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**Research Report**

## China's Changing Consumer Market and the Policy Implications

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## China's Changing Consumer Market and the Policy Implications

**Jinkook Lee**, Fellow at KDI

China's rural consumer market has exhibited extraordinary growth. Over the past decade, the consumption growth rate and average propensity to consume of rural residents have surpassed those of their urban counterparts, with the former's consumption patterns becoming increasingly similar to the latter's. Such a phenomenon prevails in rural areas that neighbor 2nd and 3rd tier cities whose urbanization is progressing rapidly. Accordingly, Korean companies must diversify their products in line with China's expanding rural markets while further differentiating product composition to satisfy the heterogeneous demands in urban markets. As for the government, efforts must be placed in strengthening the export cooperative system targeting China between domestic manufacturers, distributors (operating in China) and logistics companies.

### I. Introduction

The urgency for Korea to make further inroads into China's consumer market is mounting as a countermeasure to the eight consecutive months of decline in Korea's exports to China (mainly intermediary goods). Additionally, the Korea-China FTA and cuts in

\* This article is written based on Lee Jinkook's "China's Consumer Market and the Korean Economy's Response" in Kyungsoo Choi (ed.) *China's E-commerce Growth and Korea's Opportunities*, Chapter 8, Korea Development Institute, 2015 (forthcoming issue).

consumer goods tariffs has opened up numerous new opportunities in recent months. In addition, China's consumption expansion is expected to continue on the fresh momentum gained from the 13th Five-Year Plan, following in the footsteps of the two preceding plans, announced at the Chinese NPC and CPPCC<sup>1)</sup> emphasizing the necessity to boost domestic demand.

Thus, the next step for Korea in regards to entering the Chinese consumer market is to deliberate the how, where and with what? China's consumer market encompasses numerous sub-markets comprising of provinces, prefecture-level regions<sup>2)</sup> and urban and rural areas that are all highly heterogeneous in terms of population, income and consumption pattern. And it is this diversity, that urgently calls for the intensive analysis on and understanding of China's target markets. Prime examples include successful front runners, such as Orion, AMOREPACIFIC and E-Land Group, who invested the time and effort to study market conditions and consumer characteristics before taking action to expand their businesses into China. Consequently, the data and information accrued during this process have laid the foundations for their success today.

**This study aims to analyze the growth of and changes in China's consumer market to gain a better understanding and to discuss the future direction of governmental and corporate responses**

This study analyzes the growth of and changes in China's consumer market to gain a better understanding and to discuss the future direction of governmental and corporate responses. Accordingly, the changes in the urban and rural consumer markets were first identified through an analysis of the growth rate of consumption per capita, the average propensity to consume (APC) and consumption pattern by goods. Then, the consumption trends in the 1st, 2nd and 3rd tiers of cities and rural areas were examined to find the source of the recent growth in the consumer market. Finally, the impact of urbanization on the expansion of consumption was estimated and the feasibility and sustainability of using urbanization policies to expand consumption was measured.

## II . Growth of China's Consumer Market

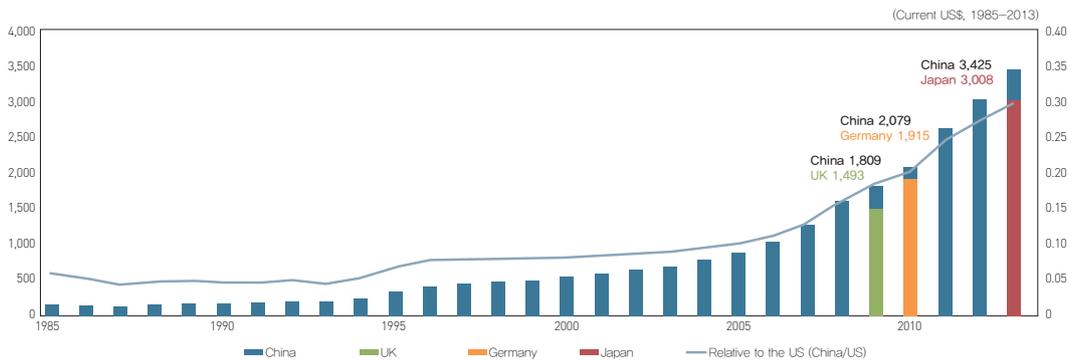
[Figure 1] presents the trajectory of China's consumer market with two growth tipping points. The first occurred in the mid-1990s, when China opened its domestic market to the outside world inducing a massive influx of foreign capital; this boosted the country's consumer market and ended the modest growth trend witnessed since the adoption of reform and open policies. The second appeared in the mid-2000s with an explosive growth in the consumer market on the back of the 11th Five-Year Plan (2006-10) which declared a

**China's consumer market started to grow in full swing in the mid-1990s and exhibited continued explosive growth since the mid-2000s.**

1) In its NPC and CPPCC meetings in March 2013, the Chinese government announced the 13th Five-Year Plan (2016-20), which aims at doubling the national per capita income from the 2010 level and raising the current urbanization rate (54%) to 60% by 2020.

