

How China's Global Ambitions Short-Changed Its Consumers and Domestic Economy

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China's rise has been nothing short of breathtaking, but ordinary households saw only a limited share of the rewards of the country's economic growth.



Image: Pudong skyline, Shanghai, by King of Hearts, licensed under CC BY-SA 4.0 via Wikimedia Commons. Graph: World Bank, Final Consumption Expenditure (% of GDP), China, 1960-2024.

This column is the first in a two-part series ([part two](#)) analysing the growth model and story of China's dramatic economic rise and the lessons to learn and unlearn from it, while contesting the recent debate on whether China shortchanged its domestic workers and consumers to meet globalist aspirations.

A month before the [Trump-Xi meet in Beijing](#), China's National People's Congress approved the country's 15th Five Year Plan, which is Xi's third such plan as president. This plan prioritises "high-quality" economic development – approximating a "Xi doctrine" – in which China is no longer viewed as a developing nation but a *developed* one. For a nation to transition from one status to another while rapidly industrialising presents China as one of the most fascinating growth models to study and learn from.

China's economic rise has long carried a certain fascination for global policymakers, especially in the developing world. Few countries in modern economic history have industrialised as rapidly – over just a few decades – or reduced absolute poverty at such scale. China did so while enhancing productive capacity by enabling a dramatic transition of its workforce across sectors within the span of a single generation.

For many economists, China became proof that sustained state-led industrialisation could deliver material progress on a historic scale. In the last roughly ten years, India has also seemingly focused on using public investment as a strategy to crowd in private investment, domestically and internationally. However, it has had achieved more modest outcomes than China could. Therefore, there are useful lessons to be learnt from the China story and, despite its rise as a global power, also lessons to unlearn.

China's record on poverty reduction is not seriously in dispute. Between 1996 and 2022, consumption expenditure per capita grew by **8% annually** on average in the country, outpacing comparable East Asian economies at similar stages of industrialisation. Hundreds of millions crossed into material (self) sufficiency within a single generation. Any engagement with China's development story has to begin there, not as a concession, but as a fact that frames everything that follows.

Yet, rapid poverty reduction and fair distribution are not the same thing. An economy can dramatically improve living standards while still directing a disproportionate share of the gains from growth away from households and towards capital accumulation, export competitiveness and state-led investment. (An otherwise perceptive recent reflection on China's growth model by former Chief Economic Advisor to the Indian government, **Arvind Subramanian**, treats these two questions as interchangeable.)

The issue is not whether Chinese citizens became better off. They clearly did. The more difficult question is whether household income kept pace with the extraordinary productivity gains generated by the economy. The share of **household final consumption** in Chinese GDP is a better indicator of distribution than per capita growth rates alone. At roughly 40% of output today, the share of household consumption in China remains dramatically lower than that of the United States at 68%, Japan at 55%, South Korea at 48% and the OECD average, **approaching 60%**.

Japan, often invoked as the regional precedent for high-speed industrialisation, never saw household consumption fall below roughly 50%, even during the peak of its post-war expansion. China's figure bottomed out **near 34%** around 2010.

Between 2000 and 2020, China's real GDP expanded at an annual rate of roughly **8.7%**, yet household consumption remained persistently suppressed as a share of national output.

Much of China's gains from productivity growth were redirected towards earnings retained by corporates, state-led investment and industrial deepening rather than improving household purchasing power. China's labour share of GDP, hovering between **50 to 52%** during much of this period, remained comparatively low for an economy experiencing such rapid industrial expansion.

Subramanian acknowledges in passing that slower wage growth relative to productivity helped preserve China's export competitiveness. But this weakens his own argument more than he appears to recognise. A model that deliberately restrains wages below productivity growth in order to sustain export prices is, by definition, redistributing income from workers to producers. The mechanism does not become benign simply because living standards improved in absolute terms.

The housing market reveals this distributive settlement starkly. In major Chinese cities such as Beijing, Shanghai and Shenzhen, the house price-to-income ratios remain extraordinarily elevated by international standards.

Chinese Household Debt as a percentage of GDP also reached an all-time high of 62.3% in March 2024, from a record low of 17.6% in December 2008. This was driven overwhelmingly by mortgage borrowing. The same households that benefited from decades of wage growth also watched an inflated asset market absorb those gains and households increasingly had to take on debt merely to secure urban stability.

High household savings rates are often presented as evidence of Chinese prosperity, a reflection of cultural thrift. The institutional explanation is less flattering.

Chinese households save roughly 35% of their disposable income, compared to 5.8% in the United States, not because they are unusually secure, but because they remain unusually exposed to financial risk and life-cycle costs. Out-of-pocket healthcare spending accounts for roughly a quarter of the total health expenditure in the country, where pension coverage also remains uneven and education costs fall heavily on families.

China's savings rate, in other words, is not simply a cultural preference. It is also a rational response to an underdeveloped welfare architecture. Financial repression compounded this dynamic. Deposit rates were often held below the rate of inflation, ensuring that precautionary savings could be redirected into the cheap credit that subsidised industrial expansion. The Chinese consumer did not merely participate in the growth model. It helped finance it.

None of this is to deny the reality of China's developmental gains. Subramanian is right to caution against geopolitical hostility disguised as concern for Chinese consumers. Critiques of China's growth model have often collapsed into ideological messaging masquerading as economic analysis. But the opposite error is equally distorting. Aggregate output gains do not by themselves establish distributive fairness.

The data on labour shares, wage-productivity gaps, savings compulsion and housing affordability do not emerge from ideological opposition to China's rise. They come from the same international databases that are routinely invoked to celebrate China's economic

success. The question, ultimately, is not whether China's growth was real. It surely was. The more important question is who most fully absorbed the costs of that growth, and the evidence points consistently towards the household.

Read part two in this series: [China Showed Many Countries the Way to Economic Progress, But That Model Is Now Past Its Prime](#)

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