



# Middle-Class Consumption Transformation in Economic Downturns: Evidence from East Asia

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**Abstract.** The shift from department stores to discount platforms, from luxury brands to livestream promotions, indicates that economic uncertainty has reshaped the consumption behavior in East Asia. While prior studies have addressed either macroeconomic trends or consumer psychology, few have explored how structural economic insecurity and identity crisis jointly shape middle-class consumption patterns. This study explores the behavioral shift from identity-based to functional and emotionally supportive consumption among the middle class in China, Japan, and South Korea. Adopting a combined research methods approach primarily based on secondary literature, theoretical analysis, and comparative case studies, the study reveals that consumption downgrading is not merely a cyclical adjustment, but a structural transformation entrenched in multidimensional distress from social, economic, and psychological dimensions. Moreover, it identifies a paradoxical coexistence of conservative financial behavior and emotion-oriented consumption. The insights suggest that under constrained resources, middle-class consumers are redefining the good life and shifting their consumption priorities rather than exiting from the market, signaling a coping strategy in response to economic and psychological stressors.

**Keywords:** East Asia Study, Middle Class, Consumption Behavior, Economic Insecurity, Emotional Coping.

## 1. Introduction

The breakout of COVID-19 caused significant damage to the world economy. In recent years, while the economy has been revived gradually, there still exists uncertainty: the level of global inflation and the structural slowdown are pronounced impediments to economic recovery [1]. The sign of economic downturn leads the middle class, who used to be regarded as the stabilizing force in society, to begin to turn into an anxious force because of the identity crisis and the declining expectation, turning to believe that struggling for objectives is meaningless. The shift of their perception instructs them to transform from identity-based consumption to functional and emotionally supportive consumption.

Is the shift of consumption behavior a temporary cyclical adjustment or a reflection of permanent structural transformation? This study aims to unveil the dilemma of the middle class and the multidimensional pressure behind the phenomenon of their

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consumption reshape, mainly focusing on East Asian countries, namely China, Japan, and South Korea. Multidimensional pressure includes economic dimension about economic insecurity, difficulty to be employed, wage growth deceleration while cost of living rises; psychological dimension about future uncertainty; and social dimension about being neglected by government policies, social status instability, and powerlessness with respect to the current hierarchical solidification and fixed social mobility.

This study adopts a hybrid research method of combining qualitative and quantitative methods, primarily based on secondary sources, including empirical findings from previous studies, theoretical foundations, official statistical datasets, and government policy documents. While numerous scholars have studied consumer behaviors in isolation, few have explored how the middle class responds to economic uncertainty through simultaneous transformation in identity perception, consumer behavior, and emotional coping strategies, especially a cross-country study in the context of East Asia.

This study is meaningful since the middle class is considered the stabilizing force of society; its transformation under economic insecurity has a profound influence on social cohesion, political stability, and economic vitality. Through a comparative analysis of shift in middle-class consumption trends in China, Japan, and South Korea and building on theoretical basis, this study contributes a meaningful insight into the evolving nature of the East Asian middle class and consumption behavior shift under economic uncertainty, arguing that transformation of consumption behaviors of East Asian middle class is a long-term structural reconstruction, instead of a short-term adjustment. The consumption downgrading does not necessarily suggest that the middle class has lost its social significance; instead, it suggests a new consumption structure that emphasizes redistribution in the context of limited resources: reallocating an individual's consumption, lifestyle, and emotional focus to maintain the quality of core life.

## **2. Literature Review**

### **2.1 Identity-based Consumption and Identity Crisis**

The relationship between identity and consumption has always been the focus of cultural and economic studies. Reed et al. define identity as a category label that consumers associate specific items or brands with themselves, guiding them in making consumption preferences and choices [2]. Identity-based consumption among middle-class consumers typically ranges from brand loyalty to the acquisition of luxury items that signify social status. However, the identity-based consumption behavior will shift to functional consumption because of identity crisis. During an economic downturn, the identity crisis experienced by the middle class can be understood as a complicated socio-psychological process in which individuals' self-conceptions are disrupted by external shocks, leading them from phases of self-doubt to identity reconstruction under the condition of symbolic loss [3]. Herbst et al. illustrate that individuals tend to reduce reliance on their self-associated items when they are facing identity crisis attributed to

economic uncertainty, shifting to functional consumption that is more practical and affordable [4]. This shift is both behavioral and conceptual, since it involves reconstructing consumption structure through a redefinition of the good life in a resource-limited society.

