

# From Exports to Consumption: How Digital Finance and E-Commerce Drive China's Economic Shift

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## ABSTRACT

Historically, China's economic growth has been attributed to its export oriented economy. However, since the early 2000s, the Chinese government has been attempting to initiate a transition to a consumption driven economy because of severe trade surpluses and domestic issues such as income gaps. China's transition to a consumption driven economy has been met with the challenge of encouraging spending of rural citizens. One dominant explanation for this challenge is attributed to a large income gap. Previous research has discussed this income gap and suggested various ways to address rural citizens' low consumption, however most include significant reforms that are unlikely to occur in the next few years. This paper will propose a different method which leverages China's strength as a technology hub, employing e-commerce and digital finance to unlock rural spending in a shorter time frame. The contributions of this paper are analyzing how digital finance and e-commerce can work together to increase consumption, and linking this impact to the ongoing economic transition China is undergoing. The findings of this paper are that e-commerce and digital finance should be implemented together to address rural citizen's income growth, and therefore address consumption. Additionally, by implementing these technologies in a system, a consumption driven economy will be easier to achieve.

## Introduction

### Background and Context

China's economic reform in 1978 has caused GDP growth to increase by an average of 9% per year and has lifted 800 million people out of poverty (The World Bank). China's rapid economic growth can be attributed to its export oriented model, characterized by significant foreign investment and robust manufacturing capabilities (Bowles & Wang, 2008).

From the early 2000s, the issue of balancing economically and environmentally sustainable domestic and foreign trade became more pressing. Since then, China has aimed to become more economically independent, shifting from an export driven economy towards a consumption driven economy (Bowles & Wang, 2008). However, according to news sources like *The Economist*, economic growth in a consumption driven economy is not predicted to be smooth (The Economist, 2024). This struggle is because of rising income inequality causing domestic consumption to be limited due to Chinese citizens being more likely to save in the first place (The Economist, 2024; Wright et al., 2024).

Advancements in e-commerce and digital finance can be of aid in reducing income inequality while increasing consumption, ultimately helping the economy shift. Fortunately for China, they have been at the forefront of the digital financial revolution and have great potential to increase spending in rural regions by improving access to credit through financial services (Kong & Loubere, 2021). In combination, rural e-commerce has been key in improving rural spending and aiding in the expansion of market access (Li et al., 2018). Together, these technologies could address the issue of rising income inequality, smoothing the transition to consumption growth while promoting economic equality.

## Purpose and Objectives

The central research question of this study is “How do advancements in e-commerce and digital finance improve income equality, supporting China’s shift from an export driven to a consumption driven economy?” This question will be addressed by analyzing the effects of digital finance and e-commerce on income stability and informal entrepreneurial activity and the effects of this on consumption patterns in rural China, and by connecting these effects to broader economic goals set by the Chinese government. In addressing the question, this paper aims to bridge the gap between previous literature that has discussed the impact of digital finance and e-commerce on consumption growth and literature that has discussed China’s shift from an export oriented to a consumption oriented economy. By examining the interplay between financial inclusion, informal entrepreneurship, and consumption patterns in rural areas, this study aims to provide an understanding of how these technological advancements can support China’s shift towards a consumption-driven economy.

## Literature Review

This section will present the findings of previous literature and briefly review their significance in China’s shift to a consumption driven economy. This section is organized as follows: First *Background on the Economic Transition* will review literature discussing a key issue the Chinese government is facing in transitioning to a consumption driven economy. Second, *Digital Finance and Financial Inclusion* will review the literature concerning digital finance and financial inclusion. Third, *Alleviation of Credit Constraints and Informal Entrepreneurship* reviews the impact of digital finance and financial inclusion on alleviating credit constraints and promoting entrepreneurship. Fourth, *Impact on Poverty Reduction and Consumption Smoothing* reviews the impact of the improvement of household income on poverty reduction and smooth consumption. The last section, *Rural E-commerce and Domestic Consumption* reviews the effect of rural e-commerce on improving incomes and how this translates to increased domestic consumption. This will be followed by the *Conclusion to Literature Review*, discussing the literature as a whole. A critical gap is identified in previous literature which does not connect the effects of improvements in digital finance and e-commerce to an increase in domestic consumption: a key objective for the Chinese government. This section will provide a background to fill this gap.

