

## ISLAMIC FINANCE FOR STIMULATING CONSUMPTION IN CHINA – AN ANALYSIS

Klemens KATTERBAUER<sup>a</sup>

Euclid University, Central African Republic

Hassan SYED<sup>b</sup>

Euclid University, Central African Republic

Rahmi Deniz ÖZBAY<sup>c</sup>

Istanbul Ticaret University, Türkiye

Sema YILMAZ<sup>d</sup>

Yildiz Technical University, Türkiye

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## ABSTRACT

Since the 1970s, Islamic finance has evolved, prompting closer evaluation of its successes and challenges in a changing world. A key focus is on domestic consumption, crucial for economic growth in Islamic contexts where consumption and income distribution are closely linked. However, Islamic economic models often mimic mainstream approaches and overlook shifting societal values. Islamic consumer theory differs from conventional economics, especially regarding human desires, behavior, and resource constraints. Some Islamic economists reject the idea of scarcity, despite inconsistencies in their broader frameworks. Islamic economics classifies needs into three levels—essential (daruriyat), enhancements (hajiyyat), and social recognition (tahsiniyat)—which reflect evolving standards of living but not fundamental changes in needs. A more subjective, individual-based approach to consumption is encouraged, rather than rigid external standards. China's consumption challenges could benefit from Islamic finance principles. Issues like high healthcare costs, savings driven by demographic shifts, and limited access to social services strain households, particularly the poor and rural migrants. Regressive fiscal policies, local government deficits, and demographic changes such as an ageing population and falling property values further suppress consumption. Although reforms are underway, they are hindered by inequality, the hukou system, and political resistance. Islamic finance-aligned reforms—targeting fiscal policy, social security, and land rights—could enhance consumption, but overcoming institutional barriers remains key.

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<sup>a</sup> Dr., Euclid University, Centre for Islamic Metafinance, E-mail: [katterbauer@euclidfaculty.net](mailto:katterbauer@euclidfaculty.net), <https://orcid.org/0000-0001-5513-4418>.

<sup>b</sup> Dr., Euclid University, Centre for Islamic Metafinance, E-mail: [h.syed2@outlook.com](mailto:h.syed2@outlook.com), <https://orcid.org/0000-0003-2114-2473>.

<sup>c</sup> Prof. Dr., İstanbul Ticaret University, Department of Economics, E-mail: [rahmideniz@gmail.com](mailto:rahmideniz@gmail.com), <https://orcid.org/0000-0002-3927-8216>.

<sup>d</sup> **Corresponding Author:** Prof. Dr, Yıldız Technical University, Department of Economics, E-mail: [sygec@yildiz.edu.tr](mailto:sygec@yildiz.edu.tr), <https://orcid.org/0000-0002-3138-1622>.

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## ÇİN'DE TÜKETİMİ TEŞVİK İÇİN İSLAMİ FİNANS - BİR ANALİZ

Klemens KATTERBAUER<sup>a</sup>

Euclid Üniversitesi, Orta Afrika Cumhuriyeti

Hassan SYED<sup>b</sup>

Euclid Üniversitesi, Orta Afrika Cumhuriyeti

Rahmi Deniz ÖZBAY<sup>c</sup>

İstanbul Ticaret Üniversitesi, Türkiye

Sema YILMAZ<sup>d</sup>

Yıldız Teknik Üniversitesi, Türkiye

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## ÖZ

1970'lerden bu yana İslami finans, değişen dünyada başarılarının ve karşılaştığı zorlukların daha yakından değerlendirilmesini gerektirecek şekilde gelişmiştir. Tüketim ve gelir dağılımının yakından bağlantılı olduğu İslami bağlamlarda ekonomik büyüme için hayati önem taşıyan iç tüketime odaklanılmaktadır. Ancak İslami ekonomi modelleri genellikle ana akım yaklaşımları taklit etmekte ve değişen toplumsal değerleri göz ardı etmektedir. İslami tüketici teorisi, özellikle insan arzuları, davranışları ve kaynak kısıtlamaları açısından geleneksel iktisattan farklılık göstermektedir. Bazı İslami iktisatçılar, daha geniş çerçevelerindeki tutarsızlıklara rağmen kıtık fikrini reddetmektedir. İslam ekonomisi ihtiyaçları üç seviyede sınıflandırır: temel (daruriyat), iyileştirmeler (haciyat) ve sosyal tanınma (tahsiniyat) bunlar gelişen yaşam standartlarını yansıtır ancak ihtiyaçlardaki temel değişiklikleri yansıtmaz. Tüketim konusunda katı dış standartlar yerine daha öznel, birey temelli bir yaklaşım teşvik edilmektedir.

Çin'in tüketim sorunları İslami finans ilkelerinden faydalanabilir. Yüksek sağlık maliyetleri, demografik değişimlerin yol açtığı tasarruflar ve sosyal hizmetlere sınırlı erişim gibi sorunlar, özellikle yoksullar ve kırsal kesimdeki göçmenler olmak üzere hane halklarını zorlamaktadır. Gerileyen mali politikalar, yerel yönetim açıkları ve yaşanan nüfus ve düşen emlak değerleri gibi demografik değişiklikler tüketimi daha da baskılamaktadır. Reformlar devam etmekle birlikte eşitsizlik, hukuk sistemi ve siyasi direnç nedeniyle engellenmektedir. Maliye politikası, sosyal güvenlik ve arazi haklarını hedefleyen İslami finans uyumlu reformlar tüketimi artırabilir, ancak kurumsal engellerin aşılması kilit önem taşımaktadır.

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<sup>a</sup> Dr., Euclid Üniversitesi, İslami Metafinans Merkezi, E-posta: katterbauer@euclidfaculty.net, <https://orcid.org/0000-0001-5513-4418>.

<sup>b</sup> Dr., Euclid Üniversitesi, İslami Metafinans Merkezi, E-posta: h.syed2@outlook.com, <https://orcid.org/0000-0003-2114-2473>.

<sup>c</sup> Prof. Dr., İstanbul Ticaret Üniversitesi, İktisat Bölümü, E-posta: rahmideniz@gmail.com, <https://orcid.org/0000-0002-3927-8216>.

<sup>d</sup> Sorumlu Yazar: Prof. Dr. Yıldız Teknik Üniversitesi, İktisat Bölümü, E-posta: sygenc@yildiz.edu.tr, <https://orcid.org/0000-0002-3138-1622>.

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## INTRODUCTION

Islamic finance has been at the forefront in the last several decades, starting with the 1970s. It may be time to evaluate the subject's accomplishments across a range of domains and pinpoint the obstacles it might encounter in a world that is changing quickly and undergoing significant upheaval. Consumption within the context of Islamic finance plays an important role, given the increasing importance of domestic consumption to strengthen growth and advance economies to reduce their dependence on external factors.

The connection between consumption and income distribution is relatively complex, and various factors are considered. Several factors influence consumer behaviour on the demand side of price formation in microeconomic settings. For several reasons, the phenomenon is probably going to last for a very long time. It is widely recognized that "teaching of economics from an Islamic perspective" must be more focused than "teaching of Islamic economics." As a result, the existing Islamic assessments barely deviate from the orthodox mainstream's methodology, approach, or content. However, several articles in the field adopt a rather puritanical stance, presuming that an Islamic social structure already exists (Ullah & Aslan, 2024).

They draw inspiration from the past and frequently overlook the significant, irrevocable shifts in societal mores over centuries. This is to maximize the worth and legitimacy of these kinds of writings. The main issue is that they are disconnected from their compulsions and the reality on the ground. Under the "theory of consumption," Islamic economics primarily addresses the hierarchical structure of human desires and the factors controlling consumer behaviour when attempting to satisfy those needs in resource constraints. Islamic consumer theory diverges from mainstream perspectives in general in light of these two issues. The law of demand remains the same. Man has an innate need to seek pleasure and avoid or eliminate misery. The desire represents what orthodox economics

refers to as a human demand. Being psychic allows for limitless wants. Most of them are satiable on their own, but they are recurring. These demands' features pressure people to satisfy them, which has been the main driver of human labour and advancement. Religious literature, particularly that of Islam, acknowledges these facts with great accuracy. Nevertheless, there needs to be a deeper conversation about what wants are, how they are defined, and what kind of things they are in Islamic economics. The basis of economics is the link between limitless demands and few resources, which gives birth to the problems of human decision-making and determines the shape and content of the field in the secular era (Farooq, 2015).