## **2.2 Economic Insecurity and the Shift Toward Precautionary Saving**

The shift can be explained by the traditional consumption behavior attributed to economic insecurity. Research on consumption behavior unveils a consistent pattern of delayed consumption and precautionary saving in the face of insecurity. An empirical study conducted at the end of the recession in the Spanish context reveals that 1% increase in disposable family income uncertainty led to approximately 8% decrease in household consumption, demonstrating the strong precautionary saving effect under uncertainty [5]. This aligns with a study in the American context, noting that saving, borrowing, deferring payment, and decreasing consumption are main coping strategies that households apply to survive under economic insecurity [6].

## **2.3 Urban Exclusion and Consumption Downgrading**

While the consumption downgrading is often interpreted from economic and psychological dimensions, it also entails a spatial dimension: individuals' spatial experiences shape and are shaped by their class identities. The theory of the production of space proposed by Lefebvre emphasizes that space is produced, perceived, and lived differently across different social classes [7]. For East Asian middle class, expensive housing prices, long commutes, and limited living spaces, particularly in megacities such as Shanghai, Tokyo, and Seoul, all make access to desirable spaces more unattainable, subtly marginalizing the East Asian middle class from urban life. This form of social exclusion diminishes their sense of belonging and participation, transforming the city from a space of aspiration into one of mere survival. These shifts in spatial experience further erode the symbolic and experiential dimensions of middle-class life, accelerating a transition toward functional consumption and a minimalist lifestyle.

Despite these insights, existing studies have not adequately explained how this identity-to-functionality shift manifests across East Asian middle-class contexts through comparative analysis. This study seeks to address the following analytical gaps: 1) whether the shift represents a cyclical adjustment or structural transformation; 2) whether the consumption downgrading should be interpreted merely as a sign of middle-class decline.

# **3. Empirical Analysis: Middle-Class Coping Strategies in Changing East Asia**

## **3.1 Structural and Cultural Divergence in East Asian Middle-Class Consumption Shift**

The negative perception of economic expectation caused by economic uncertainty tends to lead consumers to defer consumption and increase savings [8]. Similarly, the

pessimistic consumption psychology in Japan increased savings during the pandemic. This aligns with the high-frequency panel data from Fujiwara, showing that high-income individuals save for reduced face-to-face interaction opportunities, and further notice a reduced dining and urban entertainment expenditures [9].

Concerning South Korea, a high perception of economic crisis reduced individuals' economic optimism and disposable spending, and the increased unemployment rate forced Koreans to reduce household consumption, especially for the middle class [8, 10]. Industries such as entertainment, education, and retail have experienced shocks and damage to both output and employment [10]. However, the financial industry, such as insurance, finance, and real estate, showed a counter-cyclical increase in both aspects, which might be explained by the precautionary investment in saving or insurance among the middle class [10].

In contrast to South Korea and Japan, the effective health policy and optimistic virus-free condition assisted remaining consumption confidence for Chinese consumers during the pandemic in 2020, with approximately 50% consumers being confident in a swift economic recovery [11]. High levels of digitalization facilitated a shift in consumption from physical stores to online platforms, and this trend has persisted after the lifting of lockdown measures [11]. Despite the individuals' confidence and consumption convenience of new channels from retailers, Chinese consumers became sensitive to product selection rather than focusing on brands that they used to buy [11]. Belk reports that Chinese consumers prioritize essentials and reduce consumption of apparel and dining after lockdown [12]. Despite the reduced household expenditure, the uncertainty also led to a surge in the use of an online purchasing app, which surged from 443.3 million in 2019 to 628.1 million active buyers in 2020, with a 41.7% increase [13]. This app, named Pinduoduo, anchors group buying and subsidies for lower prices and provides a platform for small merchants to gradually resume normal by charging lower advertising fees for products that are difficult to sell [13].

To ensure the analytical focus on the middle class, this study utilizes primary data collected from official statistical agencies in Japan and South Korea. The dataset was cleaned and filtered for middle-class households, defined as the third income quintile in the South Korean dataset and as worker households in the Japanese dataset. To account for the impact of inflation, the author calculated the real growth rate by adjusting nominal values using cumulative inflation rates over the study period. Two critical time points were selected for comparative analysis, 2019 indicates the pre-pandemic baseline, capturing the stable economic conditions, and 2024 reflects the latest post-pandemic condition after 3 years of accommodation and recovery from economic damage. This temporal framing allows the study to investigate how this macroeconomic shock has shaped middle-class expenditures in both economies.