2) China's administrative divisions consist of province (1st level), prefecture (2nd level) and county (3rd-level). However, many provinces have prefecture-level regions between provinces and counties. So, it can be said that there are actually four administrative divisions (Divisions of Administrative Areas in China, 2010). Prefecture-level regions consists of prefecture-level cities and neighboring rural prefecture-level areas.

[Figure 1] Trends in China's e-commerce and online shopping



Source: Created by author, using the World Bank's Household Final Consumption Expenditure (Current US\$, 1985-2013)

growth paradigm shift away from exports and investment and towards domestic demand. Income rose sharply, as evidenced by the 10%-plus increase in workers' minimum wage. And in conjunction with the rapid diffusion of internet access, China's post-80s and 90s generations<sup>3)</sup> have emerged as a powerful consumer group, contributing to an annual 20% expansion in e-commerce (Korea International Trade Association, 2014). Moreover, thanks to the government's policy efforts to support rural areas including consumption subsidies and modernization of distribution systems, the consumption of rural residents has also risen continuously.

Even during the 2008 global financial crisis, China's consumption climbed by over 10% on an annual average basis,<sup>4)</sup> unlike other countries hit by sagging consumption. Consequently, after ranking the world's 5th in 2008, China's consumer market surpassed the UK in 2009, Germany in 2010 and Japan in 2013 to stand at 2nd place with a market scale of \$3.425 trillion. The US has maintained the leading position, as of 2013, at \$11.5 trillion, indicating that China's consumer market size relative to the US has jumped from 5% in 1990 to 30% in 2013.

**China's consumer market grew to the world's second largest in 2013 with a market scale of \$3.4 trillion.**

### III . Consumption Structure: City and Rural Areas

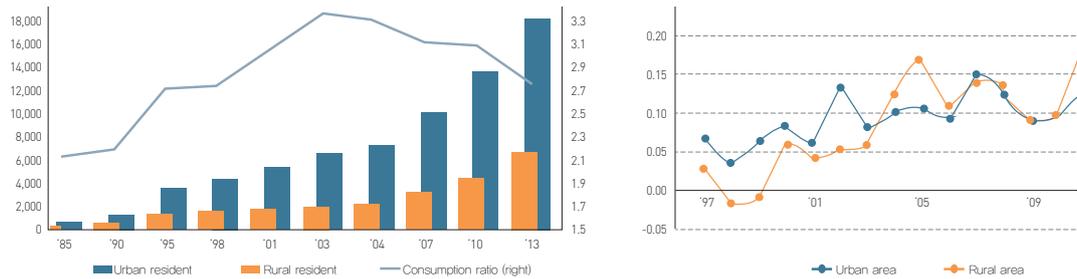
#### 1. Analysis of consumption expenditure per capita

This section examines the consumption structure of the Chinese consumers who have sustained the growth of China's consumer market. Consumption per urban resident rose from 673 yuan in 1985 to 18,023 yuan in 2013, while that of

3) Chinese generations born in the 1980s and 1990s were raised under the one-child policy, and therefore have grown up in relatively affluent circumstances. They are well familiar with online shopping and have a strong inclination towards high, diverse and luxurious consumption.

4) According to 2009 household consumption expenditure relative to 2008 from the World Bank's Household Final Consumption Expenditure, the US' consumption dropped by \$166.7 billion, Germany's by \$114.3 billion, and the UK's by \$296.5 billion, whereas China's increased by \$202.0 billion.

[Figure 2] Consumption expenditure per capita and consumption ratio (left), Growth rate in consumption per capita (right)



Source: Created by author, using the China Statistical Yearbook (Consumption Expenditure Per Capita 1985-2013)

rural residents climbed from 317 yuan to 6,626 yuan (See left panel in Figure 2).

