



## Consumption Comparison of India-China

**For Prelims:** [International Monetary Fund \(IMF\)](#), [Gross Domestic Product \(GDP\) Ratio](#), Fertility Rate.

**For Mains:** Differences Between the Economies of India and China, Steps that Can be Taken to Improve the Indian Economy

**Source:** TH

### Why in News?

In 2023, India became the world's most populous country (with a population of around 1.44 Billion), surpassing China. It has significant **consequences on domestic consumption in the two countries.**

- This was due to China's declining **birth rate** (6.4 births per 1,000 people) and **total fertility rate (~1%)**, leading to a **negative population growth rate** for the first time in six decades. As a result, China is facing a **rising dependency ratio.**
- In contrast, India's population is expected to continue growing and reach its peak around 2060, despite reaching **replacement levels** with a **total fertility rate of 2.1.**

### United Nations Department of Economic and Social Affairs (UNDESA)

- It was formed in 1948. It is a **pioneer** of the [Sustainable Development Goals \(SDGs\)](#).
- It brings the global community together to **work towards common solutions to the world's most pressing problems.**
- It helps countries translate their **global commitments into national action** in the economic, social and environmental spheres.

### Key Terms:

- **Birth Rate:** It is a demographic measure that indicates the **number of live births occurring during a given year per 1,000 people** in a population.
- **Total Fertility Rate (TFR):** It is the **average number of children a woman would be expected to have over her lifetime**, given current age-specific fertility rates.
  - Unlike the birth rate, which is a **measure of births per 1,000 people in a population per year**, the TFR provides a broader perspective on reproductive behaviour and potential population growth.
- **Dependency Ratio:** It compares the proportion of **individuals** who are typically **not in the labour force (dependents)** to those who are **usually in the labour force (the working-age population)**.
- **Replacement Level Fertility:** It refers to the **number of children a woman needs to have in order to replace herself and her partner**, ensuring that the population size remains stable from one generation to the next, without considering migration.
  - The commonly cited figure for replacement level fertility is approximately **2.1 children per woman.**

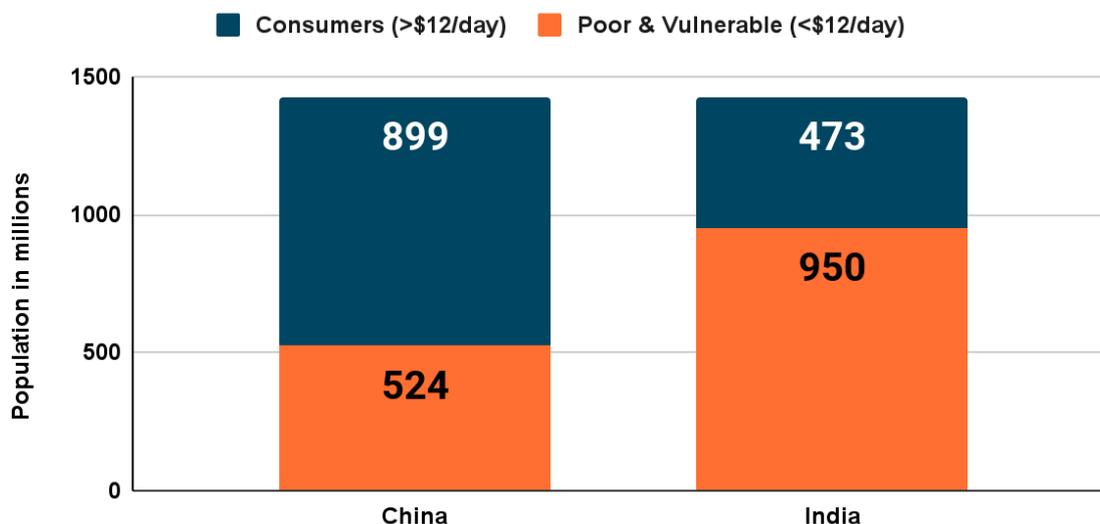
## What are the the Consumption Comparison Between Indian and China?

### ▪ Consumer Size:

- Both India and China have a large consumer base. A consumer is anyone who spends more than **USD12 a day**, as per the [Purchasing Power Parity \(PPP\)](#).

