

# **Realizing Consumption Potential of Rail Transit and Promoting Virtuous Circle of Society and Economy**

*MTR Corporation*

## **Executive Summary**

Boosting consumption and stimulating demand is very important to the stable growth of China's domestic economy. The CPC Central Committee and governments at all levels attach great importance to the development of the domestic consumer market, have been introducing various policies to encourage consumer spending, and make consumption stimulation the focus of domestic economic work.

The rail transit industry has the natural defect of huge exogenous effect but insufficient endogenous effect, and it is difficult to cover the operating cost simply with ticket revenue. Therefore, it has become a bottleneck problem that rail transit operators must solve before realizing sustainable development by striking a balance between local government subsidies and the demand for public transportation. The huge passenger traffic resources possessed by rail transit can lay a solid foundation for the expansion of consumer spending. The potential of spending hidden in the huge passenger traffic resources of rail transit systems can be unleashed and transformed into real purchasing power, which can not only increase the operating income of rail transit operators and reduce the subsidies required from the local government, but also meet the day-to-day demand of passengers. This will achieve a win-for-all situation among the government, the operators and the passengers, and realize a virtuous circle of society and economy.

As one of the world's leading rail transit operators, the MTR Corporation, in the course of more than 40 years of business, has actively explored the effective utilization of rail transit passenger traffic resources, and has successfully created a new mode of consumption across Hong Kong's rail transit stations. This is a significant contribution to the sustainable development of the MTR Corporation and Hong Kong at large. These best practices can also serve as a reference for mainland cities to create a mode of consumption in rail transit stations and boost the spending of rail transit passengers.

The MTR will continue to step up its efforts to participate in the construction and development of mainland cities as it has the confidence, the will and the ability to

contribute more to the quality development of rail transit systems and cities in Mainland China.

In the current context of complex and volatile global economic situation and the increasing uncertainty of external demand, boosting consumer spending and stimulating domestic demand is very important for stabilizing economic growth. Especially given the present economic growth pattern, consumption, one of the troikas that drives economic growth, plays an increasingly prominent role.

## **1. Policies Continue to Drive Steady Development of Consumer Market**

In recent years, the CPC Central Committee and governments at all levels have attached great importance to the development of domestic consumer market. President Xi Jinping has repeatedly pointed out that “the strategy of expanding domestic demand should be implemented”, that “in order to build a new development pattern, we should adhere to the strategy of expanding domestic demand so that production, distribution, circulation and consumption rely more on the domestic market and form a virtuous circle in the national economy”, that “maximize the advantages of China’s super-large market and the potential of domestic demand”, that “it is necessary to increase consumption capacity, improve pro-consumption conditions, innovate consumption scenarios, and fully release consumption potential”, and that “the long-term mechanism for stimulating consumer spending should be established and improved so that consumers can have stable income to spend without worries and are willing to spend”. Multiple sessions of the State Council executive meeting focused on the topic of consumer spending, making clear that consumer spending plays a pivotal role in promoting domestic economic growth. The session dated February 10, 2025 pointed out that stronger consumer spending is the key to expanding domestic demand and making domestic economic cycle bigger and stronger. It was emphasized that we should change the mindset and put consumer spending in a more prominent position. The session dated February 21, 2025 studied the work related to service consumption and also proposed to promote the high-quality development of service consumption, implement promotional campaigns, support the innovation of service consumption scenario, the fusion of business modes and the agglomeration of related industries, and improve the industry standards of culture and tourism, catering and accommodation, pension and childcare, and digital consumption.

In 2024, China’s total retail sales of consumer goods reached 48.8 trillion yuan, a year-on-year growth of 3.5%, and the size of the Chinese consumer market clearly ranks high in the world. This figure makes a clear demonstration of the huge scale and vibrance of the growing China’s consumer market. In terms of contribution to economic growth, consumer spending for the whole year boosted the economic growth by 2.2 percentage points, highlighting the key role of consumption as the main engine of economic growth. In order to realize the goal of considerable growth of consumer spending, the central government introduced a series of policies to promote consumption. Among them, the central government issued 150 billion yuan of ultra-long-term special treasury bonds to local entities in order to fully support the campaign of consumer goods trade-in. The effect of the