Over the past three decades, the nominal consumption expenditure of urban and rural residents expanded over 20 fold while the consumption ratio, which refers to the consumption per urban resident relative to that per rural resident, increased from 2.1 to 2.7. This implies that the advancement of the consumption level has progressed in parallel with the polarization of consumption.

However, a closer look reveals that there have been significant changes in the consumption growth of urban and rural areas since 2004. After peaking at 3.4 in 2003, the consumption ratio has declined continuously, and as shown in the right panel in [Figure 2], rural residents' growth rate in consumption per capita exceeded that of urban residents. Indeed, although consumption in rural areas has occasionally surpassed that in urban areas in the past, the current trend has continued for the past ten years, raising the call for more attention.

Being well aware of the difficulty in sustaining domestic demand-driven economic growth without boosting the consumption of rural residents who account for half of the total population, the Chinese government has implemented active policies to heighten rural consumption since the mid-2000s. Such policies include: subsidies to boost car and home appliance sales; the '10,000 villages and 1,000 townships market project' to encourage the establishment of wholesale and retail stores in county- and township-level areas among others; and the 'double-hundred' project to foster 100 large-scale distribution companies and establish 100 wholesale markets. Helped by these efforts, rural consumption has soared thanks to numerous new changes such as a rise in rural income, increase in transferred income by migrant peasant workers in cities and spread of the urban consumption culture to rural areas.

## 2. Analysis of the Average Propensity to Consume (APC)

The more active consumption of rural residents can be confirmed by the changes in the percentage of consumption in disposable income, specifically, the APC (Figure 3).

Over the past three decades, the nominal consumption expenditure of urban and rural residents has expanded over 20 fold.

Overall, the consumption growth of rural residents have surpassed that of urban residents since 2004.

[Figure 3] Changes in the APC of urban and rural residents



Note: Rural residents' net revenue is equivalent to urban residents' disposable income, and is the sum of agricultural entrepreneurial income and off-farm income (wage income, property income and transfer income).

Source: Created by author using the China Statistical Yearbook (Consumption Expenditure Per Capita, Cash Consumption Expenditure Per Capita and Per Capita Income 1985-2013).

For urban residents, the APC has been on a clear downward trajectory, declining from 0.91 in 1985 to 0.67 in 2013, suggesting that the absolute amount of consumption has risen but the actual spending relative to income has decreased.

On the contrary, rural residents' APC surpassed that of urban residents in 2005, with the APC fluctuating at the 0.80 mark in 1985, then posting 0.74 in 2013 (red line in Figure 3). As it can be seen, the extent of the overall decline is more modest than that of urban residents, and even the fluctuation patterns leave room for future rebounds.

Besides consumption expenditure, this study separately identified the 'cash outlay,'<sup>5)</sup> particularly for rural areas. The results show that the percentage of cash outlay in rural residents' net revenue has consistently increased from 0.49 in 1985 to 0.69 in 2013 (green line in Figure 3). To put it another way, when it comes to cash-only consumption, excluding self-consumption, rural residents' APC has improved continuously.

### 3. Analysis of consumption composition by item

The consumption growth rate by item offers a better understanding of the upward trend in consumption in urban and rural areas. <Table 1> shows the annual average growth rate of the consumption of eight subordinate items that constitute consumption expenditure during the period of 2003-13.

Based on the calculations, rural residents' consumption growth rate is higher than urban residents' across all items, except education, culture and entertainment. Such growth has been particularly attributable to the increased cost for medical care resulting from population aging in rural areas, higher spending on transportation and communication such as vehicles and mobile phones, and more use of durable household equipment,

The APC of rural residents exceeded that of urban residents in 2005.

When limited to cash-only consumption, rural residents' APC has improved continuously.

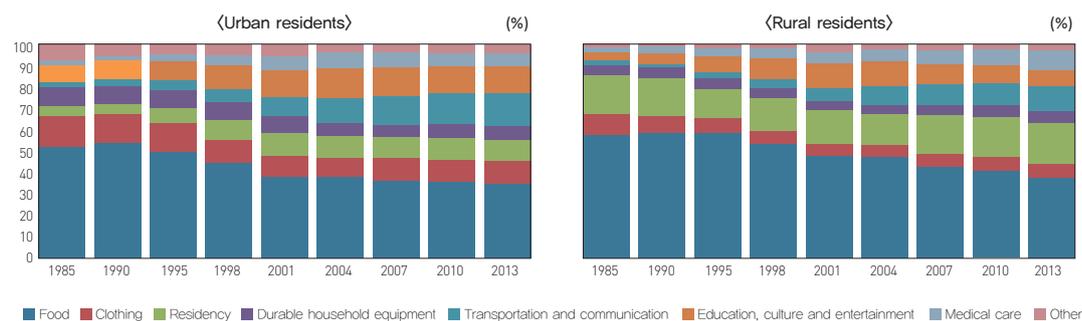
Consumption growth rate by item is found to be higher in rural residents than in urban residents.

