Consumption Downgrading in Chinese Media: A Fraud or a Hideous Truth

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Abstract

In 2018, according to the data from Weibo, one of the most popular terms in China has been ‘consumption downgrading.’ The discussion online about ‘consumption downgrading’ gradually changed into a national panicking because the Chinese relate it with such as economic slowdown, rising living cost and house price, widening gap between rich and poor, and anxiety of China-U.S. trade war.

My research explores how this term became a trend, and how the meaning behind it changed through time in the first part. In the second part, the article analyses the economic definition and mechanism of structural changes in consumption to see whether the ‘consumption downgrading’ phenomenon in the media is real. In the third part, the article examines the deeper factors that caused the national panicking led by the discussion of ‘consumption downgrading.’ In the last part, the article summaries the government's role in channeling public opinion and regulating the market.

**Keywords:** China; ‘consumption downgrading’; living cost; house price; the gap between rich and poor; China-U.S. trade war.
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<td>Single-Lens Reflex Camera</td>
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<td>LV</td>
<td>Louis Vuitton</td>
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<tr>
<td>PPF</td>
<td>Production-Possible Frontier</td>
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<td>REI</td>
<td>Resident Expected Income curve</td>
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<td>CD</td>
<td>Consumption Downgrading</td>
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Introduction

In 2018, one of the most popular terms in China has been 'consumption downgrading.' Media misuse this term at first by claiming that Chinese economic development and consumption structure downgraded, which stirred up a heated discussion online. Through the discussion, the implications of the term changed on the internet: 'consumption downgrading' is related to more and more pessimistic social and economic contexts, such as economic slowdown, rising living cost and house price, the enlarging gap between rich and poor, and anxiety of China-U.S. trade war. Then, a national panicking over China's economy and society started.

In order to contain the spreading pessimistic feeling, the Chinese government stepped in to mitigate. In the media sector, the Chinese government uses their official media to publish articles that denial the reasonability of 'consumption downgrading.' At the same time, the Chinese government is recognizing consumption downgrading in the economic sector by making new policies to improve the long-existed problems that worry the Chinese: stimulus the market, cutting personal income tax, forming new consumption pattern and psychology and encouraging residents to spend more, thus re-boosts Chinese consumption and economy.

The article explores how this term became a trend, and how the meaning behind it changed through time in the first part. In the second part, the article analyses the economic definition and mechanism of structural changes in consumption to see whether the 'consumption downgrading' phenomenon in the media is real. In the third part, the article examines the deeper factors that caused the national panicking led by the discussion of 'consumption downgrading.' In the last part, the article summaries the government's role in channeling public opinion and regulating the market.

In a word, The article tries to tackle the question of whether China is really experiencing 'consumption downgrading', or only a phenomenon, by which it means, a symptom or manifestation of broader political-economic issues—increasing inequality in the society, anxiety over the emergence of a trade war with the United States, and an increase in the price of housing. This research can help the readers have a better
understanding of Chinese national emotion at this era of turbulence, thus understanding its motivation behind all the government's decisions both domestically and internationally.

Literature Review

There is no work on 'consumption Downgrading' till now. Since the phenomenon is the combination of economy and social problems, the literature review is mainly around three perspectives: consumption and capitalism; the Chinese economy and society; and the political economy of communication in China.

Consumption and Capitalism

In *The Lonely Crowd*, David Riesman (1950) describes the social progress in the Western world as a social revolution triggered by the transition from the production era to the consumption era. This transformation took place in China much later. Only after the Reform and Opening-up did China embrace Neoliberalism in the economic sector. After the 1990s, the Chinese government and media have constructed consumer desire in the mass media (Anagnost, 2008).

In recent years, China's economic growth has slowed down, so the government has paid more attention to facilitating domestic consumption to keep the economic growth. Baudrillard did a great job of analyzing how consumption is the foundation of a modern capitalist country, such as China. In *The Consumer Society*, Baudrillard (1998) criticizes the consumer culture. From Baudrillard's perspective, production was taken placed by consumption in this new era and had been dominating the entire social structure. In the consumer society, it is not the usability we are consuming. It is the social status and personal identity represented by the commodities. Therefore, consumption is a symbolic system, which legitimizes the existence of modern capitalism. Baudrillard thinks that consumption became the nature of the modern capitalist society and is demonstrated from three perspectives.

First, everything in society became a commodity: not only objects but also body, psychology, notion, even libido. Second, consumption legitimizes the existence of modern capitalist society. Baudrillard thinks that consumer society is proof of the myth of equality. In the industrialization era, equality was not represented, so in a consumer society. The
Revolution of Well-being tried to realize that promise but as Baudrillard (1998) put it, The Revolution of Well-Being is heir to, or executor of, the Bourgeois Revolution, or only of any revolution which proclaim human equality as its principle without being able (or without wishing ) fundamentally to bring it about” (p. 51).

In consequence, Baudrillard thinks all political games of the welfare state and consumer society consist in surmounting their contradictions by increasing the volume of goods, with the prospect of an automatic equalization by the quantity and a level of final equilibrium, which would be that of total well-being for all. Therefore, equality is only an illusion in a consumer society, but it is this illusion functions as proof of prosperity, which legitimizes the existence of capitalism. Third, the personalization of consumption inflicts everyone with consumption obsession—only consumption can help people obtain security. Modern society values personality, which is secured by purchasing different commodities; thus, commodities are related to personalities. This is the transition from external worship to inherent narcissism. Only when consumers take themselves as the objects of consumption can they obtain security and certainty. This can help us to understand why the Chinese government is advocating equality, welfare, and well-being by introducing a more diverse market to fulfill all resident's needs.

**Chinese Economy and Society**

David Harvey (2005) analyzed how Chinese fast economic development shapes Chinese society and the problems with it. In Chapter 5 of *A Brief History of Neoliberalism*, Harvey analyses the Neoliberalism in China. In 1978, Deng Xiaoping started the Reform and Opening-Up policy, and established a special market economy in China, reconstructing the elements of Neoliberalism into the central government's authority China didn't adopt the shock therapy that was adopted by the Soviet Union and other middle European countries: rather China developed a unique Chinese characteristic way to realize privatization. As Hui Wang (2008) put it, the Communist Party of China's advocacy of Mao's thought indicates they still have the power to counteract Neoliberalism to avoid an economic collapse. Although China is the fast-developed country in the world, it is also becoming one of the least equal society at the same time, where the gap between rural area and urban area, coastal area and inland area and different classes are getting more and more extreme, forming a so-called fractured society (Sun, 2003). Zizek (2012) used to call China the whole capitalist country, where the government helps the enterprises to
oppress workers and disadvantaged groups. There is no doubt that China has entered the Neoliberalism era and has been reconstructing classes in a Chinese characteristic way. Their analysis of China’s social structure is constructive for the third part of the research, where social problems are analyzed. In From ‘Class’ to Social Strata: Grasping the Social Totality in Reform-era China, Ann Anagnost (2009) argues, in the reform era, China has witnessed the production of a middle class and increasing socioeconomic inequality. At the same time, the ideological changes are a new form of cultural nationalism that is different from Maoist developmentalism and shares lots of similarities with Neoliberalism. The disappearance of the language of ‘class’ and the adaptation of ‘social strata’ as the language of social analysis is the perfect example. This shift has produced a new model of citizenship that seeks to manage the re-stratified society by pin inequality on cultural differences in a hierarchy of national belonging. As Anagnost put it, this new type of citizenship makes entrepreneurial subject, responsible for his or her profits and losses, "and the anxious manager of his or her embodied capital, whose success is measured in commodified expressions of social distinction, and whose identity as a rights-bearing subject is defined in terms of being a consumer" (p. 515). In China’s reform era, ‘consumer-citizenship’ has been constructed through state policies, such as reproduction and access to education. After the 1990s, these strategies were replaced by the manufacturing of consumer desire, and the presentation of the middle-class’s life in the mass media. The author also depicts the dream image of the Chinese middle class through advertising, televisual fantasy, the housing market, shopping mall, and mass media. These representations suggest that a new type of subject has come into being— "one whose consuming behavior drives not only the momentum of the reform-era economy but also underlines the architectonics of a new model of government." (p. 515)

