

THE BROOKINGS INSTITUTION

CHINA'S EMERGING MIDDLE CLASS:
BEYOND ECONOMIC TRANSFORMATION

Washington, D.C.

Tuesday, September 22, 2009

PARTICIPANTS:

Opening Remarks:

MARTIN S. INDYK
Vice President and Director, Foreign Policy
The Brookings Institution

Keynote Address:

Introduction:

KENNETH LIEBERTHAL
Senior Fellow and Director
John L. Thornton China Center
The Brookings Institution

WILLIAM C. KIRBY
Spangler Family Professor of Business Administration and T. M. Chang
Professor of China Studies, Harvard University

PANEL 1 - OVERVIEW – CONCEPT AND SIGNIFICANCE

Moderator:

MARGARET PEARSON
Professor of Government and Politics
University of Maryland

Panelists:

HOMI KHARAS
Senior Fellow
Wolfensohn Center for Development
The Brookings Institution

LI CHUNLING
Research Fellow and Professor
Institute of Sociology
Chinese Academy of Social Sciences

CHENG LI
Senior Fellow and Director of Research, John L. Thornton China Center
The Brookings Institution

LU HANLONG
Professor of Sociology
Shanghai Academy of Social Sciences

* * * * *

PROCEEDINGS

MR. INDYK: Good afternoon, ladies and gentlemen. I'm Martin Indyk, the director of the Foreign Policy program at Brookings which houses the John L. Thornton China Center, which, as you know, is responsible for convening today's event, "China's Emerging Middle Class: Beyond Economic Transformation."

I'm very glad to have the opportunity to say just a very few words of introduction to what is for us here at Brookings, a very exciting conference. There is, of course, considerable controversy which will indeed, I'm sure, be addressed in this conference over the next two days about the precise size and composition of the Chinese middle class, but I don't think there can be any doubt that this group, whatever definition is finally settled on, is expanding at a rapid clip with profound consequences, particularly for China's both economic development and its political development.

Indeed, a unifying thread across most modernizing societies is the important, often indispensable role, of the middle class. Barrington Moore and Seymour Martin Lipset observed long ago that the middle class has time and again made its presence felt in modernizing societies in decisive ways both in the economic spheres and, of course, in the political arena.

While it is indisputable that China is charting a unique course of development, nevertheless the emerging Chinese middle class is bound to acquire mounting influence of a time and, therefore, mounting importance both economically and politically.

On the many issues likely to define the 21st century, the global fight against climate change, increasing worldwide demand for dwindling natural resources, and an ever more complex and interconnected global economy, on these kinds of issues it's very clear that China is playing an increasingly proactive and constructive leadership role. The rapid emergence of a middle class in China not only has bearing on each of these issues directly, but, in a broader sense, China's evolving domestic circumstances will be of interest to all since those domestic circumstances will necessarily shape the character of the country's future presence and role on the world stage.

What makes this conference unusually exciting is the true diversity and representative quality of its participants. I want to thank those participants, particularly those of you who have traveled long distances from China, from Taiwan, from South Korea, and even from down under in Australia from where I come originally, for making the effort to join us and to bring their expertise to bear and share it with us here in Washington.

But beyond the geographical diversity, we also have experts with different methodologies and divergent perspectives on the issues of social stratification, social mobility and the tensions between development and inequality and what all this may mean for China's political future.

I want to particularly thank, in opening with the proceedings, Ken Lieberthal, Cheng Li, who's doing pioneering work on the Chinese middle class, and the staff of the John L. Thornton China Center for making this exciting conference possible.

Ken Lieberthal is, I think, probably known to all of you, but not necessarily in his new capacity as the director of the Thornton Center. He's going to take it from here and I want to thank him, first of all, for taking on the job of leadership of the Thornton Center. We're very excited to have him here at Brookings, and, secondly, for introducing our keynote speaker, Professor William Kirby, who I also have to thank very much for joining us today. Ken.

MR. LIEBERTHAL: Thank you very much, Martin. It's really a genuine pleasure to welcome you all to this conference.

Martin, I think, said the right things about the importance of the topic. Nothing is more important in the world today than changes in China that shape its future and clearly on anyone's short list of those changes are the development of China's middle class -- what that is, what its shape is, what its dynamics are, and what its implications are -- and this conference really brings together an extraordinary array of multinational talent to consider this issue from a wide variety of angles. And so, I don't want to take any more time on that. I want to get right to substance and let the conference proceed.

The only other thing I want to say before introducing Professor Kirby is to add emphasis to Martin Indyk's acknowledgement of Cheng Li's fundamental driving role in all of this. Having just become director of the China Center, what I realize is in dealing with Cheng Li, I'm dealing with a human tornado: he spins, he creates energy and momentum, everything moves in his path and he does some terrific things. So, I really want to acknowledge his fundamental role in bringing all

of this together and he'll play an equally strong role in shaping a very good book that comes out of this so it will be of enduring significance.

Let me turn to introducing Bill Kirby. The problem is, I've only got a few minutes. If I read his whole vitae, he'd have to limit his remarks to 10 minutes in this session. Bill is someone whose career really does rank among what those whose careers you would call extraordinary. He currently holds two main professorships at Harvard University. He's a Spangler Family Professor of Business Administration and T.M. Chang Professor of Chinese Studies. But that's just the beginning of what he does. He is a Harvard University Distinguished Service Professor. He also concurrently is director of the Fairbanks Center at Harvard, and he is chairman of the Harvard China Fund. He is also an honoree visiting professor at Peking University, Nanjing University, Chongqing University, and Fudan University.

He has in the past at Harvard chaired the History Department. He's been director of the Asia Center. And most notably he, for a number of years, was dean of the Faculty of Arts and Sciences, which is a dean of probably the most prominent undergraduate curriculum in the country, and played a major role in restructuring that curriculum while he was there.

I will not go into what he did before he joined Harvard. I'll simply say that his scholarly contributions as a historian of modern China and now increasingly his contributions as a professor of business administration, are really striking. So, it's just a great pleasure to welcome Bill Kirby here. He is just back from China where he actually got to shop in middle class districts of Chungching and so we

look forward to his bringing both theoretical sophistication and shopping experience to his remarks today. Bill?

MR. KIRBY: Ken, thank you very much. It's really a great pleasure to be here with you all and such a stimulating set of colleagues. And a team of Ken and Cheng Li is really a dynamic one and I want to congratulate the Brookings Institution and Ken on this new appointment, and, although he's not here, John Thornton for mobilizing it.

Before we do, let me just -- we must begin with a little of this and a little of this and that should be started in just a moment. Let's view this show.

We're dealing here in the study of China's emerging middle class with an apparently new topic, but, in some respects -- of course, as a historian, I don't think anything is ever really new -- it's not entirely new. Remember the quote, "Who are our friends? Who are our enemies?" That was the beginning of the market analysis of revolution by that early Chinese sociologist Mao Zedong in this analysis of classes in Hunan in 1927, the kind of crude sociology that wouldn't get a passing grade in any of your undergraduate classes, but, for better or worse -- and indeed for worse -- it had a greater impact longer than anything any of us will write.

Now, as for urban business classes, there was an equally simplistic analysis of Mao and his colleagues between the so-called national bourgeoisie and the so-called comprador bourgeoisie, the basic difference between the two as to which one the CCP was willing to tolerate longer, their fate being the same in any event. The key point here is in much of our study of modern Chinese society, and certainly in much of the history of the People's Republic and the history of the

Chinese Communist Party, classes are defined not by income nor status, but according to political whim.

The Maoist Revolution had no time for the forces that had made China one of the great commercial societies on earth. Here a slide of the marketing of kerosene in that moment some long time ago when the Americans actually exported oil, oil for the lamps of China, a commercial society that had made Shanghai Nanjing Road one of the great commercial centers of the empire and indeed the most cosmopolitan and successful capitalist center in all of East Asia before the Second World War.

This was a time in which one could speak of a Chinese middle class in that first golden age of Chinese capitalism, a class between officials and the very rich on the one hand, and the very poor on the other; the class that had made deposit banking and insurance industry profitable across republican China. A class that would be, of course, dislocated physically by the catastrophe of war, wiped out economically, not the least by the great inflation of the late 1940s, before it would be destroyed altogether by socialism after 1949.

And once the world came to be divided between red states and blue states, after 1949, there would still be, for a matter at least of some time, remnants of China's old business classes hanging around through to middle to the latter part of the 1950s. But the end, in some sense, came very, very soon and very early on, and it seems to me that I can date it in late 1949 or early 1950. I can't remember the exact date, but I was in the Moscow Archives some years ago working on a study of Sino-Soviet relations in the 1950s and I came across

something to do with tailors, and it had to do with a request from the Chinese Central Committee to Mr. Suslov, the chief ideologist of the Soviet Union, to have the suits of the new Central Committee of the Chinese Communist Party made in Moscow. No longer Shanghai tailors, great Shanghai tailors making Chinese suits. Maybe this is why the Shanghai tailors all went to Hong Kong. In any event, it strikes me as a sartorial moment of no return when one went from Shanghai tailors to something like this.

Not until 1978 or so would we see the return to patterns of consumption that had, before 1949, made urban China one of the most worldly parts of this world. Individuals here carting off some of the first of television sets or people returning to use equipment that might not have been used for some time.

Even in rural areas one could see a liberation of sorts with the return of market economies and rural markets, though I can't say that the fate of these ducks going to market in 1980 was that much better under market conditions than it would have been under socialism.

Now we are told, and it is surly true, that we are in a middle class revolution, a middle class revolution without the revolution, a revolution that is a revolution of income and consumption without attendant political earthquakes. And certainly, the former is very, very obvious. As one goes around China and one moves from shopping streets like this to really, not far from around the block, to shopping streets like this, in time, if you're in Beijing, to shopping streets like this, the Li Kai Xing's Grand Emporium, now well-positioned around the parade

route of Chang An Jie , and possibly to think of getting around in vehicles like this. This is a revolution that, of course, Chairman Mao himself, were he to wake up from his glass sarcophagus, might not recognize or condone.

And although no one has mentioned it in their papers for this conference, and the conference papers are extraordinarily stimulating, consumption is, in this society, is not simply a Chinese thing or shall we say not simply a Han thing. One can see it in these women of Kashgar, who, whatever else they may be wearing, have really quite good shoes and bags.

Now, just to make sure, as Ken mentioned, that there was such a thing as --

(Interruption)

MR. KIRBY: That must be for me, thank you. Certainly, you know, just to make sure that there is such a thing as China's new or, as I prefer to call it, reborn and national middle class, right before this conference I did go shopping in Chongqing, where the old war time capital -- I was there for a conference and so on. But the conference, like most academic conferences, had no small amount of usable downtime, and so I went shopping. And I went shopping to Chongqing, which is not the kind of city that you'll see described in the pages of Theodore White or John Fairbank, but it's really, today, something like a Manhattan on the Yangtze. Here is the building called "New York, New York" at the center of the city. Chongqing, home famously to the famous Chongqing "Meizi," supposedly home to the most beautiful women in Chongqing, but when I was there I have to confess, it was so hot that you really couldn't see

anyone underneath parasols. And I rudely took this poor woman's picture, but Chongqing, home also to several liberations. This is the Jie Fang Bei put up by the nationalists in 1945 to celebrate China's great victory over Japan; that victory, to which, of course, the nationalist regime would in some sense pay with its life just three or four years later. Then it became the Jie Fang Bei Liberation Monument of the Chinese Communist Party, to the people's heroes, and you can still see this.

You get a sense of the way in which commercialism is intruding even into Jie Fang Bei if you'll notice that the new clock on the Jie Fang Bei is actually a Rolex. You can't -- I don't know how well you can see it, but it's a Rolex and it's on time.

And in Liberation Square, one is -- it is home to all kinds of stores. It is home to international boutiques at the highest level, but it's also home to a series of malls that are truly homemade, homegrown, Chinese products. And so I went shopping, went shopping with a certifiably middle class woman, a professor, after all, for Chinese brands that had markets, that had very strong brand recognition, that are very, very well made, that have enormous markets even if you can't, at least yet, find them abroad. These are brands that have -- that appeal to what one research firm, China Reality Research, but there are so many of them who are doing this kind of thing. These are brands that appeal to Mr. and Mrs. China, the shorthand for a new middle class.

So they're talking about what you might consider in income trends more lower middle to middle class, not -- Mr. and Mrs. China, so no Er Nai or

people of this sort in these kind of families. A standard middle class family with a per capita disposable income of about somewhere between \$2,400 to \$16,000 U.S., sizable, the estimate being in one or another of these analyses, between some 75 to 80 million middle class families, which, if you figure in an average of about 3 persons or 3.3 people per family, you quickly get up to over 200-, 250 million individuals. There are different statistics, some in the papers of our conference. McKenzie has a somewhat higher statistic. Nevertheless, a very sizable market for people who will buy shoes extremely -- now, I am no expert on women's shoes. They always seem, in any country, too expensive for me. But this is about \$100 U.S., these shoes, and as far as I could tell, they're extraordinarily well made. And these men's shoes here for \$300 U.S., more expensive than I have ever paid for a pair of shoes, but a number of people seem to be trying it on.

Well, this group, this new middle class, there's no one way, as the papers in this conference show, of measuring this group, but there are some shared characteristics. It's demographically young. People get richer younger in China than elsewhere. Higher income levels tend to be not of those in the 60s and 70s or 50s, 60s and 70s, but in their 30s and 40s. A large majority of this group, this so-called Mr. and Mrs. China, over 80 percent own their own home, and three-quarters of them own it outright, that is without a mortgage. They may owe other people for some of the money for this, but they don't have a car- they don't have a bank mortgage. A third of these families have a car and the rest

want one. They love to travel, domestically, to the near abroad of Hong Kong, Macao, and Taiwan, and internationally.

Every morning that I was dean of the faculty of Arts and Sciences at Harvard I would get to my office a little bit before 8 o'clock in Harvard Yard in front of University Hall, and every morning there was a Chinese tour bus right outside of Harvard Yard and usually about 50 to 75 Chinese touching the foot of John Harvard for good luck. I should have done the same.