5) The gap between consumption expenditure and cash outlay occurs mostly in spending on food. Farmers consume a part of their crops, and self-consumption is included in consumption expenditure, but not in cash outlay.

**<Table 1> Growth rate of consumption per capita by item: 2003-13 annual average**

	Total	Food	Clothing	Residency	Durable household equipment	Transportation and communication	Education, culture and entertainment	Medical care	Other
Urban residents	0.11	0.10	0.12	0.10	0.11	0.14	0.09	0.09	0.13
Rural residents	0.13	0.11	0.15	0.15	0.17	0.17	0.08	0.18	0.15

Source: Created by author using the data on expenditure by item in the China Statistical Yearbook (Consumption Expenditure Per Capita 2003-13).

**[Figure 4] Percentage of consumption expenditure by item: urban residents (left), rural residents (right)**

Source: Created by author using the data on expenditure by item in the China Statistical Yearbook (Consumption Expenditure Per Capita 1985-2013).

mainly household appliances.

Accordingly, the consumption patterns of rural residents appear to be gradually mirroring that of urban residents, at increasing speed. In [Figure 4] which shows the percentage of expenditure by item in total consumption, the percentage of food products has receded fast with the Engel's coefficient dropping below 40 in 2013 (35.0 in urban areas and 37.7 in rural areas), and that of medical care and transportation and communication climbing for both urban and rural areas.

Overall, the percentage of essential living expenses including food and clothing has decreased while that of spending on health and leisure activities, including transportation and communication, education, culture and entertainment and medical care has increased. This implies that, in line with the increases in income and consumption, China's rural areas today are also experiencing servitization.

**China's rural areas today are also experiencing servitization in line with the increases in income and consumption.**

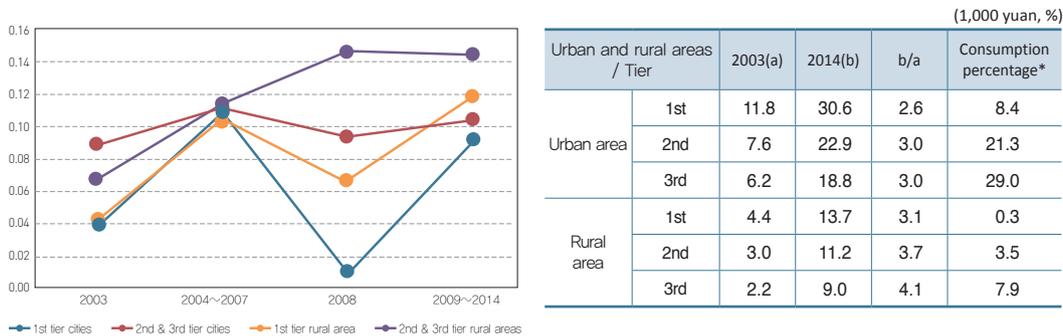
#### IV . Consumption of Urban and Rural Residents in Each Tier

Then, among China's rural areas, which has been the major force in spurring the consumption growth? Or, among urban areas, which is experiencing a particularly rapid drop?

In an effort to answer these questions, panel data on the consumption of each urban and rural prefecture-level area, using CEIC data,<sup>6)</sup> were compiled. Additionally, by applying

6) CEIC data contain macroeconomic indicators for 128 countries, along with separate data by country and by industry. This study mainly uses China Premium Database, which is a part of CEIC data.

[Figure 4] Percentage of consumption expenditure by item: urban residents (left), rural residents (right)



Note: 1) Consumption percentage refers to the proportion of urban and rural consumption in each tier out of China's total consumption in 2014.

2) In the left panel, total consumption percentage does not add up to 100 as that of urban and rural areas in the 4th and 5th tiers were not included.

the city classification standards established by the Ministry of Housing and Urban-Rural Development (MOHURD), the prefecture-level urban and rural areas were categorized into several tiers.<sup>7)</sup> Using the data, this author calculated the trajectory of the growth of consumption per capita in the rural and urban areas in each tier and also the changes in consumption expenditure (Figure 5).