**Political Economy of Communication in China**

As for the relation between the Chinese government, media, and mass's opinion, Yuezhi Zhao's work is illuminating. In Economy, Communication in China: Political Economy, Power, and Conflict, Yuezhi Zhao (2008) argues the making of authoritarian formations in the Chinese communication system, the role of communication in the constitution of 'China's new order and also analyzes the unfolding dynamics of communication politics and the uneven terrains: over which various social forces struggle for their respective stakes during China’s epochal transformation" (p. 10).
Zhao argues that due to the challenges and opportunities brought up by the development of the Internet and technologies, the party-state is adopting increasingly sophisticated and innovative techniques of discipline. Zhao points out the control over media and communication is explored in daily practices of the Central Propaganda Department when managing and regulating journalism. Thus, the party's answer to the poststructuralist question of how control exists after 'decentralization' (p. 33). The economic transformation of state media and cultural institutions has contributed significantly to the reconstitution of social relations in Chinese society, especially class relations. The media and cultural sectors take two roles in the process of class formation. As Zhao puts it, "it affects class structure not only as an increasingly central vector of production and economic exchange but also as the means of social organization and site of subjectivity formation (p. 76).

Zhao offers two common ways of understanding Chinese media and implications of transnational capital, i.e., the "Chinese nationalist and culturalist framework" and the "liberal democratization framework (p. 138) to examine the political, ideological, and social implications of Chinese media and communications integration with global capital. Zhao argues that "transnationality has thus become an increasingly important aspect of class reconstitution in a globally reintegrated China, and this has led to complicated articulations of nationalist, class, regional, and generational politics" (p.167). From Zhao's perspective, the Internet is a new public place in post-Mao China. At the same time, she also points out the limitations of equality on the Internet. Zhao observes that "class conflicts between the ruling elites and the disenfranchised workers and farmers, as well as the fact that the majority of Internet users belong to the bottom segment of urban-based 'middle social strata, are the necessary places to start to understand Internet discourses in China (p.258).

According to Zhao, Neoliberalism has come to assume hegemony in Chinese economics, as well as the power of elite economists in shaping China's transformation (p. 326). In doing so, Zhao refutes the view of a monolithic political power as the only suppressor of dissident; instead, it is the operation of a regime that consists of expert knowledge, bureaucratic power, and economic capital.
Methodology

This essay explores how the term—‘CD’ became a trend in the media, and how the meaning behind it changed through time in the first part. In this part, I conduct content analysis to see what implications people used when they talk about 'consumption downgrading.' All the post samples are chosen from Weibo, one of the biggest social platforms, with two hundred million's active users. I choose all the original and personal posts that contain 'CD' from 5, March 2017, when the term first appeared, to 16, December 2018, before the Chinese Central Propaganda Department banned the term. I chose three hundred posts from the timeline, within which each sample was selected in equal time segments so that they can represent the average opinion in that specific time segment. According to the result, I did a discourse analysis and divided the timeline of the evolution of the term ‘consumption downgrading’ into three parts: from March 2017 to January 2018, when people regard the term as a commentary one; from January 2018 to August 2018, when people relate it with economic slowdown and other consumption phenomena; and from August 2018 to December 2018, when people relate it to social problems.

Based on the result of the content and discourse analysis, I also did a sentiment analysis to examine people’s feelings when they discuss ‘consumption downgrading’ in the same three hundred posts. Three categories were set to evaluate people’s attitudes: negative (when people relate the term with negative social problems, expressing their pessimistic feelings about current situations or sharing their own experience of consumption downgrading.); medium (when people think it is not their business, asking a question or making a joke, which contains no distinct emotional tendency.); positive (when people think 'consumption downgrading' represents the upgrading of consumption structure and psychology, does not believe its existence and think China's economy is still robust.). The result shows that people feeling changed from positive in the first period to the negative in the last period.

In the second part, this essay analyses the economic definition and mechanism of structural changes in consumption to see whether the ‘CD’ phenomenon in the media is real. So, I used an economic model of consumption structure developed by a few Chinese economists to analysis whether China is experiencing ‘CD’ for real.
In the third part, this essay examines the deeper factors that caused the national panicking led by the discussion of ‘consumption downgrading.’ I discussed four social problems that were brought up most frequently in the content analysis: the rising living cost; the rising house price; the enlarging gap between rich and poor; and the anxiety of China-U.S. Trade War.

In the last part, this essay summaries the government’s role in channeling public opinion and regulating the market by policies.
Chapter 1. The Evolution of ‘Consumption Downgrading’ in Chinese Media

In 2018, one of the most popular economic terms in China is ‘consumption downgrading.’ The term first appeared on the internet in April 2017 and prevailing on the internet through the first half of 2018 until the Chinese government steps in to mitigate public discussion. In this period, the undertone and implication of ‘consumption downgrading’ have changed completely, and the evolution of the term can be divided into three phases.

1.1. The First Appearance: A Commentary Term Represent Upgrading

In Chinese media, the talk around consumption has always been ‘consumption upgrading’—a consumption pattern which emphasis on purchasing stylish imported high-end products of high quality, Chinese consumers still are willing to pay for them although they usually are much more expensive than other regular products. However, the new trending term in recent years changed to ‘consumption downgrading.’

The term ‘consumption downgrading’ first appeared in April 2017, when the CEO of Miya—Nan Liu defined it as purchasing cheaper and local commodities rather than expensive import commodities.

From Liu’s perspective, consumption downgrading is an ongoing trend in retail. Liu argued that "not like what they used to be, Chinese consumers are not willing to afford the price premium for a foreign product no matter how great the quality and style are. 'Consumption downgrading' does not mean consumers cannot afford more; they simply do not think it is necessary to buy expensive foreign products when they could buy cheaper domestic products of the same quality." ('Nan Liu’s speech: ‘Consumption Downgrading’ as a New Trend—Sina News,’ 2018.4.15) According to Liu, consumption downgrading is not the opposite of ‘consumption upgrading’; instead, it is an inevitable consequence of
upgrading. It is not quality that is downgrading, it is price, and consumption downgrading brings the prices back to a reasonable bracket.