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### Comparing China and India's Consumer Size (2022)



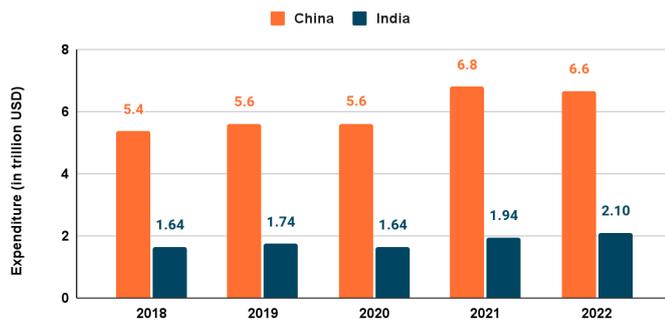
### ▪ Addition to Consumer Base:

- According to the **World Data Bank**, China's consumer base increased by 31 million in 2024, whereas India saw an addition of 33 million consumers.
- Projections for 2025 suggest that China will add 32 million consumers, while India is expected to add 34 million.

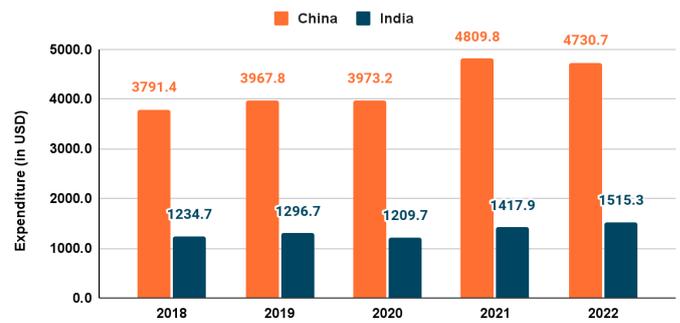
### ▪ Private Final Consumption Expenditure (PFCE): It contributes more than **58% to India's GDP**, while it contributes only **38% to China's economy**.

- **PFCE** is a major component of India's [Gross Domestic Product \(GDP\)](#) and reflects consumer spending, which is a critical driver of economic activity.
- **PFCE** is a key economic indicator that measures the total value of all goods and services consumed by **households** and **non-profit institutions serving households (NPISHs)** within a country during a specific period.
  - **NPISHs** are organisations that provide non-commercial services to individuals and families. Examples include religious institutions, charities, and social clubs.
- **Final consumption**, including government consumption expenditure, constitutes **68% of India's GDP and 53% of China's GDP**.
  - This implies that the government is a much bigger consumer in China than in India.
  - **Final Consumption Expenditure (FCE)** is obtained by adding **Government Expenditure and Private Final Consumption Expenditure (PFCE)**.
- The **percentage of consumption expenditure** is steadily increasing in India, while it has been on a decline in China.

**Private Final Consumption Expenditure**



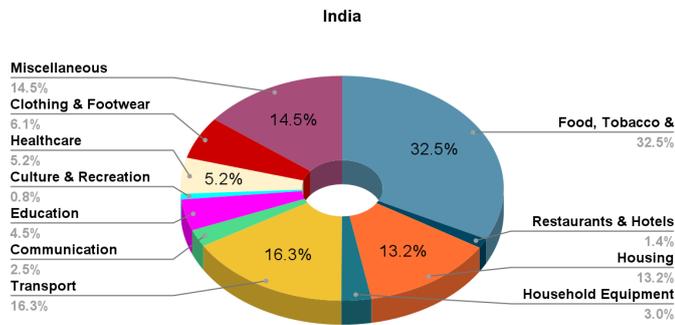
**Per Capita Private Final Consumption Expenditure**



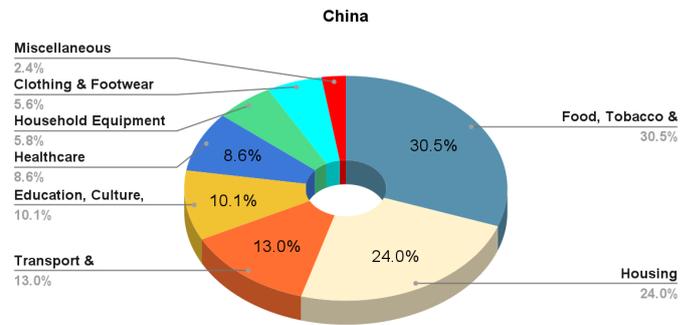
Source: MoSPI (India); NBS (India)