This analysis finds that the 2nd and 3rd tiers have spurred the consumption growth in rural areas since the mid-2000s. The growth rate of their consumption per capita recorded an annual average of 13% in 2002-2014, even maintaining growth momentum during the 2008 global financial crisis; the yearly average growth rate has risen to 15% since.

Meanwhile, consumption in urban areas has decelerated due to the reduced growth in consumption by 1st tier residents in Beijing, Shanghai and Tianjin, etc. These cities responded highly sensitively to global economic fluctuations and their consumption growth plunged to 1.1% in 2008. Additionally, with the penetration rate of washing machines, refrigerators, TVs, air conditioners and mobile phones at almost 100% in these cities, their consumer markets have already become saturated and it is mainly replacement demand (mostly for new products) that is driving the consumption.

On the contrary, the consumption growth in 2nd and 3rd tier cities has been steadily maintained at a relatively high 11% (growth rate of per capita income also posted an annual average of 12%). These cities are the beneficiaries of the government's SOC investment expansion project aimed at developing the inland midwestern regions, the main destination for migrants from rural areas and the entry market for distribution companies and consumption goods manufacturers.

Among urban prefecture-level cities with a consumption per capita of over 20,000 yuan, Baoji (14.0%) in Shaanxi province, Botou (13.7%) and Hohhot (13.4%) in Inner Mongolia, and Harbin (12.1%) in Heilongjiang province demonstrated particularly high growth rates.

**Consumer markets in the 2nd and 3rd tiers have spurred the consumption growth in rural areas.**

**Urban areas are showing slower growth due to the reduced consumption by residents in 1st tier cities.**

**Consumption growth in urban 2nd and 3rd tiers has been steadily maintained at a relatively high 11%.**

7) The classification of 1st, 2nd and 3rd tier cities is based on their overall competitiveness (economic power, political status). 1st tier cities include Beijing, Shanghai, Guangzhou, Shenzhen and Tianjin whose economy is more advanced than others; 2nd tier cities include Nanjing, Xi'an, Chongqing, etc. who have achieved a substantial level of industrialization; and 3rd tier cities include Incheon, Xining and Harbin, etc. who recently witnessed economic development. List of cities of each tier are borrowed from the Korea Chamber of Commerce & Industry (2012).

And of rural prefecture-level areas with a consumption per capita of over 10,000 yuan, Wuhan (15.3%) in Hubei province ranked first followed by Zhengzhou (14.6%) in Hunan province, Xiangtan (14.5%) in Hunan province and Nanjing county (14.3%) in Zhangzhou City.

As evidenced above, consumer markets in rural 2nd and 3rd tiers have taken the lead in boosting China's consumption together with their urban counterparts which are now on a solid growth track.

## V . Consumption-boosting Effect of Urbanization

Making the sustainment of the consumption growth in all 2nd and 3rd tiers possible is the recent rapid urbanization of these regions.<sup>8)</sup> Urbanization usually occurs in line with swift economic growth and industrialization, and increases in urban workers, improved market access and active exchange of purchase information; all of which ultimately contribute to the growth of the consumer market.

<Table 2> lists the urbanization rate of prefecture-level regions in each tier.<sup>9)</sup> The rate of 1st tiers surpassed 90% on average in 2012 with a rapidly slowing pace; recent regulations that strictly control the size of city populations in Beijing and Shanghai are mainly responsible for the slowdown. On the other hand, the rate of 2nd and 3rd tiers recorded a fast growth of 1.1%p on an annual average in 2005-12, and showed growth rates of 64% and 41%, respectively, in 2012, indicating that there is still sufficient room for additional increases.

The following section presents estimations on the effects of the rising urbanization rate on the increase in consumption. For this, the author used CEIC's demographic data to deduct the urbanization rate of each prefecture-level region, and then by applying the consumption panel data on urban and rural prefecture-level areas, a fixed effect model was estimated.

According to the results, a 1%p rise in the urbanization rate tends to generate an increase of 93 yuan in the annual average consumption per capita and an increase of 123.6 billion yuan in China's total consumption (left panel in Table 3). This is equivalent to 11.9% of the increment in China's annual consumption, or 3.6% of the increment in China's GDP in 2005-12.<sup>10)</sup>

8) Urbanization takes place as manpower in rural areas moves to urban areas or when rural areas are integrated into neighboring cities.