While most Islamic economists support this link, particular academics openly state that the concept of resource scarcity has no place in Islamic economics. Their arguments against the existence of scarcity are untenable. Proponents must remember their stance when discussing other theoretical or applied economic topics. The history of human civilization is one of constantly expanding the boundaries of scarcity through scientific, technological, and social organization advancements. To fulfil our previously stated wants, we require commodities and services. However, Islamic scholars often mistake needs for wants. They draw comparisons between the two, categorizing demands into three groups and offering connections between them. First, there are the *daruriyat*, or basic needs, including food, clothing, housing, healthcare, education, and so forth. *Hajiyat*, or enhancements or complements, is defined as what would raise the standard of the needs. The last category is *tahsiniyat*, or the needs that, when met, grant us recognition or social standing. The last two are thought of as an extension of the basic needs. As a result, the three are related and depict a progressive improvement in living quality. Products that meet the needs in each area are the centre of attention. As we go up the scale, the needs do not change, but their satisfaction does. An objective standard for categorizing needs to facilitate analysis must be included in the narrative above. A consumer's perception of what would be helpful,

complementary, or better at a given moment and location is primarily internal to them. Nobody may force their opinion regarding necessities (or welfare) from the outside, not even a jurist. Furthermore, desires, not the products that fulfil them, are what may be categorized in this way. On the other hand, the mainstream division of wants is based on objective, quantifiable criteria and includes essentials, comforts, and luxury items.

Needs are needs that, if unmet, would cause an individual's job efficiency to decline, while adding comforts is likely to increase it. If consuming luxuries harms one's health, it may have minimal effect on efficiency. It may decrease it. Here, layering or linking between the categories is not necessary. Additionally, a given commodity may fit into any category based on the specific person's wants. The influence of consumption on job efficiency serves as an external categorization criterion. It is hard to see how this method violates Islamic law or cannot be modified to comply with Shari'ah regulations. The modification would assist in avoiding numerous difficulties when developing an Islamic economics microtheory of consumption. It will remove the conceptual barrier between the variable's macro and micro-level treatments. The question is how Islamic economists respond to achieving equilibrium in mainstream economics and what influences consumer behaviour in this regard. In summary, the customer is a logical being who aims to optimize his level of satisfaction within a specific budget. Several methods, including the revealed preference theorem, indifference curve technique, and utility calculus, have explained the process of reaching the goal. Their goal, maximizing customer happiness, will stay the same, but the form may change (Monawer, et al., 2022).

Although these methods have shortcomings, they have effectively established the rule of demand in mainstream economics. According to the law, there is typically an inverse relationship between the quantity desired and the price of a good, assuming that certain factors stay the same, such as the consumer's income and preferences, the prices of similar commodities, and the competitive environment in the market. Islamic

economists challenge the above articulation of the dominant idea in several ways. First, they object to any economic agent, let alone the consumer, behaving in a way that maximizes, and some even consider it to be outside of Islamic standards. It is not feasible to reject everyone. By definition, maximization is value-neutral. For instance, should a government stop trying to maximize tax collection while adhering to the law? Or shall one condemn someone who tries to enhance Allah's pleasure even though they may do so following Shari'ah? Or is it considered to be naive on the part of the consumer to maximize enjoyment from a given income after religious responsibilities have been met? Answering affirmatively to such queries can be challenging. In addition to forcing economic agents to optimize their use of resources effectively, scarcity also gives meaning to the avoidance of excessive or wasteful consumption.

Moreover, Islamic economics frequently quote the following passages from the Qur'an to support their claims that believers should take the middle route rather than be misers or lavish with their income. In his explanation of the second of these passages, Monzer Kahf notes that when money is spent on charitable causes, community development projects, and the spread of Islam, extravagance as a limit vanishes. The meaning appears a little squatty if the two verses are considered together. Under normal circumstances, spending even on the categories above should not leave one penniless.

Anyway, these verses and others that are referenced on the subject in the literature speak about allocating one's wealth between meeting one's wants and following Allah's instructions, not necessarily about having to spend the money one ultimately chooses to spend on the same amount that he must spend on permitted items. The latter has received little attention in Islamic economics. Another hazy idea that has seeped into Islamic philosophy is that a Muslim consumer would have a narrower basket of goods than a non-Muslim consumer because the former would exclude the non-permissible (haram) commodities. The amount spent on the basket is determined by its monetary value rather than the item type.

A believer can spend much more money on allowed items than a non-Muslim could on a basket that also includes items that are prohibited. Lastly, there are some reservations regarding the significance of utility in the conventional understanding of consumer behaviour. The previously mentioned misunderstanding between needs and wants and the emphasis on the hierarchy of needs contribute to some of the problems. Seldom is it understood that the hierarchy was not a requirement for beliefs but rather a question of temporal cognition and representation. It is reasonable to ask for proof that the Islamic hierarchy is unchanging. Human desires and the products that fulfil them cannot be customized to meet the needs of specific customers. To address the Maqasid al Shariah (aims of Shariah law), public policy can rank social demands and then reassess the ranking occasionally. The following Siddiqi findings are typical of Islamic economists' stance regarding utility analysis of consumer behaviour. Under the premise that the customer optimizes utility or satisfaction, all products and services are assumed to share a common denominator, utility or satisfaction, that may be quantified or, at the very least, contrasted. Given the hierarchy of human wants and the possibility that a single good can satisfy several needs, this notion is unacceptable. A comprehensive examination of the consumer's equilibrium is, therefore, unfeasible (Allen & Prabowo, 2023).

It needs to be evident why utility cannot be a common denominator for assessing the worth of products and services when they are being used if money could be a common denominator for measuring the exchange value of goods and services as indicated in their prices. One explanation could be that people view utility as inherent to commodities and do not separate it from satisfaction. The human mind is, in reality, the seat of utility; goods do not contain it. For this reason, someone who is not thirsty may find no use in drinking a glass of water. Furthermore, a consumer's use of similar units of goods would remain the same when he acquired more of them. Once more, utility is an ex-ante notion that refers to the satisfaction one expects from consuming a good or service.

The consumer allocates income to savings and other purposes based on expectations. Contrarily, satisfaction is an ex-post concept, which is how something makes one feel after ingesting it. Expected contentment, or utility, may sometimes equate to actual satisfaction. Thus, after spending money on a good or service, we can experience happy surprises or disappointments. In an unpredictable world, the source of both may frequently need more information (Al-Jarhi, 2017).

The fact that utility analysis, including indifference curves, is based on utilitarian rationalism is one factor contributing to the reluctance to use it. Utility can be used as a tool for analysis, and its philosophical implications can be ignored. Recent research has shown that compared to an economy functioning on a non-Islamic foundation, consumption in an Islamic economy is likely to be lower and savings more significant. He does not share the concern that the transfer of money from the rich, who are more likely to save, to the poor, who are more likely to consume through zakah, will hinder growth in an Islamic economy by reducing saving and investment. His argument is based on the assumption that Muslims' consumption baskets would remain smaller as a result of Islamic standards and that zakah will eventually promote growth (Hassan, Khan, & Paltrinieri, 2021).

## **CHINESE DOMESTIC CONSUMPTION CHALLENGES**

Another slowdown in China's economy is primarily the result of declining household expenditure. Only 3.7% of retail sales have increased in 2024, which is only about 1% of GDP growth, while household disposable income has grown by 5.4%. The faltering real estate market and low customer confidence still pressure household borrowing. With China continuing to produce consistently significant trade surpluses, reaching \$858 billion over the past year, or around 4.8% of GDP, the disparities between domestic and external demand have deepened. This week's Third Plenum meeting is even more critical in light of the slowdown in household consumption and the growing number of proposals for structural change to rebalance China's economy. This quarter's depressing growth has been caused by



issues that date back decades. China's leadership has made it clear that shifting the country's economy from investment and exports to home consumption has been a top objective ever since the 2004 Central Economic Work Conference. Even after twenty years, China's economy is still driven by exports and investments, with household consumption accounting for just 39% of GDP, much less than the average of 54% in OECD nations.

Furthermore, as China's economy expanded, consumption fell as a percentage of GDP. The drivers of potential growth, labour, fixed capital creation, and total factor productivity, or the outlook for the expenditure-side components of GDP growth, consumption, investment, government spending, and net exports, must be evaluated for any long-term prediction of China's economic growth. Since China's economy is likely to expand at slower rates than its potential during the next ten years, most economists specializing in China will likely find less value in potential growth predictions. Over the last ten years, the loan and investment expansion is simply too much for the financial system to sustain (Du & Wang, 2011).