- **Differences in Consumption Patterns and Economic Development:** India spends a higher proportion of their income on consumption.
  - China's economic size (**USD17.8 trillion**) is around **5 times** that of India's (**USD 3.5 trillion**) in **Nominal terms** and **PPP terms**, **China's GDP is approximately 2.5 times of India's**.
  - In **Nominal terms**, China's PFCE (USD 6.6 trillion) is only about **3.5 times** higher than India's (USD 2.1 trillion) and **in PPP terms, China's PFCE is approximately 1.5 times** that of India.
  - Thus, consumption plays a more significant role in India's GDP compared to China.
  - **India will reach the same level of consumption as China at a much lower GDP figure** (around USD 10 trillion for India compared to USD 17 trillion for China in nominal terms).
- **PFCE Trends between 2018 and 2022:**
  - **China's consumer spending has grown significantly in the past four years** (USD 5.4 trillion in 2018 to USD 6.6 trillion in 2022), despite concerns.
    - On the other hand, **India's figures have steadily increased** from USD 1.64 trillion in 2018 to USD 2.10 trillion in 2022.
  - **In 2022, China's spending went down slightly**, both overall (from USD6.8 trillion to USD6.6 trillion) and per person (from USD 4,809 to USD 4,730). Meanwhile, **India's spending inched up in both categories**.
  - The **difference in the expenditure** between the two countries has **widened from USD 3.8 trillion in 2018** to more than **USD 4.5 trillion in 2022**.
- **Expenditure by Categories:**
  - **Indian consumers allocate a larger portion of their spending towards basic needs** like food, clothing, footwear, and transportation.
    - This spending pattern reflects a **developing economy** where households **prioritise necessities over discretionary spending**.
  - On the contrary, **China's consumption basket reflects a market that is relatively advanced**.
    - While **food and beverages make up the largest portion of China's consumption**, their share of total consumption expenditure is decreasing, indicating a market that is becoming more mature.
    - Also, it spends a **larger proportion of its budget on housing**, white goods, recreation, education, and healthcare compared to India.
    - In advanced economies like the **US, Japan, EU, Germany, and the UK**, food expenditure is not the highest category.
  - **India spends about half as much as China on food, transport, communication, and clothing**. Even though India's economy is only one-fifth the size of China's, the total expenditure in these sectors represents a similar percentage of their respective economies.
    - As per [Monthly Per Capita Consumption Expenditure \(MPCE\)](#) report, both in rural and urban areas of India, the share of food in total expenses reduced and that in non-food expenses increased in 2022-23 compared with 2011-12.

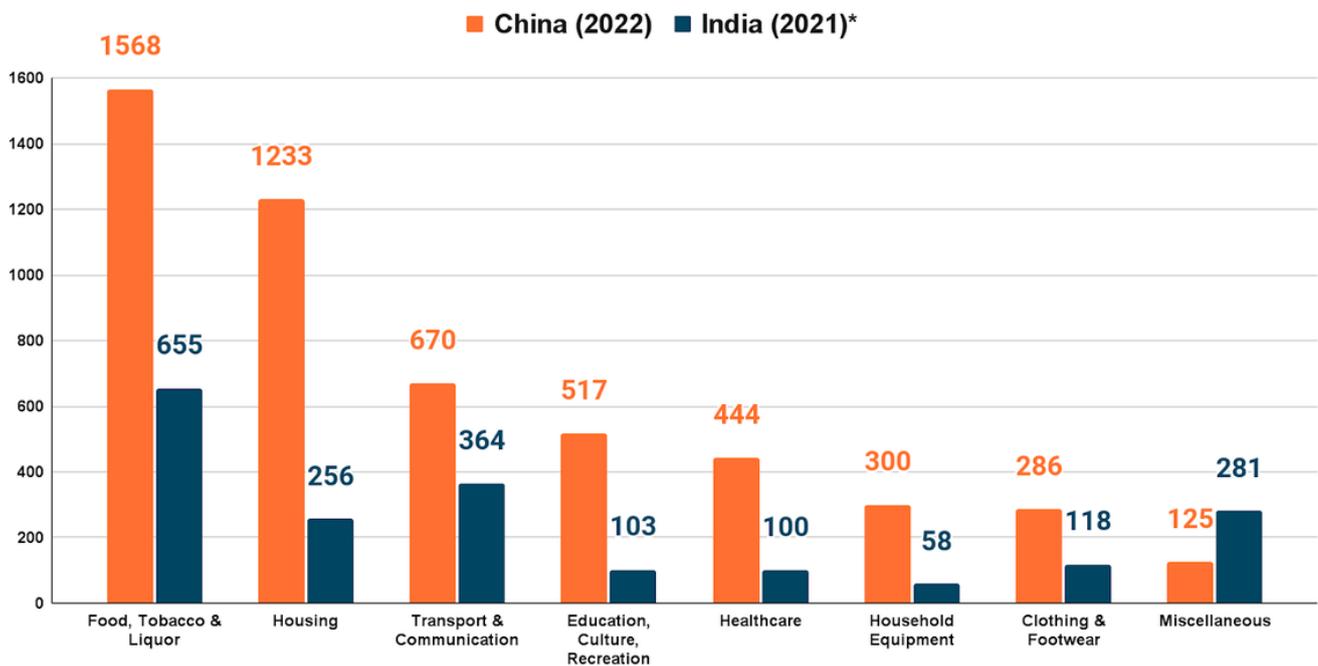
**Expenditure (%) By Category (2021-22)**