implementation of this policy was immediately visible. The retail sales of household electrical appliances and audio-visual equipment increased by 12.3% from the previous year, registering a higher year-on-year growth rate by 11.8 percentage points. The retail sales of furniture increased by 3.6%, with a Y-o-Y growth rate higher by 0.8 percentage points. In the second half of the year, as the consumer goods trade-in policy continued to gain momentum, the sales of home appliances, automobiles and other staple goods grew at a significantly faster pace, playing a significant role in pulling the overall consumer market back up. In addition, the Party Central Committee issued the very first policy paper to promote the high-quality development of services consumption, which is aimed at upgrading service consumption. The ice and snow sport economy is identified as a new growth point, and more attention is placed on elderly care and domestic services. The aim is to improve the quality and expand the supply of services so as to meet the general public's diversified demand for high-quality consumption services. Moreover, the CPC Central Committee has proposed to cultivate hub cities for international consumption, renovate and upgrade urban commercial facilities, create a number of commercial districts and shopping malls with international influence, and develop the "15-minute convenient living circle" in which convenience stores, grocery markets, pharmacies, and other daily life service outlets are distributed in a reasonable way to provide residents with more convenient and better services.

Global economy becomes more complex and volatile and external demand more uncertain in 2025, making consumption the top priority of the domestic economic work. Only through sustained stimulation of domestic consumption can we stabilize production, circulation, and distribution, and form a virtuous cycle. If consumption is insufficient and products are unsalable, businesses will have to reduce production and lay off workers, which will affect household income, and lower income will further suppress consumption, leading to a vicious cycle. Stronger consumption will help form a virtuous cycle of production and investment together with consumption, and stabilize the economic functioning. At the same time, China has a population of more than 1.4 billion and more than 400 million middle-income consumers which will generate huge growth potential of the consumer market. If we can fully stimulate the vitality of the consumption, it will provide a steady impetus to domestic economic growth.

## **2. Tap the Potential of Urban Rail Transit and Explore New Models for Consumption Stimulation**

### **2.1 Bottlenecks in the sustainable development of urban rail transit enterprises remain evident**

Rail transit in mainland Chinese cities has been developing rapidly in recent years.

According to the statistics of China Urban Rail Transit Association, by the end of 2024, 58 cities in Mainland China have opened rail transit operations, with a total length of 12,168.77 kilometers, and the total number of passenger trips completed by the full-standard rail transit system for the whole year is more than 32 billion. It is expected that by the end of the 14th Five-Year Plan period, the total length of urban rail transit lines in operation in mainland cities will reach about 13,200 kilometers.

Rail transit is the most efficient means of public transportation, and plays a very important role in maintaining social stability and driving economic growth. However, it is well known that rail transit has the natural defect of huge exogenous socio-economic benefits but insufficient endogenous investment effect, which is characterized by the huge initial investment and equally huge operating cost in the later stage, while the source of income is confined to ticket revenue. For city administrators, rail transit has a large attribute of public welfare, and the public's affordability and social impact must be considered when fare prices are decided. Therefore, it is difficult to rely solely on ticket revenue to cover the cost of rail transit operators, and financial subsidies have to be provided in order to maintain the functioning of the rail transit system. How to balance the financial subsidies and the public's demand for public transportation has become a bottleneck problem that must be solved by urban rail transit operators before sustainable development can be achieved.

Table 1 Income statement of urban rail transit operators (in 100 million yuan)

No.	City	Total revenue	Total expenditure	Net profit attributable to parent company	Government subsidy	FY2023 net income after government subsidies deducted
1	Beijing BII	218.00	490.90	23.98	253.40	-229.42
2	Chongqing Metro	30.40	111.80	0.27	82.01	-81.74
3	Qingdao Metro	46.30	127.80	4.76	83.90	-79.14
4	Ningbo Metro	105.10	178.20	3.92	75.50	-71.58
5	Chengdu Metro	158.00	204.50	8.28	69.60	-61.32

6	Zhengzhou Metro	16.30	71.90	0.70	56.60	-55.90
7	Jinan Metro	97.90	144.30	3.20	50.90	-47.70
8	Nanjing Metro	35.00	76.76	3.89	50.60	-46.71
9	Changchun Metro	8.50	48.70	7.20	48.80	-41.60
10	Tianjin Metro	22.60	65.20	7.19	47.10	-39.91
11	Xi'an Metro	33.80	65.20	0.21	31.80	-31.59
12	Changsha Metro	44.30	58.40	1.29	30.30	-29.01
13	Shenyang Metro	13.10	38.60	-0.79	24.90	-25.69
14	Kunming Metro	10.90	34.10	0.86	23.80	-22.94
15	Nanning Metro	39.50	54.50	0.96	16.95	-15.99
16	Jinhua Metro	3.10	16.70	0.25	12.90	-12.65
17	Nanchang Metro	29.30	36.10	1.97	14.20	-12.23
18	Lanzhou Metro	15.70	22.30	-6.50	2.50	-9.00
19	Wuhan Metro	66.90	77.40	0.38	5.96	-5.58
20	Wuxi Metro	32.70	38.20	1.20	6.61	-5.41
21	Changzhou	7.60	7.30	0.34	5.60	-5.26

