer provided by the government, and the living cost are get more and more expensive, the consumers will put their money in saving accounts instead of spend it as they worried about the uncertainties: they may need the money they spend today in the very near future. (People's Daily Online, 2012)

6.3 Save for later purchases

Chinese have saved a large percentage of their income, in other words, Chinese consumers are wealth consumers by saving - they are saving for later consumption. Unlike in some Western nations where have the consumer debt problem. Chinese consumers have cash on hand or money in the bank waiting to be spent. The problem is how to convince them to spend it.

In 2012, the Chinese central bank has cut lending rates from 6.31% to 6%, and deposit rates have dropped from 3.25% to 3%. To encourage the cash flow into the economy rather than keep it in the saving accounts. Moreover, the government attempt to maintain the restrictions on real estate speculation, and introduced taxes

cut policy for first-time house purchase, which made easier for Chinese consumers to meet their target saving accumulation. (Keith Bradsher, 2012)

6.4 Consumer Credit

Consumer financing is limited in China, McKinsey Survey (2010) found out most Chinese are only use their credit card to cash out on ATM or pay for the online transactions. As a result, Chinese consumers are more likely to rely on their savings, instead of use credit card to borrow against future income, when it comes to purchase relatively expensive products, such as durable goods. This behaviour postponed the spending on the desired goods and forced the consumers to save more in the process.

CCTV reported in 2010 China first consumer finance company issued its inaugural consumer finance loan in Beijing: "people over 20 years old with steady employment can apply for loans, they can borrow a maximum of up to five-times their monthly income. (Liu Anqi, 2010)" This new service made it easier for consumers, especially those young people who just start their career and do not have much savings in their account, to access to credit. It will encourage people to made purchase in advance and help facilitate their desire for middle class goods and services.

By the analysis above, we can conclude that in order to lower the high saving rate and motivate consumers to spend more, China should firstly use the national wealth distribution leverage to reallocate more resource to people, especially to the middle and low income group, to raise their consumption capability. Secondly, work out an effective solution to improve social security system, so that consumers would not inhibited spending by threatened about future uncertainties. Last but not least, continue to develop the consumer financing market, by providing services like private consumption credit, to release the purchasing power in potential market. When consumers have more confidence on spending, the high savings in China will decline by degree.

7 Trend of consumption

7.1 Five generations

Pierre Xiao Lu divided Chinese consumers into five categories by historical period. These five generations of consumers have different lifestyles, and their consumption concept is also different. (Pierre Xiao Lu 2008: 73-74)

➤ The New China Generation

Most of them are the parents of the Transitional generation. They born before 1945, as the eyewitnesses and builders of new communist China, and usually held important positions in society. They are currently retired form work with enough pensions, and their medical expenses are fully covered by the government.

➤ The Lost Generation

Born between 1945 and 1960 (about 225 million people), they suffered three years of natural disasters (in the early 1960s), when the whole country was in a great food shortage, and cause millions starved to death. They also grew up with political instability: the Great Leap Forward (in late 1950s) and the Cultural Revolution (1966-76) force many of them lose the opportunity to get the formal education by being obliged to go to countryside and work alongside the peasants for a very long period. When they finally back to cities, they found out that the only job they can get is the basic manual work in factories. However, lots of them lost jobs in their middle age, since 90s, most of the inefficient state-owned factories were closed, and leave them unemployed.

Since they couldn't reclaim their lost youth, they transferred their hopes and ideals to their children. Along with the single child policy, as a parents, not surprising they will invest a great deal of money, energy, and time in their only child.

➤ The Suffering generation

Born between 1960 and 1970 (about 300 million people), they grew up during the Cultural Revolution but indebted from opening and reform policy in 1978.

Some of them got into university after 1978 and become very successful with their careers. They carry the Chinese tradition values, and at the same time, they are seeking for free and happy life as affluence by the western culture. Among them, we can find the earliest of the current Chinese elite: successful entrepreneurs, famous novelists and artists, leading professionals.