From Liu's perspective, four main reasons cause 'consumption downgrading.' Firstly, the depreciation of RMB triggered a decrease in the purchasing power of around 20%. Apart from that, all the imported products on the cross-border e-commerce platform need to pay up to 11.9% tax. Because of these factors, the purchasing power of all Chinese based cross-border e-commerce platforms declined for almost 30%. Secondly, the house price in first-tier cities restraints people's purchase power, since their spend on education and health care cannot be cut, people can only cut down their expenditure on commodity and recreation. Thirdly, because of the rising trade protectionism, imported products have relatively fewer advantages compared with domestic products. This trend is much more apparent when it comes to imported luxury products and high-premium products. Lastly, 'consumption downgrading' represents the change of Chinese consumer's psychology—when 'made in China' can satisfy most of the needs, why spend more money on foreign stuff of the same quality?

Figure 1.1. The Implications the Chinese Related 'Consumption Downgrading' within the First Phase

To sum up, the discussion of the term 'consumption downgrading,' at this time, was mainly around Liu's argument. As a result, when we look at people's discussion about the term (see Figure1.1.), the undemeaning of the term is mostly commentary, with 72
percent of the netizens relating it with the upgrading of consumption structure and psychology. Although it was related to some negative implications, such as the rising living cost. The total usage of the term from March 2017 to January 2018 in Weibo—one of the biggest social platforms—was only 11021 times. (see figure 1.5.)

1.2. The Second Phase: An Indicator of Consumption and Economic Slowdown

The term ‘consumption downgrading’ appeared again in July 2018. Chinese media mainly used three factors as the evidence of ‘consumption downgrading,’ and they are all translated into a structural downgrading of China’s economy and consumption.

![Figure 1.2. The Monthly Growth Rate of Total Volume of Social Consumer Retail](image)

Firstly, according to the Chinese National Bureau of Statistics, the consumer price index (CPI) of July 2018 rose by 2.1%. The growth of retail sales of consumer goods in that month was 8.8 percent year-on-year nationwide while the actual growth was only 6.5 percent year-on-year (see figure 1.2.), which is at the lowest point in fifteen years. This
figure is read as an essential indicator of 'consumption downgrading'. (National Bureau of Static of China, Total Retail Sales of Consumer Goods up by 8.3 percent in the first quarter, 2018.9.4)

Secondly, many articles online see the rapid development of Pinduoduo, a discount app that mainly allows consumers to purchase low-priced products, as an example of ‘consumption downgrading’ because it was the evidence that low-price products have become increasingly popular. On the contrary, the annual sales rate of Jing Dong, a relatively high-end e-commerce platform, dropped 8.3% from the previous year. According to the figures on Pinduoduo's prospectus, the number of active users of Pinduoduo has exceeded 3.44 hundred million yuan, higher than that of Jing Dong. Since Pinduoduo's IPO at Nasdaq reached 28 billion dollars in late July, its association with 'consumption downgrading' has always been an unfavorable tag that the company cannot get rid of. (‘Pinduoduo VS. Jingdong: Who is the Boss in Platform economy’, 2019,1.28)

![Figure 1.3: The Implications the Chinese Related ‘Consumption Downgrading’ within the Second Phase](image)

At last, Chinese media also focus on the growing sales of cheap and local products, such as pickles, instant noodles, and low-end Chinese white wine and interpret it as another sign of consumption downgrading. Likewise, the sharing economy, which is
mostly promoted by the Chinese government as a way to ease urban traffic, has become another piece of evidence of 'consumption downgrading.'

Although the evidence that the media used are some temporarily dropped figures and the development of Pinduoduo, the center of the talks on Weibo shows a different picture. At the time of these observations, the hidden implication of 'consumption downgrading' changed. As is depicted in the Figure 1.3., Chinese netizen associated 'consumption downgrading' with the slowing down of China's economic growth (29 percent), increasing living costs (14 percent) and house prices (15 percent), as well as the China-U.S. Trade War (2 percent). At this time the total usage from January 2018 to August 2018 in Weibo increased to 310218 times. (see figure 1.5.)

### 1.3. The Third Phase: Panic Ensues

As the China-U.S. Trade War escalated at the end of August 2018, the soaring commodity prices have left more and more Chinese feeling pessimistic: slowing China's economy, depreciation of RMB, and the resurgence of trade protectionism all contribute to the further slowdown of consumption.

On the Chinese internet, the talk is all about 'consumption downgrading' and money-saving. On September 14, 2018, a post headlined "This Generation of Young Chinese, Brace for the Bitter Days Ahead," by Ming Na, a Chinese blogger, received more than 300,000 views on the social media platform Weibo in only one day. In her article, she advised young people to stop going to shopping malls and nightclubs. "The age of the consumption downgrade," as Ms. Na put it, "has arrived with a big crashing sound." (‘China’s Consumption Downgrade: Skip Avocados, Cocktails and Kids—The New York Times’, 2018.8.23)

This article worked as a catalyst, and the public started to relate them with 'consumption downgrading.' The public began to identify themselves as 'consumption downgraders': "Quit avocado. Ride bikes instead of taxis. Drink beer instead of cocktails — and make sure that beer is not craft. Order a medium-size milk tea instead of a large. Give up the gym, and take up dancing in public squares like a grandma." (‘China’s Consumption Downgrade: Skip Avocados, Cocktails and Kids—The New York Times',
2018.8.23) Some people joke about eating tofu instead of meat, but this also seems to be a luxury as American tariffs have made imported soybeans more expensive.

Posts like these prevailed on Weibo at that time, and they all are about how people cutting down their daily expenses and experiencing 'consumption downgrading' in their real lives. Perhaps most worrisome for China's leaders, many young Chinese are increasingly reluctant to have children.

Till this day, 'consumption downgrading' has become a trend on the internet, which brought up all Chinese's anxiety. From the result of my content analysis (see Methodology, figure 1.4.), we can see that the implication of this term was parallel with the economic slowdown (10 percent), gap between rich and poor (26 percent), rising living cost (40 percent), soaring house price (13 percent), and China-U.S. Trade War anxiety (11 percent). At this time, the total usage from August 2018 till December 2018 in Weibo increased to 7408237 times (see figure 1.5.).

This sudden increase of the population that participated in the discussion made the term—'consumption downgrading' the top search on the internet. We can see the number of Chinese netizens that took part in the discussion of 'consumption downgrading'
soared up nearly ten times during the time. From the sentiment analysis of the posts on Weibo (see Figure 1.6.), we can see Chinese netizens' attitude towards the term 'consumption downgrading' changed from positive (66% netizen think 'CD' is a positive phenomenon) to negative (83% netizen think 'CD' is negative), and in the third phase, to extremely negative, with 96% of netizens think 'consumption downgrading' is a negative phenomenon. In the first phase, the discussion was mainly around Nan Liu's perspective. As a result, 72% of netizens also consider 'consumption downgrading' as the upgrading of Chinese consumer's consumption structure and psychology. In the second phase, Chinese media started the discussion with some temporary economy and consumption figures and phenomena, but led to people's talk around long-existed problems in the society, such as economy slowdown, gap between rich and poor, rising living cost, soaring house price, and anxiety of China-U.S. Trade War, leading to a national panic in the third phase.

