Expanding Rural Demand from an Urban-Rural Integration Perspective: Potentials and Pathways

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Abstract: *The countryside is both a priority and a challenge in China's efforts to increase domestic demand. The growth of rural demand is essential in strengthening urban-rural and broader domestic economic circulations. The consumer spending of rural households will expand faster than that of urban households if their incomes grow at a reasonable rate. China's efforts to become an agricultural powerhouse and to create a livable countryside is expected to turbocharge investment demand, and quality-oriented rural industrial development will unleash more urban and rural consumer demand. However, barriers to urban-rural integration have stifled rural consumer demand. These barriers are reflected in the deceleration and instability of the growth of income of the urban and rural households, social security gaps for rural residents, insufficient rural industrial development, insufficient rural supply capacity, and insufficient rural infrastructure revenues, as well as an undersupply of goods and services for rural residents. Rural consumer demand should be increased for the betterment of life for urban and rural residents under urban-rural integration. The government should adopt a combination of policy paths and instruments to increase rural incomes and boost rural demand, upgrade the rural consumer market, and encourage investment in rural development. Agriculture and the countryside should effectively integrate into the broader domestic economic circulation to smooth urban-rural economic circulation.*

Keywords: *Strategy to expand domestic demand, rural demand, urban-rural integration, rural modernization*

JEL Classification Code: E61, O18, R10

DOI: 10.19602/j.chinaeconomist.2023.07.01

Domestic demand has emerged as a driver of China's domestic economic circulation in the new development stage. According to the Report to the 20th National Congress of the Communist Party of China (CPC), "Domestic circulation should be made more robust and reliable through a combination of strategies to expand domestic demand and deepen supply-side structural reforms." A prominent contradiction in China's economic performance is insufficient aggregate demand, which has a negative impact on the stability and sustainability of domestic circulation. As evidenced by disparities in consumption and living standards between urban and rural areas, the urban-rural divide limits the potentials of rural demand and impedes demand-driven economic circulation. China aspires to create a modern socialist country in all respects, and the countryside presents the greatest challenge and opportunity for achieving this goal. The same holds true for domestic demand, with rural demand

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Acknowledgement: This paper is an outcome of research assignment "Study on Strategies to Expand Domestic Demand" by the Chinese Academy of Social Sciences (CASS).

representing a priority and a strategic problem. As a unique aspect of China's urbanization, rural migrants leave their families in the countryside to work in cities and return to the countryside from time to time. This makes the countryside an essential consumer market and rural demand a major component of China's domestic demand. Urban-rural integration will smooth factor flow and stimulate the potentials of rural consumption, which is of great importance in fostering new relations between industry and agriculture and between urban and rural areas and in promoting high-quality development driven by domestic circulation. Currently, the potentials of rural consumption have been limited by lack of rural demand, by an undersupply of rural consumer goods and services, and by supply-side contradictions. Under urban-rural integration, we should adopt a combination of policy paths and instruments to expand rural demand, reshape urban-rural economic circulation, and enhance the broader domestic circulation.

1. Great Potentials of China's Rural Demand in the New Era

Rural demand encompasses consumer spending by both urban and rural residents, as well as government and corporate investments in the countryside. Rural demand and urban demand are both indispensable components of national economic circulations. The integration of rural and urban demand is key to integrated urban-rural development. China's urban-rural divide and gaps have resulted in a split between rural and urban consumer demand, restricting consumer spending in the countryside by both rural and urban residents. In China, consumer spending by urban residents far outstrips that by rural residents. Urban-rural income gaps have led to a deep divide between urban and rural household consumption (Fig. 1). In the new era of countryside revitalization and urban-rural integration, China's urban-rural consumption gaps and rural development shortfalls indicate the potential for huge rural demand. For one thing, rural households have seen their incomes rise at a faster pace than the incomes of urban households, allowing them to give full play to their consumption potentials. The countryside will offer rural consumers the greatest potential to catch up with their urban peers. Rural revitalization and environmental improvement will provide urban and rural residents with more consumer choices and uplift urban and rural consumption, thereby generating a multiplier effect of demand growth. Rural demand can be stimulated by integrating urban and rural development, narrowing urban-rural consumption gaps, and reducing rural development deficits. The connection between urban and rural demand will facilitate economic circulation and boost demand across cities and the countryside. In the new era, the following factors may contribute to the expansion of China's rural demand:

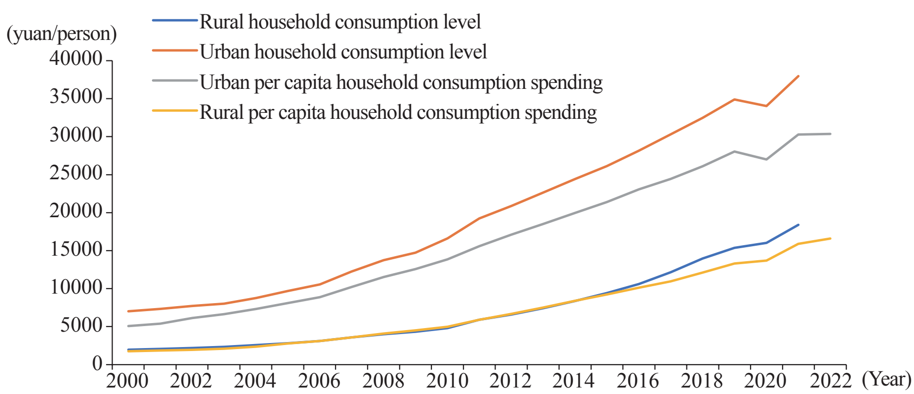

Figure 1: Change in Urban and Rural Household Consumption and Per Capita Consumer Spending, 2000-2022

Source: Compiled based on data from the National Bureau of Statistics (NBS).