Therefore, using an expenditure component is more helpful to project China's growth over the following ten years. The prognosis for China's home consumption is the most uncertain of the spending components. Considering the limitations on credit expansion in China's financial system, investment growth is likely to stay sluggish and contained within a limited range. These limitations are evident in the poor quality of new property development, and the difficulty communities face in raising capital for improvements. Although it seems improbable at this time, a fundamental overhaul of China's financial system would alter the outlook for investment. Similarly, considering China's fiscal policy limitations, government expenditure is a less dependable economic engine. Given fluctuations in the global business cycle, exports are never a stable engine of economic expansion. Therefore, household consumption growth, which includes domestic spending on products, services, travel, entertainment,

healthcare, and other expenses, will play a major role in China's economic growth over the next ten years.

Over the past 20 years, China's total household consumption has increased dramatically, which aligns with the country's economic expansion. However, while consumption's percentage of the economy has continued to fall, investment has increased even faster, and savings rates have stayed incredibly high. This indicates that Chinese households have chosen to preserve more money now instead of increasing their consumption or raising their living level. The investments made with those savings will hopefully pay off for both Chinese and foreign consumers. China's household spending share has been declining recently, in addition to being continuously lower than that of its peers in other fast-emerging and industrialized economies. South Korea is the only other nation in our poll to have a significant decline in consumption. Still, that decline started at an exceptionally high level at the start of the country's development phase due to inadequate investment.

Furthermore, after three decades, South Korea's household spending proportion of GDP was still almost 15 percentage points greater than China's, despite a sharp fall throughout the nation's investment-led boom. However, only after experiencing strong growth for a large portion of its rapid development phase did Brazil also endure a fall. In absolute and per capita terms, China's consumption has thrived despite the country's restrained household consumption expenditure as a percentage of GDP. The average annual growth rate of consumption expenditure per capita was 8% between 1996 and 2022 (Liu, et al., 2021)

Consistent with its rapid economic expansion, China's total consumption as an absolute value has also kept up with economies of similar size. China has increased its consumption by double the EU's total annual growth and by 65% of the US's yearly cumulative growth since 2004. Over the past two decades, China's consumption growth has been significantly faster than that of economies with comparable GDP per capita. The obvious consequence is that China's economic performance still depends more on

exports than on domestic demand, even though the country's investment growth has accelerated over the last 20 years. China's soaring exports and declining domestic demand have recently led to trade tensions and worries over China's overcapacity. China's annual household consumption would rise from \$6.7 trillion to approximately \$9.0 trillion if it allocated the same percentage of its GDP to consumption as the European Union or Japan. This would likely result in a global trade deficit and a significant increase in global demand from China. However, given the reality of China's uneven growth, that hope is still very far off. China's economy contracted throughout the pandemic, and the COVID-19 restrictions in 2022 severely negatively impacted household consumption. Growth rates remained modest even after the limitations were repealed in 2023. In the meantime, as China's housing market crashed, people deliberately paid off their mortgages, cutting debt rather than going on a shopping spree. Since the end of 2021, the amount of credit card debt outstanding has also decreased. The amount of money saved by households has increased significantly in recent years; not only are they saving more, but they are also depositing it in time deposits, showing that they have no intention of spending it right away.

Rising saver inclinations, low consumer confidence, and deleveraging are typically incongruent with rapidly increasing consumption growth. Official GDP figures, however, do not indicate a notable decline in household consumption in 2023. However, there is enough evidence of decreased consumer spending when one steps outside the official household survey data and the GDP data related to expenditures. Although the epidemic reduced China's consumption in the first part of 2020, the Shanghai lockdown in 2022, which included nationwide mobility restrictions, caused the official NBS Consumer Confidence Index to collapse. Consumer confidence has scarcely increased even after limitations were loosened, mostly because of job worries. According to the PBOC's poll of urban depositors, there was a four percentage point decrease in the average inclination to consume in 2023 compared to 2019 levels, but a 15

percentage point increase in the propensity to save and deposit (Zhao, et al., 2024).

Recent headline economic indicators from China have been troubling; the NBS announced official GDP growth figures for 2022 and 2023 of 3.0% and 5.2%, respectively. The main offender is exaggerated investment activity, which masks the real estate market's collapse, but household spending growth rates have also been problematic, especially in 2023. Based on China's expenditure-side GDP series, household consumption growth was probably negative in 2022 and between 5 and 6% in 2023, not the reported nominal rate of 9.5%. This indicates that other growth components were flat or negative in 2023, with household consumption growth accounting for only about two percentage points of GDP growth.

Rather than a restoration to earlier growth rates, there is far more evidence of a structural downshift in China's consumption growth after the epidemic and the collapse of the real estate market in 2022. This aligns with several reports of "consumption downgrades" in China following the implementation of the pandemic lockdown measures, as well as an exceptionally low rise in consumer prices. Since 2022, China's core CPI growth (not including food and energy costs) has been below 1% and has decreased since the deleveraging campaign's late-2018 start to bring down consumer lending.

There is not much evidence to suggest that consumption growth has surpassed household income growth, especially during the last two years. In tandem with the high increase in household deposits, homeowners are continuing to reduce their mortgage debt and deleverage in response to the collapse in the real estate market. If aggressive fiscal reforms (to be discussed below) are not implemented, household consumption would only contribute approximately 2.2 percentage points of annual GDP growth in the future, assuming that it continues to account for approximately 39% of GDP. This assumes that future consumption growth is consistent with the reported 5.7% income growth in 2022 and 2023. However, there are several reasons to believe that over time, the growth of household income

and spending will trend much lower than these rates (Xia, Wu, Wu, & Ma, 2023).

A quarterly survey of developments in per capita income and expenditures, broken down by urban and rural residents, is released by China's statistics agency. Even if these figures are correct, China's population is now decreasing. Thus, future growth rates in overall consumption will be marginally lower than present ones.

### **ISLAMIC CONSUMPTION PATTERNS**

In Islamic economics, consumption is seen as a noble endeavour that will advance human well-being. As a sign of Allah's favour, Allah extends an invitation to humanity to partake in His bounty and sustenance throughout the Qur'ān. But consumption is no longer seen as a simple means of achieving one's desires for pleasure. Rather, pursuing well-being and God's pleasure is the ultimate goal. Thus, morality and a social component with a spiritual orientation are added to the discussion of consumerism within an Islamic economic framework (Ahmed, 2010).

Islam has outlined the structure and guiding principles that must be followed to accomplish that goal in consuming. Within an Islamic economic framework, a consumer is expected to possess the qualities of God's consciousness (taqwá). This means that they should adhere to the rules of consuming what is good (ṭayyib) and permitted (ḥalāl), avoiding what is forbidden (ḥarām) and depraved (rijs), and consuming in a way that strikes a balance between the extremes of overconsumption (tabdhīr) and excessive consumption (isrāf) as well as underconsumption (bukhl). Additionally, consumers should consume for good reasons and obey Allah. In an Islamic economic analysis, those standards serve as the moral framework for examining actual consumption (Karasik, Wehrey, & Strom, 2006).

A framework for classifying consumer behaviour according to value commitment was also developed, drawing from the guidelines and principles found in the Qur'ān and Sunnah about Islamic consumption

norms. This essay will address the moral framework surrounding consumption in Islamic economics by outlining the notion of consumption in terms of the fundamental issue and goals of consumption, as well as a few guiding concepts that would establish a moral framework for consumption in Islamic economics. Based on those principles, the final section will address consumer behaviour within an Islamic economic framework. The anticipated needs of the customer base will determine how the question is answered. Human desires are said to be limitless and to have no end. Production operations will never stop to meet people's countless and diverse needs (Kassim, 2016).

Fulfilling one's desires is the definition of consumption. One of the main goals of an economic capitalist system is to achieve self-satisfaction. Therefore, it should come as no surprise if consumption is seen as the final stage of the economic process. The goal of manufacturing is to fulfil customer requests in its entirety. "Consumption is the end of all production," as Adam Smith puts it. Manufacturers create products to meet consumers' demands for consumption. Satisfaction is the ultimate goal of consumption. A consumer's main objective becomes their satisfaction with every purchase. The advantage obtained by consumption is referred to as utility. This benefit can be either subjectively satisfying or objectively beneficial in the sense of being useful.