![Figure 1.5. The Total Usage of 'Consumption Downgrading' on Weibo](image)
Figure 1.6. Sentiment Analysis of People’s Feeling toward ‘Consumption Downgrading’

Text Sentiment classification on Weibo
Chapter 2. The Conception and Misconceptions of 'Consumption Downgrading' in the Chinese Media

Since the first appearance of the term in April, 2017, the debate surrounding 'consumption downgrading' is still going on, and there are a lot of arguments and suggestions coming out, but there is no consensus on the fundamental concept mechanism, or nature of 'consumption downgrading', without which, we will easily get trapped by quality, price, sale rate, and other short-term fluctuations, thus get lost in various consumption phenomena, and lack the standard and logic to conduct a further debate. Indeed, there are a few common misconceptions about the term 'consumption downgrading' now.

2.1. The First Misconception: Quality is the Measurement of Consumption

Many arguments in Chinese media define 'consumption downgrading' as the increasing sale of low-quality products. For example, the increasing sale of pickle, instant noodles, and low-end Chinese white wine was taken as a proof of 'consumption downgrading,' which is undeniable, but there are also other explanations.

First, the increasing demands for high- and low-quality products can happen at the same time. For instance, in the first half of 2018, the sales volume of high-end Chinese white wine and limousines also rose ('Consumption Upgrading VS Consumption Downgrading: Definition and Misdefinition—Financial Times', 2018) so this kind of argument ignores the various needs of different social classes in China.

Second, a product can be high-quality or low-quality for different consumers. Mid-tier brand products have a comparatively low price and good quality and started to take up more market share. These mid-tier products are a low-end commodity for the first and second-tier city, but high-end for third- and fourth-tier cities. For third- and fourth-tier citizens, their pursuit of a better life just started in recent years. The success of Pinduoduo is because they value and developed this specific market.
Third, even within the same categories, people can have different tiers of consumption. For example, the post-90s generation just got into the job market, so they need to balance their needs within relatively limited budgets. They may be eating pickles and instant noodles but saving for a professional SLR camera or LV handbags at the same time.

Therefore, quality cannot be the only criterion because quality has three dimensions. It is not reasonable for some articles to use this argument as proof for 'consumption downgrading.'

2.2. The Second Misconception: Price is the Measurement of Consumption

In some articles, the decrease of certain products' average price was considered to be the proof of the entire sector’s 'consumption downgrading,' such as the prosperity of sharing economy, second-hand economy and other low-cost services and products, which was related to 'consumption downgrading.' This kind of argument ignores the intrinsic devalue trend of products. From a material level, the manufacturing cost keeps decreasing as the technology advances, and so does the price. From a non-material level, products' premium always rises then drops. Different from their older counterparts, the new generation of Chinese is not only willing to pay for the products, but they also are willing to pay extra for the fashion, stories, and cultures that the product represents. However, with the change of fashion, new competitions, and the increase in consumers' threshold value, this kind of premium will reach the end eventually. As a result, most of the products will all experience the fluctuation. In this case, relating a decreasing price with 'consumption downgrading' is also unreasonable.

2.3. The Third Misconception: Quality and Price are the Measurements of Consumption

Some articles use decreasing quality and price together to validate 'consumption downgrading.' However, this is still not accurate enough. Consumers are the one who makes a choice, and this kind of argument ignores consumers' initiative.
Let us take the anti-corruption movement as an example. People started to avoid over-consumption, extravagant products, and services, which leads to the shrinking of certain high-end services. This kind of downgrading, apparently, is not the same kind of 'consumption downgrading' we are talking about here.

At the same time, consumer psychology is also changing. The focus of consumption changed from traditional consumption patterns into a new one: from products to services. Some out-of-date products' quality and price are dropping at the same time, but this is also not 'consumption downgrading.' Lastly, because of the fast development of consumer finance in China, consumers have more liberty to choose when and how they like to pay for their purchases. Therefore, the changes in quality and price of products are not going to fluctuate and make it harder to predict the long-term tendency of consumption based on short-term consumption performance.
Chapter 3. The Economic Analysis of ‘Consumption Downgrading’

All the temporary performances of consumption and figures that the non-mainstream media used are not enough to contribute to ‘consumption downgrading.’ Giving definition blindly, as the Chinese media did, will always lead to confusion without a systematic theoretical base. Therefore, this part tries to analyze ‘consumption downgrading’ from the perspective of consumer’s welfare, and comb through the definition, mechanism, and path.

Though the term became a hit in China during 2018, there is no academic definition of it. In the book Modern Principles of Economy (Marshall, 2013), the concept of consumption structure is defined: economic structure decides the structure of the total supply of products and aggregate demand decides consumption structure. At the same time, the total supply of products and consumption structure affect the economic structure and aggregate demand. Consumption upgrading can boost domestic demand and then facilitate economic growth.

3.1. The Definition of ‘Consumption Downgrading’ from an Economic Perspective

A few Chinese economists also developed the model of consumption patterns concerning ‘the wealth effect’ and the ‘economic effect of technological progress.’ According to Chinese economists Shi Cheng and Zhijun Qian’s (‘Consumption Upgrading VS Consumption Downgrading: Definition and Misdefinition—Financial Times’, 2018.6.2) analysis of China’s consumption structure (see Figure 3.1.), ‘Sn’, i.e., production-possibility frontier (PPF) represents market’s ability to serve and fulfill customer’s need, while ‘En’, i.e., resident expected income curve (REI) represents the resident’s purchase ability. Two curves’ point of tangency is residents’ maximum utilization of their purchase ability and market’s production-possibility.
Figure 3.7. The Mechanisms That Affect Structural Change of Consumption and Its Route

Notes: ‘Sn’ represents production-possibility frontier, and the market’s ability to produce better products rises as ‘n’ rises. ‘En’ represents resident expected income curve and residents’ consumption-ability rise as ‘n’ rise. The picture is made based on Shi Cheng and Zhijun Qian's analysis.

With the change of tangency point, the rise or drop of consumer’s welfare represents China’s consumption’s upgrading or downgrading. Based on this understanding, the criterion of consumption downgrading/upgrading is whether the changes of the two curves can create more space, i.e., the gray area, for consumers.
When the gray area shrinks, consumers' space to choose and welfare will decrease accordingly, leading to consumption downgrading, vice versa. This also explained why the changes in 'quality' and 'price' of the product, the sales rate of pickles and cheap Chinese white wine, the development of Pinduoduo could not prove the structural change of China's consumption, i.e., consumption downgrading.

3.2. The Mechanism of Consumption downgrading

Then, what factors contribute to consumption downgrading? According to Cheng and Qian's (2018) analysis, only the change of PPF and REI can affect consumption patterns, and two mechanisms mainly influence the curves: firstly, the wealth effect. As the development of economy and optimization of policy, residents' disposable income, household property will rise, the fluctuation will decrease, thus push 'En' (resident expected income curve) to expand outwards, and collide with a higher 'Sn' (production-possibility frontier), representing the market's bigger and better ability to supply products. As a result, the consumer's welfare and commodity price will increase, thus, consumption upgrading. Secondly, the effect of technological progress. Because of technology development, PPF will rise and tangent with REI. As the PPF getting higher, the product's quality also gets higher; consumer's welfare gets higher than before; the commodity price gets low.

Based on these two mechanisms, we can get the path of 'consumption downgrading/upgrading.' Because of the effects of the wealth effect and the effect of technological progress, the path of consumption's structural change is not smooth, which means all the price phenomena as Chinese media depicted do not equal to consumption downgrading. As the path shows, specific prices will drop even in the period of consumption upgrading. Thus, consumer's welfare is the only criterion for structural change of consumption.