1.1 Rural Consumer Spending Expected to Grow Faster than Urban Consumer Spending

Household consumption is dependent on household income and its growth. In recent years, consumer vitality at the county and township level - including their countryside - has been on the rise amid a shrinking income gap between cities and the countryside. In 2021, the retail volumes of consumer goods in counties and townships and their countryside reached 10.8 trillion yuan and 5.9 trillion yuan, respectively, with annual average respective growth rates of 10.4% and 9.8% between 2013 and 2021, 2.3 and 1.7 percentage points higher than the retail volumes of urban consumer goods (NBS, 2022)[1]. However, significant disparities in consumption between urban and rural households still exist. In 2021, the ratio between urban and rural household consumption levels was 2.06:1, and the rural household consumption level lagged behind the urban household consumption level by approximately 11 years. In 2022, these figures were 1.83:1 and 11 years[2]. In 2022, 34.8% of China's total population resided in rural areas, but the rural retail volume of consumer goods accounted for only 13.5% (NBS, 2023). Unlike urban residents, rural residents spend the majority of their income on income-elastic food and daily necessities. Rising incomes are accompanied by a steady increase in spending to improve the quality of life, as well as a surge in spending on more income-elastic categories such as culture, amusement, healthcare, and life services. Rural household consumption is both shock-resistant and characterized by a high propensity to consume, as evidenced by the fact that their consumption spending makes up a greater proportion of disposable income and grows faster than that of urban residents. Between 2012 and 2022, urban household consumption as a percentage of disposable income fell from 70.9% to 61.7%, while this figure rose from 79.5% to 82.6% for rural household consumption. During the same period, rural households' per capita consumption spending grew significantly faster than that of their urban counterparts. It is anticipated that growth in rural household income will generate an annual consumption demand of 2 trillion yuan (Qiao, 2023).

Table 1: Urban and Rural Household Disposable Income and Consumption Per Capita, 2012-2022

		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Household disposable income	Urban growth rate (%)	9.6	7.0	6.8	6.6	5.6	6.5	5.6	5.0	1.2	7.1	1.9
	Rural growth rate (%)	10.7	9.3	9.2	7.5	6.2	7.3	6.6	6.2	3.8	9.7	4.2
	Urban-rural ratio	2.88	2.81	2.75	2.73	2.72	2.71	2.69	2.64	2.56	2.50	2.45
Household consumption level	Urban growth rate (%)	7.1	5.7	5.9	6.9	5.6	4.0	4.7	4.6	-4.6	9.9	--
	Rural growth rate (%)	8.1	9.4	10.9	12.7	10.8	10.8	12.4	7.0	1.8	13.5	--
	Urban-rural ratio	3.17	3.06	2.92	2.78	2.65	2.50	2.32	2.27	2.12	2.06	--
Household consumption spending	Urban growth rate (%)	7.1	5.3	5.8	5.5	5.7	4.1	4.6	4.6	-6.0	11.1	-1.7
	Rural growth rate (%)	10.4	9.2	10.0	8.6	7.8	6.8	8.4	6.5	-0.1	15.3	2.5
	Urban-rural ratio	2.57	2.47	2.38	2.32	2.28	2.23	2.15	2.11	1.97	1.90	1.83

Note: Growth rates in this table are actual growth rates.

Source: Compiled based on data from the website of the National Bureau of Statistics (NBS) (http://www.stats.gov.cn).

[1] The combination of township and rural retail volumes as a share of total retail volume rose from 34% in 2012 to 38% in 2021.

[2] According to NBS data, China's urban and rural household consumption levels stood at 37,995 yuan and 18,434 yuan, respectively, in 2021. By the current-year price, the rural household consumption level in 2021 was 4.1% lower than the urban household consumption level of 19,218 yuan in 2011. In 2022, the urban per capita household consumer spending stood at 30,391 yuan, and the rural per capita household spending reached 16,632 yuan. By current-year price, the rural household per capita consumer spending in 2022 was 2.8% smaller than the urban household per capital consumer spending of 17,107 yuan in 2012.

1.2 Huge Investment Demand for China's Development into an Agricultural Powerhouse

The Report to the 20th CPC National Congress outlined plans for transforming the nation into an agricultural powerhouse and pledged to increase food security and develop a diversified food distribution system. It also called for the integration of contemporary services, advanced manufacturing, and modern agriculture. To develop into an agricultural powerhouse, China must improve agricultural modernization, strive to increase high-standard farmland, develop protected agriculture, and upgrade agricultural facilities, equipment, and technology (Wei, 2022). Those endeavors will generate a substantial demand for agricultural investments. China has launched a new round of 50 billion kg grain capacity initiatives with a focus on the protection and improvement of arable land, revitalization of the seed industry, and technological independence. Among these priorities, the protection and improvement of arable land will generate the greatest investment demand. By the end of 2022, China had constructed 1 billion *mu* (66.67 million hectares) of high-standard farmland. As stated in the Report to the 20th CPC National Congress, steps should be taken to convert all permanent basic farmland into high-standard farmland. China has designated 1.55 billion *mu* of permanent basic farmland, leaving 550 million *mu* of high-standard farmland to be developed. The central government has stipulated an allowance of 1,000 yuan/*mu* for the construction of high-standard farmland with matching funds from various provinces, autonomous regions, and municipalities based on their fiscal conditions to gradually increase the construction investment standard to 3,000 yuan/mu[3]. To convert all basic farmland to high-standard farmland, new construction alone will generate an investment demand of at least 1.65 trillion yuan. Taking into account the maintenance and improvement of existing high-standard farmland as well as private farmland investment, the actual investment far exceeds the investment demand for new construction. Standardized farmland is only one aspect of farmland development. Other aspects include the protection of arable land, the development of soil fertility, irrigation, and hydropower, and improvement of the infrastructure. A substantial amount of private investment is expected to be catalyzed through the implementation of the seed industry revitalization initiative, the improvement of the agri-technology innovation system, and the self-reliance of agri-technology.