**Table 1.** Real Growth Rate on nine categories from period of 2019-2024 in South Korea and Japan [14, 15].

Categories	South Korea's Real Growth Rate from 2019-2024 (%)	Japan's Real Growth Rate from 2019-2024 (%)

Total Consumption Expenditure	-0.1	-4.6
Food & Non-Alcoholic Beverages	3.6	6.3
Alcoholic Beverages & Tobacco	-17.1	7.3
Restaurants & Hotels	11.6	3.1
Education	-12.9	-1.0
Recreation & Culture	10.9	-5.2
Insurance	-	-21.4
Net Savings Rate	-	3.9
Social Transfers & Gifts	-	-17.0

According to Table 1 above, a comparative analysis of real growth rates from 2019 to 2024 implies a different development trend in South Korea and Japan. The overall consumption in Japan shrank by 4.6%, with significant contractions in non-necessities expenditure, such as entertainment (-5.2%), insurance (-21.4%), and social transfers (-17.0%). This trend aligns with the phenomenon of functional consumption, reflecting a shift towards survival priorities over aspirational ones. In contrast, while South Korea's total consumption remained relatively stable, with only a slight fluctuation of -0.1%, spending on restaurants (11.6%) and entertainment (10.9%) increased, suggesting that the middle class also shifts towards experiential consumption for well-being maintenance in the face of economic distress.

In South Korea, a sharp decrease in alcohol and tobacco consumption (-17.1%) alongside the increase in recreational spending (10.9%) indicates a shift from symbolic or indulgent consumption towards functional or emotion-oriented consumption. In contrast, Japan showed an opposite trend: increased alcohol and tobacco consumption (7.3%) and decreased recreational spending (-5.2%), implying that middle-class consumers may abandon their cultural activities for temporary recreation provided by symbolic indulgence.

Among East Asian countries, Japan's middle-class consumption downgrade appears to be more entrenched. Qin et al. analyze that Japan's consumption downgrade is a structural issue rooted in stagnant income, fear of debt bequeathed from the post-bubble trauma, aging population, and rejecting materialism [16]. Therefore, the increased alcohol and tobacco consumption might be interpreted as a deeper erosion of consumer desire and a broader decline in consumption culture. The divergent trends in the two economies suggest that consumption downgrading takes different forms across national contexts, reflecting how the middle class in different societies prioritizes their needs based on cultural values.

### 3.2 High Savings, Low Confidence

In 2022, while the gross saving rate in South Korea remained high, which was 34%, driven primarily by institutional and corporate savings [17]. Unlike South Korea, Japan's saving rate remained globally low except for a temporary surge in 2021 and a gradual declining trend in the future, attributed to an aging population, reduced elderly

disposable income caused by policy shocks, and a slowdown in elderly dissaving [18]. In sharp contrast, China's household saving rate experienced an unprecedented surge to 33% in recent years, implying precautionary saving behavior mainly driven by the lockdown policy and uncertainty over economic expectations [18, 19, 20].

### **3.3 Entertainment and Escape: The Paradox of Consumption Downgrades**

While during economic downturns, middle-class households tend to decrease discretionary spending, the entertainment industries, such as film, live music, and video games, exhibit lower elasticity to income shocks, aligning with economic conditions in South Korea. Gao and Kim observe that individuals' spending on leisure activities declined less sharply than in other sectors during the recession, indicating a reduced income sensitivity and a counter-cyclical pattern of consumption [21].

Earlier studies tended to criticize escapism for diverting attention from real-world problems that need to be addressed. However, more recent scholars have challenged the traditionally negative framing of escapist entertainment. Vorderer et al. argue that escapist entertainment can function as a coping strategy to regulate individuals' emotions during periods of socioeconomic stress [22].

These trends reflect the Lipstick Effect but shift the focus from smaller luxury items to symbolic or emotionally meaningful cultural items. In the face of structural insecurity, the middle class tends to delay identity-based material consumption to engage in more affordable and emotionally compensatory purchases. Moreover, studies by Zhao et al. and Moldes et al. further illustrate that stressful conditions foster a shift in consumption preferences toward experiential rather than material items, in pursuit of more leisure value [23]. Furthermore, it is worth noting that symbolic and self-oriented purchases can enhance well-being by supporting identity reconstruction during periods of identity crisis [24]. Consumption downgrading therefore does not imply that the middle class has lost its social significance; rather, it represents a search for symbolic items that are attached to the sense of self within constrained resources.

Overall, while entertainment expenditure does not necessarily increase under economic distress, individuals tend to spend more time and engage more frequently in leisure activities that provide enjoyment and satisfaction. This evolving structure of consumption, marked by downgrading alongside selective symbolic spending, is reflected in recent flourishing products and leisure activities, such as Labubu toys, Pop Mart collectibles, virtual idols, live streams, and anime-centered subcultures across East Asia.