According to them, utility is an objective quality inherently present in every object that either results in advantages, joys, or happiness or prevents the opposite. Utility was eventually seen as a subjective issue that may provide enjoyment regardless of the characteristics of the commodity itself. According to this viewpoint, the goal of consumption is to maximize utility, which is defined as a person's satisfaction from achieving their desires. According to one conceptualization, satisfaction is a judgment about a product made after an endless sequence of consumption events or a purchasing act.

The foundation of this philosophy is the idea that resources are limited and human desires are limitless. When one want is met, another would follow,

yet another would surface if that one was met. As a result, the person would battle to satiate an unending chain of needs during his entire existence. The fulfilment of desires becomes the keystone in man's economic struggle. Philosophers of economics view this conflict as the economic issue that constitutes the field of economics. Economics as a subject would investigate ways to satiate limitless desires, helping people make decisions under the constraints of scarce resources and divergent desires to achieve maximum fulfilment.

According to Chapra, the fundamental issue with mainstream economics philosophy is consumption, which is gratifying an endless supply of human desires. This, in turn, has no bearing on the well-being of people. This is due to the perception that consuming serves a materialist, self-serving purpose rather than a moral (spiritual and cultural) one. The pursuit of want fulfilment (in the material sense) is seen as the ultimate objective of happiness in the lack of moral standards or guidance (Sakinah, Kasri, & Nurkholis, 2022).

Therefore, there are no restrictions in conventional economics to pursue any objective that a person believes will increase their sense of pleasure with themselves. Income was the sole significant limitation in this case. However, this restriction was also made weaker by the traditional financial system, in which banks serve as middlemen and actively encourage people in both the public and private sectors to live above their means.

The inherent characteristics of human nature, which dictate that his wants are continually increased, are taken into consideration from the standpoint of Islamic economics. Then, it is accepted that no amount of consumption can satisfy personal desires. Nonetheless, for two reasons, Islamic economics does not view "wants-satisfaction" as the fundamental economic issue. Because goals related to want-satisfaction are uncertain, such efforts are eternal and pointless. Being overly fixated on an unsatisfactory objective can lead an individual to pursue a subjective agenda and eventually develop a chronic psychological issue rather than

achieving true happiness. Such an action would also have detrimental impacts on society on a larger scale (Allen & Prabowo, 2023).

Islamic economics highlights that a fundamental issue with consumption must be something significant. This is only feasible if we pursue moral, social, and spiritual goals to guide our consuming orientation toward "higher objectives." In an Islamic economic system, consumption is more complicated than maximizing utility or satisfying personal desires. There's more to it than that. From an Islamic standpoint, consumption has a social, ethical, and spiritual component rather than being solely driven by self-gratification. In Islamic economics, this spiritual, ethical, and social agenda becomes a fundamental issue with consuming, elevating it to a worthwhile endeavour. Thus, consumption will be examined in Islamic economics by considering those factors and thoroughly examining them in the study of consumer behaviour (Kassim, 2016).

Within a spiritual framework, consumption is directed by the spiritual goals of achieving God's consciousness (taqwá) through adherence to the precepts of ḥalāl and ḥarām, as well as feelings of gratitude, patience, contentment, and other virtues that uphold the dignity and personal development of the individual.

Consumption is a morally and socially responsible business. An Islamic consumer with a social and ethical perspective would ensure that the ethical principles are fully adhered to while also ensuring that higher-order social preferences are expanded and enhanced in the activities consumed. This concept divides human needs into two categories, which are ḥarām (prohibited wants) and ḥalāl (allowable/legitimate wants). These depend on how closely they align with Islamic ideals and how they may affect the welfare of individuals or society.

In addition, it is morally right or wrong according to how an action affects oneself, society, and the environment; it is also spiritually glorified or denigrated depending on the connection to possessing God's consciousness while gratifying desires. Therefore, how those dimensions



could be accomplished in consumption activity would be the fundamental issue with consumption in Islamic economics. It is thought that achieving their fulfilment would result in both the person and society as a whole achieving well-being. Furthermore, it is seen as one of the fundamental issues with consumption in Islamic economics, according to which consumption has to be focused on attaining God's pleasure rather than any other goal (Monawer, et al., 2022).

Put differently, the act of consuming has several aspects. Consumption is the individual act of meeting needs to achieve self-benefit. Consumption is also a social action in which needs are met by enhancing social preferences, eschewing social costs, and being prepared to collaborate and share for the good of society. Consumption is also a spiritual act in which a person aspires to obtain God's pleasure while maintaining God's consciousness (taqwá) by abiding by the rules established in the Qur'ān and Sunnah, feeling grateful and pleased. From that vantage point, it is evident that the purpose of consumption within an Islamic framework would not be to satisfy one's desires or feel good about oneself in and of itself because doing so would be pointless and eternal. Fulfilling desires is a fleeting and subjective feeling. Beyond that, an Islamic consumer ought to look. An Islamic consumer would focus their consumption on accomplishing both the greater goal of receiving God's pleasure and the maşlahah, or well-being of the individual and the community. Benefits to be obtained for human welfare are referred to as well-being (maşlahah). Its dimensions are pretty broad, encompassing both the societal and individual dimensions, the specific and general dimensions (maşlahah khaşşah and maşlahah 'āmmah), and the dimensions of this world and the hereafter. The ultimate goal of human behaviour is Allah's pleasure. As His vicegerent on earth, humans must report to God for the way they administer the planet, use its resources, and consume the food He has provided for them. Everything ought to be done with the awareness of God (taqwá).

Taqwá gives an Islamic man more weight when it comes to consuming since it indicates that such behaviour will be rewarded by Allah and

deserving of His pleasure. Simultaneously, the Qur'ān extols individuals who, rather than seeking short-term satisfaction by pursuing their interests, have turned their gaze toward Allah (long-term viewpoint). Within the context of Islam, consumption is always a morally righteous endeavour with a focus on society and spirituality. In this sense, consumption is pursued following Shari'ah laws, regulations, and values, including what is permitted or forbidden, moral obligations of right and wrong, moderation, avoiding excess or miserliness, and social concerns of sharing, taking care of others, and protecting the environment (Ahmed, 2010).

From an Islamic perspective, the consumer's goal should also be social consumption, such as charitable giving or social contributions to the community. From this angle, the purpose of microconsumption will closely align with macroeconomic objectives. This is because the optimal achievement of key social goals, such as full employment, price stability, economic growth, and socio-economic development objectives (income distribution, poverty alleviation, environmental protection, spiritual attainment, etc.) will be considered when determining consumption. In Islam, "balanced consumption" is encouraged. In actuality, this consumption balance is a mini-equilibrium at the microcosmos, reflecting a larger balance of the macrocosmos of the creation of the world and universe. Allah created the planet and the universe in a state of balance, which is made up of countless equilibria (Ullah & Aslan, 2024).

Permission to enjoy and use resources for our clothing, food, and other needs should be exercised in a balanced way without going beyond what is reasonable to avoid upsetting the balance. It is expected of humans to appropriately control their consumption in a fair, balanced, and reasonable manner. It is not permitted to overconsume in the form of wasteful, extravagant, or extravagant spending. Similarly, excessively frugal and miserly consumption that results in underconsumption is not recommended. Islam sets the upper boundaries (wasteful and extravagant spending) and lower limits (miserliness) of individual consumption, thereby

promoting a golden mean between austere denial and ostentatious consumption. The consumption categories listed below are those that are thought to be out of balance (Allen & Prabowo, 2023).

Islam forbids *tabdhīr* or wasteful consumption. The word "*tabdhīr*" refers to consuming something improperly or for the wrong reason. This action has two meanings, which is differentiated into inappropriate consumption, which is when someone consumes something that is not in its proper place and becomes wasteful, such as when a student spends his limited income on unnecessary leisure activities like movies or concerts rather than using it to further his education (such as paying for tuition, purchasing books and equipment, or travelling to meet teachers). Unnecessary consumption is when someone consumes something that is not needed or is unnecessary merely to satisfy whims or desires. Illegal consumption is when someone consumes alcohol, gambling, wine, ostentatious display, etc.

*Tabdhīr* is associated with sin in addition to being a pointless food. It is also a form of wasteful consumption because money can yield rewards if used wisely (for the good of society). However, when misused, it loses all significance and only serves to sin further. Because of this, the phrase "brethren of Satan" follows the word "*tabdhīr*" in the Qur'ān, implying that Satan and his agents are whispering this.