We should adopt a holistic approach to food and build a diversified food supply system. Food supply potentials from mountains, rivers, forests, farmland, lakes, grassland, sand land, the sea, and cities should be exploited through the development of protected agriculture. As a capital-intensive industry, modern protected agriculture will unleash a tremendous demand for private investment in agricultural facilities, including facilities for the sprout cultivation of grains, vegetables, fruits and other crops, livestock and poultry, aquaculture, edible fungus planting, and deep-sea farming. The demand for investment in protected agriculture - most of which is private investment - far outweighs the demand for investment in the protection of arable land and the construction of farmland. The core competitiveness of an agricultural powerhouse boils down to the comprehensive strengths of complete industrial chains. Currently, China's development of complete agricultural industrial chains has been hindered by a lack of agricultural facilities, particularly standardized production centers, warehouses with drying equipment, cold chain logistics, and intensive processing. These shortfalls also represent investment demand potentials for future high-quality agricultural development. It is estimated that a total of 15 trillion yuan needs to be invested in the construction of high-standard farmland and protected agriculture in China over the coming five to ten years (Tang, 2023).

[3] According to the *National Plan for High-Standard Farmland Construction (2021-2030)*, the average investment for each *mu* (0.067 ha.) of high-standard farmland should gradually reach 3,000 yuan or so. Various localities may set local investment standards reasonably to support qualified regions to raise the investment standard per *mu* where appropriate. Currently, many provinces have set the allowance standard at 1,500 yuan/*mu*. Among them, Guangdong Province has planned to increase investment per *mu* to around 3,000 yuan, and Guangxi Zhuang Autonomous Region plans to raise the local fiscal allowance per *mu* by 200 yuan each year from 2023 with the goal to increase fiscal investment to 3,000 yuan before 2030.

Table 2: Priority Areas for Countryside Revitalization Investment

Priority area	Scope of investment
Stable production and supply of grains and key agricultural products	New round of 50 billion kg grain capacity improvement plan; expansion in the cultivation of soybean oil; centralized sprout cultivation of rice and intensive cultivation of vegetable seedlings, food drying, in site refrigerated storage and cold-chain logistics of agricultural produce, renovation of obsolete vegetable facilities, and upgrade of poultry farms and aquatic breeding ponds; feed manufacturing centers, pasture animal husbandry, ecological fishery, modern marine ranching, and edible fungus and algae farming.
Agricultural infrastructure and technological equipment	Construct and improve high-standard farmland, and consolidate small farmland plots into large and contiguous ones; build and modernize large and medium-sized irrigation areas, backup water sources for drought relief, and irrigation works; develop agricultural disaster prevention and reduction capabilities; achieve breakthroughs in critical agricultural technologies; revitalize the seed industry; develop advanced agricultural machinery; promote smart and green agriculture.
High-quality development of rural industries	Upgrade the agricultural processing industry; construct agricultural warehousing, fresh-keeping and refrigeration logistical facilities; develop rural modern services, including e-commerce and parcel delivery logistical distribution systems, as well as life services such as catering, shopping, culture, sports, tourism and recreation, elderly care, nursery and kindergarten, and information intermediaries; develop advantageous industry clusters, rural recreational tourism projects, and the pre-made food industry; construct rural innovation parks and incubation training centers; implement the "one industry for each county" project for countywide prosperity.
Improvement of village planning and landscape	Carry out township-wide land consolidation and rehabilitation, and implement contiguous protection and development demonstration programs for traditional villages, as well as a five-year campaign to improve human habitat in the countryside and beautify courtyards and villages through afforestation.
Rural infrastructure	Construct large rural water supply works and renovate small water supply works to meet standards, improve the rural power grid and decrepit rural houses, and carry out earthquake resistance retrofitting, modern livable rural house models, digital countryside development initiative, agricultural and rural big data applications, and improvements of small public-interest infrastructures in villages.
Rural public services	Enhance public services such as rural epidemic control, education, healthcare, social protection, elderly care, nurseries and kindergartens. Build township-wide elderly care service centers and provide elderly care services such as day care, mutual assistance, care visits, and canteens for the elderly.
County-wide urban-rural integration	Municipal and service facilities in central towns; the creation of urban-rural school communities, close healthcare communities, and elderly service communities; urban-rural coordinated development and maintenance of the countywide power supply, gas supply, telecom, postal service and other universal services; the extension of municipal pipelines and rural micro-grids to individual households.

Source: Compiled based on the *Opinions of the CPC Central Committee and the State Council on Comprehensively Advancing the Priorities of Rural Revitalization for 2023*, the *Opinions of the Ministry of Agriculture and Countryside on Implementing the Key Priorities of the CPC Central Committee and the State Council for Advancing Rural Revitalization for 2023*, and the *Implementation Opinions of the National Administration for Rural Revitalization on Implementing the Key Tasks for Rural Revitalization Identified by the CPC Central Committee and the State Council for 2023*.