### Background on the Economic Transition

China’s current shift to a consumption driven economy has not been smooth. As China’s wealth increased over the last 40 years due to its previous export oriented model, the distribution of the wealth became increasingly uneven. Stanford’s Center on China’s Economy and Institutions highlights the rapid increase of income inequality, with the wealth share of the top 10% reaching 67% (Stanford University). Wright et. al (2024) discusses the policies that China has implemented in an effort to mitigate this gap, however the current policy regime has yet to see success.. For example, China’s current tax system does not focus on consumers, meaning that tax cuts do not have much of an impact on consumption. The tax system will be expanded upon in *Role of E-commerce and Digital Finance in Economic Transition*.

There is not a lot of literature available on the effects of tax policies and other efforts to increase consumption by the Chinese government, however it is assumed by Wright et. al (2024) that efforts such as the 2021 – 2023 tax relief program went largely unsuccessful. The paper claims that quick fixes to increase household consumption are not possible, widely because of the income gap, and that a complete restructuring of the economy, fiscal system, and government-led redistribution of income would be necessary (Wright et al., 2024). However, technologies like e-commerce and digital finance provide a way to directly address rural communities and increase consumption.

## Digital Finance and Financial Inclusion

The improvement of financial inclusion has been a crucial policy goal of the Chinese government since the early 2000s (Kerr & Nanda, 2011). The Institute of Finance at Peking University designs financial inclusion as “providing financial services to all social classes and groups who demand appropriate and effective financial services, at an affordable cost, and based on the principle of equal opportunity and service sustainability” (Feng et al., 2011). Digital finance, through the rise of fintech and other financial services, has played a crucial role in expanding financial inclusion in China. This expansion has particularly been notable in rural regions, where access to financial services has been historically limited and expansion has been hard to achieve. The Digital Financial Inclusion Index (DFII), developed by Peking University, showcases the rapid growth of financial inclusion through digital finance, with the median of provincial data showing an average growth of 36.4% (Feng et al., 2011). This expansion is allowing underserved populations, such as rural households, to gain access to formal financial services. For this reason, improving access to credit is crucial for boosting household consumption.

Digital finance has a positive effect on increased financial inclusion, including for informal entrepreneurs in rural areas (Kerr & Nanda, 2011). Through digital finance, individuals are able to access credit through digital platforms, enabling an increase in the number of people who are able to use financial services who weren't able to before. According to Zhu et. al (2023) increased access to credit leads to higher household incomes, which will ultimately help household consumption (Zhu et al., 2023).

## Alleviation of Credit Constraints and Informal Entrepreneurship

As mentioned in Section A, improving access to credit will help promote informal entrepreneurial activities, especially in rural areas. Insufficient access to Capital is one of the biggest obstacles to entrepreneurial activities (Kerr & Nanda, 2011). Kerr and Nanda (2009) underlines this issue, arguing that alleviating credit constraints will aid in entrepreneurial activities because the propensity of individuals to become entrepreneurs is higher when they have increased financial resources. Another study showed that digital finance has been crucial in providing these resources and increasing entrepreneurial activities. (Chen, 2021)

The increased access to credit due to digital finance has had significant impacts on informal entrepreneurship. This is especially important in rural areas, where improved financial inclusion can serve as a mechanism for poverty alleviation (Kerr & Nanda, 2011). Informal entrepreneurship is crucial in increasing household incomes.

## Impact on Poverty Reduction and Consumption Smoothing

Wright et. al (2024) and Chen and Zhao (2021) show that digital finance contributes to poverty reduction by improving access to financial services. Wright et. al (2024) discusses how China's main struggle in moving from export driven to domestic consumption driven economy is their inability to unlock rural household spending. Chen and Zhao (2021) have reinforced through data that digital finance has a positive effect on poverty reduction in rural areas in China through increasing access to credit. Gunhidzirai and Tanga (2017) discuss that in Zimbabwe, informal entrepreneurship is the most dominant sector of the economy supporting many households in income. Likewise, many households in China rely on informal entrepreneurship for poverty reduction (Gunhidzirai & Tanga, 2017).