In any event, this is a group, about half of them have bought stocks in the last year and expect to buy more now, but stocks and bonds account for only about 10 percent of their wealth. Half of their wealth is in their property and another third is in cash savings. These are people who save about 20 percent per year. Their wealth is quite literally rooted in Chinese society and very locally so. And at least from the research that has been done on the consumption patterns of this group of the last year, at times of economic distress such as this last year, they will cut down on shoes, they will cut down a little bit on travel, they will cut down on almost anything except education. And more on that in a little bit.

Well, there are many ways to study this group and their impact, and the papers of this conference, I think, give us real insight into this. What I would like to do for the next few minutes is to share with you the kind of growth of this group from the point of view of businesses: the businesses that have helped to shape it and businesses that are in turn helped to shape by it. And this is really out of my work at the Harvard Business School where I and several colleagues

have written about 25 new cases of Chinese enterprises over the last several years -- private, public, and international -- to try to understand better where China and Chinese enterprise is going.

So, if we take one such case, if we take the case -- well, remember -- you're all too young to remember, the dream of Sun Yat-Sen that China one day would have 100,000 miles of highway and that automobiles in China, Sun Yat-Sen wrote in 1922, would be manufactured "so cheaply that every Chinese family could own one." Well, this is on its way to being true. This, after all, was the vision of Mr. Lu Guanqiu, the founder of the Wan Xiang Company in Hangzhou, about which I wrote one of these Harvard Business School cases. This company was founded in the year 1969. Can you imagine a worse year in Chinese history to found a company? In 1969 it was founded as a Shedui Qiye, as a -- within a people's commune, by Mr. Lu, who had been thrown into prison often because he kept trying to start companies and it kept being illegal.

But somehow or another, he was allowed to start this tractor affairs shop which grew 10 times by 1979. And he decided to go in for universal joints, something that in those days was absolutely essential for any motor vehicle; got into the state plan eventually. By 1989, Wan Xiang was the biggest auto parts manufacturing company in then what would become the fastest growing automobile market in the world. And his company would grow from 1979 to a more recent photograph here outside of Hangzhou -- same actual plot of land -- many people having moved out -- and to having established also the big North American headquarters outside of O'Hare Airport. Mr. Lu, several years ago --

seemed like a good idea at the time -- invested in 15 American auto parts companies.

Very interesting ownership history to this company, very much part of both new China and old China, starts as a socialist enterprise, tolerated really with family management within this socialist enterprise, and in the 1990s, is suddenly a privately held family company of an old -- of a kind that would be recognized broadly around the world from the 1920s and the 1930s: the daughter owning one company, the son-in-law now running this enterprise in Chicago, and so on. But helping to fulfill that dream that every Chinese -- to manufacture cars, now he's going to himself manufacture electric cars so cheaply, so that every Chinese could own one. That's one vision of modern China in a company that has helped shape this new middle class.

To take another one, we can go to remind ourselves of the lesson of Henry IV, who once promised the French in his version of a Xiao Kang society, as he put it, "Les dimanches il poulet dans un pot," a chicken in every pot every Sunday. This is now the job of the huge CP, or Zhengda Group, among others, this Thai conglomerate, that is changing what people eat by changing how food is grown. An agricultural revolution without a manned revolution.

This is their big site which I visited last week in Chongqing, a big feed plant in Chongqing, which feeds birdies like this, grown to their specifications all over Chongqing and all over Sichuan, and indeed all over China in different local realms across China, all having to be done locally, not nationally, because of cold chain limitations in China, but nevertheless, extraordinarily

impressive. There they are on their way now to market, and not to an old-fashioned market, but to a new super market where Zhengda has its own very specific stalls, you'll see on the lower left-hand side here, and it's a place where you can make babies happy. It's a place where you can feed, and eggs can feed a growing middle class audience, and you can go to the Chongqing market where I went to look at these eggs. That's my hand behind those eggs and you'll see that every single egg is stamped Zhengda and every single egg has a little green sticker on it because it is raised organically. It is a green egg. I'm told it goes very well with ham.

Or we can take the dairy industry. To take another one, we did a case on Yi Li Dairy for our course, an industry that started in treaty ports to serve Westerners who wanted milk, for some reason, and has now convinced millions of lactose intolerant Chinese that only milk will help their children grow and milk of a very -- you know, produced on a very, very large scale. Most of these dairies, as you know, are in Inner Mongolia. And we invited the first year we taught this course Mr. Pan, Kangli the president of Yi Li Dairy, to come and teach -- help us teach the course with us. And he was very kind, he brought with him cartons of milk that I gave to the Harvard Business School students and which they claimed to have liked and drank and no one got hurt. But Mr. Pan -- also the second year there was, as you may have read, a slight problem with quality, not so much with Yi Li as with other ones. And rather than coming himself for the teaching of the case in the second year, he sent his vice president to read me, in person, a letter of apology.

In any event, milk is changing very dramatically, the way young Chinese are raised just as Zhengda is doing it for chickens, for eggs, and for pork.

Take another case, take wine. Take the case of the red wine industry in particular. If you're ever in Taiyuan in Shanxi Province, I would urge you to go down to Taigu Shen just south of that -- a very beautiful area; used to be an incredibly poor area -- where you can visit what I believe is China's best vineyard, Grace Vineyard, Yili Zhouzhuang serving -- and these are vines from Grace Vineyard. It's an actually perfect soil, which if we have time in Q&A to get into the nature of Chinese viticulture, I'd be happy to do it, but red wine has become the middle class drink. It's also the drink of officials and of course officials, at least at some rank, are certainly very much a part of the middle class.

I have a research assistant trying to figure out how many official banquets there are every day in China, but that person is, I think, dying of exhaustion trying to do this. In any event, just imagine if red wine is the drink suddenly over the last decade of every official banquet and every business banquet or virtually every, in large parts of China, then it is a place that is growing very, very fast. And it's also changing consumer habits in a very large way.

The first Chinese winery, Changyu Winery, which began in Yantai in 1904 under an imperial prescript by the Guangxu emperor, because Chinese then, the Guangxu emperor said in his prescript, should drink red wine, began very well. In 1915 -- you probably don't know, in 1915, Changyu won five gold

medals at the San Francisco Panamanian Exposition; Woodrow Wilson, who didn't drink, overseeing the enterprise.

It would be all downhill for Chinese wine until recently. Despite Chairman Mao's visit to Changyu Winery in 1955 when he said, Chinese people - - he said "ying gai duo he yi diar hong putaojiu," so he is said to have said in their museum.

In any event, red wine is now everywhere. Grace Vineyard is now privately labeled at the Peninsula Hotel in Hong Kong, served in business and first class on Taipei Pacific. But the bigger story, like almost everything is in these days as part of this middle class revolution, is in this growth, in the competitive growth of state-owned enterprise. Here is Cofco's very large -- Cofco is the one that makes Great Wall wine. And this is Cofco's Junding Winery, outside of Yantai, a place that looks to me somewhat like Stanford University. It's an enormous, enormous complex with a tower and red roofs and all of that. But maybe like Stanford, I don't know, enormous vaults and things to consume underneath, wine retailing for about \$200 a bottle, although you ought to be very careful when you go there. You can buy their 1992 cabernet sauvignon from a part of Northern Hubei, where even the slightest bit of research will show you that there was no cabernet sauvignon grown in 1992. It is almost surely imported Chilean bulk, but that's a different matter.

And we also see foreign as well as private Chinese investors. Here a Scottish fund investor, a very successful one, building a winery outside of Yantai in the form of a Scottish castle, and you'll notice the great care with which

the vineyard is planted. Each stake is individually hewn granite holding up the vine and it sits right across the valley from what will be Lafite's new venture outside of Yantai.

Changing patterns of consumption, nowhere does this happen more importantly or more enduringly and really more centrally to the story of the emergence of China's new middle class is -- than is the story of education, especially higher education. And this has been something that I have been studying since my time as dean at Harvard. How do we deal with this enormous phenomenon of Chinese higher education today? One of the great continental systems of higher education, really one could talk about three today, you can talk about that of the European Union, you can talk about that of the United States and Canada, and you can talk about that today of China.

It's an enormous change from this examination compound last used in 1905 to the reopening of China's universities in 1977 to this now, the entrance into the new campus of Chongqing University, which I also visited while I was out in Chongqing. As you can see, this academic conference left lots of time for a visit.

We are in a revolution unparalleled in both scope and scale in the nature of Chinese education, which will make -- which will have a lot to do with the future of China's middle class.

There were about 2 million Chinese university students in the year 1990. About the year 2000 here were 6 million. About a year and a half ago, I was having lunch with the Minister of Education and I asked him, I said, "Minister,

there were about 6 million Chinese university students in the year 2000. How many are there in the year now?" Then it was 2007. And he said, without blinking, "23 million."

It was a long and pleasurable lunch. By dessert, the number was 26 million. Somebody came in and whispered a new -- it's now getting close to 30 million, depending on what you count. It's a rather extraordinary thing. China has had in the year 2000 half the number of students that the United States had in universities. Now it has at least double the number of students that the United States does. And many of you will have seen this first hand.

You go, if you were in Shandong to Linyi Shifan Xueyuan, a place that had 3,500 students in the year 2000, now they have 35,000. You see this not just in public institutions like that, but in the rapidly growing number of private universities. Minban Xueyuan we did a case, an HBS case, on Xi'An Wai Shi Xueyuan, Xi'An International University, a place that did not exist 15 years ago, and today it has 36,000 students. And I'll say more on that in just a second.

In Chongqing, I visited this new campus here of Chongqing University, which is -- it's the new campus. It's not the old campus, it's a brand new campus. It's in addition to the old campus. It's twice the size of Harvard University. It is -- here's a map of it. The only way I could show you the whole thing. It's really beautifully -- it's very elegant architecture, very clean and modern, not done like so many Chinese universities today in the kind of "Grand Hyatt style." It's, "you shan you shui," it's got beautiful lakes, and pagodas. It's got dormitories that are much nicer than many of the campuses of the colleagues

who have come to this meeting. And it has apartments for four -- I'm sorry, it has 4,000 apartments for faculty and staff. Four thousand apartments. And it is one of eight universities in a new "Chongqing Da Xue Cheng," Chongqing University City.

This is the set of apartments; the vice party secretary showed me. We walked through his new apartment, which is one of these here. It's a nice townhouse. You drive underneath it. It's got three stories with a garden at the top. It's extremely well done, very, very tastefully done. And that big seeming parking lot in front of it, is going to be a tennis court.

If we built something like this at Harvard, we would be shot. In any event, you see this everywhere throughout China.

You can see, if you visit the new campus of Fudan University, an enormous new operation. It would be as if Harvard University had been given Logan Airport and had already built up a quarter of it in the last five years. Harvard University, in fact, has a new campus across the river from Boston in the town of Allston, and in the 10 years that we have had it, we have built nothing. So, it gives one a sense of humility to visit places like this. And you could see this also in something like Xi'An Wai Shi Xueyuan, the sense of promise and the sense of ingenuity in a new campus.

Xi'An Wai Shi Xue Yuan is an interesting place from a business model because the president of this university, unlike most university presidents anywhere, has absolute job security. He owns 55 percent of Xi'An Wai Shi Xueyuan, British Private Equity owns the other 45. He appoints the party

secretary. He has set up fenxiao, that is branch campuses in Dalian and in Suzhou. And then when he came to visit us for the teaching of the case at Harvard -- well, here we have just an example. This is an East China Normal University before their new campus, and their new campus here, and their swimming pool, which is rather larger than ours.

But in Xi'An Wai Shi Xueyuan, you have new campuses in Dalian and Suzhou and when President Huang Teng visited Cambridge, he was looking for real estate on Brattle Street in Cambridge, Massachusetts.

This is a challenge, a welcome challenge, I believe, to American universities, a challenge for both competition and cooperation; a challenge that will have something to do with the power, intellectually, of China and internally of the middle class students who go to college, some 40 to 50 percent of whom will be going to college in coming decades. And although in the latter part of the 20th century and first part of the 21st, American universities were, as a group, perhaps among the strongest in the world, there is no reason to imagine that this is a permanent condition. If you were to go back 100 years ago and did what Shanghai Jiaotong University has as its 100 top schools in the world, a ranking that every dean and president around the world reads, if you did this 100 years ago, Harvard would not have been in the top 10 or even top 15 in the world. Eight of the top 10 would have been German universities.

Today, at least according to Shanghai Jiaotong University, not one of the top 50 universities in the world is German. The Germans disagree, but

nevertheless, it shows you how the world changes and changes perhaps in a dramatic way.

Well, in some sense, and now as a historian, let me think back as I conclude of recalling that this is not the first, but at least the second major educational revolution in modern China after the end of that old examination system. In the first half of the 20th century, China developed one of the most dynamic systems of higher education in the world with strong state run institutions -- Peking University, Jiao Da, National Central University, at the height of research, also the Academia Sinica, accompanied by a creative set of private colleges and universities: Yanjing, St. Johns Universities, Peking Union Medical College, to name just a few. These were the places where the middle classes of the republican era were trained, and they trained not a few people who would grow to be leaders the world over, in Hong Kong, in Taiwan, in the United States, and in Europe. The professionals, the engineers, the doctors, the lawyers educated at Suzhou Law School, and so on, just not the leaders in China, for all of this would be swept away in the 1950s and the 1960s and the lives of their graduates destroyed in a way that their sons and daughters can still remember today.

And yet, the traditions and the memories of these excellent institutions have remained and have truly helped to fuel the ambitions of today's educational leaders.