	Metro					
22	Guangzhou Metro	141.20	188.04	0.21	3.40	-3.19
23	Shenzhen Metro	251.50	219.10	5.50	7.30	-1.80
24	Shaoxing Metro	0.60	1.60	0.08	0.86	-0.78
25	Suzhou Metro	113.70	113.80	0.09	0.10	-0.01
26	Fuzhou Metro	33.80	33.99	3.73	3.60	0.13

Note: The data is derived from publicly available corporate financial reports.

Take the year 2023 as an example. The only urban rail transit operator with positive net profit after deducting government financial subsidies is Fuzhou Metro, but its net profit merely stood at 13 million yuan. in FY2023, the government subsidies received by Beijing Infrastructure Investment Corporation (BII) amounted to 25.3 billion yuan, and those in Chongqing and Qingdao were over 8 billion yuan as well. It can be seen that rail transit enterprises in Mainland China are currently very dependent on financial subsidies. The excessive financial subsidies of local governments to the operating enterprises will inevitably offset the subsidies to other local foundational industries such as education, healthcare, pension, agriculture, etc., and will also have a great impact on the stability and development of the society and the economy.

Table 2 Recurring operation income/total operating costs of urban rail transit operators

No .	City	Ticket Revenue (in ten thousand yuan)	Recurring resource operation income (in ten thousand yuan)	Total recurring operation income (in ten thousand yuan)	Total operating costs (in ten thousand yuan)	Recurring operation income/total operating costs
1	Shenzhen Metro	555,535.00	238,748.00	794,283.00	800,938.00	99.17%

2	Tianjin	104,243.00	33,343.00	137,586.00	167,877.00	81.96%
3	Lanzhou	29,380.00	1,886.00	31,266.00	40,915.00	76.42%
4	Guangzhou Metro	527,531.00	82,772.00	610,303.00	806,795.00	75.65%
5	Wuhan	307,574.00	57,836.00	365,410.00	497,165.00	73.50%
6	Harbin	47,518.00	2,375.00	49,893.00	72,798.00	68.54%
7	Xi'an	267,241.00	12,250.00	279,491.00	412,903.00	67.69%
8	Shenyang	84,221.00	13,520.00	97,741.00	148,761.00	65.70%
9	Kunming	67,468.00	2,341.00	69,809.00	119,219.00	58.56%
10	Chengdu	390,911.00	29,787.00	420,698.00	734,992.00	57.24%
11	Changsha	110,182.00	13,297.00	123,479.00	222,057.00	55.61%
12	Shanghai	800,519.00	100,802.00	901,321.00	1,662,275.00	54.22%
13	Hangzhou Metro	295,618.92	35,983.00	331,601.92	695,257.69	47.69%
14	Wuxi	28,660.00	29,065.00	57,725.00	121,069.00	47.68%
15	Dongguan	16,666.00	5,444.00	22,110.00	50,166.00	44.07%
16	Beijing BII	683,000.00	121,099.00	804,099.00	2,028,000.00	39.65%
17	Chongqing	199,531.00	23,297.00	222,828.00	569,359.00	39.14%
18	Nanjing	212,506.00	43,943.00	256,449.00	666,000.00	38.51%
19	Xuzhou	14,139.00	10,272.00	24,411.00	63,446.00	38.48%
20	Xiamen	51,618.00	8,450.00	60,068.00	157,798.00	38.07%
21	Nanchang	55,110.00	17,409.00	72,519.00	190,640.00	38.04%
22	Guiyang	36,067.00	9,066.00	45,133.00	119,658.00	37.72%
23	Zhengzhou	87,814.00	10,601.00	98,415.00	263,523.00	37.35%
24	Changchun	38,450.00	2,012.00	40,462.00	109,904.00	36.82%
25	Nanning	53,894.00	19,877.00	73,771.00	201,411.00	36.63%
26	Dalian	43,474.00	1,655.00	45,129.00	134,556.00	33.54%
27	Qingdao	82,795.00	29,474.00	112,269.00	350,776.00	32.01%
28	Hefei	62,525.00	7,962.00	70,487.00	222,693.00	31.65%
29	Shijiazhuang	18,699.00	4,699.00	23,398.00	77,174.00	30.32%
30	Suzhou	77,682.00	14,283.00	91,965.00	337,900.00	27.22%