So far, we can see that the reasons that Chinese media used to depict 'consumption downgrading' is not scientific. The consumer price index, the growth of retail sales of cheap consumer goods, the rapid development of Pinduoduo, the growing sales of pickles, instant noodles and low-end Chinese white wine are only temporary
consumption and price phenomena. Using these phenomena to argue for ‘consumption downgrading’ are all misconceptions.

The nature of consumption downgrading depends on consumer’s welfare, which is only influenced by PPF and REI. When the two curves move to the direction that leaves consumers fewer choices and space, the decrease of consumer’s welfare and consumption downgrading is inevitable.

3.3. Chinese Current Economic and Consumption Situation

China’s consumption remained strong through the second quarter (Q2) of 2018, according to Nielson’s China Consumer Confidence Index. Mckinsey & Company also pointed out in its 2017 and 2018 China Consumer report (‘Ten trends of China’s consumer market in 2018 – Nielsen’, 2018.12.21) that a new health craze is growing among Chinese consumers, and they now love local brands, too, as quality, value, and service are more important factors to them, instead of luxury clothes and bags with big brand logos. To some extent, what Nan Liu said about ‘consumption downgrading’ representing the upgrading of consumption structure and psychology is true.

This, in some way, also explains the myth of Pinduoduo as the cultivator of ‘consumption downgrading.’ Pinduoduo’s largest clients, consumers in China’s third- and fourth-tier cities were forgotten by Alibaba and JD.com. Now, these customers are actually spending more after finally being included in China’s online-shopping population. Some scholars argue that Pinduoduo is technology innovation, but the technology innovation that can lead to consumption downgrading needs to be fundamental, which means it needs to be able to change the means of production, leading to a lower cost of production, and thus a lower price. However, as a platform, the core technology of Pinduoduo was developed decades earlier before its existence, so it does not involve any technology innovation, rather, it only developed and exploited a virgin market that has never been valued before. The popularity of low-price products will not slow down the Chinese government’s consumption upgrading reform, which partially shows the success of supply-side reform.

What is real is that China’s living cost and commodities prices are constantly rising, which is the only possible reason that causes a true consumption downgrading. As
Chinese officials said in November 2018, that an index of consumer prices rose in August for the third consecutive month. The increases are not particularly sharp but stable. The rise of living costs is not only inflicted by trade war; it is a long-existing social problem in China. The rise of disposable income is steady but moderate while the expenditure rises more rapid. Comparatively speaking, the living cost is increasing, especially in the urban area, which relatively causes a decrease of resident income. (’Youjuan Wang: The National Resident Income is Rising in the First Three Quarters, consumption structure upgrading,’ 2018.10.23)

To sum up, of the three reasons that will lead to consumption’s structural change: technology innovation, lowering resident income and lowering production-possibility, China’s current economic and consumption situation only have one overlap—the decrease of resident income. Therefore, ‘consumption downgrading’ in Chinese media is not technically a structural change. It is mostly a media phenomenon accidentally created by Chinese media. From my perspective, the real consumption downgrading only accounts for a small part of what is going on in terms of the overwhelming amount of discourse that have seen in the media. Then, what are the deeper causes that start the national panic?
Chapter 4. The Social Problems Revealed by ‘Consumption Downgrading’

Till now, we can see that when Chinese media talking about 'consumption downgrading' in the second phase of the term's evolution, what they used as the proof were the consumer price index, the growth of retail sales of consumer goods, the rapid development of Pinduoduo, the growing sales of pickles, instant noodles and low-end Chinese white wine—all are temporary economy performances. However, from the statistics we can see that what really ignited Chinese feelings and started the massive discussion on Weibo are not these temporary economy and consumption figures; instead, they are the long-existed problems that have simmered in Chinese society for a very long time. These problems amplified people's worry and insecurity, thus making 'consumptiondowngrading' a trend on the internet, and led to this national panic. In this chapter, we will carefully examine the social problems that caused and revealed by 'consumption downgrading' phenomena at the same time.

4.1. The Rising Living Cost

Of all the factors that worry all the Chinese and caused this national panicking, the rising living cost is the most frequently mentioned one. In the third period during the media phenomena, 40% of the Chinese netizens relate 'consumption downgrading' with 'rising living cost' in their post on Weibo. "Pork is up. Vegetables and fruits are up. Gasoline is up. Even the official numbers, usually tame, are up, too", a netizen joked online, whose post was reposted for over 4500 times within 4 hours.

Prices are rising in China. Chinese officials said Monday that an index of consumer prices rose in August for the third consecutive month. Moreover, consumer prices were up 2.3 percent in August from a year before (National Bureau of Statistics, 2018.9.10). Some of the factors behind China's recent price increases look temporary. Wholesale prices for pork, the main meat in the Chinese diet, have climbed 17% since just mid-July, 2019, after an outbreak of swine flu. Vegetable prices have climbed 21% since mid-July
as flooding, and a typhoon has damaged crops. (Agriculture Ministry of China, 2019.7.1) This temporary but rapid increase in price will even drive inflation higher in September.

Other price increases may linger longer. World oil prices have climbed sharply in the past year, and China is the world’s largest oil importer. China’s currency has slid in value against the dollar this year, and that drives up the price of oil further for Chinese consumers because petroleum deals are done in dollars.

Then there are the American tariffs, which could have a mixed impact. They raise prices for imported goods. However, any economic slowdown in China that results from reduced exports to the United States could lower Chinese commodity price and inflation, said Louis Kuijs, a China specialist at Oxford Economics. (Bradsher, 2018)

Wigram Capital Advisors, an economic research group, has long calculated an alternative price index for China by taking government data on specific consumer goods and services and assigning them weightings based on actual household spending patterns.
in big Chinese cities. It shows that the annual rate of inflation jumped to 3.7% in August, from under 2% most of last year. Moreover, one of the biggest reasons for this rise is the rising living cost. (‘Ten trends of China’s consumer market in 2018 – Nielsen’, 2018.12.21.)

As the charts suggested, the rise of disposable income is steady but moderate while the expenditure rises more rapid than before. Comparatively speaking, the living cost is increasing, especially in the urban area.

At the same time, Zhiwu Chen—an economist and professor at Yale University, argues that "the purchasing power of RMB is decreasing at a rate of at least 6.4% per year. Compared with the U.S. dollar, which has not depreciated much during the last 25 years, 1 RMB could buy a meal 25 years ago, while now, it cannot even buy a bottle of water." (‘Zhiwu Che: RMB is Depreciating’ 2017.10.7) As the depreciation of RMB in recent years, the living cost is even higher comparatively.

![Figure 4.9. Chinese’s Disposable Income Per Capita and Annual Growth (HRS)](image)

Notes: Data retrieved from ‘China Statistical Yearbook 2018’.

For those Chinese people that are between the age of 30 to 40—the only generation have no siblings because of the one-child policy and who are also at their prime in their career and life, are facing extra pressure. Because only one child was allowed, it forced a care burden on the first generation of adult children in family groups. Commonly
referred to as the "4-2-1 Problem," (‘The 4-2-1 Problem, China’s One-Child Policy’, n.d.) it meant that one child had to care for their two parents and their four grandparents. If they have children, the "4-2-1 Problem" will become "4-2-1-1 or 4-2-1-2 Problem". The rising living cost will only increase their pressure even more.