Increasing rural spending could be improved by targeting the issue of irregular income patterns faced by these households (Wright et al., 2024). Where households are normally constrained by irregular income patterns and limited access to credit, digital finance stabilizes income by providing financial services such as loans, savings, and insurance, leading to smooth consumption patterns (Kerr & Nanda, 2011). As informal entrepreneurship grows, smooth consumption will also be improved because income stability will decrease the need to save, which is prevalent

amongst rural citizens (Wright et al., 2024). Therefore, such growth will be vital in China's transition from an export oriented economy to a domestic consumption based economy.

## Rural E-Commerce and Domestic Consumption

Numerous studies have mentioned the impact of E-commerce on increasing incomes in rural communities. An example of this impact can be seen in Lognan China, the prefecture with the lowest income level in Gansu, China. Lognan reduced their poverty population from 53% in 2011, to 20.4% in 2015, with a key aspect of their success accredited to e-commerce (Li et al., 2018). While digital finance provides more accessibility to financial resources, e-commerce provides a self-sustaining and inclusive market ecosystem, providing rural populations more opportunity for entrepreneurship. This is achieved by expanding market access, enabling businesses in rural areas to reach broader markets beyond their local areas and for higher prices as well (Li et al., 2018).

Digital finance also plays a part in the success of expanding market access. The availability of digital payment systems and online platforms has enabled rural entrepreneurs to access larger markets, both domestically and internationally (Gunhidzirai & Tanga, 2017). Li et al. (2018) showed that rural e-commerce can help increase consumption in rural areas as well through improved incomes due to the population in rural areas getting accustomed to online shopping (Li et al., 2018). If incomes are increased, the rate of online shopping becomes higher.

## Conclusion to Literature Review

Overall, the effect of digital finance on improving financial inclusion has a positive impact on improving incomes of rural citizens by increasing access to credit and supporting the growth of informal entrepreneurship (Gunhidzirai & Tanga, 2017). Additionally, rural e-commerce plays a part in growing incomes in rural areas by expanding market access, contributing to domestic consumption in rural regions by acclimating residents to online shopping. These technological improvements will unlock spending in rural China, increasing domestic consumption, which has been difficult to achieve (Li et al., 2018). Because the connection of rural e-commerce smoothing the transition to a consumption driven economy through increasing rural household income has not yet been made, this paper will fill this gap. The contributions of this paper are analyzing the effect of both digital finance and e-commerce on household consumption in China through encouraging spending of rural residents, and additionally connecting the impact of these technologies to the ongoing transition from an export oriented to a consumption driven economy.

## Historical Context of China's Economic Transition

In order to examine the future possibilities of China's transition to a consumption driven economy, the current gaps and policies should be examined first. This section provides crucial context behind the transition, and identifies gaps preventing the transition from performing effectively. *Export Oriented Growth and Its Consequences* discusses the context behind the shift to a consumption driven economy, highlighting the initial growth felt by China, and the uneven distribution of the wealth this growth caused. *Transition to a Consumption Driven Economy* presents the current status of the transition, underlining the effects of uneven distribution on the movement. It discusses different initiatives by the Chinese government to reduce income gaps and analyzing their effectiveness.

## Export Oriented Growth and Its Consequences

China's transition to an export-oriented economy began in 1978 with Deng Xiaoping's economic reforms, aiming to rebuild the country after the disruptions of the Cultural Revolution (Kobayashi et al., 1999). The reforms opened China's economy to foreign trade and investment, marking the start of rapid industrial growth. The establishment of

Special Economic Zones (SEZs) was especially key to this reform, offering tax incentives and infrastructure support to attract foreign direct investment (FDI), and promoting exports (Lardy, 2006). Over time, the SEZ policy was expanded to include export processing zones (EPZs), allowing foreign companies to import raw materials duty-free and export finished goods. By 2003, China's role as a global manufacturing hub was solidified, with an export growth rate seven times higher than the rate of the world as a whole (Silva-Ruete, 2006). Table 1 shows China's real export growth from 1992 to 2005, which increased by 500% (Amiti, 2010).

**Table 1.** Summary statistics: Trade data for China from 1992-2005

Column1	1992	1995	1997	1999	2001	2003	2005
Total exports \$U.S. billions	84.94	136.5	160.34	163.81	211.19	334.53	525.49
Total processing exports \$U.S. billions	39.92	67.92	87.59	93.23	117.04	184.56	287.24
Share (%)	0.47	0.5	0.55	0.57	0.55	0.55	0.55
Exports to U.S. (Chinese data) \$U.S. billions	8.59	22.67	28.7	35.25	43.08	70.59	112.34
Share (%) Exports to U.S. (U.S. data)	0.1	0.17	0.18	0.22	0.2	0.21	0.21
\$U.S. billions	25.73	41.79	54.87	68.73	81.17	116.32	167.91

Source: China Customs Statistics.

