

Shopping Frenzy in the New China*

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In an otherwise gloomy world economic environment, a new kind of record given the media bizarre cause to cheer: the value of online sales notched up by Chinese e-commerce giant Alibaba on a single discount sales day. Global business headlines screamed that in its annual sale on Singles' Day, 11 November 2017, Alibaba had registered a record sales value of 168.2 billion yuan or \$25.3 billion. Singles' Day, or 11 November, was, because of its 11/11 aspect, reportedly chosen around 25 years ago by students of Nanjing University to celebrate the fact of being single. Using what has evolved to become a hugely popular and secular celebration, Alibaba in 2009 decided to make the day into a discount shopping day like Black Friday and Cyber Monday (the Friday and Monday after Thanksgiving) in the US, to tap into the rising consumerism of a well-to-do middle class. In the process the celebrations in China on November 11 every year have gone the way they have for most festivals in today's neoliberal world. Besides eating and drinking, people shop to celebrate.

To tap into that, Alibaba decided to make November 11 its grand annual discount sales day, promoting it with the tag "Double 11" in Chinese. The immediate success of that strategy, encouraged the firm to pre-empt the competition by applying for, and winning in 2012, the trademark for promotions branded "Double 11". That meant that other e-retailers like JD.com, who had also been using the term, were henceforth barred from using that tag. In fact, in 2014, Alibaba threatened legal action against those (mis)using the Double 11 brand.

Alibaba's push to popularising its Singles' Day Double 11 sale has yielded huge results more recently. Sales on that day crossed the \$5 billion mark only in 2013, but touched \$17.8 billion in 2016. Compared to the latter figure, the business over Black Friday to Cyber Monday in 2016 in the US was estimated at \$12.16 billion. This difference is striking given the fact that at \$57,467 in 2016, per capita GDP in the United States was 7 times as large as China's, at \$8,123. Not all sales of e-commerce firms occur within the host country. But there is evidence to show that out-of-country sales account for a small share of Alibaba's Double 11 sales.

Seen in that light, this year's record on Singles' Day, when Alibaba's sales rose 40 per cent, is startling. Last year's aggregate sales figure was topped within 13 hours of the start of the sale in 2017. According to the Financial Times, Alibaba's Rmb168 billion of sales on Singles' Day 2017 was not far short of the total retail sales of consumer goods of Rmb240 billion in China in April 1999, when Alibaba was founded. Not surprisingly, the 2017 figure dwarfed the \$3.45 billion in online sales in the United States on Cyber Monday last year and Amazon's July Prime Day sale this year for its Prime customers, which delivered only \$1 billion of revenue.

One factor driving this extreme consumerism is Alibaba's effort to move shopping from being a means to the satiation of felt need to being a form of intensive retail therapy where the experience is one of entertainment. The firm had put on a gala that saw the likes of actress Nicole Kidman, rapper Pharrell Williams and Chinese musicians and film stars such as Zhang Ziyi and Fan Bingbing sharing stage with

Alibaba founder Jack Ma. As the numbers of the sales being recorded were flashed on screen, the shopping splurge and entertainment blended into each other.

This consumerism underlying the success of Singles' Day can be partly traced to an increasingly prosperous Chinese economy characterised by sharply rising inequality. National income per adult in China measured at 2015 prices rose by close to 90 per cent from 6,500 yuan in 1978 to over 57,800 yuan in 2015. According to estimates from Thomas Piketty, Li Yang, and Gabriel Zucman, (<http://voxeu.org/article/capital-accumulation-private-property-and-inequality-china-1978-2015>), the ratio of national wealth to income in China "increased from 350% in 1978 to 700% in 2015, ... mainly driven by the increase of private wealth, which increased from 115% to 487% of national income." Simultaneously, "the share of national income going to the top 10% rose from 27% to 41% between 1978 and 2015, while the share for the bottom 50% fell from 27% to 15%. The urban-rural income gap increased, but income concentration also rose significantly within both urban and rural China." This combination of a rise in the share of private property in the total from 30 per cent to 70 per cent between 1978 and 2015 and increase in wealth and income inequality underlies the consumerism that feeds retail success in China.

But that is possibly not the only factor, the others being the role of the "demonstration effect" and the easy access to credit from an increasingly liberalised financial sector. The very fact that goods that were neither accessible nor affordable a generation earlier are now freely available is seen by many as encouraging profligacy. While the consumption of the rich and the upwardly mobile middle class cannot be replicated by those below them in the income and wealth pyramid, a tendency to imitate follows. This has resulted in a transformation of a high-saving middle class that was partly forced into thriftiness by the limited availability of consumer goods, into a high-spending cohort.

The first driver of increased spending has been the desire to exploit the right to own house property, with more than 95 per cent of the housing stock in China now owned by private households as compared with 50 per cent in 1978. Acquisition of that stock required increased dependence on debt. Consumption spending followed housing soon, as Chinese households and the young born into single child families decided to keep up with each other. Moreover, with the housing boom increasing the value of housing equity held by households, they were subject to the "wealth effect", where the feeling of being better off encourages spending. Not all of this consumption splurge could be financed with current income. The result has been a sharp rise in aggregate household debt to 44.4 per cent of national gross domestic product, which, according to the Bank for International Settlements, is three times the level recorded in 2008. And, according to the Chinese Academy of Social Sciences, residential mortgages account for only 60.3 per cent of household debt.

Besides, Alibaba's success on Singles' Day also reflects its aggressive strategy, exemplified by its push to defeat the competition during the Singles' Day Sale by winning the Double 11 trademark. A component of that aggressive strategy is the effort to expand reach by creating a decentralised storage and delivery infrastructure. Having created desire, it is necessary to satisfy it quickly. To that end, Alibaba has reportedly tied up with thousands of mom-and-pop convenience stores to serve as distribution points, with upgraded computer systems and information on the most saleable merchandise to procure, store and display. These stores receive their stocks

directly from Alibaba warehouses, enhancing the speed with which the company is able to deliver goods to customers. The task is big, with an estimated 1.5 billion parcels expected to be shipped over the week starting November 11.

It is unclear whether the online shopping frenzy visible on discounted sales days has hugely increased aggregate consumption in China, as some observers suggest. If it does, then such consumerism may not be all too bad, given the widely held view that ‘rebalancing’ in China must privilege consumption over saving (and investment) and domestic demand over exports. But, national figures seem to suggest that capital formation still accounts for 45 per cent of GDP and the share of household consumption expenditure in GDP was at 37.1 per cent in 2015, much lower than the 46.2 recorded in 2000. Moreover, whether consumer spending reflects rebalancing or not depends on its distribution across sections of the population. Unless increased consumption occurs in significant measure in the lower and middle rungs of the income distribution, the surge may not yield the home market growth needed to rebalance growth. According to an estimate from Bain consulting group, sales of personal luxury goods in China of \$87.9 billion in 2016 amounted to about a third of the world total, making it the world’s largest consumer of high end products. Mid-tier cities other than the biggest like Beijing and Shanghai accounted for 80 per cent of that. This is the market that Alibaba main rival JD.com is aiming to focus on to increase market share. If that reflects a real skew in the ‘retail revolution’ that the likes of Alibaba and JD are spearheading, then possibly the consumption splurge is largely restricted to a small new rich in a large country. While that makes a big difference in a large country such as China, it may not be adequate as a means to the rebalancing that is needed. The skew may also have increase unfulfilled aspirations and trigger bizarre demonstration effects and debt spirals. That may not be a trajectory that delivers the economic and political stability that the Chinese leadership may want.

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