1.3 Huge Investment Demand for the Construction of a Beautiful Countryside in Which to Live and Work

The Report to the 20th National Congress of the CPC calls for "coordinating the layout of rural infrastructure and public services and constructing a beautiful rural environment in which to live and work." Since the conclusion of the 18th CPC National Congress in 2012, the Chinese government has invested large sums of fiscal funds to stimulate private investment and make the countryside an attractive place in which to live and work through implementation of the livable countryside, human habitat improvement, and green development programs. These efforts have transformed the countryside. During the poverty alleviation campaign, the central government invested a total of 1,400 billion yuan to enhance healthcare in 25 provincial-level regions with arduous poverty alleviation tasks. By the end of 2021, there were 35,000 township health centers and 599,000 village clinics across the nation, completing the coverage of health services at the county, township, and village levels (Gu and Dong, 2022). The overwhelming majority of Chinese villages have access to the power grid, asphalt roads, bus service, optical fibers, and 4G network. Some localities enjoy living conditions comparable to those of cities. Nonetheless, rural infrastructure and public services remain insufficient. The central rural work conference held in 2022 pledged to enhance rural infrastructure, public service convenience, and livability and provide modern and civilized living conditions in the countryside. It will take a broader round of investments to build a harmonious and beautiful countryside. Some investment projects are designed to consolidate existing progress in the construction of public infrastructures such as roads, utilities, telecom, and the internet, while future work will consist of identifying gaps, making enhancements, and performing maintenance. Other investment projects that seek to foster integrated urban-rural development involve the extension of urban public services, life services, and industrial services to the countryside. Such projects include, for example, the provision of equipment and auxiliary services of urban and rural industrial chains, the development of countywide education, healthcare, and elderly service communities or consortiums, and the integrated urban and rural construction and upgrade of municipal pipelines, power supply, gas supply, telecommunications, and postal services.

Investment opportunities in rural revitalization projects to deliver modern living conditions in the countryside could go into the tens of trillions of yuan. For example, when it comes to providing care for the elderly in rural areas, it is important that regional elderly care centers cover all townships and that home-based elderly care services cover all administrative villages[4]. A survey estimates that it costs between 2 and 5 million yuan to retrofit a township elderly care service center with nursing and healthcare functions, and that it costs over 5 million yuan to build a new one. It costs around 100,000 yuan to retrofit a village-level home-based elderly care service facility with daycare, culture and entertainment, dining and cleaning assistance services, or more than 200,000 yuan to build a new one. The cost would exceed 500,000 yuan for a village-level elderly care center with healthcare services[5].

1.4 New Urban and Rural Household Consumption Demand Arising from High-Quality Rural Industrial Development

Supply is a crucial factor that drives demand. Industrial development and the emergence of new business models in rural areas will unleash rural residents' local consumption demand and encourage urban residents to spend more in the countryside. The rural household consumption demand is predominantly for agricultural products and processed goods, catering, shopping, culture, sports, travel and leisure, and elderly and childcare, all of which reflect an increase in the standard of living. With higher consumer demand, urban residents are likely to buy more goods and services from the countryside, which will help improve rural consumption. Urban consumer demand for rural goods and services is expected to change from food supply to leisure travel and cultural experiences, suggesting an upgrade in urban consumption. This transition is accelerated by an aging population and the urbanization of migrant workers. The increase in urban household demand for food and agricultural products is driven by specialty, functional and cultural products, as well as experiential, customized, and integrated forms of consumption, which are typically associated with rural leisure travel, cultural experience, health and wellness, and other consumption modes. Changes are occurring in the traditional consumption of food and agricultural products, as evidenced by a rapid increase in the urban population's consumption of pre-made foods and farm harvesting excursions. The countryside is an irreplaceable component of urban consumption, which will only increase in the future. The demand for rural services such as leisure travel, housing and life services, health and elderly care, cultural experiences, entrepreneurship, and employment, is increasing among urban residents. Whether the potential demand is converted into actual consumption depends on the availability of relevant products and services in rural areas. Modern rural services, new rural industries, and new rural business models are considered indispensable to high-quality rural industrial development in the No. 1 Central Government Document of 2023. These modern rural services include catering, shopping, culture, athletics, travel and leisure, elderly and child

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4 According to the *Annual Statistical Report on China's Rural Policy and Reform (2021)*, there were a total of 36,390 townships and 535,813 villages across the nation.

5 Compiled based on case studies and data obtained from rural elderly care surveys in Shandong, Henan, Jiangsu, and Guizhou provinces.

care, as well as intermediary information services. Included among the new rural industries are the culture industry, boutique tourism, rural bed and breakfast services, the digital industry, and pre-made foods. New business models in rural areas include joint distribution, real-time retail, e-commerce direct procurement, made-to-order products, central kitchens, and direct supply and marketing. In addition to stimulating the demand for industrial investment, high-quality rural industrial development will improve and expand consumer choices for both urban and rural residents. Once materialized into actual consumption, the desire of urban and rural households for a better life will provide an enduring impetus for the expansion of urban and rural demand.

2. Key Constraints to China's Rural Demand

In the foreseeable future, China's economic development will be confronted with strategic opportunities, risks, and challenges, and economic recovery and development will face multiple pressures of dwindling demand, supply disruptions, and weakening expectations. As a major consumer market and factor market, the countryside provides a firm foundation for economic circulations. However, the transformation of rural potential demand into actual demand is hindered by a number of constraints and challenges, posing significant obstacles to rural vitalization.