**Expenditure (%) by Category (2022)**



**Expenditure by Category in USD Billion**



## What are the Factors Responsible for Difference in Consumption Pattern between India and China?

- **Demographic Dividend:**
  - According to the [World Bank](#) Report, as of 2022, the **median age in India is 28.4 years compared to China's 38.4 years.**
  - A younger population is likely in its early career stages, with rising income and a greater tendency to spend on establishing a household (housing, durables, transportation).
- **Income Levels and Disposable Income:**
  - **China has a larger and more established middle class** with higher disposable incomes, enabling greater spending beyond essentials.
  - In contrast, **India's middle class is smaller**, with more income directed towards basic necessities like food and transportation, resulting in less discretionary spending.
  - **Gross National Income(GNI) per capita** in China for the year 2022 was USD 12,8501 and in India USD 2,5473.
- **Stage of Economic Development:**
  - India is categorised as a **Lower-middle-income country** and China as an **upper-middle-income country** according to the **World Bank** .
  - **China's economy has transitioned from agriculture to manufacturing** and then to

services, driven by rapid industrialization, export-oriented growth, and infrastructure investment.

- **India has moved more directly from agriculture to services**, with significant growth in IT, finance, and professional services, while its **manufacturing sector is still developing**.

▪ **Access to Credit:**

- According to World Bank data, **China has a much higher level of credit penetration compared to India**.
  - Nearly **half of the adult population in China has a credit card**, while only around 12% do in India.
- A significantly larger portion of the **Chinese population (over 85%) has access to loans** from financial institutions **compared to India (around 57%)**.

▪ **Urbanisation:**

- While **urbanisation is increasing in India, it lags behind China. This limits the reach of discretionary products** and keeps consumption patterns focused on necessities.
- In 2020, 63.8% of China's population was urban, compared to 34.5% of India's population, according to the World Bank.

**Drishti Mains Question:**

Analyse the consumption patterns between India and China. Discuss the factors that have influenced these patterns and assess their implications for economic development of India.

**UPSC Civil Services Examination, Previous Year Question:**

**Q. As per the NSSO 70th Round "Situation Assessment Survey of Agricultural Households", consider the following statements: (2018)**

1. Rajasthan has the highest percentage share of agricultural households among its rural households.
2. Out of the total agricultural households in the country, a little over 60 percent belong to OBCs.
3. In Kerala, a little over 60 percent of agricultural households reported to have received maximum income from sources other than agricultural activities.

**Which of the statements given above is/are correct?**

- (a) 2 and 3 only
- (b) 2 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

**Ans: (c)**

**Q. In a given year in India, official poverty lines are higher in some States than in others because (2019)**

- (a) poverty rates vary from State to State
- (b) price levels vary from State to State
- (c) Gross State Product varies from State to State
- (d) quality of public distribution varies from State to State

**Ans: (b)**