4.2. The Soaring Price of Housing

One of the probable reasons for a dropping sales rate a consumption performance could be the high housing prices and mortgage rates, especially in the first and second-tier cities, which have had a squeezing effect on people's daily expenditure. Last year, the leverage ratio of Chinese residents reached 49%, which exceeded the national savings rate of 46 percent for the first time. (‘China Statistical Yearbook 2018’, n.d.)

For many people who earn decent salaries, the high mortgage rates they pay every month leave them little disposable income to spend on daily consumption.

As the Chinese Household Wealth Report (2017) suggested, the net value of house property is the most crucial part of a Chinese household, which makes up 65.99%. The government has started to prepare home-purchase restrictions in second- and third-tier cities to prevent price increases, and it does restrict the soaring house price, but the annual Hoogewerf Report of Global House Price Index (2018) shows that 7 out of 10 and 24 out of 50 cities with the most rapidly increasing housing prices are from China. Moreover, all of the cities on the ranking are first or second-tier cities.

The expenditure on housing, which could be several million-yuan, forces people to reduce their spending on other items remarkably. The unaffordable housing price hinders people’s buying power, especially the middle class since the upper class can always afford the house and the lower class will not bother to think of it because it is so out of their league. For those who can afford a house, high prices still have stoked a rapid rise in household indebtedness, with households relying more on debt to fund home purchases. In turn, after the buying boom in 2015-16, a higher proportion of disposable income has become earmarked for mortgage repayment. Household debt stood at the equivalent of 48.4% of GDP at end-2017, an increase of 4 percentage points from the year-earlier period, and represented 110% of disposable income. That is a higher level than in the US,
Japan, and France, and is significantly higher than the below-80% rate recorded at the end of 2013. ('China Statistical Yearbook 2018', n.d.)

Figure 4.10. The House Prices of General Tendency, Beijing, and Shanghai from 1995-2017

Notes: Data retrieved from ‘China Statistical Yearbook 2018’.

Figure 4.11. The Ratio Between Debt and Disposable Income Per Household

Notes: Data retrieved from ‘China Statistical Yearbook 2018’.
4.3. The Gap Between Rich and Poor

These factors together contributed to the biggest problem in China right now—the gap between rich and poor.

![China Urban and Rural Disposable Income Per Capita](image)

**Figure 4.12. China Urban and Rural Disposable Income Per Capita**

Notes: Data retrieved from 'China Statistical Yearbook 2018'.

In July 2018, the increasing rate of retail goods dropped to 8.8%, which means income growth is relatively low. This trend is also shown in the chart, which shows the relative increase in urban and rural per capita consumption expenditure over time. However, the growth of urban disposable income has increased much more than rural disposable income; there is a large gap between rich and poor in China.

At the same time, inhabitants' income tax in the first seven months of 2018 reached 922.5 billion, increasing by 20.6%, which means income has grown significantly. These
two figures point in different directions. The only reasonable explanation is that the gap between rich and poor is widening tremendously. (‘China Statistical Yearbook 2018’, n.d.)

Since the late 1990s, with urbanization and the affirmation of the market economy, China first entered the changing period of income structure, and the low-income group had more chances to improve their lives. Every year, 20 million farmers on average migrated to the city, they were the ones who established urbanized China, which led to cities' prosperity, the rising of the middle class, and the progress of the society.

However, this changing period halted in 2011, the increasing rate of migrant workers' income dropped from 21.4% in 2011 to 6.4% in 2017, lower than the growth rate of GDP in the same year. Also, in 2011, the ratio of vacant jobs and employees exceeded 1 for the first time. Till the end of 2017, the ratio reached 1.22. (‘The Report on Chinese Migrant Workers’, 2012.4.27)

The slowing down of low-income groups' income growth, population mobility, and the decrease of employment opportunities together reinforce the existing economy and social structure.

As a result, young people swarm to the cities in search of more opportunities; this, in turn, raises housing prices and living costs in the first and second-tier cities. Young people need to pay higher prices to get limited chances. Even though they are not likely to break the social structure and make it to a higher social status, it is they who are experiencing 'consumption downgrading' more than others. The success of a new online shopping platform, Pinduoduo, who is low-end-consumption-market oriented, does nothing more than satisfy the needs of those who come from a relatively lower social-economic status.

Because of the enlarging gap between rich and poor, it would be more accurate to say that 'consumption downgrading' and 'consumption upgrading' are happening in China at the same time.

For those who come from relatively lower social-economic status, they are forced to experience 'consumption downgrading' because of the soaring housing price, rising living costs, while the people from upper social-economic status are still enjoying a more
extensive range of consumer choice and upgrading their consumption. Thus, the term ‘consumption downgrading’ has a strong class implication.

4.4. China-U.S. Trade War

The China-U.S. trade war also escalates the economic condition and left more Chinese pessimistic about the future. In anticipation of tariffs going into effect, stock prices in the U.S. and China sustained significant losses for four to six weeks prior. Trade war fears had led to a bear market in China whereby late June the total value of the country’s stock markets was 20% lower than it had been at the beginning of 2018 when it reached record levels. (‘Debating China’s consumption downgrade,’ 2018.9.12)

A simulation conducted by the Guangdong University of Foreign Studies’ Research Center for International Trade and Economics and the Chinese Academy of Social Sciences’ Institute of World Economics and Politics measured the potential implications of a trade war between the United States and China. By using a multi-country global general equilibrium model, the simulations produced numerical values that represent the effects of a US-China trade war. Overall, the results indicate that China “will be significantly hurt by tariff trade war in all indicators, including welfare, gross domestic product (GDP), manufacturing employment, consumption and trade.” (‘Debating China’s consumption downgrade,’ 2018.9.12)

"During the coffee breaks and the conversations, the topic of inflation is coming up,” said Tai Hui, the chief Asia market strategist for J.P. Morgan Funds. "We are starting to hear a lot more from investors. It is just a question of the severity." (‘China’s Consumption Downgrade: Skip Avocados, Cocktails and Kids—The New York Times’, 2018.8.23) Prices are rising in China—and that could complicate Beijing’s efforts to prop up a slowing economy and navigate the China-U.S. trade war. As China-U.S. trade war escalated at the end of August, the soaring commodity prices have left many Chinese feeling pessimistic. The pessimistic mood about China’s economic future may be much more toxic to its economy and consumer confidence than reality. In other words, in the time of trade war, Chinese consumers may cultivate ever more thrifty spending habits and slow down or even reverse China’s consumption upgrade process, creating an even higher saving rate and debt issues.
Beijing had hoped the cut in personal income taxes in August 2018 would help boost consumer spending and help offset the impact of the trade war on the export sector. However, the data adds to other evidence that consumers are becoming more cautious in their discretionary spending because of worries about the trade war's impact on the overall economic outlook and how that might affect their jobs and income.