➤ The Transitional generation

Born between 1970 and 1979 (about 205 million people), they live through the rapid economic development, and grew up in a market economy environment. Compare to their parents, their life is more stable and optimistic. They were able to see more opportunities for their future and they got more freedom to make their own choice.

➤ The One-child generation

Born between 1979 and 1990 (about 227 million people), as the only one child in the family, they receive more than enough attention and care from their parents and grandparents. All family resources are focus on the child to ensure he/she got the best, whatever are food, toys, education, healthcare, etc.. The society is stable and economy is booming; there is a broader contact with the outside world; the new technologies like cell phones and internet are popularized. With all these changes, they become more confident, self-conscious, and they aspiring the modern and global lifestyle.

The younger generation consumers, which include the Suffering generation, the Transitional generation, and the One-child generation have very different attitude towards consumption with their parents or grandparents. When they have become the major force of consumption, there is a shifting trend appearing in the consumer market.

Chinese consumers mainly spend their money on three aspects. In 2010, Chinese people spent a total of 13.9 trillion yuan for shopping (the total retail sales of social consumer goods), made an increase of 18.4% over the same period last year. Tenth of the money spend on basic food and clothing, a fifth of the money used to purchasing cars and petrol, and equivalent to one-third of the total spending is for buying houses (Hang He, 2011). Therefore, we can see some noticeable trends led by Chinese young consumers in these consumptions.

7.2 Food consumption

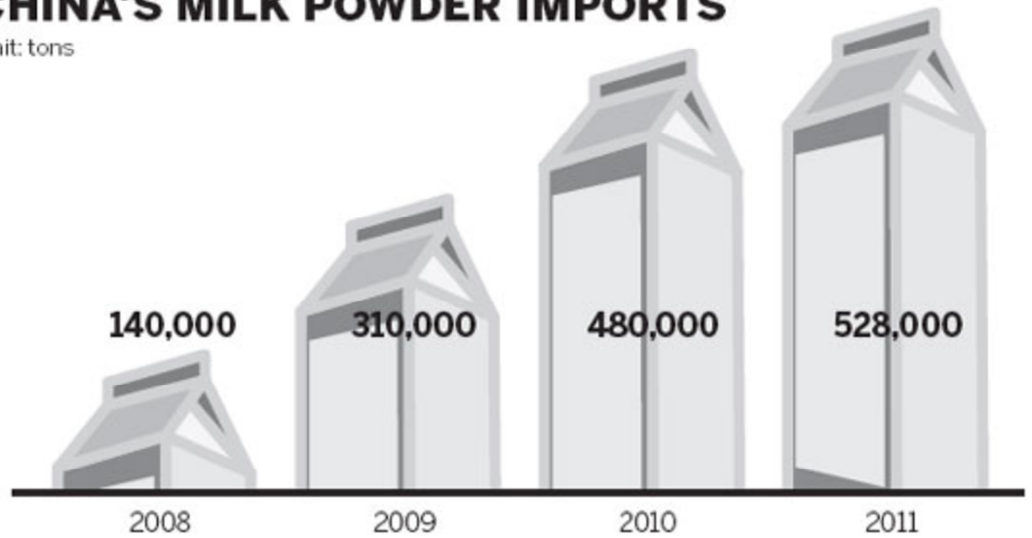
Willing to spend a lot of money on food is part of Chinese culture, for Chinese consumers, eating is not just matter of survival, but also an important manner of entertainment. Today, in the super market, you can find the plentiful stocks of meat to vegetables, dairy to energy drinks, domestic products to imported food displayed on the shelf. The food demand is shifting from quantity-oriented to quality-oriented. The data about food consumption trend in China (National Bureau of Statistics of China, 2012) shows Chinese consumers are starting to spend more on processed, packaged and convenience foods and meals in restaurants.