Note: Deflated using 1992 U.S. Consumer Price Index.

Adapted from Table 1.1, (Amiti, 2010)

However, the benefits of export-oriented growth were not evenly distributed. Due to economic growth becoming concentrated in coastal regions where SEZs were established, areas such as Guangdong experienced significant wealth accumulation, while inland and rural provinces like Gansu lagged far behind (Kobayashi et al., 1999). Wealth inequality became a critical issue, as much of the industrial development was concentrated in urban areas, leaving rural populations with limited economic opportunities and lower wages (Lardy, 2006).

The reliance on exports and capital-intensive industries also limited job creation. From 1978 to 1993, employment growth was modest, but between 1993 and 2004, it slowed significantly to just over 1% per year, reflecting the emphasis on heavy industry over labor-intensive sectors. As a result, urban-rural inequalities deepened, exacerbated by the fact that wealthier regions received more access to capital and foreign technology (Lardy, 2006).

The Open Door policy, which aimed to provide equal trading rights for all foreign nations in an attempt to stop any one nation from controlling China, furthered income disparities. Although access to foreign capital and technology increased, helping economic development, the positive impacts were distributed unevenly, contributing to a rapidly rising income gap rate. (Kobayashi et al., 1999).

Additionally, environmental degradation became a growing concern, as rapid industrialization led to increased coal consumption and pollution. This swift growth raised questions about the long-term sustainability of China's economic model. By the mid-2000s, the export-driven model faced internal and external pressures, including rising tensions with major trading partners like the U.S. over China's large trade surplus and undervalued yuan, which policymakers kept low to support competitive exports (Bowles & Wang, 2008).

Recognizing these challenges, in the early 2000s, China eventually began the shift to a consumption driven economy.

## Transition to a Consumption Driven Economy

The year 2006 marked a clear and formal acknowledgement by the Chinese government that a shift to a consumption driven economy was needed (Lardy, 2006). This acknowledgement came from Premier Wen Jiabao's speech to the National People's Congress, where he highlighted the urgency of strengthening domestic consumption, promoting more equitable growth across regions ("Premier Wen Jiabao Meets Press").

However, because Chinese consumers were not the target of the previously export-oriented model, addressing the perennially uneven distribution of wealth has been difficult to achieve, standing in the way of a smooth transition to a consumption driven economy. In 2022, China's Gini index was 46.7, demonstrating relatively high income inequality (Textor). [For reference, the global average Gini index is \_\_. Indeed, the portion of China's national income controlled by the top 10% of earners has grown significantly, rising from 27% in 1978 to 41% by 2015. Meanwhile, the share going to the bottom 50% of the population, which represents approximately 536 million adults, has plummeted from 27% to just 15% over the same period (Stanford University).

Furthermore, attempts at directly boosting household consumption have been met with mixed results. The current tax system targets producers instead of consumers, making it unclear whether the system can effectively boost consumption. For example, the 2021 – 2023 income tax relief program, which aimed to reduce taxes by 110 billion yuan annually, may not have achieved its goal. Only 14% of the population benefited from the tax cuts, which was far fewer than anticipated. This deficit is due to the majority of Chinese citizens earning less than 5,000 yuan per month, already being exempt from paying income taxes. As a result, low income households did not benefit from these cuts (Wright et al., 2024).

Unemployment insurance had a similar effect. It did not effectively address the most vulnerable workers, including 297 million migrant workers and 200 million flexible workers. The unemployment insurance program required premiums to be paid for one year and documentation from former employers to show that unemployment was involuntary. Migrant workers and flexible workers would find it difficult to address these requirements. As a result, support falls short on these groups to encourage consumption (Wright et al., 2024).

Additionally, Xi Jinping and China's leadership were wary of welfarism, fearing welfare dependency. Xi Jinping said himself, "To promote common prosperity, we must not engage in 'welfare' [...] Welfare benefits cannot decrease if they go up [...] it will inevitably bring about serious economic and political problems!" (Wright et al., 2024). Because of this, China did not focus on direct transfers to poor households, but rather encouraged improving the level of public services (Gillette, 2022).