4.5. Chapter Conclusion

The rising living cost, the soaring house price, and mortgage rate, the widening gap between rich and poor and the anxiety over trade war is continually worrying the Chinese, they are the long-existed problems that have shadowed Chinese society for a long time. These problems are deeply rooted in people's hearts, haunting them all the time that a false media phenomenon can so easily ignite this fear, thus making 'consumption downgrading' a trend on the internet, and led to this national panicking.
The Chinese government does have reasons to worry about the widespread use of ‘consumption downgrading.’ The pessimistic mood about China’s economic future may be much more toxic to its economy and consumer confidence than reality. In other words, the mere belief in a consumption downgrade may cultivate ever more thrifty spending habits and slow down or even reverse China’s consumption upgrade process, creating an even higher saving rate and debt issues. What is more, the pessimistic mood of China’s growing middle class about their future personal income and the business environment will lead them to question the Chinese Communist Party’s stance on the trade war and its governance capability.

As we analyzed before, Chinese non-mainstream media misused the concept of ‘consumption downgrading’ and accidentally created a national discussion and panicking, forming a media phenomenon. However, to some extent, ‘consumption downgrading’ as an economic phenomenon is also happening in China because of the rising living cause, thus the relatively shirking income. Therefore, in the media sector, the Chinese government spotted this logic loop-hole in Chinese non-mainstream media’s narrative and use the official media to publish articles that denial the reasonability of ‘consumption downgrading’ both as a media phenomenon or an economic phenomenon. At the same time, the Chinese government is recognizing consumption downgrading in the economic sector by making new policies to improve the long-existed problems that worry Chinese stimulus the market, cutting personal income tax, forming new consumption pattern and psychology and encouraging residents to spend more, thus reboots Chinese consumption and economy.

5.1. The Role of Chinese Official Media in Shaping Public Opinion

In the third period, when public opinion turned more and more pessimistic, the Chinese official media stepped in and started to guide public opinion.
Official media published related articles to take part in the online discussion and influence public opinion. Most articles in People's Daily, China Daily, and Xinhua Agency claimed 'consumption downgrading' does not exist at all or claimed that 'consumption downgrading' might exist in a particular sector, but the general economic tendency is still upgrading.

Xinhua Agency published an article called "'Consumption Downgrading' is Wrong." The article argues that the retail sale of the commodity is not the correct criterion to evaluate the structural change of China's consumption and economy. It argues that a certain level of consumption slowdown and consumption structural upgrading are a typical symptom of 'consumption upgrading.'

Another article from People's Daily ('Consumption Downgrading—China Daily,' 2018.8.9) argues that consumption downgrading represents Chinese people's rational consumption psychology: consumers care more about the quality and the practicability rather than the brands and the reputation. The article argues that since China is more involved in the international economy, the Chinese can purchase everything from every country online. As we have more and more choices, people also begin to focus on the quality, style, and culture beneath the products and services. So, the increase in the sale rate of cheap and domestic products does not mean consumption downgrading; rather, it represents the upgrading of consumption structure and psychology.

In September 2018, Phoenix News revealed that Chinese official media Xinhua Agency created fake news in which a famous economist and sociologist Gang Feng from Zhejiang University and other eight professionals argued that 'consumption downgrading' is nothing but a fraud. In the article published by Xinhua Agency, the economists 'argue' that a fully developed market should be highly diversified. The supply system should be able to fulfill customers' needs with different content, quality, and price. We cannot say that consumption is downgrading because Pinduoduo started to supply cheap products. It improves consumption and user experience by the innovation of consumption mode, improving efficiency, and lowering cost. The develop of Pinduoduo is only a step closer to consumption upgrading. While in Phoenix News's report, Feng clarified that he did not get interviewed by Xinhua Agency at all, but this article was soon deleted afterward.
After this, 'consumption downgrading' became a sensitive word. Although the passages about it still exist on the internet, all the original articles that seem ‘irritating’ have been deleted.

However, people's attention and discussion are not in vain, and the government started to face the situation. On September 20, 2018, 'The CPC Central Committee and State Council on further facilitating consumption system and boosting consumption potential' was published, in the public document, the government planned to upgrade consumption. The government pointed to the progress in recent years and also acknowledged that: 'China has improved consumption scale, consumption level and consumption structure in recent years, but some problems stills need to be addressed. There are institutional hurdles that impede the expansion and upgrading of consumption. The existing market cannot satisfy the various needs of rural and urban residences, the monitoring system cannot adapt to the fast development of consumption pattern, the quality and standard system are still behind the need of improving consumption level and range, and systems of credit and consumer protection need to be perfected, and the system of consumption policy cannot facilitate the improvement of citizens consumption capacity.' These acknowledgments speak to the people's anxiety and uncertainty about the existing problems.

On September 21, 2018, another official Chinese media, People’s Daily published an article entitled “Consumption Downgrading”? The Central Committee gives you an answer.” The article appreciates 'The CPC Central Committee and State Council's efforts on further facilitating consumption systems and boosting consumption potential' and reiterates some points it brings up: 'though consumption scale, consumption level, and consumption structure have been improving a lot in recent years, our consumption potential is huge compared with high-income countries' consumption rates which are always higher than 60%. We need to change the old view of 'expanding domestic demands' into 'improving the balance of supply and demand to transfer potential into impetus, savings into consumption.'

Combing through Chinese official media's reports and reactions, we can see they keep denying consumption downgrading by refuting each of the evidence that the non-mainstream media used, then reuse all those prove to argue that China is having consumption upgrading of structure and psychology. To sum up, Chinese official media
use 'consumption downgrading as an advertisement to advocate domestic consumption, domestic products, platform economy, and consumption psychology while never touch the deeper problems that worries all the Chinese.

5.2. The Role of Chinese State in Molding and Encouraging Consumption Pattern

The steady growth in the domestic consumption market over the past few decades has shaped China’s economic structure more services-oriented, personalized, differentiated, diversified, and high-end consumption has become more popular. As the official statistics suggest, China's domestic tourism income increased to 482 billion yuan ($72 billion U.S. dollar), and the sales volume amounted to 1.2 trillion yuan till November, an increase of 14.4 percent. As a result, the service sector is playing an increasingly important role in China’s economic growth.

On, September 6, 2018, the spokesman of the Chinese Ministry of Commerce, Gao Feng, made a speech about 'consumption downgrading' in which he claimed 'consumption downgrading' is invalid and inappropriate. The current situation proved to be 'consumption upgrading.'

He argued there are three consumption trends in China right now. The first is buying high-quality products with a good reputation. The second is purchasing from various platforms rather than traditional physical stores. The third is consumer psychology’s upgrading, such as choosing the sharing economy and environmentally friendly products, which reflects green and rational mentality. These three types of consumption patterns are also encouraged by the government in the speech.

As for how to promote consumption, Gao Feng expressed that the Ministry of Commerce will maintain a high level of quality development, focusing on expanding the service industry, developing mid-to-high-end consumption, upgrading consumption platform, promoting environmentally friendly consumption pattern, and creating better shopping environment. The government will improve the consumption service centers in rural and urban areas, and efficient dispatching systems between the rural and urban
areas to facilitate the stable and continuous increase and upgrading of consumption. ('Consumption Downgrading is not True—Xinhua Agency', 2018.9.6)

On September 20, 2018, 'The CPC Central Committee and State Council on further facilitating consumption system and boosting consumption potential' was published, in the public document the government planned to upgrade consumption and pointed out the obstacles for improving consumption. To tackle these problems, the government brings forward 'using consumption upgrading to lead innovation on the supply side, which in turn improves and creates consumption growth. This circle can improve the balance of supply and demand, and rise citizen consumption rate.'

