



## China's Urban Rich and the Quest For Common Prosperity

**The key to closing China's income gap lies in education and bolstering the ranks of its professionals, the meteoric rise of its urban elites in recent decades suggests.**

*"Let some of the people, some of the regions get rich first. In time to come, they will pull up the rest and, gradually, we will achieve common prosperity." – Deng Xiaoping*

When Deng Xiaoping **first outlined in 1985**, for the benefit of a visiting American business delegation, how China might shape-shift from an economic backwater to a global behemoth, the then-leader of the Chinese Communist Party (CCP) probably had little idea that "some of the people" would get very rich, very quickly. By 2017, China was minting **two billionaires per week**.

This year, President Xi Jinping **turned the CCP's attention to achieving "common prosperity"** for all. It won't be easy. While China has a growing middle class of 340 million people earning between US\$15,000 and US\$75,000 per year, 600 million others live on a monthly income of 1,000 yuan (US\$157).

A new **study** by Li Yang and his co-authors\* on the social transformation of Chinese elites over the course of the country's much-studied economic upheaval may yield some clues on how the whole populace can achieve common prosperity. It may also help explain why the CCP's rule has become more, not less, entrenched as China grew richer.

Using household surveys covering the period 1988–2013, the study charted dramatic changes in the profile of China's economic elites, defined as the top 5 percent of urban population by income. The analysis also shows that while the CCP orchestrated and oversaw the national economic liberalisation, the process led to a profound transformation of the party itself.

### **Never have so many got rich so quickly**

Data for the study was based on income surveys collected by the **Chinese Household Income Project (CHIP)** in 1988, 1995, 2002 and 2013. The project was part of research on inequality by Chinese and international researchers, with assistance from China's National Bureau of Statistics.

The richness of the CHIP data enabled Yang and his colleagues to analyse, after standardising the data sets, the evolution of China's wealthiest urbanites across time and geography in terms of social class, source of income (wages, property, business income or transfers), education, profession, type of employer (state, private, foreign or self) as well as CCP membership.

Here's what the study found in the context of China's leap from socialism to more capitalist orientated economic systems.

### Rise of the professionals and entrepreneurs

In 1988, 76 percent of China's urban elite were workers, clerical staff or high-level government officials. By 2013, professionals had become the single most important group (33 percent). Together with small and large business owners, they accounted for 53 percent of the elite, despite comprising only 31.4 percent of the overall urban population.

### Private sector boom

In tandem with the explosive increase in the numbers of professionals and entrepreneurs among the urban elite, the private sector overtook the state sector in 2013 as the dominant sector from which the rich obtained their income. In contrast, in 1988, almost four-fifths of the elite's income was derived from the state and collective sectors.

### The education premium

Education served as a springboard to riches as China's economy bounded forward at warp speed, according to the analysis. In 1995, each additional year of schooling added 2 percent to income; by 2013, the premium was 6 percent.

As of 2013, 44 percent of China's urban elite were university-educated – a rise of 32 percentage points from 1988. The corresponding increase among the general urban population was a less dramatic 17 percentage points, to 24 percent.

### Regional divide went nowhere

Even as huge changes were taking place across China, its traditional **regional divide** did not budge, despite the CCP's best efforts to **bridge the gap**. The coastal and mercantile east (Beijing, Jiangsu, Guangdong, Shanghai, etc.) maintained and further entrenched its economic dominance over the largely landlocked centre (Anhui, Henan, Hubei, Heilongjiang) and under-developed west (Gansu, Guizhou, Yunnan).

Eastern regions accounted for 69 percent of China's richest 5 percent urban population in 1988 and 73 percent in 2013, while the central regions' share dipped from 19 percent to 18 percent, and the western regions declined from 12 percent to 10 percent.

### Greater inequality all round

In 2013, the average income per capita in China's eastern regions was some 40 percent higher than their counterparts in the centre and the west, eclipsing the income gap in 1988. The east was also more unequal than the other regions, although

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**inequality** worsened throughout China, with the Gini coefficient rising from 0.27 in 1988 to 0.45 in 2013.

In eastern regions, the richest 5 percent went from earning 13.6 percent of total urban income in 1988 to more than 20 percent in 2013. The increase was only slightly less pronounced in the other two regions. What's more, the figures were likely an underestimate since the rich often did not respond to surveys.

### Return on CCP membership

While China's regional divide remained stubbornly entrenched, the ruling party itself experienced nothing short of a sea change. Between 1988 and 2013, the social make-up of the CCP as a whole shifted from workers and government officials to professionals and entrepreneurs, mirroring changes within the population at large. This could reflect the party's desire to boost its representativeness and, by extension, its legitimacy. For context, the CCP **currently has more than 95 million members and admits some 2.5 million new ones each year out of 20 million applicants**.

Distribution of CCP members among different social groups in 1988 and 2013 (in %)

Social class	All CCP members			CCP members in the top 5 percent		
	1988	2013	Change	1988	2013	Change
Workers	16	30	+14	12	15	+3
Employees (clerical staff)	39	32	-7	34	33	-1
Government officials	23	8	-15	26	9	-17
Professionals	23	26	+3	28	38	+10
Individual entrepreneurs	0	3	+3	0	3	+3
Large business owners	0	1	+1	0	3	+2
<b>Total</b>	<b>100</b>	<b>100</b>	<b>0</b>	<b>100</b>	<b>100</b>	<b>0</b>

Note: The table shows the distribution by the social group of all CCP members and of CCP members who are part of the top 5 percent.

Source: From workers to capitalists in less than two generations: A study of Chinese urban top group transformation between 1988 and 2013, by Li Yang, Filip Novokmet and Branko Milanovic.

By 2013, professionals formed 18 percent of the urban population, 26 percent of all urban CCP

members, and 38 percent of CCP members who were in the top 5 percent by income. The corresponding figures were 50-30-15 for workers. Indeed, the CCP's composition approximated the population structure better in 2013 compared to the 1980s, although its rich elites were becoming far removed from the rest of the party as well as the urban population as a whole.



One possible explanation could be what the researchers call “the premium of CCP membership”, a measure of the income gap between CCP members and non-members. After controlling for age, sex, education, social group and other factors, return on CCP membership was 5 percent in 2013. For private sector business owners, it was an impressive 34 percent. Of course, people who are admitted to the CCP could very well be more hardworking or ambitious than the average citizen, and these qualities could partially explain their higher earnings.

### **A slower trajectory**

Within a generation, China's rich have become more educated, professionalised and more entrenched in the private sector. The flip side is that China is now one of the most unequal in the world, with the **richest 1 percent holding 31 percent of the country's wealth**, up from 21 percent 20 years ago. As the quest for common prosperity takes hold, starting with tighter regulation and wealth redistribution policies, the trajectory of China's elite is unlikely to maintain the dizzying speeds of decades past.

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