On the positive side, China promoted digital finance as a key factor in addressing current issues with the transition to a consumption driven economy through two important policy documents. One is the Guiding Opinions on Promotion of Healthy Development of Internet Finance, initiated in 2015, which grew digital finance further by providing clearer guidelines for digital platforms. The second was The 2016 Implementation Plan of Rectification

Work of Internet Financial Risk, which tightened regulatory oversight to reduce risks and illegal activities in China's internet finance sector. Both policies were successful in supporting the growth of digital finance (Xu, 2019).

## Role of E-Commerce and Digital Finance in Economic Transition

### Overview of E-Commerce and Digital Finance Innovations in China

China's position as a global leader in the digital economy can be attributed to significant technological advancements in areas such as e-commerce, digital finance, AI, and more. The "Internet Plus" initiative in 2015 aided in the integration of the internet with traditional sectors like manufacturing, logistics, and healthcare. This policy was pivotal for China, expanding their digital economy to more than 30% of the country's GDP (Woetzel et al., 2017). Because of their position as a trailblazer in the digital economy, improving the income gap using technology would be ideal for China. As discussed in *Historical Context of China's Economic Transition*, in order to impact rural citizens with fiscal policy, huge reforms would be needed in the current system. Using technology like digital finance and e-commerce, can effectively increase income gaps without such large reforms. Further details about this effectiveness will be discussed in *Role in Transition to a Consumption Driven Economy*.

There have been various additional initiatives in the tech sector, that are notable in helping China's economy such as the "Three Year Action Plan of Internet Plus Artificial Intelligence," which aims to build an AI application market valued at 100 billion renminbi (\$15 billion), and Shanghai launching the world's first electronic shipping port (Woetzel et al., 2017). However, e-commerce and digital finance have more potential to aid in income gaps because they focus on creating financial inclusion and accessibility to those who are lower income or live in rural areas. For this reason, e-commerce and digital finance are the focus of this paper.

Over the past two decades, China has gained momentum in areas of the digital economy. For example, in the late 2000s, China accounted for less than 1% of global e-commerce transactions, while in 2017, they accounted for 40%, which was greater than the combined values of France, Germany, Japan, the United Kingdom, and the United States. Platforms like Alibaba and JD.com are making e-commerce a new way of life. Paired with mobile payments like Alipay and Wechat Pay, China is revolutionizing the way people are engaging with online shopping. By 2016, over 68% of internet users were using mobile payment systems, a massive increase from just 25% in 2013. E-commerce is especially pronounced in underdeveloped and smaller cities, despite consumers there having lower incomes than their counterparts in more developed, larger cities. This discrepancy shows the benefit of e-commerce in hard to reach areas (Woetzel et al., 2017).

Digital Finance, too, has made financial services more accessible to a large range of people. Due to this, digital financial inclusion has risen along with digital finance. While the DFII has increased from 40% in 2011 to 341.22% in 2020, the final consumption rate of Chinese residents also increased from 49.6% in 2011 to 54.3% in 2020 (Luo et al., 2022). Digital finance also aids in easing financial constraints on low income groups, consumption smoothing, promoting entrepreneurial activities, and increasing benefits of entrepreneurship (Chen & Zhao, 2021). Digital finance innovation is helping with increasing access to financial information and with the efficiency of financial resource allocation, making it a very significant development (Luo et al., 2022).

### Role in Transition to Consumption Driven Economy

In order to enable a more effective transition to a consumption driven economy, it is important to address the income gap that occurred as a result of prioritizing development in some areas over others. Digital Financial services are crucial in broadening access to financial resources for traditionally underserved populations, especially in rural areas. The Peking University DFII highlights a consistent rise in median provincial DFII from 33.6 in 2011 to 214.6 in

2015, and 294.3 in 2018. This dramatic increase signifies that more individuals now have access to digital banking, credit facilities, and payment systems through online platforms.

One of the reasons that digital finance has been so successful for rural residents is its ability to reach beyond the limitations of traditional financial institutions. For example, rural areas, which have long been unbanked or underbanked, now have access to mobile banking solutions, peer-to-peer lending, and digital wallets, which are much more accessible. Thus, digital financial inclusion is efficient in reducing disparities between urban and rural areas (Chen & Zhao, 2021).