2.1 Structural Deceleration and Instability of the Growth of Rural Household Income Impede the Growth of Consumption

Continuous income growth is a prerequisite for sustained growth in household consumption spending. In recent years, rural households have seen their consumption spending grow at a faster pace than that of their urban counterparts due to rural income growth and the narrowing of the urban-rural income disparity. However, rural households face structural deceleration and instability in the growth of their disposable income, which stifles their potential consumption demand stemming from income growth.

The principal source of income growth for rural residents is wage income. From 2012 to 2022, the proportion of wage income to rural disposable income per capita increased from 37.2% to 42.0%. Wage income contributed 45.4% to farmers' income growth, exceeding net operating income as the primary source of income and income growth[6]. Migrant labor provides the majority of wage income for rural households. With the aging of migrant workers and changing rural and urban employment markets[7], the growth of migrant wage income and rural residents' disposable income is expected to slow. While the younger generation of migrant laborers has settled in cities, the older generation has begun to return to the countryside. As job opportunities in large and medium-sized cities become scarcer, some inhabitants prefer to find employment in their own communities (Table 3). Migrant workers earn much higher incomes than locally employed workers. Migrant workers of middle age who return to the countryside face fewer employment opportunities, and their wage income will decrease significantly if they switch to flexible employment or farm work. The issues of job insecurity and labor rights continue to plague migrant workers. The employment and labor rights of older migrant workers have garnered considerable public attention.

Net operating income - particularly agricultural net operating income - has consistently declined as a percentage of rural household disposable income, but it remains a significant source of rural household

[6] Compiled based on NBS data.

[7] Rural migrant workers refer to rural registered residents who are locally employed in non-farming work or have migrated elsewhere in search of jobs for no less than six months. Between 2012 and 2022, rural migrant workers in China increased from 263 million to 296 million persons, up 12.6%, and local migrant workers (with household registration in local townships) increased from 99 million to 124 million, up 25.3%; outgoing migrant workers (with household registration outside local townships) increased from 163 million to 172 million persons, up 5.5%; cross-provincial rural migrant workers decreased from 76 million to 71 million, down 6.6%.

income. From 2012 to 2022, the proportion of net operating income to rural household income per capita decreased from 43.6% to 34.6%, and net operating income contributed 28.2% to farmers' income growth. The majority of rural business opportunities stem from agriculture, while opportunities outside of agriculture are scarce. Most agribusinesses are managed by smallholders and have modest potential for income growth. As a result, few business and service operators rely on agricultural production as their primary source of income. On the other hand, only a few rural enterprises, small and micro businesses, and entrepreneurs derive the majority of their earnings from non-farming operating income. Under these conditions, it is expected that the revitalization of rural industries will increase rural residents' access to well-paying industrial jobs. For this reason, efforts are being made to develop participation and profit-sharing mechanisms for rural residents, particularly smallholders (Lu and Kong, 2022). Nonetheless, rural populations have challenges that must be overcome before they can reap the benefits of industrial development in their communities. There should be systems put in place to increase rural residents' incomes and materialize the full potential of the rural consumer market.

Table 3: Wage vs. Age of Rural Migrant Workers, 2012-2022

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Monthly salary (yuan/month)	2,290	2,609	2,864	3,072	3,275	3,485	3,721	3,962	4,072	4,432	4,615
# Local migrant workers	--	--	--	2,781	2,985	3,173	3,340	3,500	3,606	3,878	4,026
Outgoing migrant workers	--	--	--	3,359	3,572	3,805	4,107	4,427	4,549	5,013	5,240
Average age (years)	37.3	--	38.3	38.6	39	39.7	40.2	40.8	41.4	41.7	42.3
Share of migrant workers aged above 50	15.1	15.2	17.1	17.9	19.1	21.3	22.4	24.6	26.4	27.3	29.2

Source: Compiled based on the monitoring and survey report data of rural migrant workers published by the National Bureau of Statistics (NBS) over the years.

2.2 Rural Social Security Shortfalls Impede Upgrade of the Consumption Structure

Despite the external shocks, rural household consumption spending is projected to increase steadily due to the following reasons: First, with modest incomes, rural household consumption is dominated by inelastic daily necessities; second, as a result of social security gaps, rural residents have an insufficient demand for more income-elastic consumption spending to improve living standards and pursue personal development, such as elderly and child care, recreation and entertainment, and skills training (Table 4). The lack of social security expenditures has prompted rural residents to spend a larger portion of their incomes on precautionary savings, limiting their ability to spend on consumption. Consumption on the improvement of living standards is the future growth driver of rural household consumption demand due to the relative prosperity of rural inhabitants and the stable level of consumption on clothing, food, and travel. Concerns about social security have prevented rural residents from engaging in consumerism, despite their enormous potential demand for better living standards and personal development. Rural households migrate from the countryside to urban areas in search of jobs or business opportunities. However, seldom do rural workers or business owners, whether in the agricultural or non-agricultural sector, participate in social security. A lesser proportion of rural employees in cities participate in social security than urban employees[8]. From 2012 to 2022, the percentage of rural migrant employees who

[8] According to the *National Monitoring and Survey Report for Rural Migrant Workers, 2014*, rural migrants' social security participation rates were 26.2% for work injury insurance, 17.6% for medical insurance, 16.7% for pension insurance, 10.5% for unemployment insurance, 7.8% for birth insurance, and 5.5% for the housing provident fund.

participated in work injury insurance rose from 24.0% to 30.9%, which still pales in comparison to the national average, which rose from 24.8% to 39.7% during the same time period[9].