9) The urbanization rate of prefecture-level regions is defined as the proportion of the population of prefecture-level cities in the total population of the prefecture-level regions.

10) The size of the consumption-boosting effect brought on by urbanization may vary according to the following conditions: definition of urbanization rate, analysis model, whether or not urbanization rate-related variables are controlled, and whether or not correlation or causality is distinguished. In this study, the independent variable is the urbanization rate of prefecture-level regions, not of provinces, and quantitative analysis was conducted with the fixed-effects removed or with urbanization rate-related variables controlled. Figures reported in this study can correspond with the causal effect of urbanization i.e. with all other conditions being the same, rural residents migrating to cities enjoy easier access to consumer markets and more product choices, which leads to raising consumption.

Urbanization rate has risen fast mainly in prefecture-level cities in 2nd and 3rd tiers, and there is enough room for additional increase.

A 1%p rise in the urbanization rate equals an increase of 93 yuan in the annual average per capita consumption and 123.6 billion yuan in China's total consumption.

**<Table 2> Changes in the urbanization rate of prefecture-level regions in each tier**

	'05	'06	'07	'08	'09	'10	'11	'12	Change ('12-'05)
1st tier	88.0	88.5	89.0	89.5	89.2	89.8	91.1	91.1	3.1
2nd tier	56.8	58.6	59.9	60.6	60.9	62.5	64.3	64.4	7.6
3rd tier	33.1	34.8	36.7	36.9	36.0	37.7	40.4	40.6	7.5
Nationwide	43.0	43.9	44.9	45.7	46.6	50.0	51.3	52.6	9.6

Note: 1) Urbanization rate of prefecture-level region refers to the proportion of the prefecture-level city population in the total population of prefecture-level regions (prefecture-level city+prefecture-level rural area).

2) Urbanization rates of prefecture-level regions in three tiers are calculated using CEIC's China Premium Database (Socio Demographic, 2002-14) and the urbanization rate nationwide is calculated using the China Statistical Yearbook (Total Population by Urban and Rural Residence 2005-12).

**<Table 3> Increase in consumption resulting from the rising urbanization rate**

1%p rise in the urbanization rate		Increase in consumption per urban resident (yuan)		
Increase in consumption per capita (yuan)	Increase in total consumption (100 ml. yuan)	1st tier	2nd tier	3rd tier
92.8 (annual average)	1,235.6 (annual average)	1,678.2	410.7	124.2
Contribution to consumption increment (%)	Contribution to GDP increment (%)	Increase in consumption per rural resident (yuan)		
		1st tier	2nd tier	3rd tier
11.9	3.6	794.2	203.0	61.5

Note: 1) Dependent variable is the consumption expenditure per capita of residents in urban and rural prefecture-level areas and the independent variable is the urbanization rate of prefecture-level regions.

2) All figures (excluding contribution to consumption and GDP) are coefficients estimated through the fixed effect model, and are statistically meaningful at the 1% level (no. of observations: 4,592).

Source: Panel data created by author using CEIC's China Premium Database (Socio Demographic and Household Survey, 2005-12).

Moreover, urbanization is found to have contributed to raising the consumption of not only the urban areas but also the neighboring rural areas (right panel of Table 3); as the urbanization rate of prefecture-level areas increased 1%p, the consumption in all three tiers in rural areas also rose by 794 yuan, 203 yuan and 62 yuan, respectively. Specifically, it is possible that rural residents' consumption was influenced by certain trends in urban areas such as the growing demand for high value-added crops and the increasing number of migrant workers transferring their cash to family in rural areas.

What should be noted, however, is that due to the limitations in the data, economic variables such as income, internet penetration rate, scale of urban development investment and employment rate could not be controlled and as such, the urbanization rate contains the possibility of spurious correlation. Therefore, the above estimations should be understood taking into account the presence of the partial influence of these variables.