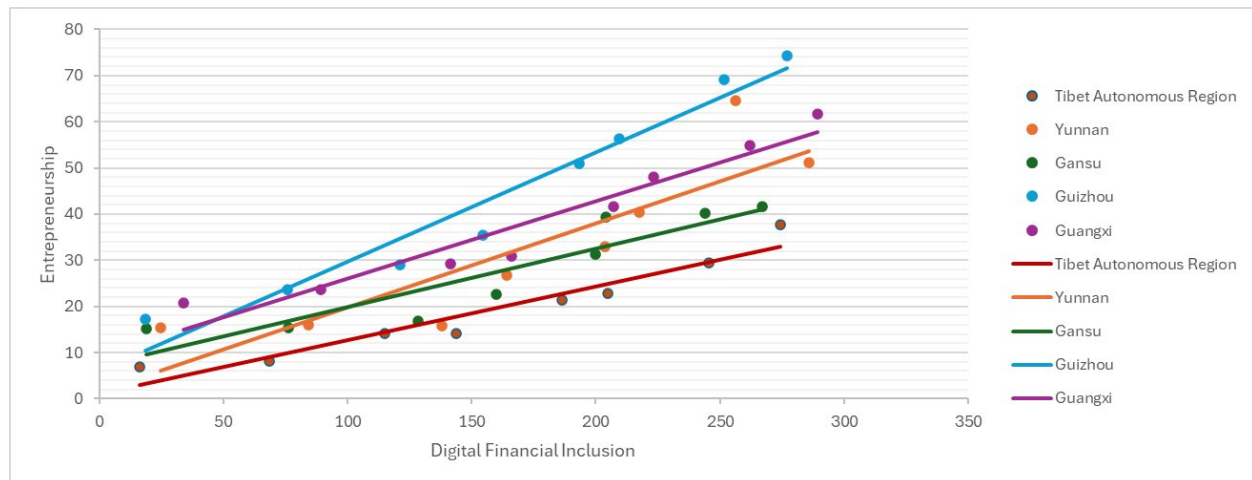
Digital finance is also effective in contributing to the alleviation of credit constraints. Digital finance aids in credit constraints by easing credit and information constraints (Chen & Zhao, 2021). This is primarily because digital platforms simplify the process of loan applications and remove many of the hurdles associated with traditional banking. Consequently, online shopping is also encouraged due to easing credit constraints and improving incomes of residents (Zhu et al., 2023).

Moreover, access to digital financial services offers flexibility for households to engage in riskier, but higher-return investments like starting small businesses or expanding farming operations. In rural economies, income tends to vary a lot due to seasonal income fluctuations or economic shocks (Khan, 2001). This enhanced credit access helps rural households smooth out income fluctuations, which reduces their vulnerability to shocks, such as poor harvests or sudden health expenses. Thus, households can maintain consistent consumption levels which bolsters the consumption-driven paradigm and reduces the impact of economic cycles on household spending (Zhu et al., 2023).

Informal entrepreneurship is a considerable source of income for poor households in rural areas. Easing credit constraints promotes entrepreneurial activities, particularly in rural settings where formal employment is scarce. As a result, rural entrepreneurs can expand their activities into e-commerce and sell products like handicrafts, agricultural produce, and locally made goods (Chen & Zhao, 2021).

Building on this understanding, empirical evidence supports the idea that digital financial inclusion has a strong positive correlation with entrepreneurship in rural China. Utilizing index data from the Index of Regional Innovation and Entrepreneurship in Digital Economy in China (IRIEDEC) **Source** and the DFII (Feng et al., 2011) from Peking University, and population data from City Population ("City Population"), the correlation between digital financial inclusion and entrepreneurship is visualized in Figure 1.

First, the data was filtered by the percentage of rural population, identifying the five most rural provinces: Tibet Autonomous Region, Gansu, Guangxi, Yunnan, and Guizhou. Since IRIEDEC data is available only at the prefecture level, the scores for each prefecture within these provinces were aggregated to determine provincial values. A linear regression analysis conducted in Excel revealed a positive correlation between the IRIEDEC and DFII indices, with  $R^2$  values of 0.9258 for Tibet Autonomous Region, 0.7698 for Yunnan, 0.8464 for Gansu, 0.9514 for Guizhou, and 0.9292 for Guangxi, indicating a strong correlation between DFII and IRIEDEC. As discussed in the literature review, economic theory indicates that digital financial inclusion improves access to credit, which in turn positively influences entrepreneurship. This hypothesis is borne out in the empirical evidence visualized in Figure 1.