The word "*isrāf*" refers to overindulgence or consumption above and beyond what is necessary. In the Qur'ān, it is forbidden. If *tabdhīr* refers to unnecessary and wasteful consumption, then *isrāf* denotes excessive consumption exceeding the required quantity. Put another way, it is deliberate overconsumption when less money may be spent or used for the intended purpose. According to al-Qushairy, it means "to go above the moderate level" or "to go beyond the limit." Put another way, *isrāf* refers to consuming more than is required or after the limit of moderation or balance. Excessive and wasteful consumption can result in unequal distribution and inefficient resource use since resources are being squandered rather than directed toward those in need.

Stinginess, or *bukhl*, is the opposite of *tabdhīr*. The refusal to use wealth for necessities is referred to as *bukhl*. The term "*bukhl*" has three definitions. The first is unhappy consumption, which is depriving oneself of necessities for oneself or one's family, which makes one's life unhappy. Consumption is selfish because it has a restricted goal for the consumer's self-gratification, absence of a larger purpose or public benefit, and reluctance to share with others. Ungrateful consumption is defined as consuming carried out against Allah's will, without spiritual awareness, or gratitude towards His mercies. Making consumption a priority is also promoted in Islam. Consumption should aim to acquire advantages and avoid evils, which can only be accomplished by a consumer who complies with and adheres to Sharī'ah's rules in full. Consumption should be emphasized to help us reach that goal. Similar to this, consumption that would maintain equilibrium and a reasonable stance ought to take precedence over spending that would encourage violation. Under this context, the Qur'ān has identified several kinds of consumption that, under an Islamic economic system, consumers should prioritize. Family and individual needs come before social consumption. Then there is the consumption for the greater good and for the correct reasons instead of improper consumption (Monawer, et al., 2022).

This would include any kind of consumption for one's personal needs, those of their family, and consumption for the community through charitable giving or other social, philanthropic endeavours supporting public goods, infrastructure, health, education, and other worthy causes. Consumption according to the hierarchy of necessities, as described in the notion of *maqāṣid al-Sharī'ah* (the purposes of Sharī'ah), is divided into three categories: complementaries (*ḥājīyyāt*), embellishments (*taḥsīniyyāt*), and essentials (*ḍarūriyyāt*). It is preferred to consume in the *ḍarūriyyāt* as opposed to the *ḥājīyyāt*, and the *ḥājīyyāt* as opposed to the *taḥsīniyyāt*.

The term *al-'afw* in the Qur'ān refers to money above and beyond what one requires for oneself and one's family, after fulfilling one's required

spending (such as zakāh and other obligations). Only when a person has met their family's requirements do they need to contribute to society?

Consumption of *Ḍarūriyyāt* is necessary to sustain survival and the integrity of individuals for their religious and worldly pursuits. Without the consumption of *ḍarūriyyāt*, there would be chaos and a collapse of the regular order in people's lives and society. Complementary consumption, such as *Ḥājiyyāt*, would help people live better lives by easing the severity and hardship of their lives. A life without *ḥājiyyāt* consumption would be inconvenient or difficult. *Tasīniyyāt* consumption is the consumption of embellishments that are meant to elevate life's quality to an even higher level. With those guiding principles in mind, consumer behaviour in an Islamic context ought to differ from that in a traditional context. A consumer is thought to act "rationally" in the conventional sense. The attribute of economic behaviour founded on the application of reason is called rationality. It is anticipated that a rational consumer will be thoughtful, not just impulsive, with the capacity to absorb and assimilate information pertinent to the decision between options. Additionally, rationality is considered a tool for considering, deliberating over, and selecting the best course of action to accomplish goals.

Decisions and choices are made within the frameworks of self-interest (in the quest for self-satisfaction) and scarcity (as conditioned by limited resources and limitless demands). A logical person would choose based on his interests and maximize his utility. The person maximizes their utility by selecting products and services that will allow them to get the most out of their available funds.

The tenets above demonstrate how consumer behaviour is construed differently under an Islamic economic framework, where rationality is examined concerning spiritual, moral, and social factors. Islam has outlined tenets of conduct, values and disvalues, and what is acceptable and unacceptable in terms of consumption from an ethical, spiritual, and societal standpoint. This would cover the topics of what should be

consumed, how to consume it, and the consumption goal (Monawer, et al., 2022).

However, such ideals, like values and objectives, can still be attained and accomplished. In actuality, their actualization would guarantee the achievement of well-being in human life since they are adaptable, highly humane, and realistic. Islamic economics is, therefore, also realistic in that it promotes consumer ideals that are appropriate for human interests because they are derived from human nature. It takes into account the character and inclinations of all people. In contrast to traditional economics, which views individuals as acting in their best interests and reducing their desires to material (biological and physical) needs, Islamic economics acknowledges human nature's complexity and biases underlying consumer behaviour. The person's "positive and negative tendencies" as a customer suggest that their actions would be driven by self-interest or other interests for their fulfillment or other advantages. Positive behaviour is defined as acting in a way that is consistent with Islamic values and principles. In contrast, negative behaviour involves acting in a way that is inconsistent with these ideals (Sakinah, Kasri, & Nurkholis, 2022).

A God-conscious consumer would make sure that his consumption falls between excess and austerity, and he would prioritize his and his family's needs over everyone else's. In addition to adhering to the hierarchy of demands of necessities (ḍarūriyyāt), complementaries (ḥājiyyāt), and adornments (taḥsīniyyāt), his consumption would be motivated by the right motives and in Allah's way. Islam forbids consumers from exceeding the limits of permissible consumption (isrāf), which is defined as consuming more than is necessary, or from engaging in wasteful consumption (tabdhīr), which is defined as consuming items that are not required, unnecessary, or that are forbidden by Sharīfah. Going below the lower limit is also not a good option. It is miserly consumption when one does not consume what one needs for oneself or one's family, does not share one's consumption with others, or refrains from spending money for

the proper reasons, in Allah's way, or for the sake of others. This classification of consumer behaviour makes it abundantly evident that it is not acceptable to suppose that everyone would act in a way that is solely motivated by their interests or that everyone would act in an entirely ethical and socially conscious way. The principles that a person chooses to uphold and incorporate into their conduct determine the differences in consumer behaviour. Undoubtedly, the examination of consumer behaviour will not be the same.

The Islamic economic study of consumer behaviour will examine both positive and negative consumer behaviour based on value categories that are evident in real life. Since the objective is to illuminate existing realities with "what they should be" within an Islamic framework rather than to explain facts as they are, the examination of actual behaviour will always be combined with normative values instruction. It is essential to acknowledge that although the abovementioned classification of consumer behaviour is based on Qur'ānic rules, it is essentially ijtihādī in character. This makes it feasible for interpretations and classifications to differ. When examining consumer behaviour from an Islamic perspective, the principles found in the Qur'ān and Sunnah will serve as a guide and benchmark. If followed, these values may result in improved economic practices. In doing so, economic activity would be seen as possessing "moral qualities" that will guide its course (Al Fathan & Arundina, 2019).

## **CHINESE DOMESTIC CONSUMPTION ISSUES**

The first and most important issue that comes to mind when China's household consumption growth slows is why Beijing has reacted so cautiously to this slowdown in consumer spending. China did not provide widespread cash transfers to households or tax breaks to increase spending during the pandemic, in contrast to the majority of Western economies. This inaction can be attributed to two main factors: the lopsided and unbalanced tax structure that China's investment-led growth model has created and the political reluctance of the Party leadership to support growth at the consumer level. Beijing finds it challenging to

influence consumer behaviour through taxation as the current tax structure favours producers over consumers. As a result, tax rate reductions or adjustments have little effect on consumption. Only fifteen categories of products, mostly those related to alcohol, tobacco, cars, oil, and luxury goods, are subject to consumption taxes in China. Beijing is pushing local governments to increase retail sales through trade-in programs because it makes it simpler to recoup subsidies through consumption taxes. This has been especially common in the automotive industry.

Furthermore, it still needs to be determined if the tax system can significantly increase consumption. It was projected that the 2021–2023 income tax relief scheme would result in annual tax savings of 110 billion yuan. However, just 14% of people make more than 5,000 yuan per month and pay income tax at all, according to former finance minister Lou Jiwei. Most Chinese citizens see little immediate gain from these changes, especially those who are most likely to spend money rather than save it. The most vulnerable workers are also typically not covered by unemployment insurance. To prove that their unemployment was not voluntary, workers must present proof from their previous employers and pay premiums for a year as part of the insurance scheme. Nevertheless, it is challenging for 200 million "flexible" workers, who are part-timers, independent contractors, proprietors of small businesses, and 297 million migrant workers, to fulfil these standards and be eligible for benefits (Du & Wang, 2011).