The majority of rural residents who have settled in cities are migrant workers from rural households. Other members of rural households who stay in the countryside still have to pay for their family members to settle in cities, even though they are not moving with them. As a result, rural residents must set aside a large portion of their incomes to purchase homes in urban areas, leaving them short of funds for consumption spending to better their living conditions and pursue personal development. Since the young have migrated to the cities, there is a growing number of elderly people left in the countryside. The proportion of elderly people residing in rural areas is greater among older age groups. Rapid increases in the number of elderly people living alone or without family care emphasize the need for day care, dining assistance, care visits, and medical care. Profit-driven companies lack the motivation to provide healthcare services to rural elderly people with modest means. Due to insufficient social protection in rural areas, rural household consumption has been somewhat limited to basic living expenses, as evidenced by the unmet consumer demand for higher living standards and personal development. The only way to activate such demand is to strengthen social protection in rural areas and equitably distribute the costs associated with rural residents relocating to urban areas.

Table 4: Urban and Rural Household Consumption Structure, 2018-2022

		Urban residents					Rural residents				
		2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
Amount of consumption spending (yuan / person)		26,112	28,063	27,007	30,307	30,391	12,124	13,328	13,713	15,916	16,632
Composition of consumption spending (%)	# Service consumption	46.5	48.2	44.5	46.4	45.2	38.3	39.7	37.8	38.6	38.2
	# Food, tobacco and alcohol	27.7	27.6	29.2	28.6	29.5	30.1	30.0	32.7	32.7	33.0
	Clothing	6.9	6.5	6.1	6.1	5.7	5.3	5.3	5.2	5.4	5.2
	Housing	24.0	24.2	25.8	24.4	25.2	21.9	21.5	21.6	20.8	21.1
	Daily necessities and services	6.2	6.0	6.1	6.0	5.9	5.9	5.7	5.6	5.7	5.6
	Transportation and communication	13.3	13.1	12.9	13.0	12.9	13.9	13.8	13.4	13.4	13.4
	Education, culture and entertainment	11.4	11.9	9.6	11.0	10.0	10.7	11.1	9.5	10.3	10.1
	Healthcare	7.8	8.1	8.0	8.3	8.2	10.2	10.7	10.3	9.9	9.8
	Other goods and services	2.6	2.7	2.4	2.6	2.7	1.8	1.8	1.6	1.8	1.8

Source: Compiled based on data published by the NBS website (http://www.stats.gov.cn).

2.3 Insufficient Development and Supply of Rural Goods and Services for Urban Residents

Rural residents consume only a portion of the products and services provided by the countryside, while the remainder is consumed by urban residents. With the vitalization of the countryside, industries such as leisure travel, popular science agriculture, and health and wellness, are targeting urban consumers. Many aspects of a better life sought by city dwellers may be realized in rural areas. Increasing numbers of urban residents who reside in the suburbs for elderly care, relaxation, or doing business have become key forces in the revitalization of the countryside. In most rural areas, however, there is an absence of products and services designed for city dwellers. Urban residents' demand for rural

[9] Compiled based on NBS data.

products and services is diminished by poor consumer choices, resulting in poor consumer stickiness, which limits their contributions to rural development. The countryside should offer desirable products and services in order to entice city dwellers to consume and even settle there. This will increase rural consumption potentials, attract more production factors, and support the high-quality development of rural industries.

The government has constructed extensive public service facilities throughout the countryside, some of which are unused because they are designed according to urban standards and exceed the requirements of rural residents. Making these unused facilities accessible to urban residents may extend urban public services into the countryside, encourage urban residents to consume in the countryside, enhance rural public and private services, and create jobs. Facilities for elderly care services are one example. The majority of elderly care services requested by rural residents are in-home services. However, most rural elderly care facilities built by the government are centralized nursing homes. As a result of the supply-demand mismatch, many well-equipped nursing homes are currently vacant. It is recommended to make idle or underutilized nursing homes available to urban residents and to introduce urban elderly care service operators or business models in order to maximize the use of elderly care facilities in the countryside, improve the quality of rural pension services, unleash urban household consumer demand for rural pension services, and promote the rural elderly care industry. The development of elderly care services in rural areas will transform rural residents' perceptions of elderly care and potentially provide a solution to the dilemma of care of the elderly in the countryside.

The pursuit of an idyllic way of life is shared by many city dwellers. It is made possible by a number of goods and services, as well as their rural consumption. To make a pastoral lifestyle a reality for city dwellers, it is recommended to develop rural industries. This will encourage urban residents to shop in rural areas, thereby increasing rural consumption and economic growth. For example, the combination of rural cultural heritage, history, and gaming experience may provide urban youth with venues for an immersive experience.