Premier Li Keqiang said in November 2018; the Chinese government had no plans to resort to a "massive stimulus" similar to that of 2008 as a way of managing its slowing economy amid the trade war with the US. Instead, Beijing will focus its policies on "energizing the market, in particular, market entities" and on creating "fair and equal regulations" to maintain momentum in the world's second-biggest economy, Li said in a speech before the annual summit of the Association for Southeast Asian Nations in Singapore. ('Chinese Premier rejects economic stimulus option as the latest data shows more weakness—South China Morning Post', 2018.11.13)

China's property market is set to stabilize this year as the central authorities' further stress establishing a long-term mechanism for the healthy development of the sector. A Political Bureau of the Communist Party of China (CPC) Central Committee meeting held on April 19 reiterated that housing is for living, not speculation. This suggested stable land prices, house prices, and stable price expectations. Data from the National Bureau of Statistics (NBS) showed the total gross floor area traded from January to March fell 0.9 percent year-on-year to 298 million square meters, while transaction value increased 5.6 percent year-on-year to 2.7 trillion yuan ($399 billion U.S. dollar).

Thus, in its effort to push for the supply-side reform, China made substantial progress in supply-side reform in 2018. The government makes a constant effort to boost the fast-growing service sector, given that there is enormous demand in China for services, such as those services related to education, healthcare, and tourism. China will stick to supply-side structural reform in 2019, including deleveraging and eliminating excess capacity, improve the quality of economic growth. The reduction of taxes and fees
nationwide totaled more than 1.3 trillion yuan ($191 billion U.S. dollar), according to the National Bureau of Statistics, is also expected to re-boosts the domestic consumption sector.

At the same time, the government asks the media to take the role of forming a reasonable consumption expectation for the public, establishing a fundamental understanding to improve economic growth by increasing consumption.
Conclusion

‘Consumption downgrading’ at first is only a media phenomenon accidentally created by some non-mainstream media to attract click rate; then it is a complicated term entrenched with many Chinese social problems in the media and internet. We should not ignore the mistakes made by media at the beginning of using the term, but it is not equivalent to say that ‘consumption downgrading’ is an artificial concept made up by the media. The phenomenon is partly caused by economic reasons and mostly caused by people’s insecurity over the China-U.S. trade war, soaring housing prices, increasing living costs, and the ever-widening gap between rich and poor. These problems are so deep and powerful that they can form into a national panicking so easily.

When the discussion spread into a national panicking, the Chinese government stepped in and wielded its incompatible power to control discussion, shift public opinion and set the media’s agenda, turning this phenomenon into an opportunity to advocate new consumption patterns and psychology. ‘Consumption downgrading’ became a commercial that the government used to promote domestic consumption. The significance of domestic consumption is not only crucial for people’s livelihood and welfare, but also a significant driving force for China’s economic and social development, especially at a time when China is undergoing structural reform, economic transformation, and facing the threat of a trade war. At the same time, the Chinese government also started a few new policies that aim to alleviate the social problems that cause people’s insecurity, such as property policy, consumption policy, market reform policy, and cutting income taxes, and make efforts to fill the gap between rich and poor. After all, economic growth and development mean nothing without people’s wellbeing and happiness.

From observing the phenomenon of ‘CD,’ we can see that the Internet is serving as a public place in post-Mao China. At the same time, we cannot deny the limitations of equality on the Internet. The class struggle between the ruling elites and the disenfranchised lower social-economic status, along with the fact that the majority of Internet users comes from the lower or middle class of urban-based, are the necessary places to start to understand media phenomenon in China. As a result, we can see China is not a totalitarian political entity that has no tolerance in dissident; instead, it is the
combination of a regime consists of expert knowledge, bureaucratic power, and economic capital.
References


Appendix

i Miya: established in 2011, is the first Chinese e-commerce platform that sells baby and maternal products started by a Chinese mother who dedicate to provide the best maternal products for Chinese households—Nan Liu.

ii Price premium: or relative price, is the percentage by which a product's selling price exceeds (or falls short of) a benchmark price. Changes in price premiums can also be signs of product shortages, excess inventories, or other changes in the relationships between supply and demand.

iii First/second/third/fourth-tier city: is a hierarchical classification of Chinese cities. There are no such official lists in China, as the Chinese government does not publish or recognize an official definition or a list of cities included in the tier system. However, it is frequently referred to by various media publications for purposes including commerce, transportation, tourism, education, and more. The city-tier classification is popularly used by businesses to guide their market entry strategy. Traditionally, first-tier cities are the largest and wealthiest—often considered the megapoles of China, such as Beijing, Shanghai, Guangzhou, and Shenzhen. As the tiers progress, the cities decrease in size, affluence, and move further away from prime locations.

iv Anti-corruption movement: since November, 2012, the Central Committee of the Communist Party of China conducted a stricter anti-corruption movement aiming to eradicate all kinds of corruptions, embezzlements and abuse of power. Till 2014, more than 180,000 party members has been punished, and 56 high ranked officials has been removed and sentenced.

v Consumer finance: the division of retail banking that deals with lending money to consumers. This includes a wide variety of loans, including credit cards, mortgage loans, and auto loans, and can also be used to refer to loans taken out at either the prime rate or the subprime rate.

vi Consumer’s welfare: the core concept of neo-consumption welfare economy. Consumer’s welfare is a special commercial welfare, referring to the extra benefits that the consumers can get other than the products or service they purchased for under a routinely marketing activity.

vii The wealth effect: the change in spending that accompanies a change in perceived wealth. Usually the wealth effect is positive: spending changes in the same direction as perceived wealth. Changes in a consumer’s wealth cause changes in the amounts and distribution of his or her consumption. People typically spend more overall when one of two things is true: when people actually are richer, objectively, or when people perceive themselves to be richer—for example, the assessed value of their home increases, or a stock they own goes up in price.

viii Production—possibility frontier (PPF): or production possibility curve (PPC) is a curve which shows various combinations of the amounts of goods which can be produced within the given resources and technology/a graphical representation showing all the possible options of output for products that can be produced using all factors of production, where the given resources are fully and efficiently utilized per unit time. A PPF illustrates several economic concepts, such as allocative efficiency, economies of scale, opportunity cost (or marginal rate of transformation), productive efficiency, and scarcity of resources (the fundamental economic problem that all societies face). It rises always means the maximization of market’s ability to fulfill consumer’s need and benefit them from a greater supply of goods and services at lower prices, and employment will increase.

ix Alibaba: a Chinese multinational conglomerate holding company specializing in e-commerce, retail, Internet, and technology. Founded 4 April 1999, the company provides consumer-to-consumer (C2C), business-to-consumer (B2C), and business-to-business (B2B) sales services via web portals, as well as electronic payment services, shopping search engines and cloud computing services. It owns and operates
a diverse array of businesses around the world in numerous sectors, and is named as one of the world's most admired companies by Fortune.

JD.com: a Chinese e-commerce company headquartered in Beijing. It is one of the two massive B2C online retailers in China by transaction volume and revenue, a member of the Fortune Global 500 and a major competitor to Alibaba-run Tmall. As of the first quarter of 2018, the platform has 301.8 million active users. JD.com, Inc. was listed on Nasdaq in the U.S. in May 2014.