## **4. Discussion and Future Prediction**

In the past, the East Asian middle class was primarily concerned with achieving upward mobility, desiring better education, careers, and property. However, recent shifts signal a growing and persistent anxiety that is not about how to succeed, but about how to maintain basic stability and security. They have become anxious about unemployment, status loss, and expenses outpacing income; this anxiety permeates their subjective experiences and consumer behavior. As Offe and Standing observe, the precariat (the group of people who are in precarious situations) is not only in material or economic

instability but also in the long-term erosion of self-confidence, social trust, and identity continuity [25]. In response, consumption is not merely characterized by contraction but also by structural transformation. Their consumption shifts towards experiences or material items that can offer symbolic reassurances or practical value over pursuing conspicuous consumption that signals status and wealth. This indicates a redefinition of the good life and a renegotiation of what constitutes it.

While consumption downgrading is often defined as decreased disposable income, studies imply that consumption behaviors are significantly influenced by perceived economic uncertainty, rather than only actual income reduction. Castano et al. find that upper-middle-class Mexican consumers reported greater psychological threat than lower-income consumers during the economic crisis in 2009, as they had more to lose, such as jobs, social status, and future expectations [26]. In contrast, groups with lower socioeconomic levels exhibited lower levels of anxiety, possibly due to their long-term adaptation to living under uncertainty [26]. Similarly, in the South Korean context during COVID-19, Kim et al. observe that higher economic risk perception among the middle class is positively associated with increased precautionary saving [8]. These findings imply that middle-class anxiety is not merely rooted in economic uncertainty, but also in their psychological sensitivity. This explains why in 2022, China experienced a historic surge in savings despite household income being relatively stable during the period, reflecting the psychological threat perceived by middle-class Chinese from aspiration and uncertainty about social stability. Such insights guide this study to move beyond surface-level income indicators and pay attention to individuals' subjective experiences and psychological dispositions in exploring contemporary consumption transformation.

Furthermore, the divergence in middle-class consumption behaviors across countries also reflects cultural and historical differences. For instance, Japanese consumers have long prioritized functionalism over materialism, which was bequeathed from post-bubble trauma. In contrast, Chinese and South Korean consumers are attempting to adapt coping strategies through combining precautionary saving with both functional and experiential consumption.

While consumers might adjust and reconstruct their psychological expectations and consumption patterns in response to economic stress, governmental interventions remain essential in revitalizing the market. For example, the Shanghai Municipal Commission of Commerce issued a policy to promote international consumption, including strategies such as digital vouchers and subsidies for innovative products [27]. Such measures not only provide immediate stimulus to consumer spending but also serve as symbolic reassurance of policy support, thereby assisting to enhance consumer confidence under economic distress.

## 5. Conclusion

This study denies the decline of the middle class and reveals that consumption downgrading in East Asia is a structural transformation driven by economic, psychological, and social distress, instead of a cyclical adjustment. Driven by rising

multidimensional pressure, the middle class is increasingly shifting from identity-based consumption to functional and emotionally supportive consumption. These insights suggest that consumption reflects how individuals redefine a good life under uncertainty. In the context of limited resources and economic uncertainty, consumers tend to prioritize emotional and practical value over aspiration. This reorientation indicates a deeper shift in both social perception and psychological adaptation.

This study contributes to the understanding of economic uncertainty. It offers detailed insights into the middle-class consumers in East Asia, moving beyond the merely surface-level income indicators and exploring how consumption behavior reveals the transformation into psychological conditions and coping strategies.

One major limitation of this study lies in the restricted access to primary data from China. As a result, the analysis of Chinese middle-class consumption mainly relies on existing secondary sources, potentially limiting the timeliness of interpretation and accuracy of comparative analysis. Moreover, while this study attempts to compare China, South Korea, and Japan, the deficiency of critical indicators, namely insurance expenditure, net savings rate, and social transfers, makes it difficult to evaluate whether South Korean middle-class consumers have experienced a similar functional downgrading in consumption. Another limitation lies in the temporal gap between the available literature and rapidly evolving economic reality. Much of the literature referenced in this study was conducted shortly after the COVID-19 pandemic (mainly around 2021-2022). However, due to the rapid pace of economic change, these findings may not fully capture the evolving conditions of East Asian middle-class consumption patterns, especially in the most recent years, 2024 and 2025. Finally, this study only investigates how the East Asian middle class responds to economic insecurity through analyzing their consumption behaviors; therefore, how the middle class adjusts their psychological order and self-identity perception under economic uncertainty remains unexplored and deserves further study.

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