**Figure 1.** Linear regressions between DFII and IRIEDEC between 2011–2018 for the five most rural provinces in China.

The bottom up, community driven approach of implementing rural e-commerce will also aid in the initiative to increase incomes. Poverty alleviation through e-commerce can be effective and sustainable, however, it will be difficult to implement if the community and infrastructure are not prepared (Zhang et al., 2024). Digital Finance will be helpful in improving the outcomes of rural e-commerce by providing financial access and improving incomes via the methods described above.

Additionally, programs such as the National Rural E-commerce Comprehensive Demonstration Project have been instrumental in boosting rural e-commerce. This program has led to an increase in per capita output of primary industry employees, and disposable income of rural residents. E-commerce provides rural businesses with access to national and even international markets, increasing the scope of their business. As rural consumers become more accustomed to online shopping and incomes stabilize, they also increase their spending power. According to an interview done by Zhang et al. (2024), “A village government official mentioned in the interview: ‘Online shopping is no big deal now. Even our elder population has got *[sic]* used to it.... If people are getting married here, for example, it is almost certain that they will buy all the wedding supplies online.’” This quote demonstrates a feedback loop where rural entrepreneurs can sell more goods, boosting incomes and propelling spending, further driving rural economic growth and domestic consumption (Zhang et al., 2024).

The transition to a consumption-driven economy is most directly reflected in the rise of domestic consumption. Digital finance, by improving access to credit, has contributed to this growth by stabilizing incomes through entrepreneurship and contributing to the development of e-commerce. The rise in consumer spending per capita is evident in China’s economic data, reflecting how digital financial services empower households to spend more consistently, regardless of external economic conditions. This empowerment will help China in reducing reliance on exports and transition to a domestic consumption-based economy.

## Conclusion

### Summary of Findings

This paper proposes a method of addressing the gap in China’s economic transition using e-commerce and digital finance together. Several insights were revealed, as listed below.

First, the transition from an export-oriented to a consumption driven economy can be supported by key technologies like e-commerce and digital finance. By expanding financial inclusion with digital finance, China could increase access to credit. Alleviating credit constraints promotes informal entrepreneurial activities, which aids in poverty reduction. Through this reduction in poverty, smooth consumption will be encouraged. In parallel, entrepreneurial activities can be promoted using e-commerce platforms, increasing both spending and incomes of rural citizens. Domestic consumption can be improved through increasing incomes of rural areas and access to digital platforms. It is crucial that rural spending capacities are unlocked, as a lack of rural spending has historically obstructed growth of domestic consumption for China. In tandem, e-commerce and digital finance provide rural citizens with the means to increase spending, which could precipitate a positive feedback loop on domestic consumption and reduce income inequality, thus playing a major role in facilitating a nationwide transition to a consumption-driven economy.

Second, digital finance and e-commerce have a positive impact on one another and should be intentionally implemented together. By simplifying payments and expanding access to credit, digital finance has enabled rural entrepreneurs to participate in broader markets. This has led to increased incomes and greater consumption among rural households as they become more engaged with online shopping. The increasing accessibility of these platforms, especially in underdeveloped regions, reflects their potential in reducing income inequality and driving consumption growth.

## Future Prospects

While digital finance and e-commerce are significant in China's shift, several opportunities and challenges still remain.

First, there can still be improvements in expanding financial inclusion. Although several areas have greatly benefited from the improvements made to date, there is still room for growth. Continued efforts must be made to extend digital infrastructure and improve financial literacy to ensure equitable access for all populations.

Second, income inequality should be addressed further. Although advancements in digital finance and rural e-commerce have, and have further potential, to address this issue, income inequality is still a substantial problem in China. More progressive fiscal reforms and direct transfers to lower-income households could accelerate consumption growth, particularly in rural areas where households are most likely to spend additional income. There can also be more support in growing e-commerce and digital finance in rural areas.

Advancements in digital finance and e-commerce have laid a strong foundation for China's economic shift. By addressing challenges like income inequality and ensuring that technological advancements reach underserved areas, China can reduce its reliance on exports and fully transition to a sustainable, consumption-driven economy.

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