What will this then mean for politics, to return to our additional original question? Nothing automatically. History gives us different lessons for

the role of middle classes in politics. A seemingly assertive one in the case of the French bourgeoisie, a nationalist and indeed reactionary one in the case of the German mittelstand of the 19th and 20th centuries. But a middle class that is as broadly educated as the next generation of this one in China will be, educated in the leading universities not just to be engineers or technocrats or business people, but educated with an idea that they should be leaders in society with general as well as specialized education, this may be something else again. I can't tell you how many times I was visited by leaders of Chinese universities during my time as dean of Harvard, asking if they could have -- one of them very specifically, "Can we borrow, entirely, Harvard's core curriculum to train the leaders in China for the next generation?" And I offered to sell it to them because we were getting rid of it. But when they found out we were getting rid of it, they didn't want it. They wanted the next curriculum. And I must tell you that all of the curricular reports that I and colleagues wrote about change at Harvard, these were much more carefully read in Beijing than they were by my colleagues in Cambridge, Massachusetts.

But you have education as the leading priority of today's middle class parents. It is the leading priority in terms of -- or one of the leading priorities in terms of infrastructure on the part of Chinese leaders throughout the country. And what I find most encouraging and indeed revolutionary about Chinese higher education today, is an independent understanding that not just the specialized, but, above all, the general education of today's students in the arts and humanities as well as in the social sciences will be as important to all of

their as well as to our own futures. And so today we have in Peking University, even if you're in the Guanghua School of Management, you have to take a myriad of courses that will include literature, philosophy, and history. There is an elite liberal arts program in the Yuanpei program at Beida. Fudan College has a similar program. Ren Da, People's University, founded as the communist university in 1949, it does have a college of Marxism and Leninism, but probably the better students are likely to be found in the Qing Historical Institute or in the Center for Classical Studies, which are two of the leading centers of excellence at the People's University.

Perhaps the important revolution to Chinese higher education will not simply be its size and scope, but the fact that even under a leadership of engineers, leading institutions have come to understand that an education in the absence of the humanities is, at the end of the day, an incomplete one. The humanities, to go back just a little bit further, the core of the great educational tradition that existed until 1905, being reintroduced in Chinese universities, perhaps because leaders in China know better than anyone else what life can be like in the absence of the humanities. The story, to a considerable degree, of 20th century China, a recognition that in an age that is still consumed with wealth and power, that as countries vie for power and as individuals seek to accumulate wealth, an education that stresses the values that make for a strong and hopefully harmonious human community, they are more important than ever before.

Whether these values are the government's values, is another question. That is a question for political scientists, not historians to judge.

But finally it is worth thinking about, now that the People's Republic is 60, now that the People's Republic has completed or is about to have completed on October 1st a full "Jia Zi," a cycle of years, looking back over a first 30 years of a wasted and criminal youth, to a last 3 decades of purposeful reform and growth, we must remember the words of the greatest teacher of them all. As Confucius said, "Wu Shi Er Zhi Tian Ming, Liu Shi Er Shun, At 50 I knew what is ordained by heaven. At 60, my ear was an obedient organ for the reception of the truth." So heaven's will may be understood at 50, but only obeyed at 60 because at 60, one is supposed to be at ease.

The question that we should all ask this October 1st, a question that we had at a conference at Harvard last spring in anticipation of the 60th, is the People's Republic of China now at ease? I'll leave it to you to answer that question in part in coming days.

How this system, which conquered the country militarily, subdued it by reigns of terror, and survived to oversee a return to a path of wealth and power that had been sketched by its predecessors, how this system welcomes, adapts to and give way, or gives way, to the huge social transformation, that is the subject of this conference, China's new middle class, this is one of the great questions of world history of the 21st century. And in finding out that answer, I wish you all very good luck.

Thank you very much.

MR. LIEBERTHAL: Thank you very much. That was a really superb presentation. Is this mic live? Are you hearing it?

Bill, thank you very much for a really superb tour-de-force, visually and as well as in your comments themselves. I'd just like to ask one question; we can then open it up for Q&A from the audience. I believe there are microphones. Is that right? Yes, good. So if you put up your hand, we'll get a microphone to you.

Let me, though, take the prerogative of the chair just to lead off with one thing. Having spent my own life in a university, I have always felt that it is easier to expand bricks and mortar and to articulate programs than it is to develop quality, and especially to develop quality that embodies a new kind of inquiry different from what you've done in previous decades. That requires not only good students, but good teachers, and good teachers, I'd like to think, take a while to develop.

So, let me ask you, when you look at the numbers for Chinese higher education, they are simply awesome. When you talk to any family in China, the dedication to education of their kids is also awesome. What do you have to say about the quality of the education that's being delivered and what is your expectation of how rapidly that quality will evolve going forward?

MR. KIRBY: Okay, that's an excellent question, Ken. I don't know if this is -- it's on. I would say it's not awesome in quite the same level. You cannot possibly expand enrollment to this degree, this quickly, and have a faculty

capable of teaching it, although you do have some greater capacity in China than elsewhere.

In China, after all, professors actually retire. And in the United States, they mostly don't. That's a different story. And so you get a lot -- you can start off -- if you look at a place like Xi'an Wai Shi Xueyuan, which is not an elite university, but it has poached people who have retired from other local universities, so their faculty tends to be very young and very senior and not much in the middle.

It's a significant issue, however, in that -- and a significant problem, in that Chinese university officials, local, they rank the universities almost exclusively, as we do around the world, sadly, by research production, by things that are measurable.

If you want to get a promotion in a Chinese university as a professor, you have to publish in refereed journals. Of course. So therefore, the number of refereed journals has quintupled in the last 15 years. It doesn't necessarily mean that better things are automatically getting published.

What isn't measured is teaching. Teaching centers of the kind that can be found in many American universities are now beginning at Beida, at Tsinghua, Fudan, and at the elite universities. The idea -- I posed the idea to the president of -- I guess it was at Tsinghua some time ago, that perhaps they could actually then make public student evaluations of teachers. Not yet. This would make a further level of democratization in society, but so there are real limitations to this.

The larger question, there is a serious effort -- and I want to underscore what I said, there is a very serious effort by leading reformers of Chinese higher education to introduce what you would all recognize as a liberal arts curriculum in China's leading universities. There are obviously also serious constraints on certain subject areas in this regard. And the degree to which you can have a liberal education in a politically not quite liberal society is a serious constraint. And yet at the same time, I think you can look to 19th century Germany and other areas where you can have very, very vigorous growth of such activities in universities without necessarily challenging or changing the political system.

MR. LIEBERTHAL: Thank you. I will say at University of Michigan, for many years, they've had student evaluations of teachers that are published in terms of their aggregate numbers, but they never publish the written comments on the back of the sheet. Thank God.

Show of hands. Please. Okay.

MS. DAVIS: I had a question about --

MR. LIEBERTHAL: Please indicate who you are, where you're from, and ask a question.

MS. DAVIS: I'm Deborah Davis. I'm a sociologist at Yale and I taught in the Yuanpei program at Beida last year and have other connections to this project, but my question is about those 30 lost years.

I think I might take issue with the completely dark way in which you talked about the waste, the devastation. I think when we look at structural

issues, there were investments made, things were done, specifically in education in those 30 lost years. And I just would like you to revisit or correct me that I perhaps misheard you.

MR. KIRBY: No, you didn't mishear me. I tend to have a much darker view of the history, particularly of the 1950s, than many American colleagues. Not necessarily than many Chinese colleagues, but then what can be published about it in the PRC? Obviously there are areas of great growth and development. You do have some number of new institutions built. I would tend to measure it, in some degree, counterfactually compared to what one would have expected otherwise in the absence of the events of 1949. And I would compare it in absolute human terms.

The 1950s is one of the issues that will be discussed on October 1st. I listened in one of these 60 year conferences we had one in Ren Da that I was- spoke in, and there was a professor at Ren Da who gave a speech. He had been a professor at Ren Da since 1949, and he gave a speech as to why the suffering of the first 30 years was the necessary foundation for the success of the next 30 years. Made no bones about the suffering, why it was necessary to squeeze the farmers to pay for industrialization and for national defense. The only thing that he understated were the numbers of those who perished, the numbers of those who were incarcerated.

I think the more we know about the 1950s, there are many areas of significant progress that you can see in certain areas of public health, but if you were to look at the decade as a whole, you have 3- to 5 million people murdered

at the beginning of the decade, you have 20 to 40 million dead from famine at the end of it, and by the end of the decade you also have 40 million Chinese in one form or another of incarceration. Nearly 5 percent of the population. It's a remarkable achievement.

MR. FERMAN: I'm Joey Ferman. I'm a college student, but I'm currently an intern at the Center for American Progress. I recently taught in China. I taught English for several weeks at Anhui Normal University in Wuhu and anecdotally I experienced a lot of what you were saying. We saw the Nike stores downtown and the Adidas and we saw a massively expanding campus. They had had 8,000 students in the '70s, and now were trying to go for 60,000 by 2020. They just built a campus, so a lot of what you're saying is resonating with my experience.

Something that I got from the students and from the foreign teachers there was a different experience of tension and with higher pressure on students and higher -- you know, anecdotally reported higher suicide rates or different experiences. And I'm wondering as we're talking about this kind of up and coming generation that's going through this education system, I was wondering if you could comment on how the -- any differences in the American culture of education in terms of pressure that students experience and the pressure that Chinese students experience and how that could thus influence this upcoming generation. Thank you.

MR. KIRBY: Thank you. That's a very good question. You notice when I showed the slide of the examination compound, in the old days, when you

took an official examination, you went into that compound for three days. You brought your own food, your own water, and your own waste bucket, and the only way to get out was to die. And if you died, they wouldn't open the gates. In order to preserve the legitimacy of the exam, they would throw your body over the wall. So it makes the SATs, the GREs, even the Gaocao seem like not much.

What's -- I think what would be interesting to measure. There's enormous pressure on young Chinese families to get into good schools and not just at university, but to school after school after school. And you have afterschool work, you have an enormous sub industry serving them. That's why education takes an increasingly large share of so-called middle class income. It's why it's the one thing that people will save in order to spend and will spend more on even in lean years.

What would be interesting to know and I don't think we know the answer right now, right now it's much easier to get into a university than it's ever been before, and, of course, it's much easier to get into Xi'An Wai Shi Xue Yuan than it is to get into Bei Da. You're actually more likely to get a job at Xi'An Wai Shi Xueyuan immediately than you are at Baida because they have all kinds of internship and other programs and they're geared to promote this.

And so there are factors at work that may even lessen that level of tension and so on. And you can probably look at Taiwan as an example of what might or might not happen in that there are now more university and college places in Taiwan than there are students who can fill them.

So, we are moving in a vastly expanding market, but I don't think anyone can underestimate the level of pressure that young people feel today in trying not just to get into university, but into the best and the best. It's really extraordinary.

MR. LIEBERTHAL: We have time for one more question if someone wants to -- yes, please.

MS. WARD: Hi. I'm Cathy Ward, and I'm going to ask a really, really basic question because I used to study Chinese stuff a long time ago, so I'm out of it. So there are all these people -- you know, growing middle class, all these people -- coming out of university. How much does anybody want to go work for the government anymore? How much do they want to go into the PLA? Where do they want to go? And is government on anybody's agenda anymore if you're a top student?

MR. KIRBY: That's a very good question.

MR. LIEBERTHAL: Let me expand it just slightly. When you say "government," do you mean public sector as a whole, including SOEs that get you into a government venture, into a government, you know --

MS. WARD: However you want to take it.

MR. KIRBY: I can't really comment on the army. As a means of social mobility, one can imagine that the army, having been a very significant means of social mobility for very poor people, may cease to become such a popular outlet as society gets wealthier. I think that would be something to watch.

But I think one of the surprising things, and Ken will know more about this than I, but I think one of the surprising things of the last decade -- and if you look at the history of Chinese enterprise in the 1980s, '90s, and today, over the last decade the state sector has not only not shrunk, but it has grown in both size and influence. State-owned enterprises, if you think of being in a state-owned enterprises as being, as it were, in part of government or being an official, these are not careers to be sniffed at in the least. And in some sense, you have a changing pattern in which, for example, Mr. Lu, when he started his company, there's a period of really becoming -- as a township and village enterprise it became in the 1980s, before he took it private in the 1990s. Today such a firm would be much -- would be as likely or not to have some level of state ownership in it. And the state has managed to both retain and, in some sense, regain control of some of the economic heights of power in a way that is -- I think, frankly, I would not have predicted 10 years ago.

And so -- and being wealthy and being an official are not, as it turns out, contradictions in China. Perhaps not in this country either. I don't know if that begins to answer your question.

MS. WARD: The only part it doesn't cover is in the United States, one of the arguments that's always made when they're having trouble filling positions in a new administration is, well, who would go into government? I mean, it's -- all these other options out there, in terms of -- so, not just the state-owned enterprises, but in terms of the actual, you know, who wants to be a local, you know, government official or who wants to, you know, do the political

government side of things? Are we seeing fewer people from sort of the top ranks of the educational system wanting to go that route because why bother, there are all these other great things to do now?

MR. LIEBERTHAL: Well, you have to keep in mind that we're going to have to wrap this up, unfortunately, but we've got another day and a half to explore issues like this. You have to keep in mind that in the U.S., to go into the government is typically to suffer a drop in income. It's a difference from the realities of many positions in China now. That is something that we can explore more fully as we go on.

Bill, you've gotten us off to a tremendous start. Thank you very much. Bill just got in from China late last night, by the way, in time to do this. Thank you very much for coming and doing this.

(Recess)

MS. PEARSON: So I'm Margaret Pearson from the University of Maryland, and I'm the moderator for the first panel this afternoon. And although Bill Kirby's presentation will be hard to follow, I think we have a good shot at actually almost measuring up.

This is a fantastic panel of very distinguished scholars. And we have a very diverse group. We have one economist -- eminent economist. We have two eminent sociologists and deans, and we have a very prominent political scientist on the panel. Li Cheng, of course, as you know well from the earlier introduction, from Brookings is here. I have now decided I will call you "The Tornado." And "The Tornado" has given me my marching orders, and so I am supposed to help keep you all on track. And we'll do the best we can.

Li Chunling, who is a sociologist from the Chinese Academy of Social Sciences, she is not with us today, and so Li Cheng will be presenting her -- or Cheng Li, I'm sorry, will be presenting her paper.