31	Changzhou	12,983.00	3,135.00	16,118.00	61,080.00	26.39%
32	Hohhot	13,376.00	1,365.00	14,741.00	61,591.00	23.93%
33	Fuzhou	26,946.00	6,420.00	33,366.00	152,168.00	21.93%
34	Ningbo	46,308.00	8,595.00	54,903.00	253,664.00	21.64%
35	Wenzhou	9,604.00	3,987.00	13,591.00	63,568.00	21.38%
36	Foshan	18,952.00	3,940.00	22,892.00	117,185.00	19.53%
37	Luoyang	8,644.00	2,653.00	11,297.00	58,366.00	19.36%
38	Nantong	4,215.00	4,395.00	8,610.00	53,482.00	16.10%

Note 1: Figures are derived from the statistics of the Urban Rail Transit Association.

Note 2: Recurring resource operation income includes property leasing and management, station stores, media and advertising, and information and communication.

At present, recurring operation income of urban rail transit operators in the mainland hardly cover the total operating costs, and if the income from real estate development, station stores, advertising and communications and other resources is deducted, ticket revenue alone is utterly inadequate to cover the total operating costs. Real estate development, a part of the resource operation income and a one-time development income, will not occur every year, and the income can hardly sustain. In addition to ticket revenue as a continuous operating income, the commercial business including station stores, property leasing and management, media advertising, information and communications can generate ongoing income. Operators in Shenzhen, Tianjin, Guangzhou, Wuhan and other cities have begun to gradually get rid of their reliance on real estate development, and their recurring resource operation income has gradually increased the contribution to the overall operating income. For operators in other cities, tapping into the potential of commercial business operations to increase recurring income has the potential to become a profitable growth point in the future.

## **2.2 Advantages of passenger traffic of urban rail transit system need to be transformed into actual consumer demand.**

### **2.2.1 Importance of developing rail transit station commerce**

First of all, to develop commercial business across rail transit stations can increase income and improve the overall efficiency of the operators. Introducing retail elements such as convenience stores, bakeries, and beverage stores in rail transit stations, obtaining reasonable rents by leasing out the venues, and sharing the profits with the merchants can bring new sources of income for rail transit operators, diversify and enrich their income, thus reducing their dependence on government subsidies and realizing the sustainable development of rail transit operations.

Second, to develop commercial business across rail transit stations can provide passengers with convenient daily services and meet their needs in an all-round way. In busy modern cities, when entering and leaving rail transit stations, passengers can easily buy breakfast, drinks, emergency necessities and other commodities to meet their daily life needs, or use the self-service vending machines in stations to solve problems in travel in a time-saving way and improve travel convenience. It also allows passengers to feel the intimate service of rail transit operators in the fast-paced life.

Third, to develop commercial business across rail transit stations can also maximize the optimal utilization of urban space. Rail transit stations are the hubs of city transportation where people gather. Passengers bring vibrance to the businesses around the stations, and the businesses contribute to the commercial vitality of the city. Through reasonable planning and design, passenger traffic can be directed through the underground passages to nearby shopping malls, office buildings, residential buildings, etc. In so doing, underused underground space can be utilized more efficiently and transformed into dynamic commercial areas.

### **2.2.2 Feasibility of developing commercial businesses in rail transit stations**

On the one hand, the stable and high passenger traffic of rail transit is a natural attribute that lays the foundation for commercial business. How big the passenger traffic determines how much consumer spending can reach. Merchants in shopping malls, commercial areas and tourist attractions usually have higher business turnover. A big passenger traffic means a greater number of potential customers, and the possibility of customer spending behavior increases as well, all constituting the foundation for stronger consumer spending. As an important part of urban public transportation, rail transit system carries a very large number of passengers every day, with ten million passengers every day in Beijing and Shanghai, and eight million passengers in Guangzhou and Shenzhen. These passengers include office workers, students, tourists, among others, who pass through rail transit stations during their daily commutes. Such a large and stable flow of passengers can provide a steady stream of potential customers for rail transit station merchants. When passing through stations or waiting for trains, passengers may produce a variety of demands such as buying food and drinks to ease the fatigue of the journey, or buy breakfast and dinner. This potential demand can be largely converted into the actual consumer purchasing behavior.