In the last decade, Chinese market showed more preference in foreign imported food and western style food, which leading to an increased interest in trying new foods from other cultures. The consumption of western style dairy product contained milk, cheese, and yogurt is rising currently in China. The market of this kind of food is being driven by the Chinese young middle class, who is the most influence by the western culture. (BBC NEWS, 2012)

Even though the imported foods are much more expensive compare to Chinese domestic products, after a series of food safety scandals regarding to the domestic food, which bought increasing worries about food safety issues, the international brand food products are gaining more and more acceptances in Chinese market. Consumers, especially young parents are the heavy buyers of imported food, they believe the products made abroad are higher quality and more reliable.

CHINA'S MILK POWDER IMPORTS

Unit: tons



CHINA'S WINE IMPORTS

Unit: million liters



Source: China Chamber of Commerce of Foodstuffs and Native Produce, WIND

LI YI / CHINA DAILY

Figure 10 China's milk powder and Wine import, Source from Imports gain importance, China Daily.

Figure 10 above illustrates the milk powder import has increased rapidly after 2008, when the exposure of China milk scandal. Even though the price of imported brand milk powder is normally three times higher than domestic brands and it keep rising, the parents still prepare to pay for the extra, because they believe the foreign infant formula is the best for their children (China Daily, 2012). In addition, imported food like wine, chocolate, and other snacks are becoming very popular among the higher income young Chinese. By purchasing foreign brand products, they fulfil the identity as

Western (which stands for modern lifestyles). They either enjoy it themselves or purchase it as a gift: imported wine is a good example. Businessmen and officials are the biggest wine buyers, "owing to the current climate of gift-giving in China, the majority of wine-drinking in China continues to take place at business functions rather than at home. (Jing Daily, 2013)"

An article in The Economist says "fast food...changing (Chinese) consumer tastes, and the breathless expansion plans of chain restaurants, which are eager to grab a bigger slice of the country's estimated annual 200 billion yuan(\$29 billion) fast-food market." . The western fast food brands such as KFC, McDonald's and Pizza Huts are expanding aggressively in China, they attract youth by timesaving, affordable, and probably the good taste. Today, Chinese young people have less incentive to cook at home for their own meals due to the fatiguing working hours, long commutes in heavy traffic, and not to mention many of the One-child generation do not know how to cook. They trend to eat outside frequently, the quick, convenient fast food just meet their requirements.

7.3 House consumption

For Chinese old generations, when they got employed, sooner or later, they would secure to obtain a house assigned by the government. However, it is a different story today, the home ownership has become a hard achieved dream for many Chinese young generations.

In the past, Chinese experienced the assignment of welfare housing, most urban houses was counted as "public goods" owned and allocated by the national real estate bureau. Today, people need to buy houses on the open market, and for most of Chinese, house (apartment) is the biggest purchase in their life. In big cities, such as Beijing, the average house price is above 20,000 RMB per square meter, and the average income in Beijing is 4672 RMB per month. That means to buy a 50 square meters apartment, people will need to save all of his/her income for 18 years without any other spending. (China Statistical Yearbook 2011)

The soaring house price has become an obstruction to the marriage of young Chinese. The popular concept in China today is taking the home ownership as a requirement for

marriage, and it can be really hard to find a wife without first buying a property. Therefore, the young Chinese either save hard and take a large amount of mortgage, or get financial support from their parents. In fact, housing market is squeezing Chinese consumers' motivations on other purchases. (China Daily, 2009)

7.4 Expanding car market

"A car is a status symbol in developing countries around the world and as incomes have risen strongly, there has been a corresponding rise in car ownership in the country. (BBC NEWS, 2012)"

China has become the world's biggest car market in 2009. Car ownership in China has grown more than ten times in the last decade. According to the national bureau of statistics, in 2003, there were 3.3 million private car owners in China; this figure has risen to 38 million in 2011. Even though for the majority of Chinese, car is still regarded as an expensive consumption. (BBC NEWS, 2010)

For those young Chinese live in the big cities, a car is not just regarded as a very visible symbol of a successful and luxurious lifestyle. More importantly, private car is a very convenient means for them to get to work more easily. The big cities in China are well known by the crowded public transportations, young people are more preferred to travel by car to avoid the over-crowded subways and buses.