We're going to start off with Homi Kharas, who will be presenting first. Oh, I'm sorry. Cheng Li will be presenting first his paper, which is a very interesting overview, then Homi Kharas. I'm sorry. Then Professor Lu Hanlong of the Shanghai Academy of Social Sciences, and then Li Cheng again presenting for -- on behalf of Li Chunling.

So, without further delay, I will invite our first panelist. The procedure this afternoon -- because everyone, I believe, has PowerPoints -- is that they will stay down there while they are presenting. We will stay down there while they are presenting and then at the end we will come up to the front for a question-and-answer session. So.

MR. CHENG LI: Thank you, Margaret, for moderating this panel. And thank you all for coming, and especially for the moderators and the speakers. I look forward to the next four panels and look forward to your insightful remarks on this very important topic.

I'm particularly grateful for William Kirby. We did not expect you would give original, you know, research remark -- researched-based remark, but you did it. And it's a really fascinating presentation from a leading historian, from a sophisticated shopper, from a semi-professional photographer, and most of all, from a dedicated, talented educator. So thank you so much for that wonderful presentation. I really appreciate all the effort you put.

Now, this is the first panel. We provide the overview about the subject. So my assignment, which I assigned to myself, is to talk about the Chinese scholarship on the middle class. And I will talk about the three major issues -- the first major points.

One is about what I call input. Particularly talk about three main drivers on the phenomena of middle class in China. Secondly, talk about the issues, particularly two key debates among Chinese scholars. And finally, talk about impact with a focus on what Chinese call essential questioning. Also, it's essential questioning for us as well.

Now, before that I will start with John King Fairbank, as William Kirby just mentioned. Fairbank, the dean of China -- the late dean of China study. He said China is a journalist's dream and a statistician's nightmare. Certainly for social scientists working in China it is a nightmare with so many data not verified. It's very difficult, but it's so fascinating a country. You know, it was the case before; it is the case now; I assume it will be the future as well.

Now, I also want to talk about the importance of subjects that Ken early on mentioned. I just want to talk about the five major areas. China's rise of middle class has really very important implications on each of these major areas. One is the economy. As we know, China is in the midst of a major transition from export-led economy to domestic demand economy. So whether they can succeed or not will have a profound implication to China and to the world, particularly to global economic recovery.

And society, as we know, there's a lot of tensions in China, ethnic or other social-based tensions. If China can enlarge the middle class, it has a very strong implication to soften these tensions to a certain extent.

Now, also, politics, whether middle class is for or against political democracy, it will be an essential concern. And also, China's international image. If China really produces a middle class in the country -- becomes a middle class country -- country just like us, so it profoundly changes China's international image. And this is the thing certainly also why, in my view, why the Western world is still

very slow to understand, to appreciate, to talk about the middle class phenomena in China.

And finally, the environment implication or resource implication is overwhelming. This is the question. Can the world afford a Chinese middle class? Can the world afford that each Chinese family own a car? Certainly these are things we need to discuss.

Now, also, I want to talk about the booming or fever in China's scholarly community on the middle class issues. This is a study actually conducted by Li Chunling. It's a number of the PRC Journal articles with middle class in the title, almost nothing in 1980s. Then there's a small wave related with the township or village enterprises. Another wave is to introduce Western countries' middle class -- the concept to China. There's a major wave after 2000.

There are -- my calculation is over 100 books, Chinese scholarly books on the topic of middle class. Let's look at some of them.

This is written by a journalist called Wadesham called "So-Called Middle Class." This is by Li Peilin, a distinguished China sociologist. This is by Wei Cheng, another distinguished China sociologist. Li Youmei from Shanghai. This is the social justification by Lu Hanlong with us. And this is two landmark studies by Lu Xueyi about China's social mobility and social certification. This is by distinguished sociologist Sun Liping. He was an advisor for vice president Xi Jinping. He did his PhD thesis, I was told. So study him first because Xi Jinping could still become the successor of Hu Jintao in three years.

Now, let's talk about the social tensions and also Zhu Guanglei and about a political scientist's study about China's social stratification.

Now, this is the book theory as edited by Zhou Xiaohong, also with us -- he will speak tomorrow -- the theories about the middle class or middle income

strata -- about their identity, their consumptions, behavior, their education, and their cultural tastes. He, himself, also wrote the three or four books on the subject.

Now, books by Li Chunling -- there are three books, not just one. Unfortunately, she could not be here because she is hosting a conference with Australian colleagues in Beijing.

Now, how many English language scholar books on China's middle class? Maybe you can say that one of our speakers, Bruce Dickinson, wrote something about China's new rich, but he is still debating whether this term should be used. Another scholar in Australia, David Goodman, wrote another book on new rich. Basically, he rejected the notion of middle class. So the answer to that question is zero.

Now, this is where we change our conference, I hope.

Now, why we need to study Chinese literature? I want to quote Spinoza's very nice line. "What Peter says about Paul tells you more about Peter than about Paul." When Zeng San talks about Li Si probably tells you more about Li Si than Zeng San. The Chinese also have a similar saying.

Now, let me go to the subject. Three drivers. What are these three main drivers? The Chinese leadership is one; business communities, the second; and Chinese social scientists is the third driver. Now, let's very quickly go through these three drivers.

Now, in China, policy started with the year 2000 -- major policy shift. This is related with the rise of the scholarly writings on the subject. Jiang Zemin's theory of "three represents" that include entrepreneurs as part of elite, part of the positive force or constructive force in China's development. That's also including private entrepreneur into the Chinese Communist Party.

The 16th Party Congress has a report. It actually, it states very clearly that enlarging the size of the middle income group is a state policy. That's a very important policy decision.

And finally, two or three years ago -- three or four years ago now, Hu Jintao's harmonious society notion also wanted to enlarge the middle class to give it more hope or illusion to the poor people in the country that sooner or later they will join that group.

Now, assessments of -- by business communities have many important reports. One is by French Investment Bank 2004 -- that was actually the first one -- estimates that by year 2010, China will have 100 million middle class households. The next one is by Merrill Lynch 2 years later; talks about 350 million individuals by 2016 will join the middle class. And this is 32 percent of the adult population then.

And the McKinsey report is probably the most famous one and published -- released in 2006, actually had the very sensational number: talk about either 520 million or, if you include the lower -- relative low middle class, there will be 612 million individuals by 2025. Basically 76 percent of China's urban population.

And a more recent report by HSBC -- and there was (inaudible) also had the same conclusion as the French Bank made about three years ago -- five years ago. Again, 500 million. So all have very optimistic estimates about China's rise of middle class.

Now, this is the report by Merrill Lynch. This is -- the white color is the annual income. It's about 4,000 USD. The yellow color is 8,000 USD. You see the increase.

This is by the McKinsey report. The red color is the low income population percentage. Poor percentage. I'm sorry, poor reduced significantly. Certainly, 300 million people got rid of poverty during the past 3 decades.

This is, again, it's the "low middle class." This is "upper middle class" increase. And also the "global affluent" they call also will increase. And the "mass affluent" will increase. So this is their estimate.

So, again, this is a picture that they present about the rise of middle class in China in the next decade also.

Now, also according to the World Bank report, look at the different regions. Yellow, the year is 2000. Grey is 2030, the year East Asia will score the best compared with some other regions. They choose East Europe, Latin America, Middle East, South Asia, and Africa. So, this is the projection.

Now, let's move to the third area, China's scholarly communities. Subjectively I select 11 most prominent scholars, including 3 of them presenting papers, you know, at the conference: Professor Lu Hanlong and Professor Zhou Xiaohong, and Li Chunling.

Now, interestingly enough, they come from different generations. The most senior, Lu Xueyi is still quite active. He was born in 1933, and Li Chunling and Liu Xin from Shanghai, born in the early 1960s. They really represent two or three different generations. But most of them are sociologists by training. All of them have foreign exposure as visiting scholars. And Li Peilin and Li Youmei got their PhD from France and

Liu Xin got his PhD from Hong Kong, Chinese University of Hong Kong.

Now, they visited China's top universities and research institutions. And most of them actually hold some kind of other administrative positions as a dean, dean, vice president, department chair, dean, dean, dean, dean. So that's probably helped them to conduct empirical research, get some kind of a political

protection, et cetera. I hope my observation is right. Of course, besides, they are very, very talented.

Now, there are some different contrasts of definitions. The Chinese government definition is largely based on income between 60,000 yuan to 500,000 yuan household. Now, but the definition by Chinese sociologists are different. Not so much based on economic income, but rather it's a combination of what they call a comprehensive index of classification, particularly on occupation, but also includes income, consumption, and self-recognition -- a kind of identity or group consciousness.

Now, this is the report by the landmark study by Lu Xueyi and the many people involved. It analyzed Chinese society into 10 strata, including urban and rural unemployed, agricultural worker, industrial worker, commercial service worker, private or small business person, clerk, professional technical person, private entrepreneur, manager, and cadre. And this part belongs to a kind of middle class. This is the new division of Chinese society.

Now, you do see the rise of private firms. This chart is quite famous, and if you go beyond the 2000 -- yes, this is the rapid rise up of private firms -- actually, did not exist before 1988. This is how rapid it goes.

Now, these are the five major studies conducted by Chinese researchers here in the past 10 years. And it is estimated they reached -- this is a study put together by sampling and also by questionnaires, interviews, and combination of the original research also combined with census -- national census and other -- 1 percent of population research, et cetera. According to Lu Xueyi, it's 15 percent. And according to Li Chunling's study, 4.1 percent national land 12 percent in major cities. And Lu Xueyi has another study as 1 percent increase. According to Zhou Xiaohong's study it's about 11.8 percent of major cities. You study five major cities. Li Peilin's study about 12 percent. This is the most

prominent China sociologist, the results about the estimate of the percentage of the middle class.

Now, Li Chunling also developed kind of a combined research. It's a classification, a skill of today's Chinese middle class. If by occupation the total percentage is like 16 percent, total by income is 25 percent, consumption is 35 percent, self-recognition even high in 46.8 percent, roughly. But then if everyone should have all these four things together, then certainly the percentages reduce significantly. So the population is about the 2.8 percent. In China's major cities, 8.7 percent. In the labor force age group between 16 to 60, 4.1 percent. And the younger group, as William Kirby -- Professor Kirby said, they're quite young. It's more than that, it's 10.5 percent. So this is -- then we ask the general picture of the middle class current association with a number.

Now, let's talk about the two major debates. The second part of the issues. The first centers around the middle class existence or supposed size. Second evolves around the ideas that the middle class must share a set of core values. Now, first, there are two different views, critical views here. They think the middle class concept is a fake one. They believe that China is still like the pyramid type, not an "olive type" of social society stratification. They believe that a small number of super rich -- China is far from a middle class society. The majority of them are far from that category. And also, they talk about whether China should be concerned not about the middle class, but what they call the black collar class. I will explain what I mean by black collar class in contrast to white collar class or gray color or blue collar class.

Now, this is -- I'm sorry, I haven't had a chance to enter English. This is the comparison of occupational distribution of China in the United States in the year 2000. This is China; it's still a pyramid. This is the United States. More like an olive in terms of adult population or workforce.

Now, also someone argued -- this is based on a Merrill Lynch report. China actually had more super rich people and this is the study by Merrill Lynch. This is net worth. So China compared with India, South Korea, Singapore, Indonesia, Brazil, Russia -- they're all famous for this super new rich, but China's score is much, much more impressive than others. So, again, this is the prioritization of China's society stratification.

Now, what do I mean by black collar class? This was first created by an economist called Larry Rong or Lang Xianping. He was very famous in China. He was educated in Chicago and now lives in China and has become a media commentator czar. Now, he said these people dress in black, drive black cars, have hidden incomes, live secret lives with Ernai concubines, and have ties with criminal elements, the Hei Shehui, and operate in an opaque way.

Now, another distinguished scholar, Sun Liping -- he actually used a term "wicked coalition," to talk of conspiracy between leaders, local leaders, economists, opinion leaders, and creators of fake concept of middle class, but reality is they are part of the black collar conspiracy. And the cleavage China would witness is the major conflict.

Now, also many of these entrepreneurs are actually now Communist Party members. Thirteen percent in 1993, the private entrepreneurs were party members, but now increased in 2004 to 34 members. This is -- Bruce Dickinson is really an expert on that area. So talk about how the Party uses power to take advantage. So it's not really the middle class rise, but there are some other problems about the conspiracy or coalition between power and money.

Now, the prominent critics reject these views. First, they say it is still an analytical focal point. And middle class counts as, they believe, inherently flexible concept in China, as elsewhere. And also, it's made of a process because

you cannot expect the middle class will become like 40 percent, 50 percent overnight. It takes some time. China is on the way.

And also, the extension of the middle class can reduce disparity. And also, you do see upward social mobility looking in general terms. Not that those rich people become even richer, but the reality is many poor people become rich if you look at the larger scale population. And the large number of absolutely the terms. Yes, only 10 percent, but 10 percent is a lot in absolute terms. That's why the business firm looks at the China market very seriously.

And finally, it says China -- we should not confuse the middle class country with the rise of the middle class. China is probably not yet a middle class society, but it has a middle class in its society. So whatever you want to say.

Now, very quickly, the second thing. I want to borrow some time from Li Chunling. Actually, she told me her talk should be short so I'll borrow five minutes from her. This is our deal.

Now, critical views. Someone argued that the subgroups are too different to be cohesive -- China's middle class. There are so many different subgroups in the middle class. So they're not a coherent group. We really cannot talk about middle class per se in China. They also have conflicting policy preferences. Sometimes there are really two different policy choices they prefer. They do not have shared values. This is their view.

Now, the other side. The same can be said everywhere, like in the United States. There is old middle class, new middle class. The subgroups exist everywhere. And also, shared preferences do exist within the Chinese middle class. I will explain what that means.

And also, the role of education will play a very important -- education will play a very important role to reduce the gap and the previous generation is not educated, but their children's generation -- those self-made entrepreneurs -- they

do not -- they did not receive good education, but their children received good education. So that will have a strong impact to develop the same value system, et cetera, making them more similar in a way. And also growing group consciousness is an overwhelming phenomenon. Early on, the publication of these Chinese books certainly is indicated.