Tens of billions of yuan in online coupons were issued annually between 2020 and 2023 as the central government initiative to increase home consumption; this amounts to less than 1% of retail sales annually. Only 25% and 35% of the families in the lowest and second-lowest income quintiles, respectively, have access to online payment systems, according to data from the 2019 China Household Finance Survey. The regional imbalance of fiscal resources further restricts the benefits that low-income



people in less developed provinces can receive (Xuan, Ge, Yang, & Zhang, 2024).

Beijing appears to be afraid of welfare reliance, which goes beyond budgetary restraints and is reflected in its disdain for spending and a more robust social welfare and transfer system. Although this viewpoint is mainly linked to Xi Jinping, it is widely applicable to all levels of the Chinese government, both central and local. In Xi Jinping's own words, "We cannot practice 'welfarism' to promote common prosperity." High welfare rates in several populist Latin American nations in the past gave rise to a class of "lazy people" who received benefits without working. Consequently, these nations' national finances were overextended, and they spent considerable time in the "middle-income trap." Welfare benefits are fixed once they increase. Overextending ourselves in the name of "welfarism" is not sustainable. It will unavoidably result in significant political and economic issues. Because of this, even the government's massive efforts to reduce poverty over the past ten years have concentrated on supporting local businesses and investing in infrastructure rather than giving impoverished households direct financial transfers and social insurance coverage. Beijing has also supported pension payments to senior citizens more than benefits to working-age households over the past ten years, presumably on the theory that one should work hard to have a good retirement. Beijing may become even more hostile to the notion that people are "lying flat" due to concerns about "welfarism" now that the government is emphasizing high-tech manufacturing more than investment. This ideological restriction might restrict Beijing's future ability to help China's consumers. Beijing's policymakers are mainly concerned with figuring out what is causing China's poor growth in consumption; different problems call for different solutions. Four main groups typically comprise the explanations: low household income, income inequality, precautionary savings, and excessive household debt. If the primary impediment to spending is low household income levels, policymakers should increase disposable incomes. The government should instead improve social safety nets to lessen the need for prudent reserves if they are the main impediment.

Interest rates should be lowered, and debt should be refinanced or restructured if household debt is the main issue. The overwhelming body of research points to unequal income distribution and a low percentage of family income as the primary factors limiting household consumption. Though not significantly, China's household income as a percentage of GDP is lower than that of most consumption-led nations. The combination of lower household incomes and the unequal distribution of those incomes makes China considerably distinct; survey data suggests that the top 10% of families may still control 60–65% of the country's total savings. Due to this, a sizable fraction of Chinese households are susceptible to reductions in consumption during slower economic development periods like the current one (Ahmed, 2010).

Key restraints include precautionary savings and household debt levels, both of which are not precisely specific to China. However, household debt levels are currently stabilizing or even declining, which is also reducing consumption. A simple explanation for the slow development in household consumption is that households cannot spend money they do not own. Growth in household income has been slow and is still low relative to China's GDP. Suppressing interest rates and salaries to boost investment and labour-intensive industrial competitiveness has come at the expense of income for workers and household savings. This is the result of years of high investment and growth focused on exports. In the end, household income falls short of the average for industrialized countries, amounting to only 61% of GDP even after accounting for social transfers.

Social transfers ultimately amount to little more than government spending and do not affect the minimal share of household and government consumption in relation to the size of China's economy. On the other hand, they significantly impact precautionary saving and income inequality, two other possible explanations for poor consumption growth. The uneven distribution of household income in China provides another explanation for the lacklustre growth of consumption. Poorer households

frequently have to spend their entire income on living expenditures, whereas wealthier households spend less on these costs. Because lower-income families cannot spend at average income levels while higher-income households' consumption stays low, average household income levels are, therefore, less significant than the income distribution.

This theory is supported by survey data from the China Household Finance Survey conducted by Gan Li's team. The survey's findings indicate that lower-income households cannot save much because the wealthiest people primarily hold savings. As a result, even if China could strengthen the social safety net to boost spending by rural inhabitants, it would only have a minor effect on aggregate spending or the savings rate overall. Instead, it would improve social welfare. According to Gan's 2012 survey data, 69% of all savings and 57% of all income were owned by households in the top 10% of household earnings. As evidenced by official NBS statistics on income distribution, which show no discernible changes in that distribution among income quintiles during the previous ten years, the situation has mostly stayed the same since 2012. A third of Chinese households had negative savings rates, which means they spent more than they made and had to rely on borrowing or savings from the past, according to data from the China Household Finance Survey conducted in 2019. Gan's conclusions are typically supported by data from China Merchants Bank, one of the biggest domestic banks in China, which emphasizes wealth management. Approximately 2.3% of their retail banking customer base accounts contain 81% of all private banking assets, indicating a very unequal distribution.

The disparity in the availability of essential services, especially in the case of medical care, is another problem. Rural households' disposable earnings are ultimately lower than official levels due to the increased out-of-pocket costs associated with medical services. According to research by Scott Rozelle on variations in wage growth over time in rural China, income disparity will likely continue to be a significant barrier to expanding consumption. According to surveys conducted by Rozelle and his

coauthors, wage dynamics in China are influenced by divided labour markets, where surpluses of relatively unskilled labour cause relative wage growth in the services sectors to decline while shortages of highly skilled labour result in more robust wage growth. This suggests that increasing the household income share of the national income alone might not be sufficient to increase consumption sustainably. Rather, the increase in revenue must be allocated according to how it will be used. Since the poorest households have the largest marginal propensities to consume, giving an affluent household 100 yuan will have little impact on their overall expenditure while giving a poor home 100 yuan will result in them spending it. This theory implies that to promote faster consumption growth, income redistribution would be required, most likely through taxes and fiscal transfers (Ullah & Aslan, 2024).

Although they are not precisely specific to China, precautionary savings and family debt levels are undoubtedly significant barriers that also restrict consumption. In addition, household debt levels are currently stabilizing or even declining. The fact that households cannot spend money they do not have is one of the easiest explanations for the slow development in household consumption. As a percentage of China's economy, household income growth has been slow and continues to be weak. Years of export-driven solid growth and investment have resulted in this. Wages and interest rates have been suppressed to boost labour-intensive manufacturing competitiveness and investment but at the price of workers' and household savers' income. Ultimately, household income, even with social transfers included, comes to a mere 61% of GDP, less than the developed nations' norm. Social transfers ultimately amount to little more than government spending and do not affect the minimal share of total family and government consumption concerning the size of China's economy. On the other hand, they significantly impact precautionary saving and income inequality, two other possible explanations for poor consumption growth. The uneven distribution of household income in China provides another explanation for the lacklustre growth of consumption. Poorer households frequently have to spend their entire

income on living expenditures, whereas wealthier households spend less on these costs. Because lower-income families are unable to spend at average income levels while higher-income households' consumption stays low, average household income levels are, therefore, less significant than the distribution of income (Monawer, et al., 2022).

Increasing the household income share of the national income alone might not be sufficient to increase consumption sustainably. China's household debt levels have increased significantly over the last ten years, coinciding with the boom in real estate and mortgage financing. As a result, there needs to be more money left over for consumption in many homes as they struggle to pay off debt. Between 2012 and 2022, household debt increased by around 32% of GDP, stabilizing at about 64%. According to household survey data, household debt in China is estimated to be approximately 145% of household income. However, the flow of funds data indicates a slightly lower amount. One of the reasons for the recent two years' stronger household savings and slower consumption growth has been that households began paying off their home debt in 2022. Lastly, there's the more mainstream perspective that reduced household spending is primarily the result of precautionary savings. Chinese households have responded to the underfunding of social services and healthcare by increasing their income for emergencies and retirement. Households would feel safer and be more inclined to spend more freely if the government made more investments in social services.

Chinese households are particularly vulnerable to excessive health expenditures due to their comparatively higher rates of catastrophic medical costs. According to academic studies, wealthy households also had high rates of devastating spending, indicating that lower-income households may not be the only ones that should save preventative money. Even at lower income levels, the empirical character of China's savings behaviour has been the subject of multiple studies by the IMF. While precautionary savings also played a role, demographic shifts account

for a significant portion of the increase in China's household savings in 2018. The one-child policy has also contributed to larger retirement savings since pensioners have had to save because they anticipated their children would not support them (Kassim, 2016).