7.5 Mobile phones and internet

Since 1990s, there is a great increased interest in communication consumptions. (see Figure 4) Mobile phones and high speed internet services have high increase rate in consumption. Some estimated that China will overtake America become the biggest smartphone market in 2012. Mobile phones are no longer considered as a luxury product for the majority Chinese, it is not uncommon for people, especially younger consumers to change new model mobile phones every year. (John Sudworth, 2012)

The China Internet Network Information Center (CINIC) prospected the number of China's online population rose to 538 million in the middle of 2012, which contained 388 million use their mobile phone to access internet. People under age 40 is the mainly mobile-internet users according to their report, these young Chinese frequently use internet to access to music, online games and movies, and the most attractive service-Sina Weibo-a micro blogging sites similar to Twitter. As smartphones are getting cheaper in China, the vast rural areas and migrant population will be the new growing force to the market. (China Daily, 2012)

Meanwhile, online shopping is another obvious growth trend among the young Chinese generations. The CINIC report showed that by the end of 2012, China's online shoppers reached 242 million with a 24.8 percent increase from previous year, driving online shopping become an important force to boost domestic demand. People attracted by the cheaper price, convenience, fashionable and wild range products. (China Daily, 2012)

Taobao mall, one of the biggest online shopping sites in China, gained 59 percent of the revenue from young people aged between 25 and 30. (People's Daily online, 2012) The young Chinese born after 1980s are regarded as internet-dependent generations, for them, shopping online has become part of their life. They can find anything they need from online shops, and the best is they can do the transaction anytime.

7.6 Brand

"People have a need to affiliate and surround themselves with things they know well, trust and aspire to be. From a customer viewpoint, a brand is a signal of quality and creates a bond of trust with the manufacturers behind them." --- Martin Roll

Advertising is the key issue for branding. Same as Europe and America, magazines, newspapers, outdoor Medias, television, and internet are the main communication tools in China. Among them, television as the largest advertising medium took 63% of total advertising spending in China in 2010. Andrew Carter from GroupM (a media-investment firm) believes "television is well-suited to bringing new products and brands to the attention of China's fast-growing middle class." (The Economist, 2010)

Although television is still the most trusted media platform for building brand awareness in China, there is a noticeable trend of rapid increasing in internet advertising. The development of internet using has opened up a new range of target consumers for mass-market products. Thanks to the availability of smart phones and 3G, Chinese consumers, particularly young consumers are spending more time browsing the internet everywhere. Meanwhile, companies have started to adopt this new medium as a tool of branding by communicating their brand messages to a wider audience via the most influential portals (such as www.sina.com) and specialist websites (such as www.sasa.com). (Michel Chevalier and Pierre Lu, 2011)

7.6.1 Brand loyalty

In recent years, advertising through massive media channels helping companies to build the brand image for their products in China. Although Many argued that Chinese consumers would not pay for brand but chasing the cheaper price, actually for contain kinds of products, Chinese consumers will only choose the brand they trust and familiar with, which include food, cosmetics, electrical equipment, and automobiles.(Elisabeth Croll, 2006)

Figure 11 illustrates among the chocolate consumers, Chinese consumers' brand loyalty levels are getting close to those in developed countries.