Now, shared values. I'll name some of them: appreciation for the middle class lifestyle; believing market at home and economic globalization abroad; and the protection of private property rights, which is crucial for them; in support of public policy emphasize education; and really talk about continued social stability -- it's crucial for a country; a feeling of pride over China's rise on the world stage; and the public discussion of the notion of the middle class which really reflects their search of its own distinct social identity.

Now, the impact -- the central questions, it's about whether the middle class is for or against a democracy. And this is our focus. This is -- actually, Chinese scholars become also increasingly interested in that topic.

Now, new findings and new arguments. I don't want to go back to the previous argument that new middle class will provide stability, et cetera. It's the best friend of leadership -- the Chinese leadership, et cetera. This is old arguments. But we do see some changes. Now, Tang Jing, also a member of -- a scholar at the CASS. He talked about the pyramid-type stability. It's a step static stability. You look like you're very stable, but if there is a major problem it will collapse. So that's the China system.

The other kind of stability is the dynamic stability. It sounds like it's a lot of problems, a lot of grievance and sometimes a lot of protests, but they are stable. These are the things that he believed that China should move toward.

The second is by Li Peilin. His recent report was released last year. He found there's a greater doubt concerning the official ideology and the prevailing

power structure. That's a very interesting finding released by the head of the sociology department at the CASS.

And there is also Lu Xing's studies largely focusing on Shanghai. Talk about a high rate of participation in elections and the rights protection activities among middle class compared with other groups.

And also Yuan Yue, his survey also indicates city residents are far more dissatisfied with central government policies than those in small towns and the rural areas. I will show a chart -- a table he made. And Li Lulu, a distinguished scholar in Remy University, he found that the middle class is neither stagnant nor one-dimensional. So he really challenged Samuel Huntington's argument that the middle class in developing countries first are revolutionary, then become conservative. He believed that China is probably just the opposite.

Now, this is the study by Yuan Yue, the survey study in terms of whether you're satisfied with government policy or not in terms of commodity price, stock market, housing market. You find not satisfied among the city dwellers is much higher than towns and rural areas. So, again, the middle class areas actually had more reservation -- criticism -- about the Chinese government policies.

Now, conclusion. Three things. One is U.S., U.K., and Japan each experience a rise in middle class that profoundly transforms their politics, economy, and society. This is in the past century. And also China is in the midst of this kind of a remarkable transformation -- similar remarkable transformation.

Second, Chinese scholars have not limited their scope of study. We inquire to a definition, or size, or characteristic of middle class. They actually have also begun to examine its relations with the ruling class and also other social economic forces in the country.

And finally, I believe that the impact of China's emerging middle class will be felt with increasing strength domestically and throughout the world in the coming years.

Thank you very much. (Applause)

MR. KHARAS: Hello. I'd like to present some work that I've done with a colleague of mine, Geoff Gertz. We are the token economists on this panel. I know that the title of this is "Beyond Economic Transformation," but actually, our paper is all about economic transformation in China.

And I think that really the assignment that we took on ourselves was to say there is a lot of talk about the emergence of China's middle class. When we talk about that, are we actually talking about the same thing as we talk about when we talk about the American middle class?

And then there's another question. Will there be a middle class in China if there's no growth? And will there be growth if, as we now know or think, the U.S. middle class ceases to be an engine of the world economy?

So in some sense, many of the highly optimistic forecasts that you were shown in the previous panel about the emergence of the Chinese middle class were done at a time when the world economy was booming and there was this sense of great optimism and people sort of took growth for granted and then said now let's look at what that growth is going to do with the middle class. What we've tried to do is actually say here we are in the middle of a major recession. And the question really needs to be reversed a little bit and say will this emerging middle class actually rescue the growth prospects for the world. And so we've tried to look at the middle class, not just in China, but more broadly in the rest of the world.

So our thesis is basically first to say given that the, you know, U.S. consumption growth is, you know, is weak -- has fallen. Most people, I think,

believe will continue to be weak at least for some time. Where will growth -- demand growth in the world come from? And the answer in part is that we, actually, are going to make the argument that a lot of that growth will come from what can be termed an emerging global middle class in emerging countries.

I use the term global because when I talk about the middle class I want to talk about it in terms of a common definition across all countries, not about how one might think of the middle class in China or think of the middle class in some other specific countries.

The second proposition is that actually when you look at this emergence of this new middle class, what we are talking about is really a phenomenon which is led by China. By no means limited to China, but certainly led by China.

And then to say there are, you know, two possibilities because for this to come about I think it will not necessarily come about automatically. There may need to be some new policy changes that will -- that are necessary to promote this middle class. And the two most common explanations -- or the two most common suggestions are first that one should in some sense change the household distribution of income. There are all kinds of suggestions about how to make Chinese households behave more like U.S. middle class households. So it's about changes in behavior of Chinese households.

And then the second possibility is actually to say something quite different, which is to say that, well, for Chinese -- for the Chinese middle class to really emerge, there has to be a change in the relationship between households and the state. And we will actually argue that it is this latter proposition which is more important.

So to start, let's talk about the middle class, not just in terms of its broad sense, but in this very narrow sense of what are the characteristics that are

important for growth? Because at the end of the day we want to be saying what is it about this emerging middle class that might drive growth? And first, as we've heard, lots of people talk about the middle class as a source of entrepreneurship. This was, you know, perhaps the original definition of the middle class in the Middle Ages.

There has actually been quite a lot of scholarship now about the middle class in developing countries. I would highlight a paper by Abhijit Banerjee and Esther Duflo at the Poverty Action Lab at MIT. They did some fairly detailed microstudies of the middle class, but broadly speaking their conclusion was the middle class can be characterized by many things, but what they really aren't is very entrepreneurial. And when they do have businesses, these businesses tend to be quite small and really not very profitable at all. And certainly that would not be one of the dominant characteristics of the middle class.

Then you have the -- again, we've heard the stories about how the middle class is really this group that has a tremendous focus on education and that has -- actually provides the savings and therefore the financial capital to drive modern economies. And here, again, I would say that the emerging literature in development questions this. Not that they question that the middle class pays a lot of attention to this, but they question whether it pays more attention than other groups. And in particular, there is a huge literature on convergence. And the literature on convergence in education or on income essentially says that actually poorer countries and poorer groups in society do even more in terms of education and savings than the middle class. And they do even more starting from a very low base, so it's easier in some sense for them to have higher percentage rates of growth of accumulation.

Nevertheless, if you're thinking about this as driving accumulation, it is that percentage change which is important for growth. And so it's hard to argue

that actually middle class societies or economies provide a greater percentage change of education or savings than others.

So the argument that we actually will pay -- place most attention to is the argument about consumption, that the middle class is really different. They consume a broader quality of goods; they permit product differentiation because they're prepared to pay slightly more for higher quality products. And so the range of goods that is produced in a country and which is consumed goes up exponentially. And when you look at growth in some of these economies, what you see is that a great deal of growth happens by producing a broader array of goods rather than just producing more of the same good. So, you know, this is a driver, if you will, that provides an incentive for innovation.

There are a number of studies. There is one by Nomura International in particular where they have a graph and the vertical axis is consumer demand for just about anything. And then on the horizontal axis there is essentially your per capita income level, then purchasing power parity terms. And essentially what they attempt to demonstrate is that there is a real kink in this demand curve -- that the elasticity of demand goes up very sizably once you pass a threshold of roughly speaking \$6,000 per capita in purchasing power parity terms. And then at the top end, again, the income elasticity sort of comes down once you pass a threshold of about 25,000. That gives you a very clear indication of a middle class which behaves fundamentally differently in that they purchase both more and a different variety of goods.

What we have done in this paper is to take this concept and then to say, well, should we look at a relative definition or an absolute definition of the middle class; "relative" meaning think about the middle class in terms of the country itself. And a great deal of the scholarship on China thinks about the Chinese middle class in the context of China. We have chosen to go with an absolute

definition of the middle class because what we're interested in is thinking about the middle class, not just in China, but how it contributes to world growth. So you want to have a common definition.

So we've taken an absolute term. And then you need to say, well, what is your range? And we have defined our range frankly in a fairly arbitrary way. We have it from \$10 to \$100 a day. It turns out that almost all income distributions in countries are log normal, and if you take a log normal income distribution then 0 is \$1 a day which is, you know, poverty, and 1 is \$10 a day, and 2 is \$100 a day. And so guess where our sort of classification comes from.

It's, you know, it's quite arbitrary. I would argue that the precision of that range doesn't matter too much. Obviously, it affects the absolute numbers. We're not that concerned about the absolute numbers. I think if we think about growth what we're really concerned with is the change in these numbers over time. So I don't want to say that this range is, you know, the best or the only range. I think there's necessarily a degree of arbitrariness whenever one chooses a range like this.

What we do as a matter of practice is for the 145 countries on which we've got data for income distributions, take income distributions in every country, and then calculate how many people fall into this range of incomes, and then add it all up and say this is the global -- this is the global middle class. That gives us a snapshot today. And then if we want to think about how does the middle class evolve over time, we need some assumptions essentially about how growth evolves over time. What we have not done which some others do is talk about how there may be changes in distribution in the process of that growth. Obviously for us, thinking about changes in distribution in 145 countries would be rather difficult, and so we take the simplifying assumption that there are no changes in distribution.

So that's essentially how we come up with this concept of the global middle class. And just to show you what ends up transpiring in this kind of world is yellow shows you, you know, the big chunk of global poverty; red shows you these now-familiar numbers that say that a very small fraction of the world's population actually consumes a very large fraction of total world income; and the orange band in the middle is essentially this middle class.

And what I hope you will see is that right about now -- so right about 2009-2010, that band, that orange band starts to accelerate. There's a real thickening of this middle class that we see. And that's very much associated with what is happening in Asia.

I'll run first through some of the numbers and then come back to the intuition behind why it is that this band is thickening. So these are our numbers. If you just look where is the middle class today -- and this is probably the number on which one can be, you know, a little bit more precise -- you see this heavy emphasis on North America. Obviously, largely the U.S. and Europe, which is essentially the E.U., which is now 500 million people, many of who are middle class, but also some Europe extends beyond that to include some non-E.U. countries.

And then you see Asia-Pacific. And within Asia-Pacific, many of those people are in Japan, about one-quarter of this population. So this kind of gives you the breakdown.

Now take a look at some of these numbers as they shift over time. What you see for North America is essentially, in terms of numbers of people, no change in the middle class. That's not because there's no growth in North America. Actually, in our projections there is growth in North America, but it's because given the distribution of people there are as many people coming into the middle class

from the low end as there are going out of the middle class at the top end. So, in terms of the change, there's not all that much.

The same largely applies to Europe. The big change, which I think emerges quite clearly here, is in the Asia-Pacific region. Here, what you have is a huge number of people who right now are actually quite close to the low end of the threshold of the global middle class and almost no people who are close to the top end of the threshold. So, as these economies develop, in some sense there's this huge movement into the middle class and almost no movement out. And that, in essence, is what is driving these big changes in the middle class.

And if you just look at these numbers, what you see is that for the world as a whole in some sense, a very optimistic picture: 1.8 billion people today in the middle class ramping up to 3.2 billion people by 2020. And even more, almost 5 billion people, by 2030.

Again, this is almost a statement of how close a big bulge of the world's population is to this lower end threshold.

Now, all middle classes -- even, you know, this range is quite big, so all middle classes are not the same. And just because these people are coming in to the low end of the threshold doesn't mean that they can dominate in terms of purchasing power. So we also compute for each region how much is this middle class actually spending. What is the size of that middle class?

And so, again, you can immediately see why people have been so focused on the U.S. middle class. If you look at this first number, \$5.6 trillion, again, largely dominated by the U.S. Incidentally, global GDP is about \$53 trillion. So, you know, the U.S. middle class by itself accounts for about 10 percent of global GDP. That's a very big number. That's why there's been so much attention to the middle class.

But, what you see is that that's staying roughly the same over time. This comes back to our original thesis that the U.S. middle class will no longer be a driver of the global economy. And then look at the line which is Asia-Pacific. And there what you see is a middle class which is already reasonably sizeable today at \$5 trillion, but almost tripling in the next 10 years and then doubling again in the following 10 years. So very, very rapid growth in the purchasing power of that middle class.

When you break it down by individual country, I think you get a sense of what we referred to in the title of this paper, which is that not only is this middle class a new phenomenon for Asia, it also represents a real crossover of a middle class moving from the West to the East. And when you look at the list of the sort of the top 10 countries, you see that China sort of is in there, but China's middle class today is probably no more than 4 percent of the global middle class. By 2020, China comes to dominate. It could leapfrog to the top of the chart.

Underlying this is the notion that China will grow at about 7 percent per year. It's not just China that is leapfrogging. India now appears in this list. Indonesia now appears on this list. So there are big populous countries in Asia which suddenly are crossing over into this middle class region.

Anecdotally, we've already heard this. China's middle class today is very small. It's 12 percent of its population defined in these terms. And actually, I was quite interested to see that even these other classifications come up to a range which is very, very similar to 12 percent. But obviously in absolute terms because China is so large, it makes for a very large market. And it's, you know, China is probably now the largest automobile market in the world. It's the largest cell phone market. Chinese consumers seem to spend a lot of time shopping, et cetera. So it's big.

And that combination of on the one hand the size of China, but on the other hand the small share of Chinese middle class is actually the policy conundrum. It's the policy conundrum -- sorry, I'm going to move a bit faster because of more slides that are in the front row. It's the policy conundrum because we know that China may not be able to sustain growth with its current export-led model. We also know, despite all this talk about the glories and the benefits of the middle class, that as a matter of practice, middle class -- middle income developing countries have actually tended to grow slower than either poor countries or rich countries.