In contrast to Gan Li's results of low savings rates among lower-income households, the authors pointed out that there was still a sizable difference between Chinese savings rates at lower income levels and those in the rest of the world. Greater government expenditure on China's social safety net is necessary to alter this behaviour if cautious savings are the main cause of the country's declining consumption. The amount of consumer spending that these reforms would free up will determine how successful these policies are, though, as there is strong evidence that savings are not dispersed relatively and that the low household income level is a more urgent restriction.

Fiscal transfers and government spending are the only factors anticipated to have a major impact on future consumption growth if the low share of household income and its distribution are the main restrictions on household consumption. The current status of household consumption-related tax and fiscal policy is covered in this part, along with the necessity for considerable adjustments to China's fiscal framework. China's generally regressive fiscal policies can currently be used to increase disposable incomes. In addition, since tax revenues become less of an economic share and are mostly dependent on investment-led growth, China's overall fiscal capacity is likewise diminishing over time. This makes it even more urgent to restructure China's fiscal system to begin rebalancing the economy. Compared to most other nations, China's fiscal expenditures for essential services and social payments to households are lower and less progressive. China lags well behind growing nations like Brazil and Russia in redistributive policies, as well as the OECD average. Its social structure is largely biased in favour of urban hukou holders, which leaves out around half of the population.

Furthermore, it has far lower total fiscal expenditures as a percentage of GDP and social transfers (both in cash and in-kind) than the OECD average. China lags considerably behind the OECD averages in terms of GDP share due to its low government expenditures on essential services like health and education. This implies that households bear a greater portion of the expense of healthcare and education. In 2021, out-of-pocket medical costs for Chinese households constituted 35% of overall health spending, as opposed to only 13% for OECD households. China's households spend 7.9% of their yearly income and 17.1% of their total annual income on education, far more than the 1-2% spent by households in the US, Japan, and Mexico. China's higher-income households devote only 10.6% of their income to their children's education, whereas poor households devote 56.8% to the same purpose. However, China's low (and falling) tax collections make it harder to raise overall fiscal spending. China's economic recession over the last ten years has put pressure on the country's public finances, which has decreased the increase in tax collection. The significant tax cuts the federal government has implemented annually since 2017 have made the issue worse. Despite their stated goal of boosting the economy, these measures further reduced the increase of fiscal income. In 2023, the tax revenue to GDP ratio decreased from 18.5% in 2014 to 14.4%. Since the sale of state-owned land use rights had become a significant source of off-budget revenue for local governments, the real estate downturn and the decline in land sales over the previous three years had exacerbated this budgetary crisis (Sakinah, Kasri, & Nurkholis, 2022).

Additionally, disadvantaged households in China bear a disproportionate tax burden. China's total effective labour and capital taxes are probably regressive throughout the income distribution, according to IMF analysis. This puts pressure on China's impoverished households' disposable income, which slows the country's consumption growth rate. Several reforms could raise the tax revenues available for social spending and fiscal transfers while also making China's tax system more progressive. 2018 saw changes to tax brackets and a rise in the monthly basic deduction, which reduced the progressive nature of the personal income tax. For instance, a

more progressive system might cap specific deductions, change the rates, and include non-wage income (such as capital and business revenue) in the tax base. Beijing levies substantial taxes on labour earnings, while China has a low capital income tax relative to other countries. This leads to wealth disparity, which limits the poor's ability to consume.

Although China has been experimenting with property taxes for a long time, no national property tax system is currently in place. Additionally, gifts and inheritances are tax-free. This reinforces inequality and limits the amount of money available for fiscal transfers to the poor by enabling wealthy Chinese households to keep and transfer their wealth. By OECD standards, the personal income tax's share of total tax receipts is now quite tiny. Value-added tax receipts, however, are substantially greater than the OECD average (38% in 2023 versus 21% in OECD nations) in the meantime. Because poorer households are disproportionately impacted and spend more of their income on consumption, China's tax system is regressive (Ullah & Aslan, 2024).

Political opposition and vested solid interests will, nevertheless, impede tax reform. The property tax has encountered substantial opposition, which is anticipated to grow as the real estate market declines. The tax has already been introduced locally and has been brought up numerous times by the central government. More generally, the newly taxed segment of the population or economy will continue to be against tax increases of any kind. Increasing fiscal transfers and public spending is also difficult since it contradicts local government representatives' financial and political motivations. Despite their major policy role, local governments need more monetary resources due to how financing is distributed between the federal and local governments. Following a significant fiscal reform in 1994, the central government received half of China's fiscal revenues (48.4% in 2020) and left the other half with local governments. Following that, Beijing returns some of its earnings to local governments, leaving them reliant on outside funding. In 2020, centrally given money accounted for 27.8% of



municipal fiscal expenditures. However, local governments face structural budget deficits even after considering central transfers. Local governments are forced to give infrastructure and manufacturing support top priority as a result of this deliberate financial famine. Through the sale of land, these industries bring in money for the community while also providing opportunities for corruption and graft, which increases revenue for local coffers. As a result, local authorities are less inclined to invest money in social programs and essential services, which they primarily view as a financial burden. Significant variations in a province's fiscal capacity are also caused by the distribution of funds between the federal government and local governments. Part of the reason for China's ongoing regional income disparity is the mounting economic strain on the country's weakest provinces. Lower GDP per capita provinces have less money to work with, less tax, and greater levels of local government debt. Consequently, fiscal expenditures to support household consumption in these impoverished provinces are limited in amount (Xia, Wu, Wu, & Ma, 2023).

The central-local budgetary relationship would need to be completely redesigned to modify the incentive structure. Beijing would have to shoulder more of the cost of social spending and essential services. However, there needs to be more indication that it is prepared to make substantial changes to the system and raise central expenditure. In addition to inequality, debt, and low earnings, China's economy is projected to see longer-term structural changes that will affect patterns in household spending. Although a growing number of people retiring typically indicates a decline in savings rates over time, other variables keep savings rates from falling.

Along with the potential to lessen the influence of falling home wealth on spending patterns, a progressive movement away from the consumption of commodities and toward services may also decrease the growth rate of aggregate consumption. China is about to witness a significant shift in the number of elderly people who will depend on their current assets or pensions when they retire. Although a decrease in household savings was

anticipated, this change has yet to happen. China's historically shorter life expectancies and the country's reliance on state-owned businesses as a significant source of employment have resulted in a deficient retirement age compared to other countries. In 2022, China's average life expectancy was 79 years, a little less than the OECD average of 80.3 years. According to United Nations population estimates, 297 million Chinese nationals were of average retirement age or older in 2013, with an effective average retirement age of approximately 54. That figure exploded to almost 417 million by 2023, or about 30 per cent of the total population. It is safe to estimate that there will be 500–520 million people aged 54 or older by 2030.

Most notably, rather than declining, China's overall savings rates have been constant or even increasing as more people reach retirement age. Data on the flow of funds clearly show that average household savings rates increased between 2013, the year that China's working-age population most certainly peaked, and 2021. Considering the decline in consumer confidence, the slowdown in the economy, and the collapse of the real estate market, household savings have probably increased since 2021.

Time deposits have seen the most significant growth in household savings, which is probably a sign that the wealthy are taking advantage of increasing interest rates. However, demographics have not aggressively lowered savings rates just yet. Of course, that may change, and anticipated retirement savings, which would imply reduced future savings and investment rates and more consumption, undoubtedly helped China's household savings grow. But for the economy as a whole, given that the working-age population has already been declining for more than a decade and that the number of retirees has probably increased by about 40% since then, there may not be a clear tipping point at which these demographic effects become evident relative to the other forces weakening consumption growth at the moment. A significant enduring uncertainty about household consumption is the reduction in property prices. The majority of estimates from household surveys place housing between 60

and 80 per cent of households' assets, suggesting that property was and presumably still is the largest source of net worth for Chinese households. There has probably been a decline in property values since the housing market correction began in 2021. Since 2022, consumer sentiment has been shallow, probably due partly to declining real estate prices and the general economic downturn. However, given that China has never experienced a prolonged decline in the property market since the industry's first opening in the late 1990s, it will be challenging to calculate any realistic assessment of the detrimental wealth effect on consumption caused by declining property prices. The precise amount of home prices that have dropped is one of the major unknowns surrounding China's housing market adjustment to date. Because only a few cities release housing transaction data, and because countrywide price indices from the NBS often only show slight changes in national home prices (a fall of 13% from peak levels), the data regarding housing prices needs to be completed. Not only did local governments try to impose administrative price controls on housing when prices were falling, but they also did so when prices were rising by refusing to record transactions outside of specific price ranges. Therefore, house prices in secondary markets can be more accurate indicators; nevertheless, only a limited number of cities have liquid secondary markets that also provide housing sales prices (Liu, et al., 2021).