On the other hand, from the point of view of the leasing merchants, commercial leasing cost at rail transit stations are lower than the cost of renting street-facing stores in traditional commercial areas or at large shopping malls. In order to reduce the pressure of their operating costs, rail transit operators usually carry out unified planning and management of the commercial spaces in stations, formulate

reasonable rental policies, and lower the entry threshold of small and medium-sized merchants. Moreover, due to the huge passenger traffic and unique shopping scenarios in rail transit stations, even if the average spending per transaction is not high, merchants can still achieve high sales, profits and return on investment thanks to the large enough customer base. Moreover, merchants in rail transit stations can achieve high exposure of their brands, and therefore enhance their brand awareness and influence while providing goods and services to passengers, achieving greater business growth and market share.

### **3. Leveraging Hong Kong's Strengths to Contribute to the New Consumption Pattern of Rail Transit Systems in the Mainland**

The MTR Corporation Limited, a listed company controlled by the Hong Kong SAR Government, is the backbone of Hong Kong's transportation infrastructure development and public transport services provider as well as one of the world's leading multinational rail transit operators. In the course of more than 40 years of business development, MTR has been exploring new ways to utilize the huge passenger traffic resources unique to the rail transit system and has successfully created a new model of retail business in rail transit stations which not only enables convenient shopping experiences for commuters and meets their daily consumption needs, but also provides an important source of income for MTR to sustain its business growth. MTR operates a local rail network of over 300 kilometers in Hong Kong, with an average daily traffic of more than 8 million trips. It operates nearly 1,600 retail stores, 11 duty-free stores and more than 300 self-service stores across the entire rail network, with a total gross floor area of 70,655 square meters and an average occupancy rate of over 98%. The total revenue generated by station retail business reached HK\$2,638 million in the first half of 2024, building a triple-win model for the SAR Government, the public and MTR.

MTR's practice of rail transit station retail business in Hong Kong can provide references for mainland cities to create a new mode of consumption in rail transit.

1. Co-ordinated planning of the layout of rail transit stations. The SAR Government has granted MTR the right to develop properties along the rail lines. As early as in the stage of planning new rail lines, MTR takes in consideration the resource planning of retail business development. Planning will consider the design of both ground roads and underground space, and deal with the relationship between the passengers, the rail transit system and the neighborhood. In particular, the balance between the movement of large passenger traffic and the safety of evacuation must be ensured since unlike large shopping plazas, rail transit stations have limited space. Under this premise, space available in rail transit stations will be utilized efficiently and business needs of merchants will be

met.

2. Reasonable design of commercial layout. MTR fully considers the immediate needs of passengers in the course of commuting, and designs a diversified commercial layout that meets varying needs of passengers. For example, a large number of coffee shops, fast food outlets, bakeries and other retail businesses are laid out in stations near office buildings to facilitate quick purchases by office workers during their hurried commute and to satisfy their immediate purchase needs. Banks, fashion stores, daily necessities, passenger services and other retail businesses are laid out in stations in popular tourist districts to meet their instantaneous needs.

3. Efficient management of merchant services and quality. MTR applies strict management to tenants in rail transit stations and has set comprehensive standards for tenant attraction as well as operating norms. In the process of investment promotion, the Corporation focuses on introducing quality brands and specialty merchants to ensure the quality of goods and services. MTR also regularly inspects the merchants and requires them to comply with the regulations, keep stores clean and provide quality services. Through strict management, the good image of rail transit station retail business is maintained and the shopping experience of passengers is enhanced.

The huge passenger traffic resources of the rail transit system lay a solid foundation for passengers' consumption. Creating a reasonable business model of rail transit stations to meet daily needs of passengers can not only generate considerable income for rail transit operators, but also alleviate the financial pressure on the city, thus realizing a win-for-all among for the city, the operators and the citizens. As a globally renowned rail transit operator, MTR has made useful exploration in the development of rail transit station business in Hong Kong for many years, and its success story can serve as a reference for mainland cities to effectively utilize the unique passenger traffic resources of the rail transit system to boost consumption. In the future, MTR will continue its endeavor to participate in the construction and development of rail transit systems in mainland China, and is confident that we will be contributing more to the high-quality urban development of in mainland China.