Some people talk about this as the so-called twin peaks phenomenon. You have a bunch of countries which are fairly low income and then a bunch of countries which are rich, but few in between. That's a very difficult valley to cross. And there is at least one argumentation that the only way in which countries can cross that gap is if they do it on the basis of their domestic homegrown middle class. So, is this 12 percent of China big enough or not? And I'd like to give you two contrasting stories.

One is of Brazil, which for 15 years grew extremely rapidly from 1965 -- even before that -- up until 1980. It reached 1980 with a middle class percent of only about 29 percent of its population. Brazil hasn't really -- did not regain that same per capita income as it achieved actually in 1978 until 2006. It basically stalled.

South Korea had been on a very similar path. When it got to a middle class range, its middle class -- which was in roughly 1983 or 1986 -- its middle class was 53 percent of the population. South Korea has gone on, as we all know, to grow very rapidly and now to become high income.

I think if you were to step back and just look at those numbers, you would say that China today looks much more like Brazil than it does like South

Korea. So this notion that somehow this great middle class in China can actually sustain and propel its growth is, I think, a question which is still open-ended.

And that gets to the issue then of, so, what can be done? What are the policy choices? We know that China is very unequal. One way to expand the middle class is by trying to sort of compress the distribution -- make things more equal. Our own sense is that this is a very difficult proposition to do. We know that there are a number of things that could encourage Chinese households to spend more. These are all long-run institutional changes: things like Social Security reform, things like education reform, all the things for which Chinese households save.

You could have the public sector actually providing these -- providing greater security and so slowly changing that behavior. Our worry is that that process might be too long to really make a difference in the medium term. I think China's economy, if exports are cut off, could stall before that.

There is an alternative, which is to try and increase the share of Chinese household income in GDP. Today, that is about the lowest of any country in the world. Chinese household consumption is only 36 percent of GDP. And part of the reason for that is so much of GDP occurs in the non-household sector. And there are many things, like state-owned enterprise profits and other things which are completely divorced from household income.

There are instruments by which government could take some of that income and translate it more directly -- transfer it to households by reducing labor taxes, for example, which are quite significant in China -- in a way that would push income levels down to the household level and in some sense restore China's household income back to the same position as it was about 10 years ago before this big decline happened. That would accelerate the growth of the middle class quite considerably. And we have some numbers about how much it would do it.

And so, you know, our conclusion really is that this offers the best hope for China to be able to both buttress its middle class and to be an engine for the global economy.

Thank you very much.

MR. HANLONG: Thank you. Good afternoon, everybody. It's my pleasure to have the opportunity to speak to Brookings. I hope my limited English can express what I think about this topic.

I have the full paper and maybe if I can also make my meanings clearly so you can read the paper.

The middle class -- I want to talk about the middle class in China and also use the Chinese concept about society. This is Xiao Kong She Hui. And I think they have some relations with middle class. Maybe it will be interesting.

In my paper I talk about the four parts. One is that we should compare about the Western experience of the middle class because it will be a mirror looking from the Western society to China. And the second will be what is the situation of China. For the third part, I will turn to the stratification of the life conditions to see how the structure of China. And then, at last, we shall say what it really means, the middle class in China. Maybe it's either -- we have the middle class, but we have not the class consciousness at all.

And from the Western experience, by my knowledge, the emergence of the middle class and social stratification resulted from the self-regulation of the production relationship. And it's the most traditional from Karl Marx, so I think maybe what Cheng Li said that there were many Chinese scholars interested to talk about the middle class, but there were zero contributions in the United States.

And between -- because the Marxist theory is interested in the upper class and the middle class just like the bourgeois and the proletariat classes. And this is discussed under proletariat polarization class societies. But in the whole 20th

century, I think there are big changes in the world, especially in the Western society. And first, in the left we shall see the economic perspective that captures the generalizations because the human capital challenges material capitals and then the workers, they have their unions and arguments, negotiation tool with the ownerships. And as so, this is an economic picture and in the social perspective we found that in the 20th century, human rights, the challenges to the property lines and the consumer autonomy over the production decisions. And there will be a public government and the welfare system established in the Western world.

So this means the middle class becomes ideology. People often say that America is a middle class society – a middle class country. And many working class also identify they are middle class. So I don't think it would be a scientific concept in the Western society. So this will be some lessons for the Chinese to study.

And what happened in China? I think of the Maoist Communist eras, that's just after the People's Republic of China established it 30 years, this is the Maoist era. They have the economies of a "datong." Datong, this is a Chinese term that means "utopian ideas." And they have the stratification egalitarian systems and all the people became average human beings and there were little differences. So in the Mao Zedong era they have social differences, but in China, they were much smaller than compared with the Western society or with developing countries or even most of the Communist countries.

But we paid a huge price. The three huge prices are listed in the left. The separation of urban and the rural gaps. This is still affecting the society until now. And the second is central planning into the "big rice pot." This is to make the economy very inefficient and also bifunctionary. And third, the stratification was achieved through the many political movements. It is very, very -- lessons for the Chinese from the class struggle.

And from the 1980s, China really has transitioned. In the '80s we transformed from an open policy. It's in the incremental reforms, just like Deng Xiaoping said, "Mo Zhe Shi Tou Guo He." In the 1990s, we have the socialist and the marketing incremental reform. And in 2001, China was admitted into the WTO. This I think is where we exemplified the success of China's economic reform and its establishment of the economy system based on market prices. And we can see in the social cause Deng Xiaoping also said in the 1980s and the '90s, that this -- China was in the initial stage of socialism. These are very big changes from Mao Zedong, the utopian Communism. And Deng Xiaoping think that in the last of -- by the end of the 20th century China will be the overall "well being". This means in China's terms that it is "quan mian xiao kang." No, "zong ti xiao kang."

In the new century, the new leaders of the Communist Party, they still think that China will be the complete "well being, that this means "quanmian xiaokang." What the difference of the "zong ti xiao kang," total xiaokang and the comprehensive xiaokang . I think this is because there were many big gaps in the Marxist traditions.

And from the economic perspective, we can see example for success of China's economic reform and its establishment of the economic system. This really means, first, it is the entire world's labor market has increased by one fourth because China has a big population. The second is the number of consumers have increased the one-fifth. And the social structure will be formalized by the mechanical adjustment of the market.

And what does the xiao kang or say the comprehensive xiao kang really means, that's -- originally this is -- Deng Xiaoping think this is a realistic society, but not an utopian society. And the acceptance of provided values in the interest of family because in China's Asian literature the xiao kang is connected with the datong, with the utopian communism, and the xiao kang principle is "tian

xia wei jia". And the third society, in a xiaokang society, it is held together by the institutions and also it will be run by some normal laws and so on.

And the fourth society ruled by the elites. In Chinese term it is "jing ying zi li." Elite, just like elite, mass socialism. So I think the xiaokang will be a culture code for what the Marxist ideology said, that this is the initial stage of socialism and the market regulated system. And from the reform we can see- this is a figure about employment in China, it was the three sectors of industry were changing. We can see the agriculture population has declined and the service section is not above the 30th percentage.

And also perhaps we still have the social gaps. The social gaps as many scholars make contention of the Gini index of Chinese incomes have reached to the 4.5 to the 5.0. This is a picture of about 30 years the Gini index will changed. It is much higher than before. And also it is ranked in the 97 of the world, and it is the last one in Asia.

So, also the redistribution mechanization still works and this is figure that shows that the party state still owns the greater capital assets, so the powers still has their resources. And the fiscal incomes increase faster than the rest of the incomes. This is what we are very carefully- but aware of in the mass media where the people -- consumerism is still very low. And our distribution power has its mechanism of inequality.

So what puzzled us? Different surveys all show that most Chinese people are satisfied with the win-win model of the incremental reforms. It was said that the China model is a win-win model because different groups of people all think they have changed their life and they all enjoy their Xiaokang life. And the market transition really has this mechanism to reduce and redistribute powers and how to obtain sustainable growth and how to realize a "comprehensive well-off." This is

where the questions puzzle us. This is why we are interested in how to study the middle class in China.

And just recently we finished -- our academy finished the survey conducted with (inaudible), and we have some survey data to see who wins and who lost. And we have compared it with China and Russia. From this figure, you can see from the table that most Chinese groups have won this through reform compared with Russia. And most -- what we think of the middle class, they see the low class. It is the highlight for the -- most of general officers and state employees and people with high-level education and scientists, and the people of the creative professions, they are think that they have won.

And compared with Russia, more and more groups in Russia, they think they have lost or they have not made changes. So this model shows us the classification of structure, maybe our argument did not- we should not classify structure as hierarchical. Ours said that it's more important to classify structure as "category," but not hierarchy because category is more important than classified social stratification layer upon layers. And this is -- I would argue there are five class structures in China's stratifications. There are five categories in China.

In the middle we have three categories. One is the elite class and the second is middle level class and, thirdly, the director -- producer classes. And in these three categories we think of the human capital works and the data all shows that if they have more education, education is very important for these three categories. And then we shall have another two categories: one is on the left. Capital owners and the other are profiteers, just like big store owners and many esteemed owners.

And they also have the small business owners. They will be -- this is another way they can come to the rich category of people. And in the left we also have the poor class. This is the poor class included the unemployed, and also

some people, they are unable to be self-sustained. And I think this is a life condition to make some stratifications: the rich and the well off and the poor. And in the middle of the three categories, I think in China they wanted to be the comprehensive or, say, the complete xiaokang and most of the people were of the three categories.

But this is a very ideology. I'll say it is an ideology structure. And has the middle class emerged in China, really? This is what Li Chunlin was interested in with the four different topics, occupations and positions. Secondly is the middle income class; thirdly, the consumers -- middle class; and lastly, the self identified. And there is a lot of research about these four topics. But I think we should think more broadly about the class conflict theories. This is what China's scholars base on the class conflict theories.

I think the middle class theory has its traditions from the class conflict theory. And under the standard Western middle class definition, we found that they are the -- statistics are very different, just as Li Cheng have made the clear pictures for us. And I would argue that we should have a frame of reference for the middle class in China. One is by the property rights. This comes from the first resource, it is property rights resource. And between the state capital -- because the CCP also has control of all the state capital. And also in China some people have no capital. And in the middle area, small and middle size, private. This is the private entrepreneurs. And also the material capital and the low human capital between these two posts, we still have the human capital. This is the knowledge and experience. So this is one dimension we can find in the middle class.

And the second dimension is about power. Because in China the distribution of power still works. So it is a high level elite and direct producers, and between these two posts we have the middle level managers. And also between the political power and the low social status, we have the professional authorities.

So in my paper I will turn to the folks on the -- three kind of people. One is the private entrepreneurs and they have -- some survey shows that the private entrepreneurs they have self-innovations, that they are (inaudible) about in the ladder of the economic levels. The economic status is about 4.58 and their social status is about 5.01 and the political status is much lower than the 5.9. This is a survey from the Sixth National Private Enterprise Survey.

So, but generally the entrepreneurs, they all think they are in the middle. And this is what they are interested in or they think about. The first thing they think about is their business, when they are in business. So, in Chinese they say "zai shang yan shang", they always think to try to do their best to build a good company. And the second that they will build a good personal and corporate image in their daily life. And then they also become responsible and they're respectable persons in society. They should have good experience- good inspiration for the societies and that they also care about their reputation as the private entrepreneurs.

And the last three kinds they are not -- they also think about whether they should become a member of the People Congress and the People's Political Consultative Conference. And also hope that they are a portrayed positively in the media. And also some people they want to make a relationship with a party and even join the party. But we can say that entrepreneurs they shall be more and more independent.

And the second group would be the knowledge service classes. And they are generally public service people and also some white collar people in the corporations or the professionals.

At the elite level in China there is still -- the party manager still manages the cadre. In China we say "dang guan gan bu." And at the general level the power shifted to the authority. The authority will be very, very important. The

authority comes from the bottom and the power comes from the upper levels. So in a general level, I think the authority is more and more important. But we still found the white collars have been a puzzle. One is that their family background. For example, in the international or the FDI companies, the glass ceiling for the promotions still exist. And some white collar people, they come from the countryside or the small towns and they are like migrant workers. They have long hours to work and they also are worried about their job stability and the working conditions are very higher, especially now they are always worried about losing their job.

And the white collars still enjoy a pretty bourgeois lifestyle. They are the xiaokang level families. I think this is a picture of a taste of China white collars. It is using a credit card issued by the bank. They live in apartments built by "Wanke." This is the famous real estate group. And they use China Airline for touring and they book hotels or shop on the Internet. And they watch Hong Kong TV and read *Vogue* magazine. And the consumer leaders, also the real estate, the ownership committee, there are many ownership committees established, and they challenge the government to control the residence communities because they have the right to make the decision of their communities.

And a popular selection of television programs- there was a very famous TV program, The Super Girls. And I think about the influence of the Super Girls. It is encouraging the grassroots effort and fair competitions and modern spirit and friendship. They are also just like democracy models in consumer (inaudible).

And also in my paper I have some examples of all the concepts of the government consumers. It is beginning to emerge.

And to the conclusion, I think we should confirm the middle class and comprehend their well-being. Because China should continue its economic growth and sufficient employment, it will make the people still have their xiaokang life. And

they will build and improve the public service and welfare systems, including social security, education, and public health care and housing. These are very important because if the government did not have much social security and education and public health, especially for the housing, to not have these social policies, the people will not enjoy their xiaokang life.

And also, the government needed to improve the life quality of the poor people. We found that since two decades, China's poverty was declining, but they still have some people, they have -- their life is very difficult. And also, we needed a civil society and charity and philanthropy development to make the balance of the rich people and the poor people.

So, in summary, with China's ongoing industrialization, it's important to identify and appreciate a frame of reference. This is capital and power. And when studying China's middle class it should match the pace on the social differences -- the public perceptions of social inequalities and the level of tolerance. So I think the xiaokang culture based under the Confucian notions of Zong Yong these are the "golden means."