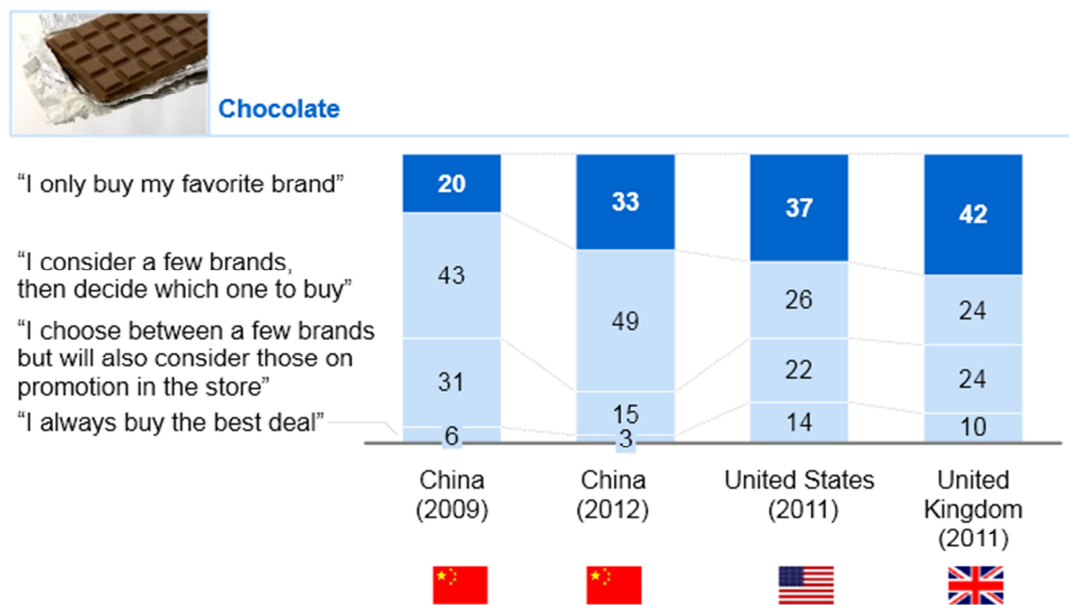


Figure 11 Brand loyalty levels among consumers of chocolate, Source from McKinsey Annual Chinese Consumer Survey (2009-2012); Online Benchmark Survey (2011)

The McKinsey survey (2012) also emphasized increasing brand loyalists in China in food and beverage category and personal care. There was a remarkable shift occurred in a short time horizon: in 2012, there were 35% of Chinese consumers tending to purchase the same brand food and beverage, compared with 26% in 2011; in personal care, the proportion of brand loyal consumers increased 12% within a year.

As Chinese consumers are getting strong brand loyalty with certain products, being a well-known brand is increasingly important for these companies to succeed in China.

7.6.2 Chinese brands vs. foreign brands

Brand is not something new to Chinese consumers, the fact is China has its own famous brands even before the establishment of new China. Shanghai-based Pehchaolin, a facial cream that dates back to the 1940s, are still got a great number of fans among the young Chinese, although these young generation consumers are well-known as foreign brand followers.