A further peculiarity of China's housing market adjustment has been how much pre-construction sales propelled both the upsurge and the downturn in speculative activity. More speculators and investors naturally got involved in purchases as the market grew more dependent on pre-construction sales; after all, most owner-occupiers were unlikely to begin making mortgage payments on a home that would not be completed for two or three years unless they had a strong belief that prices would rise. Since wealthier households were more likely to absorb a larger portion of their income than to be among those suffering the largest losses, the concentration of investors and speculators in the market likely mitigates any detrimental wealth effect from the property sector's decline. Long-

term household consumption growth is most likely to slow down gradually over time, below the present urban per capita consumption growth rate of 6.0% and in line with China's potential economic development slowing down. However, notable adjustments to China's economic course or policy may indicate a reversal of that general trend. Apart from fiscal changes, structural non-fiscal policies can increase disposable income, reduce inequality, and fundamentally alter household spending trends in the future. The three primary areas where China's existing system is discriminatory and unfair are hukou, social security, and land. These are the three fundamental reforms that might be implemented. However, there are substantial obstacles to reform in these sectors, and there are specific reasons why reform has been sluggish thus far. For a sizable portion of the Chinese populace, the hukou system, China's household registration system, is the largest barrier to consumption. This approach determines a citizen's eligibility for several social services and benefits by classifying them as either urban or rural residents. Due to this system, there are considerable gaps in the lives of urban and rural residents. Immigrants from rural areas frequently need more access to housing, healthcare, and education in cities. Immigrants could obtain services they had previously been refused if hukou limitations were lifted or system controls were loosened, freeing up extra money for consumer spending. Aware of the problem, the Chinese government has progressively relaxed the system in the last ten years, especially for skilled workers and residents of smaller cities. The government published a proposal in 2022 to do away with hukou requirements for any city with fewer than three million residents. However, there are still limitations in China's tier-one megacities, home to a sizable migrant labour population. Hukou status is increasingly more widely offered by cities, frequently in exchange for purchasing new dwellings. However, recent immigrants to those places benefit more from these hukou status adjustments that allow for increased consumption than do households prepared to buy apartments. Hukou reform will likely continue, but slowly (Karasik, Wehrey, & Strom, 2006).

The enormous public costs required to integrate China's rural migrants into urban basic services are prohibitive and will impede any severe reform efforts. Significant local budget reform is likely necessary to achieve hukou reform that is significant enough to increase household consumption. China may also witness a slow but steady development in its pension and health insurance systems. Currently, both systems are split between an employer-funded program for those with formal jobs and a basic state-funded program for "urban and rural residents" for everyone else. Under both schemes, the compensation and funding of the basic scheme are far from adequate, and corporations often need to fulfil their mandatory participation. For instance, in 2020, the urban employee pension plan paid around RMB 3,350 per month, but the urban and rural residents scheme paid only RMB 174 per person per month.

To increase consumption, it would be beneficial to enforce company compliance, permit rural inhabitants to receive their benefits, and significantly increase the benefits of the programs for both urban and rural populations. However, we also anticipate modest advancements rather than significant shifts in the upcoming years. Local governments are hesitant to place an additional financial burden on businesses already having difficulty due to the present economic downturn since they lack the financial means to increase benefits significantly. In China, land is currently owned by the state in urban areas and by villages collectively in rural areas. This restriction reduces the potential economic benefits of land use and the prospects for urbanization and industrialization to benefit rural residents. Restructuring land laws to permit more adaptable land rights and simpler land ownership transfers could enable rural communities to release significant wealth enshrined in their property. Farmers would be able to lease or sell their land at market value as a result, giving them more spare money and closing the economic gap between urban and rural areas. However, land reform has challenges and dangers (Sakinah, Kasri, & Nurkholis, 2022).

Localities at the village and township levels have historically been opposed to modifying the rural land ownership system; they would require another income source or asset in exchange. Moreover, a land market that would open up new revenue streams for farmers would rely on China's much more productive agricultural sector and an overall increase in land values, even in the face of the recent slump in the real estate market. However, land reform is the only practical option outside of large-scale transfer payments to raise rural income and consumption levels.

## **CONCLUSION**

From an Islamic perspective, consumer behaviour is closely linked to spiritual, moral, and social responsibilities. The consumption goal should include not just individual satisfaction but also social contributions, such as charitable giving and supporting community welfare. This aligns with broader macroeconomic objectives like poverty alleviation, environmental protection, and equitable resource distribution. Islam promotes balanced consumption as a reflection of the balance created by Allah in the universe. It discourages both overconsumption (*isrāf*) and underconsumption (*bukhl* or stinginess). Wasteful spending (*tabdhīr*) and extravagant consumption are forbidden, while miserly behaviour, where one denies themselves or others necessary resources, is also discouraged. Consumption is viewed within the framework of *Sharī'ah*, which prioritizes needs (*ḍarūriyyāt*), comforts (*hājiyyāt*), and luxuries (*taḥsīniyyāt*) in order of priority. Personal and family needs are given precedence, followed by social consumption for public welfare. A Muslim is expected to maintain a balance, consume in moderation, and ensure that their spending benefits society and is aligned with Islamic values. The *Qur'ān* sets limits on what is considered wasteful or excessive. Islamic teachings emphasize that consumption should be rational, thoughtful, and ethical, with an eye toward both spiritual well-being and societal harmony.

In this framework, rationality includes moral considerations, distinguishing Islamic consumer behaviour from traditional economics, which is often more focused on self-interest and material needs. Ultimately, consumer

behaviour in Islam should balance personal needs with social obligations, following the principles in the Qur'ān and Sunnah to ensure both individual well-being and societal good. China's housing market has experienced significant shifts driven by pre-construction sales, which fueled both the rise and the downturn in speculative activity. More than regular buyers, speculators and investors became involved due to the delayed completion of properties, which required confidence in future price increases. Wealthier households, often the primary speculators, were better able to absorb financial losses, reducing the broader wealth effect from the property sector's decline. As a result, long-term household consumption growth is expected to slow down gradually, though policy shifts could alter this trend.

Three key systemic factors influence China's consumption trends. These are the hukou (household registration system), social security, and land policies. The hukou system creates disparities between urban and rural residents by restricting migrants' access to housing, education, and healthcare in cities, limiting their spending ability. While reforms have been made, such as loosening restrictions in smaller cities, progress in tier-one cities could be faster. Meaningful hukou reform, which could unlock more lavish consumer spending, faces challenges due to the high costs of integrating rural migrants into urban services. China's pension and health insurance systems are divided into employer-funded schemes for formal workers and state-funded basic programs for the rest of the population.

These basic schemes offer inadequate benefits, particularly for rural residents. Increasing benefits and enforcing corporate compliance could boost consumption, but significant changes are unlikely soon due to financial constraints, especially with the economic slowdown. Land reform presents another potential avenue for increasing rural consumption by enabling flexible land use rights and allowing rural residents to sell or lease land at market value. However, such reforms are politically sensitive and would require alternative sources of income for local governments and villages. Land reform may be the only viable way to address the economic

divide between urban and rural areas and stimulate broader consumption growth.



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## **AUTHORS' PERCENTAGE-BASED CONTRIBUTION**

The contributions of each author to the study by percentages are as follows:

The percentage-based contributions of the 1st author, 2nd author, 3rd author, 4th author are 30%, 25%, 25%, and 20% respectively.

1st Author: Conceptualization, supervision, review;

2nd Author: Methodology, formal analysis, investigation, resources, writing-original draft;

3rd Author: writing-review & editing, and visualization;

4th Author: Conceptualization, resources, editing, and supervision.

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All rules within the scope of "Instruction on Research and Publication Ethics for the Higher Education Institutions" were observed throughout the study. No actions mentioned in the Instruction's second chapter titled "Actions Against to Scientific Research and Publication Ethics" were taken in the study.

## **PEER REVIEW**

Reviewed by at least two external referees / Double-Blind Review.