And it emerges from the Communist datong ideas. This has laid down the cultural foundations for China's market economy reforms. Completely, really, xiaokang means to form a vast middle class foundation. The middle class (inaudible) at the front, advanced, productivities. It included knowledge service class, and they are located in the middle level in terms of power and capital. The success of China's building a successful xiaokang society depends on whether the middle class can be connected with a vast (inaudible) procedures and efficiently merge together with capital and power.

However, at the present we only see a middle class that did not have a collective class consciousness. So I think the current xiaokang society has to know their class structure.

That's all. Thank you. (Applause)

MR. CHENG LI: Well, I speak on behalf of Li Chunling. I feel bad that I already used her time in my talk, but I feel a little bit better because her name was frequently referred in my presentation and also in Professor Lu Hanlong's presentation.

Actually, I read the other papers that she was also frequently quoted in some of her other papers by Professor Hahn and Professor Shaw at least.

Now, her topic is a very focused one. It talks about the definition of the problem and also the composition, particularly subgroups. And finally, the marketable identity issues.

So, I will focus on some of the issues we did not cover early on, especially about the subgroups and also what subgroups means for the cohesiveness of the middle class. And also what the multiple identity means and what's the most important subgroup in that class.

Now, these are some more issues I will cover.

Now, first I will mention that the data -- her data sources come from -- largely from the census data and from the also 1 percent national survey data in 2005. And the second group is from the Household Income Survey of Chinese cities conducted in 1988, 1995, and 2002, all by the Institute of Economics of CASS. And finally, it's national survey data of social structure changes and also largely conducted by her Institute, the Institute of Sociology at the CASS.

Now, she started with talk about the rapid change of the GDP -- growth of GDP and income. That should be a familiar theme now. If you go even earlier to 1950s, it's really like a 10,000 year population growth to the 20th century it becomes vertical. This incredible growth rate happened in China. It probably never happened in history. So that's a tribute to the rise of the middle class in China.

And also talk about urbanization of China. This is another major trend. It's from the 27 percent now also -- now what's the percentage? About 40 percent. Early on it was 27 percent and expect that in 20 years it will become like 60 to 70 percent. So that urbanization process will drastically contribute to the rise of the middle class and the continuing extension.

Now, this is education. We talk about -- Professor Kirby talked about education and also in a couple of our other papers we are focused on education. It certainly plays a very important role on the rise of the middle class.

Now, this is the chart -- the blue chart is about number of college students. And the pink color is the rate of seniors -- secondary graduates entering into higher education. Now, actually, like 75 percent. I remember when we applied for college, only 4 percent in early 1980s. And only 1 percent can enter the elite universities, but now it's about three-quarters can do it. And the number of college students someone said that during the Cultural Revolution, on the eve of the Cultural Revolution it's almost zero. I mean, at the end of the Cultural Revolution because these are not really a study for economic purposes. But now it's 26 million or 30 million the figure you use. So it's a really drastic change. And in a way, also related was the rise of middle class.

Now, she also compared with those in urban areas and nationwide. The blue is nationwide in terms of the percentage of people with white collar occupation and the high education among the national population of age 16 to 60. But if you look at the urban area, it's much higher. It's 16 percent, it says 6 or 7 percent.

Now, she used the term "heterogeneous composition." Basically, there are some important subgroups of the so-called middle class, including four groups which a little bit differ from Professor Lu Hanlong's categorization. One is the private entrepreneurs. She also uses some similar to the capital list of class,

except some of the real rich, super rich people, most of them belong (inaudible) CASS, that group.

The second is what she called new middle class, including professionals, managers, and also government officials in both parties in the government.

And the third group is the older middle class. It includes small business owners and self-employed people. Largely emerged in the 1980s because of market reform, because of rise of township and village enterprises, TVEs.

And finally is what she called marginal middle class. It's low white collar workers because their salaries still are not as impressive in many ways. Now, she also had a chance to look at some groupings and basically you see that 10 percent of private entrepreneurs and office personnel is about 24 percent; managers 22 percent; manager or state and society -- this is basically a cadre, and 12 percent; and professionals about 32 percent.

Now, this is an interesting comparison. Talk about change in class structure of urban areas starting from 1982 to 2006. You do see that the reduce of the working class over these two decades and the rise of the middle class and all these other four categories. The capitalist class from 0 to 0.6 percent; the middle -- the new middle class increased most impressively. According to her, this is the most important group -- subgroup -- in the middle class. The other two groups also increased. So this is based on different years of the studies.

Now, also important to mention is that certainly those new middle class work the public sector significantly reduce from 1982 to 1986, but still 62 percent of the new middle class work in the state firm, work in the public sector, basically work as a cadre or managers of state-owned enterprises. So we should not think that the middle class largely is private entrepreneurs. Probably the most

important subgroup is actually government officials on the state payroll still, although the number relatively declined. The same thing with the marginal middle class. Also, you know, 40, 54 percent.

Now, this is the in terms of composition of middle class in urban areas in terms of the average education and average age. It's interesting to see that in all these categories, including working class, you do see the rise of education, the level, the years they spend. Capitalist class increases from 5.8 year in 1988 to 13.8 year 2006. The other category also increased.

So, again, the fact that mass education -- higher education in China also encumbers average age -- relatively young. Particularly, the capitalist class -- the 2006 study. The average age is 35 years old. This is, again, in line with Professor Kirby's observation that it's quite a young group. So, the new middle class is also the same pattern.

In terms of agenda, you do see the capitalist class dominated by males, and only in the category about professionals in the female, you know, like university professors and the scientists, and et cetera, they have a high percentage. But the other administrators, managers, or just like 10 to 15 percent, roughly. But this is the working class gender distribution.

Now, also interesting to see that this is talk about family background and the first occupation of members of middle class. It's interesting to know that this middle class -- a large percentage of them come from humble family backgrounds. From working with their fathers, 21 percent from working class; 58.7 percent of capitalists come from farmers' family. This is a very interesting finding, certainly in line with the early studies.

Their first occupation also, a significant portion, if you come together it's about 67 percent. The other is almost 80 percent come from, you know, farmers or working class family and they themselves got their first job as a farmer or

as a worker. So, again, this is what she called a heterogeneous group from different social economic background.

Now, also talk about income. I probably will skip that. This is the average yearly income. Capitalist class is 46,000, the average. And the percentage of class with yearly income of over 28,000 yuan is 75 percent. This is distribution of this class. You see that is still -- there is a significant difference in income.

Now, I want to quickly go to the conclusion then we'll have more time for discussion.

She has three conclusions. One is the heterogeneous family background and the diversified occupational experiences have undermined the formation of identical status, you know, identities, status identities or unified class consciousness. These are the things we constantly refer to, lack of shared values or group consciousness. But, of course, someone challenges that in the discussion -- heated discussion will debate in China reflects that concern, that kind of rising consciousness. But she still thinks that it is quite limited and there are differences in previous background -- class, social economic status, education -- prevent them to do so.

Now, also, there remains an inconsistency between the middle class social status and economic status. And some of the members actually have high income, but they do not perceive themselves as middle class and vice versa situation.

And finally, over half of the new middle class is part of the public sector and that is the subgroup most able to influence government policies. So she argues that we should pay attention to this new middle class group, particularly their policy preferences and how they influence or shape the government policies.

So I just want to stop here. We probably can end up at like 5:15?

MS. PEARSON: I think we will try to extend our session a little bit. Some of the panelists spoke a little bit longer. Why don't I ask the panel to come and sit up here? I'm going to make (inaudible).

MS. PEARSON: While they're settling I'm just going to make a couple of observations. I, as I mentioned, come at this from the perspective of political science and about 10 years ago published a book that wrestled with some of the issues of the impact of the Chinese middle class, although I didn't call it the middle class. I called it a business elite. And I have to admit that I found that whole project very troubling because some of these very foundational issues that are being talked about here really were not well settled, not well worked out.

And the other problem that I had with a lot of this literature was that the real end game of the literature was understanding how the growth of a middle class would -- willy-nilly as I often put it -- lead to democracy in China.

And after a bit of time, this literature in the United States, written primarily by western scholars, kind of stalled out. And it was none too soon. I was happy to see its demise. But even happier to see that as Cheng Li has laid out in his paper how much momentum the debates over the middle class from a multidisciplinary perspective have in China -- and also from our friends in economics as well. So this is very exciting from someone who thought this topic had been a bit moribund to see it coming back and be so interesting for us and to have a lot of the work being done on very interesting empirical data coming from Chinese scholars. So let me just say this is very exciting from that point of view.

I have just two substantive observations about these papers. One is that there's a tension among them. And one tension is that for -- on the one hand, the papers by Homi Kharas and Geoffrey Gertz, plus Li Chunling's paper in particular, they sort of see the growth of the middle class as a spontaneous rise of a social condition that comes organically out of socioeconomic trends. And so they

observe it from that point of view. Whereas, Lu Hanlong's paper tends to look very interestingly at the role of culture and at the role of the state in formulating the parameters of a middle class.

I think some of that didn't come out quite so much in the presentation today, but in the paper you see that very clearly. But with discussions of the Xiaokang society and the contrast with the Datong Society, all of which kind of state, you know, cultural and state-defined concepts. So, very interesting to see two fundamentally different ways of even thinking about the emergence of a middle class.

I personally feel there's room for us to think about both of them. I know this is quite debated in China. I'm more Catholic than that, I suppose we would say. And so I would hope that we can -- despite the tension between them -- play with both of them and see what each perspective has to offer.

And then the final point -- just taking off from Professor Kirby's small point he made almost in passing that the political impact of middle classes have varied around the world. In the French situation, you saw revolutionaries; in the German situation, conservative or reactionary middle class; in the U.S. situation, the revolutionary work had been done so I think of it as a relatively passive and consumer-oriented middle class. And we see very different roles that the middle class has played in economics, and in society, and in politics.

And what to make of these differences. It seems that much about the role of the middle class depends on the context in which it rises. If we can assume that definitional issues are resolved, we then have to understand that the role of the middle class varies tremendously depending on the context -- domestic and international, which I think is, again, so fascinating about the Kumas and Hertz paper, and internationally.

But also it depends a lot relationally. If we can go back to some very crude class analysis, where does this middle class stand with regard to the state on the one hand, with regard to the rich -- super rich upper class and with regard to the upper class? And I think one of the things I like about the papers at this conference is that we're not taking the path of the past -- the Barrington Moore path or the Seymour Martin Lipset path or Barrington Moore who said "No bourgeois, no democracy" path -- as being the given.

And we're now sort of cracking open this concept of the middle class and looking at the relations of where these middle class sit in society with the possibility that the Chinese middle class may lead to some very, very different place -- may have a very, very different impact on politics and economics and society than what we have seen in other conditions.

So, with that we will take questions. If you want to please say who you are and tell me whether your question is directed at a particular panelist or not, that would be terrific.

Yes?

SPEAKER: Well, thank you. My name is Zhu Huyuan and I come from Fudan University, Shanghai, and now I'm studying at the Elliott School of Foreign Relations, George Washington University.

And my question is for Professor Cheng Li. And I find this quite interesting that just now you mentioned the value around the middle class. And I feel it's a little conflict because I think sometimes the middle class focus on the lifestyles are quite, I think, westernized, mostly Americanized. And they focus on the education thing and kind of property rights. And I think it's quite Americanized.

And at the same time they are very -- they're proud of themselves as being Chinese. And I think the nationalism caused last year is quite overwhelming.

So my question is in your opinion, what caused this conflict around the middle class of their values?

Thank you.

MR. CHENG LI: Well, it's a very good question. I think that (inaudible) article, recent article, addresses that question directly. He believes that the value system is subject to change.

He talks about three variables: domestic economic situation; international inference; and China's foreign relation events. Each will play a role to how Chinese look at the outside world, look at themselves, look at democracy. Right? So you do see these changes.

At the moment probably there's no strong movement towards, you know, Democratic China. The people are actually saying the China system looks pretty good or at least a large majority of them probably perceive it that way, but things can change. And I think that still the government struggles with the one party system that you look at today's world. The club. Members in that club are not many. Cuba. You know, North Korea always wants to refer to this country. Do we really want to belong to this?

So, eventually the rise of desperation will have a strong impact on them. Right? Why China cannot with economic success -- cannot also present a political system also respected internationally and et cetera.

But, again, this is the value that is quite selective. Values don't change. Previously, you know, in the younger generation -- just as in the early 1980s, we talk about our young people's lack of individuality, but now sometimes there's too much individuality. Lack of a collective conscience, et cetera.

So these are subject to change to different variables. So I cannot give you a definitive answer, but there are certain areas probably the value -- the consciousness -- the whole value thing there are different layers, different levels,

different components. In terms of the influence, you know, western pop culture has a very strong influence to Chinese, but it does not necessarily bring with it the democratic values itself.

So, I think that you're confused. Yes, dealing with the value system is a complicated issue, but we talk about core value. I personally think that probably now there are more misunderstandings of each other. Not necessarily we have fundamental differences in the core values because of a political reason that because of sovereignty concern for China, the government certainly will emphasize certain values rather than others.

But on the other hand, we are facing some similar challenges and certain values are, I think, widely shared. But my sense is the continued expansion of middle class. I do see the values converging rather than diverging. That's a general trend. I think it's clear. But at a certain point, certain unexpected events will have a strong impact on the country that thinks about certain issues.

MR. KIRBY: These are really very, very interesting papers. And I just had a couple of points.

One of them is the kind of widely held view which is obviously true of China becoming seemingly rapidly very unequal in income as a major social issue. But one thing that I'm always struck -- it seems to me that where maybe one assumes -- just as in one of our papers, one assumes an enormous level of equality in the Maoist period, which is, I think, an over assumption of what it could be. That is to say, usually when one looks at the income from say 1978 -- income disparities from '78 up to the present, one starts with the assumption of a reasonably equal society. But that's on the measure of income. And wealth was not simply on the basis of income in those days. And what was even by the measure of income a considerably more unequal society say than Taiwan or South Korea or others in this period of time.

And so there's -- I think some of the fundamental measures of that era are really flawed and help us -- things may not have gotten quite as bad this quickly if inequality is assumed to be bad.