To compensate, the author estimated a pooled regression model after controlling characteristics related to income, gender, education status, occupation, residence, year and post-80s and 90s generations using data from the Chinese Household Income Project (1988-2008). The estimated results showed that a 1%p rise in the urbanization rate increases the consumption per household by 75 yuan and the total consumption by 26.2 billion yuan on an annual average basis. Depending on which model is used, the effect of the increase in household consumption varies between 67-87 yuan, but the rate of

**Urbanization which results in the rise in consumption goes beyond urban areas to reach neighboring rural areas.**

**The contribution of urbanization to the rise in consumption is confirmed in all estimated results.**

urbanization is estimated to have a positive(+) effect on consumption in all models.<sup>11)</sup>

## VI. Conclusion and Responses

China's rural areas have been, so far, given little attention when Korea looks into strategies to expand into the Chinese markets. However, the above confirms that the consumption in the rural 2nd and 3rd tiers have expanded exponentially and have played a leading role in supporting the growth of the Chinese market, along with their urban counterparts. Moreover, given that urbanization boosts consumption and affects rural areas significantly, their role as a key consumer group is highly likely to continue.

Domestic consumer goods manufactures need to be actively encouraged to enter China's rural markets with diverse products.

The discussions presented in this study indicate that it is time for Korean companies and the government to develop the proper response measures. Korean manufactures of consumer goods should take active steps to enter China's rural markets by expanding their product lines. One of the easiest ways to reach rural consumers is via online shopping platforms like Alibaba's Rural Taobao, on which the majority of Korean products are cosmetics, clothing and accessories. And, in keeping with the rapid rise in consumption in rural areas, particularly on durable household equipment, Korean manufacturers of large household appliances, kitchen appliances, household goods and processed food products must step up their efforts to engage in these markets.<sup>12)</sup>

To convince more rural consumers into buying, Korean companies should be fully aware of the unique purchasing process in China's rural areas. For them, online shopping is actually conducted through O2O (online-to-offline), implying that there is strong intervention from service center operators who make product recommendations and at the same time serve as shopping agents. Hence, Korean companies need to visualize service centers in local areas as well as online platforms as targets for active marketing and advertising.

Product composition targeting urban consumer markets must be differentiated, relying on the collaboration between Korean distributors in China and domestic consumer goods manufacturers.

In the market of urban 2nd and 3rd tiers, Korean distributors in China and domestic consumer goods manufacturers should cooperate and place more effort into diversifying product lines. They face a variety of heterogeneous demands arising from urban residents, migrant workers, replacement demand, new demand and on- and offline demand. Hence, it is important to be able to present products with a wide variety of differentiated characteristics, even within a single product line. To effectively cope with such heterogeneous preferences, Korean distributors in China should be more actively involved in releasing diverse private brand (PB) products made in collaboration with SMEs, while continuing to add more domestic products made by large and small manufacturers. In addition, there should be attempts of collaboration between major entertainment

11) Refer to Lee (2015) for detailed analysis, including CHIP data compilation, integrated regression model and the table on estimated results.

12) In response to rising online shopping in rural areas, China's major home appliance manufacturers such as Haier and Midea established a partnership with Alibaba's Rural Taobao for logistics, delivery and AS system. Global companies such as P&G and L'OREAL have released products tailored to rural areas and operated visiting programs targeting rural residents.

companies and distributor's of PB products taking into account the growing urban demand for cultural and entertainment products and the influential power of the Korean Wave.

The Korean government should make every endeavor to strengthen the cooperative export system targeting China between Korean distributors (operating in China), domestic manufacturers, and logistics companies. At the same time, it must also tighten the connectivity among fiscal programs related to exports, distribution, logistics and SMEs, which have been, thus far, handled separately by respective competent authorities, so that all relevant industries can be encouraged to participate in the export cooperative system. And it is through this process, that the government should cultivate an environment where data on local demand compiled by Korean distributors in China is immediately transferred to domestic manufacturers so that they can manufacture goods that are promptly available to Chinese consumers through efficient logistics and clearance procedures.

Furthermore, the function of surveys and analyses on regional consumer markets in China must be enhanced. Although TradeNAVI currently serves as a portal of information on China through market surveys and information sharing, more intensive surveys on Chinese consumers and markets must be conducted. The surveys need to be on a micro-level regarding product prices, quality, sales and purchase routes in urban and rural prefecture-level areas. Also, information on changing market conditions such as the urbanization rate, distribution system, degree of market competition, consumption constraints and consumption-boosting policies must be compiled consistently. For more detailed market research, it is preferable that the micro-level market surveys are based on a database established by private market survey companies who compile sales data on respective distribution channels and product items. ■

**The Korean government should strengthen the cooperative export system targeting China between Korean distribution companies operating in China and domestic consumer goods companies as well as the logistics companies that link them.**

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