

## Conclusion

Rapid income growth is changing the structure of Chinese food expenditure, a development that has important implications for China's agricultural and food sector and for international trade in agricultural products. As household incomes rise, consumers demand not only a greater quantity of food, but also higher quality. The demand for quantity diminishes as income rises, and the top tier of Chinese households appear to have reached a saturation point in quantity consumed of most food items. Most additional food spending by high-income consumers is spent on higher quality foods and meals in restaurants. This is reflected by increased attention to food safety; demand for processed foods; patronization of restaurants and other foodservice establishments; increased shopping in supermarkets, convenience stores, and other modern retail shops; and consumption of a wider variety of nontraditional foods.

It is surprising that the top tier of Chinese households have reached a saturation point in food consumption at income levels that would be well below the poverty line in the United States. The top 10 percent of Chinese urban households had average household incomes of just \$7,000 in 2003 (when converted at the official exchange rate), still poor by developed-country standards.

Rural households (about 60 percent of the population) and low-income urban households (20 percent) are still at income levels where they demand increased quantities of many foods as their income rises. Low-income consumers' demand for items like meat, dairy products, and beer is much more responsive to income increases than is demand by consumers with higher income.

The concentration of income growth in the richest tier of urban households suggests that their spending has been the main driver of development in the retail food sector in recent years. The rapid growth in spending by the top 20 percent of urban households, combined with their preference at this stage for quality over quantity, explains the extremely rapid growth in supermarkets, convenience stores, and restaurants—outlets that offer greater convenience and quality in food purchases. At the same time, the much larger segment of low-income urban and rural residents who have a higher propensity to purchase greater quantities of foods like fish, fruit, dairy products, and poultry have experienced much slower income growth. Growth in food spending by rural households and urban households with incomes below the median has been sluggish.<sup>26</sup>

Taken together, these patterns suggest that the growth in the quantity of food demanded in China has been much slower than would be predicted by China's rapid economic growth. Much of the food expenditure growth accrues to high-income households that are purchasing mainly greater value added in food consumption rather than increased quantity. Low-income households, which have the most elastic demand for food quantity, are experiencing less rapid income growth and their food spending has been sluggish as well. The slow growth in quantity of food demanded may explain how China has been able to remain self-sufficient in most food items.

<sup>26</sup>Rural food expenditure growth understates the commercial importance of rural demand because an increasing share of the rural food supply is passing through formal market channels as rural households move away from subsistence farming (Gale, Tang, Bai, and Xu).

The growing segmentation of the China market is a factor in emerging policy issues. A recent commentary predicted that rural residents would bear the brunt of food safety problems (*China Daily*), noting that rural residents with low incomes are highly price sensitive in food purchase decisions and unlikely to pay a premium for food certified as safe. Food prices are important in agricultural and trade policy as well. China's introduction of subsidies for grain producers in 2004 was driven partly by a sharp increase in retail grain prices that year. Fear of potential social instability from rising food prices has long been a concern for Chinese policymakers. While a growing segment of high-income urban consumers can pay higher prices for food, many low-income urban consumers may be adversely affected by increased food prices.

High-income consumers' willingness to pay for premium foods may boost food imports. In China, imported foods are usually more expensive than domestic foods, and they have had little success penetrating the China market. As consumers gain enough discretionary income to pay premium prices, they may increase their purchases of imported or branded food items. Imported fruit sales have already increased, mainly as the demand for gifts has risen, and freshness and quality are motivating Chinese hotels to procure imported produce.

The increased demand for food quality will continue to be an important driver of food markets in China, creating many new marketing opportunities and contributing to rising awareness of food safety issues. Further investigation is needed in order to better understand these trends and their implications for China's agricultural and food trade.