The other question is really kind of how a class, an entrepreneurial class, comes out of nowhere seemingly in such a dramatic way. And just thinking again as a historian, the period -- when one thinks back, the period in which actually private enterprise was formally prohibited is really reasonably short in the PRC. From 1956, arguably, to the late 1970s and so on. And if it's true as Wang Yaosheng has argued that the TVEs of the 1980s formally socialist organizations are really private enterprises, then one might even look back further and think that many of the Shedui qiyou, such as this Mr. Lu Guanqiu that I talked about are also de facto private enterprises.

That was the key question that I was after when I started that case. Why did Mr. Lu suddenly -- did he just steal the assets in the 1990s Russian-style? Or was he really -- was this company really a private enterprise all along under the guise of socialism? And the answer seems to me that it was a tolerated family-run enterprise by and large under that period of time. And there I think we have to kind of look back into the Maoist period for things that are not so obvious in terms of their political labels. People acting differently. Really entrepreneurial in the most difficult of circumstances.

As Mr. Lu put it when I interviewed him about it, he said, "Well, you know, as long as there are people from Zhejiang there will be capitalists in China." There are a lot of people from Zhejiang.

MS. PEARSON: I'm going to try to take three additional questions. Cheng, the gentleman in the back, and Chunling.

SPEAKER: My question --

MS. PEARSON: Could you identify yourself please?

MS. LIN: Yes. I'm Jing Lin from University of Maryland.

First, as a correction, you talk about how the enrollment in university now is 75 percent. In fact, that's only among the graduates who go on the general education academic route. So it's not the age cohort you're talking about.

MR. KHARAS: That's right.

MS. LIN: So it's different.

MR. KHARAS: Yes. High school graduates. Yeah.

MS. LIN: Right. It just happens that I teach courses both on environmental ethics and education. I also do research on China middle class stratification. So I linked the two.

Professor -- Dr., I should say, Kharas. Right? Kharas? You mentioned a trend in middle class growth. It seems that they are going to use up more and more resources. There's going to be a spectacular growth in the range of middle class in Asia and all around the world. But the assumption is that we have endless resources, you know. But then we notice a lot of problems with the resources and pollution and so on.

So, I want you to comment on that. And also, Professor Lu from Shanghai, to see how, you know, the environmental dilemma or, you know, disasters we are in that can impact, you know, the middle class or xiaokang, you know, a dream.

MS. PEARSON: You, back there.

MR. GRINDSTAFF: My name is Hugh Grindstaff.

I don't think anyone has really mentioned the effect of mass communication on showing, you know, like even things like billboards or newspapers, magazines -- how that's making it more acceptable in China to be middle class. And that even the Internet -- it's the influence of communication that

before would have been held down and now is allowed to somewhat flow freely as long as it doesn't go against the state machine.

SPEAKER: My name is Sang-jin Han from Seoul, South Korea.

I have one question to Professor Lu Hanlong. I was very much fascinated by your topic -- the middle class and xiaokang society. And I read your paper with great interest. And upon hearing your presentation this afternoon, I got the impression that somehow you put enormous emphasis on providing general welfare to the majority of the population within the framework of the xiaokang society.

My first question is whether I can identify any text in China in which I can see sort of required conditions of constructing a xiaokang society. What are the main components, conditions of xiaokang society anyway? And you put such emphasis on the material aspect of general welfare. But I would say maybe there could be many other aspects in our education, human expression, whatever -- participation. It could be illustrated in many different ways.

So my first question is, again, where we can find any good reliable text in China which provides us good information, a good perspective of how we should understand the concept of xiaokang society. That's my first question.

Second. Your last -- somehow your last comment was very interesting to me. Somehow you presuppose that concept of xiaokang society requires a very, very active role of the middle class -- such an active role of the middle class that middle class must be able to sort of intermediate the power elite on the one hand and kind of poor people in order to provide (inaudible) a kind of society where they can live together. That kind of expectation of the role of the middle class is very active -- very profound role of the middle class. And is there a clear understanding of your presentation? Do you really believe that the xiaokang

society somehow presuppose that kind of very active, comprehensive role over the middle class in China in the future?

MS. PEARSON: Can we maybe answer these first and then if we have a moment to take --

MR. HANLONG: Yes.

MS. PEARSON: We have a question about --

MR. HANLONG: Yes. May I have a response?

Thank you for comments and questions. I think the xiaokang meaning, in China, this is a value. And this is a value for the common peoples. So I think it is a very important. Because a value -- we approach the government and make social policies to make the balance of equality.

And we can find inequality in China everywhere. And the gap is more and more and more. But we also found -- you say there are statistics. We still show that general level is increasing rapidly. So for 2003, in the 16th Party Committee Conferen- Congress, they have the document about how to make -- improve the economic systems. Also, it talks about how to enhance the party's capacity in ruling the societies.

So this I think is only a symbol. In China values the government must think it will be the complete xiaokang. And -- but I also think the xiaokang also has the value of individualism because it is for the family, for the private. And so this is why we conceded, even the middle class, they think about how to change their material lives. They are concerned about their family or themselves. They have lots of ideas about public societies. So this is what I think maybe is to China or eastern society some difference from the western societies.

So, this is, I think, a cultural difference from the other countries.

MS. PEARSON: Thank you.

Homi, could you discuss the question of sustainability with regard to your paper and your analysis?

MR. KHARAS: I mean, I think it's fairly clear that continuing growth on the basis of existing products and inputs is quite unsustainable. So you need to look no further than, you know, where we're headed with Copenhagen to understand that.

But, choices are huge. So, just in energy, I mean, Japan uses two-thirds less -- one-third of the energy per dollar of GDP as the United States. Europe uses roughly one-half. There are many things that one can do in terms of organization -- particularly organization of cities, of the way in which one lives, which will generate more sustainable choices. So, you know, my hope is that some of that awareness, I think, is already present in China. And you certainly see some signs of it, but that that will increase over time.

I think if you think about environment -- consumption of environmental services. Let me try to put it in sort of in an economic jargon. But the way in which people enjoy and appreciate the environment is very much of a luxury good. And so as people come into the middle class and start to, you know, do more middle class-type activities, including leisure, travel, recreation -- their appreciation of the environment goes up and the demands and pressures for greater environmental quality go up.

And, you know, maybe I'll close with saying that in China, in particular, one area where the market has not yet fully seeped into the economy is in some of the principal issues of natural resources. So, we're the ones talking about energy; we're the ones talking about water; we're the ones talking about other kinds of consumption of natural resources. These are still areas where you do not have efficient allocations based on prices. And there's quite a lot of

economic analysis that suggests that China could actually achieve considerable efficiency savings if they priced these resources at market terms.

MS. PEARSON: On the mass media?

MR. CHENG LI: Yes. I'm glad you raised that question. Certainly, the advertisement industry is targeting the middle class. But also the TV and the general media. For example, there's a talk show star. His name is Zhou Libo from Shanghai. All of a sudden he became a household name in China. He is from Shanghai, speaks Shanghai dialect, and he now has a nickname, "China's Jay Leno." And his topic, the focus is always middle class issues: stock market, property market, lifestyles, traveling, entertainment, all these kinds of things. And he also becomes political by imitating leaders: Wen Jiabao, Hu Jintao, and others. It's very funny. You know, that's why it's Jay Leno. He probably has made more money, you know, more than anyone else. He was released from prison because of criminal -- not criminal. What's that called? I think it's criminal things. He was in jail for a few years and released, and now become "China's Jay Leno."

So, again, the issue -- the topic that you're looking at is constantly middle class issues.

Now, but also you mentioned about the Super Girls. It's also all of a sudden several young girls, just like American Icon -- Idol. I'm sorry, American Idol. They become icons immediately. So these kind of things certainly refract this kind of mass media and other types of pop culture, et cetera.

Now, I want to go back to your question about how can all of a sudden just emerge middle class, you know, or even rich people. Yeah, this is certainly very fascinating. I think there are several factors. A large generator is market economy. As you know, back to the early TVEs, then urban reform, then the land use, particularly property reform really creates a middle class. And also American consumers contribute to China's rise of middle class. And the stock

market and many other things in different periods over the past 20-some years. You see it step-by-step, really create opportunities for the new rich. And I think it will continue.

Now, probably with the rural reform in China will come on the way, I think in general the issue of economic disparity you raised is very, very important. But if the discussion of middle class is largely correct, I think over the history -- actually you do see it's not polarization -- not like Xuan Liping said or some other He Qinglian said, you know, it goes to two extremes. But rather, it becomes really, gradually, becomes like the "olive type" of society. But it takes some time, probably three decades, based on an estimate, based on a business rule for study. I think this is probably likely the trend. Actually, we worry about it too fast to let an overwhelming environment and resource impact. Rather, we think that it will never happen or et cetera.

So, if that's the case, I think certainly the Chinese are very much concerned of your black collar class. And also worry about corruption issues. But the economic disparity, if you look at the regional disparity, reduced in the past few years after Hu Jintao. And occupation, though, disparity probably also was starting to change with the healthcare reform and other reform. So, I think the society -- most sociologists believe probably could tolerate at the moment, but certain things they need to be concerned. It's that while the political structure it will emerge -- the issue -- corruption, how to deal with that, the reason the party meetings -- the party can control the party, you know, but Hu Jinglian said how could you expect that the American doctor have an operation on his own body to deal with the cancer. You know, so that's the different views. So, eventually that kind of debate resurge.

MS. PEARSON: And our last question from Professor Chen .

MR. CHEN: Okay. I really enjoy all these papers. Since the title of this panel is Concept and Significance, I would like to ask two questions about concept.

The first question is about the difference between private entrepreneurs and the so-called middle class. Is there any difference between those two groups? Or they should be in the same group? I ask this question because in my experience of doing research on middle class, I have often come to this question. Somebody asked me; I ask myself. So, I'm still struggling.

I mean, I remember when you present your papers, Professor Li, and also when you present -- Professor Li -- another Professor Li -- Chunling's paper, okay, I remember both of you mentioned the private entrepreneurs as part of the middle class. And also Professor Lu probably, also you also did the same.

But, you know, I ask this question because I feel at least in the literature I see the difference. And also in practice or in real life I also see the difference.

Let me just talk about difference in real life. In real life -- actually, private entrepreneurs, of course, we have to group them into upper level, lower level -- I mean, the middle level, particularly those in the upper -- the middle level of the private entrepreneurs. They have the resources to bribe officials. They have better access to power. But regular rank and file middle class really don't have the same resources. Therefore, they could have different political views. They could have different social economic orientations. That's the first question.

Another question I would like to ask Dr. Kharas -- if I'm correct in pronouncing your name -- you use a different measure to identify a middle class. Actually, you use income, a quantitative measure to identify middle class. Do you think your measurement or the consequence of your measurement overlaps the

measurement other presenters used. I mean, basically they used occupational measurement. So, can you -- yeah, just a question about concept.

SPEAKER: Do you want to answer first or I answer?

MR. KHARAS: I think when you're thinking about something like the middle class it's useful to think about the concept for a particular purpose. My purpose was to ask the question about what is the contribution of the middle class to growth. So, to economic growth. So, the definition that I've used tries to ask is what are the factors that would characterize a group of people that make them special contributors to growth?

In terms of the overlap, what I would say is that because other studies are looking at quite different issues, their concept of the middle class ought to be and justly is quite different. So, I don't think that we should think about the middle class as being a single sort of homogeneous concept. I think it's more interesting to think about the middle class as being some definition of a group with particular characteristics that makes them stand out in terms of answering the question that you've posed.

And from that point of view -- if I can just switch to your first question about the entrepreneurs -- I was actually really fascinated to see that, you know, many of the entrepreneurs, the private entrepreneurs, were not coming from the middle class as defined. And that, I think, gels very well with what we've seen in the broader development literature -- that it's not the entrepreneurship characteristic of the middle class which is their major contributor to growth. It's more the consumption aspect.

MR. CHENG LI: I'm perfectly fine with my colleague Homi's definition for middle class. It was average return. We do need to use average return. Look at the global scale, global trend. Otherwise, it becomes meaningless. And really talk about different things.

But to answer your question about the middle class and private entrepreneurs, I think they are not identical, but they overlap. I think if a private entrepreneur -- the rich portion -- certainly, it's the rich people. Super rich people. Well, even capitalists should be considered middle class. And it's really quite based on the economic interests maybe in relation with power. But some of the private entrepreneur probably even cannot make it to the middle class at all. But the large portion, large portion of private entrepreneurs are members of the middle class. But the middle class also includes many state employees because of salary, et cetera.

And so it's an overlap, but not identical. I think it is relevant occupation, education. It is -- the definition itself is still -- we spent a lot of time talking about the definition. It's important to make it clear and also to have a certain degree of openness. Because the concept itself is flexible, but also it should go beyond to look at what is the significance. Why talk about that? On the one hand, you do see the subgroups, the diversities, the heterogeneities within the middle class; at the same time, sometimes a rise in aspirations, shared identities, and the shared part of the global middle class. So that's really important to see under what circumstances which idea will prevail, will make them identical, and under what condition, what settings, will make them divide? And what does that mean by divide?

So I think your question is good, but I just don't know how to answer. I think it's not a problem to use this term simultaneously at the moment. But certainly you do see the trend.

When you wrote your book, at that time no one in China talked about middle class. Right? So it's really -- it's the first -- along with the TVEs and rural industries are part of the middle class actually now. But we use a different language. But itself, using that language, that term, it's a very important

phenomena in China, and also in Asia and also in the world. And you do see that the ball of trend . I think your quote in the paper, it's really very, very important. So when you think about this kind of skill change, you just think this is the only issue. All other issues have all become less important. This is a huge wave, huge transformation from, you know, west to east. Just incredible. It's not just economic implications. It really goes beyond the economic domain.

MS. PEARSON: Thank you very much.

MR. LI: We will have a meeting 9 o'clock tomorrow, the four wonderful panels, all the important subjects. This is only the beginning.

Thank you for coming.

MS. PEARSON: Thank you. (Applause)

MR. LI: Thank you for moderating.

* * * * *