2.4 Insufficient Rural Industrial Development Leading to Industry-Agriculture "Price Scissors" in the New Era

Urban-rural economic circulation is an essential part of domestic economic circulation and a pivotal aspect of economic health. Over the years, the countryside has provided inexpensive factors of production and a large consumer market as propelling forces for China's urbanization, industrialization, and economic development. However, urban-rural economic circulation is impeded by the disparities between urban and rural industrial systems, despite intensifying efforts to bridge the urban-rural divide. Dynamic equilibrium for the two-way flow of urban and rural factors and goods is indicative of thriving urban-rural economic circulations. Nonetheless, urban and rural factors and goods are still subject to a one-way flow and discrete self-circulations due to the existence of disparities in urban and rural development, hindering synergy between urban and rural consumption. The lack of interconnection between urban and rural industrial systems, inconsistent product and service quality standards, and weaknesses in urban and rural supply chains prevent rural products and services from entering cities or becoming the preferred options of urban residents, thereby limiting the extent to which an increasing supply of rural products and services contributes to the creation of urban and rural demand. Lacking competitive agricultural processing and distribution businesses, the countryside mainly provides primary agricultural products and food to urban residents. The urban concentration of factor supply for agricultural production, intensive agricultural processing, and agricultural supply chain services is detrimental to rural factor accumulation and the distribution of value-added dividends among farmers.

Agricultural modernization is a requisite for rural industries, and non-farm industries are the vehicle for rural revitalization. China's rural non-agricultural industries are expanding, and urban industries are relocating to the countryside. However, many of these rural non-agricultural businesses are sporadic, small, and uncompetitive. Large numbers are family-owned or basic workshops with haphazard production methods and low-quality goods and have significant disparities in quality and standards. As a result, some rural products and services are unable to enter urban markets, and have to be consumed locally by rural residents. The disconnection between urban and rural industrial systems - as well as the absence of urban industry standards, administration of industry and commerce, and other public services in the countryside - are among the primary causes of this inability to enter the urban market. Consequently, the provision of numerous rural goods and services is not subject to market supervision.

Whenever economic development has faced pressures, China has implemented policy initiatives to expand domestic consumption by selling industrial goods manufactured in cities to the countryside, as opposed to selling rural goods and services to cities. In addition, there is a significant disparity in quality between industrial products sold in rural areas and those available in cities. In the modern era, the flow of inexpensive factors of production and primary products to urban areas and the marketing of modern factors of production and industrial finished commodities to rural areas has resulted in "price scissors" between industry and agriculture. Any policy initiative intended to increase rural demand must integrate urban and rural industrial systems, intensify supply-side structural reforms, and enhance the quality of rural industrial development. By integrating urban and rural economic circulations, rural industries will produce more plentiful and diverse goods and services allowing urban and rural residents to experience a better quality of life in the countryside.

2.5 Lackluster Growth in Investment-Driven Demand due to Insufficient Income Generation from the Construction of Rural Infrastructure

Infrastructure remains a significant barrier to providing modern living conditions in China's rural areas. The construction of infrastructure is a vital component of rural modernization and a focal point of fiscal investment in rural development. The multiplier effect of fiscal investment on household income is essential for boosting domestic demand. However, the use of funds for the construction of rural infrastructure is inefficient, the quality of the construction is inadequate, and the benefits for rural household income growth are modest. Despite the tremendous demand for investment in the construction of rural infrastructure, these issues have impacted urban and rural household consumption and limited the demand multiplier effect. Similar to the administrative procedures for urban infrastructure construction projects, stringent project application, competitive bidding, and qualification requirements have been adopted for rural infrastructure construction projects financed with public funds. Some localities have modified procedures and eligibility requirements to establish a certain participation rate for small and micro businesses and to encourage farmers' cooperatives and rural businesses to participate in infrastructure development. However, the majority of rural market entities find it difficult to participate in infrastructure projects, most of which are allocated to urban-based construction conglomerates. Rural businesses and inhabitants are either left with meager profits and employment opportunities, or they are exploited by subcontracting practices. In the latter instance, substantial amounts of public funds are wasted in the process of subcontracting. In one locality, only about 50 percent of funds allocated for the construction of high-quality farmland were actually used to construct farmland[10]. The problems are twofold: First, some projects are of substandard quality, impractical and poorly maintained, and cannot support countryside revitalization and the improvement of rural living standards; second, infrastructure projects provide rural residents with very few opportunities for participation and employment, disincentivizing them from participating in infrastructure maintenance and leaving them with little room for income growth. Clearly, rural infrastructure improvements have not adequately stimulated

[10] This figure was obtained during the authors' interview with local officials responsible for high-standard farmland construction, and is consistent with the findings of our survey elsewhere.

rural demand. The meager income growth for rural residents has impeded the multiplier effect of investment and diminished the effectiveness of fiscal investments in driving rural economic growth. Issues similar to those arising with infrastructure exist in the construction of industrial facilities in rural areas, the majority of which are financed by public funds or private investors under policy preferences. Revitalizing the countryside requires massive financial investments. It is essential that these investments help increase rural incomes and consumption.

3. Strategic Pathways for Expanding Rural Consumption under Urban-Rural Integration

In urban-rural integration, constraints on rural consumption should be eased by increasing rural household incomes and living standards, smoothing urban-rural economic circulations, and bridging the urban-rural divide. A combination of policy instruments should be adopted to improve the quality of rural products and services, integrate agriculture and the countryside into domestic economic circulations, and establish an institutional system to increase rural consumption. The government should accelerate rural modernization, create a harmonious and attractive rural environment, and improve the construction, operation, and maintenance of infrastructure. It should provide innovative public services, foster high-quality rural industries for urban and rural residents, and increase the income growth effect of rural construction investment and industrial development. Rural income growth and prosperity are crucial for unlocking consumer potential and stimulating rural growth.