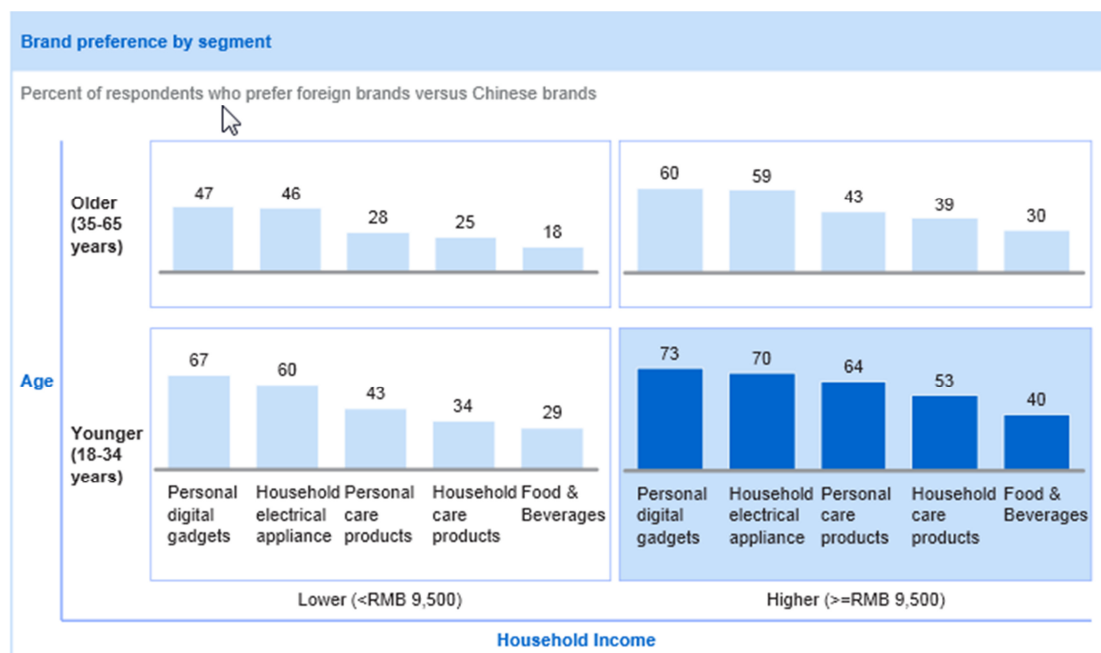


Figure 12 More affluent and younger consumers value foreign brands over local brands, Source from McKinsey Annual Chinese Consumer Survey (2012)

From figure 12 we can see Chinese consumers' favourably disposed toward brands are influenced by age and income. The younger and more affluent Chinese consumers showed more interesting in foreign brands.

It is good news for foreign companies since the future consumption trends is reflect by the taste of Chinese younger and higher-income consumers. But there is still a great competition occurs in Chinese market, McKinsey & Co. believes the world-class Chinese brands will emerge without doubt. Huawei, Lenovo, and Haier are good examples of winning brand loyalty by offering good value products and providing better understanding of Chinese consumers' needs. (McKinsey, 2012)

8 Conclusion

This paper intends to provide a basic understanding of the current consumer market in China, identify today's Chinese consumer and their lifestyles. Major findings can be summarized below:

--- After the economic reform and opening up, China society experienced a tremendous change: rising incomes, encouraging consumption, shifting market all led to a "consumer revolution". Chinese consumers have been encouraged to pursue new lifestyles, adopt new identities, and purchase new goods and services. However, the different groups of rich, middle-income and low-income consumers will have different demand regard to their incomes and lifestyles.

--- The imbalances in China's economy have dragged Chinese consumers' consumptive power: the lack of social safety net in China requires Chinese people to save more of their incomes instead of spending it on goods and services; the widening income inequalities have become a challenge to the rise of China's middle classes, who is expected to be the driving force of China's expanding consumer market; the untapped rural market where contains the majority of China's population, have large number of farmers and their families who have too little income to consume.

--- China's future consumption trend is leading by the younger generations. The new youth styles have emerged in China as these younger generation consumers are more influenced by western culture. Their lifestyles can be described as "modern" and "global", which is different from past generations. They have the attitude to try new things and embrace new ideas; they have more interest in quality, brand and fashion; they have increased their spending on housing, education, communication and transportation; they spend more time and money on on-line consumptions.

China, as the country with a large and fast developing consumer market, will bring both opportunities and challenges to those consumer-facing companies who want to drive their global growth by taking advantage of Chinese consumer market. Thus, how to understand and tap this market will be an important question that needs to be answered. Moreover, consumption comes to play a greater role in China's society, will China be able to create demand and generate mass consumption by encourage high-income group to make more major purchases, ensure the middle-income earners

expanding as fast as expected, and help low-income people to acquire more support to upgrade their lifestyles will give the importance to maintain China's economic growth and achieve development goals.

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