3.1 Broadening Avenues for Income Growth for Rural Residents

Income growth is essential for stimulating the rural market and expanding rural consumption. For rural residents, income sources include wage income, net operating income, net property income, and net transfer income. Numerous policy initiatives have been implemented by the government to increase rural incomes. The "No. 1 Central Document" of 2023 identifies policy initiatives to promote rural employment and income growth, improve agricultural efficiency, and strengthen farmers' property rights. In addition, there should be greater urban-rural coordination regarding employment, entrepreneurship, and social protection in order to create jobs for rural residents and returning migrant workers. First, urban employment and business start-up service and protection systems should include rural residents who are employed or launching a business in the city. Second, rural entrepreneurship should be supported by implementing group-specific entrepreneurial support measures. Priority should be given to supporting youth innovation and entrepreneurship, nurturing new types of agribusinesses and service organizations, and establishing new industries and business models in rural areas. Support should be extended to the elderly who are self-employed for subsistence so as to increase their income by any means possible. Third, the government should develop labor-intensive industries, as well as those that employ freelancing women and elderly rural residents. Fourth, it is crucial to close the voids in social security for rural residents and improve their employment, pension, healthcare, and education. Fifth, rural reforms, particularly reforms of land and rural collective ownership systems, should be deepened to allow resources to be transformed into capital and capital into wealth, to broaden property incomes for farmers, and to increase the share of net property incomes and their contribution to the growth of farmers' income.

3.2 Optimizing the Urban-Rural Market Layout and Upgrading the Rural Consumer Market

It is impossible to unlock the potentials of rural consumption without a reasonable urban-rural market layout that meets the needs of both urban and rural consumers. In order for rural consumption to expand, improve, and contribute more to economic development, we must optimize the urban-rural market layout, compensate for rural market deficiencies, harmonize urban and rural market systems, and reduce disparities in urban and rural household consumption. First, urban product quality management and manufacturing standards should be extended to the countryside to establish an integrated urban-rural market supervision system, allowing rural residents to enjoy decent-quality consumer goods. To avoid poor quality, urban and industrial products sold in rural areas should be subjected to the same level of quality control as those in urban areas. To modernize living standards in the countryside, there should be more and better elderly and child care facilities, recreation and entertainment, specialty products, functional foods, education and health, culture and sports facilities. Fourth, measures should be taken to develop online consumption, steer rural housing consumption, promote innovative consumption, encourage urban residents to consume in the countryside, and encourage rural residents to diversify and upgrade their consumption. Fifth, in order to maximize rural consumption, barriers to consumption must be removed. Infrastructure construction should ameliorate the rural distribution system, particularly for agricultural products, bolstering cold chain logistics and the construction of countywide township commercial facilities and village-level logistical stations. To improve consumption, it is necessary to increase public awareness of consumer rights, intensify market supervision, strengthen consumer right systems, regulate rural market order, and crack down on counterfeit goods, false advertising, price fraud, and other illegal activities. Efforts should be made to improve the consumption credit system, encourage financial institutions to customize rural consumption credit products, and provide better and more efficient rural consumer financial services.

3.3 Promoting Affluence and Efficiency and Optimizing Mechanisms for Investment in Rural Construction

Fiscal investment is needed to catalyze private funding in order to build the country into an agricultural powerhouse with a harmonious and appealing living environment in the countryside. Much more investment in rural infrastructure is needed to prepare for future growth and address current shortfalls. The government should increase fiscal investment, while at the same time improving the mechanism by which rural development is funded and in this way stimulate private funding. First, the government should steadily increase fiscal spending on agriculture, forestry, and water resources at a faster rate than the growth rate of general public budgetary expenditure, and land transfer revenues in various localities should be used primarily for agriculture and rural development. Second, fiscal and financial policies should be coordinated in order to use fiscal investment as a catalyst for more private funding and to make rural development more attractive to market entities. Third, priority should be given to urban-rural infrastructure connectivity and rural infrastructure suitability in order to enhance the quality and availability of infrastructure development, thereby giving play to the role of infrastructure in revitalizing rural areas. Fourth, changes must be made to infrastructure project administration in order to encourage the participation of rural market entities and maximize the effect on the growth of rural residents' income. The National Development and Reform Commission (NDRC) and seven other departments issued the *Opinions on Promoting Welfare-to-Work Schemes through Agricultural and Rural Infrastructure Construction Projects* in November 2020. In January 2023, the NDRC enacted the *Administrative Measures for National Welfare-to-Work Schemes*, which mandates that "Manpower should be used whenever necessary instead of machinery." The No. 1 Central Document of 2023 calls for "Promoting Welfare-to-Work Schemes in major government-invested key projects and agricultural and rural infrastructure projects and moderately increasing the share of labor compensation." These policies need to be put into place without delay.

3.4 Advancing High-Quality Rural Industrial Development for Better Living Standards

Thriving rural industries will pave the way for the realization of better living standards for both urban and rural residents and prompt growth in demand. The current rural industrial development policy is focused on supporting the modernization of agriculture, integrating primary, secondary and tertiary rural industries, and developing modern agriculture supply chains. To ensure food security, we should upgrade the rural industrial system, create diverse rural economic forms, and improve the rural market systems. More industries, supply chains and business activities should take root in the countryside. Urban and rural consumption and factor flow should be smoothed to strengthen economic circulations. Rural life services should be supported to meet the demand of both urban and rural residents for life services such as catering, shopping, culture and sports, travel and leisure, elderly and child care, and intermediary information services. Supply-side structural reforms will improve the quality of life services in the countryside and offer urban and rural consumers more choices. It is advised to develop an integrated urban and rural commercial service system, improve rural e-commerce and logistics, cascade cold chain transportation services to the countryside, and develop new business models such as joint distribution and real-time retail to facilitate consumption upgrade.

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