

## CHAPTER 1

### *Shanghai's Middle Class and China's Future Trajectory*

If there is any lesson to be learned from history, it is that the doctrines and the causes that arouse men to passion and violence are transitory; that more often than not they fade into irrelevance with the erosion of time and circumstance. We must learn to conduct international relations with patience, tolerance, openness of mind, and, most of all, with a sense of history.

—PHILIP COOMBS

To learn about the 2,000-year Chinese history, one should visit Xi'an. To understand the 500-year Middle Kingdom, one has to see Beijing. To grasp the past 100-year changes in China, one must look at Shanghai.

—A CHINESE SAYING

**A**mong the many forces shaping China's domestic transformation and its role on the world stage, none may prove more significant than the rapid emergence and explosive growth of the Chinese middle class. China's ongoing economic transition from a relatively poor developing nation to a middle-income country is likely to have wide-ranging implications for every domain of society, and especially for the country's economy, environment, education, politics, internal social cohesion, and culture. On the international front, the emerging Chinese middle class has already begun changing the ways in which the People's Republic of China (PRC) interacts with the outside world, both by keeping abreast of transnational cultural currents and by expanding Chinese socioeconomic outreach and soft-power influence.

The Chinese middle class will be both the driver of change and the recipient of its costs and benefits in the decades ahead. Attaining a better understanding of the characteristics and myriad roles of the Chinese middle class amid the country's rapid transformations will help elucidate its economic and political trajectory. For the overseas community of China-watchers, the nation's middle class is also a proxy for the multidimensional changes underway in Chinese society and thus presents a useful subject of study for foreign governments—especially the United States—to identify effective policy options in their relations with Beijing. The growing tension between the United States and China—evidenced in Washington's heated debate over ending the four-decades-long engagement policy in favor of comprehensive decoupling from the PRC, and Beijing's sharp criticism of a U.S.-led “conspiracy” to contain China's rise and its tit-for-tat, aggressive approach—has extended far beyond economics and trade. Both nations have intensified naval activities and other military exercises in the Asia-Pacific region, accused one another of nefarious cyber campaigns, deported the other country's journalists and threatened ending people-to-people exchanges, and amped up their increasingly hostile political rhetoric. With the current state of relations, a military confrontation or even a full-scale war between the world's most powerful nation and the world's fastest-developing country is by no means inconceivable.

This research presents a thesis that runs contrary to some of the prevailing views in Washington regarding the failure of U.S. engagement policy toward China. By viewing China's developments and external relations over the past two decades through the lens of its most cosmopolitan city, Shanghai, it is clear that the dominant assumptions and associated policy measures in the United States about the “all-dimensional China threat” are simplistic, premature, and misguided. While American policymakers understandably never want the United States to lose its military edge and technological supremacy, which deter potential challengers, they should make greater efforts to leverage the advantages of American soft (and smart) power.<sup>1</sup>

Washington's recent push to decouple with China, which has involved sensationalizing the Chinese nation as a “whole-of-society threat” to the United States, not only alienates China's vast middle class, a dynamic and progressive force in the country, but also severely damages American public diplomacy and national interests, potentially paving a collision course that could lead to war.<sup>2</sup> An empirical and comprehensive study of China's domestic dynamics and the diversified nature of Chinese society, especially the ever-expanding middle class, can broaden the analytical horizon of—and intellectual debate on—China's future relationship with the United States and the world.

**DUAL FOCUSES: THE MIDDLE CLASS AND SHANGHAI**

What exactly can a study of Shanghai's middle class and its cultural values tell us about China's political trajectory and foreign relations, including the likelihood of war and peace? From Plato to Machiavelli—and from Confucius to Mao—people have long recognized the connection between cultural and political dynamics and between internal forces and external relations. As China's global influence grows, the international community—and American policymakers, in particular—are increasingly torn between two contending scenarios of how China might shoulder its role in the world and its relationship to other nations. Either outcome is deeply intertwined with the trajectory of China's rapidly emerging middle class.

In the first scenario, which is more pessimistic, China becomes a super-power buoyed by decades-long, double-digit economic growth and military modernization. China's middle class grows to an unprecedented size, and this population's strongly nationalistic views come to guide almost all state affairs. Demagogues continue to stoke this toxic, hostile strain of nationalism by taking advantage of rising tensions stemming from the aggregate demand of hundreds of millions of middle-class consumers, global resource scarcities, international consternation over China's swelling carbon footprint, and global concern about other negative externalities from the country's rapid industrialization and urbanization. To a great extent, the Chinese middle class serves as an active and influential player in the country's pursuit of state capitalism and industrial policies overseas, including in the Belt and Road Initiative. In this scenario, an ascendant China, still cognizant of the "century of humiliation" it endured at the hands of Western imperialists, may easily choose to disregard international norms, disrupt global institutions, and even consider aggressive expansionism in the East and South China Seas, along with other parts of the region.

In the second, more optimistic scenario, China's burgeoning middle class embraces more cosmopolitan values, having forged close economic and cultural bonds with countries in the West, especially the United States. The growing consumption of China's middle class helps reduce the U.S.-China trade imbalance, easing economic tensions, and China's middle-class lifestyle comes to mirror that of developed countries. Additionally, the growing number of political, economic, and cultural elites in China who have received some Western education and possess a more sophisticated understanding of the outside world act as catalysts for progressive change in China. The Chinese middle class consists of a large number of private entrepreneurs and private sector employees. Like their counterparts in other countries, they value property rights and economic freedom, which are preconditions for increased political freedom, according to both

distinguished American economist Milton Friedman and political sociologist Seymour Martin Lipset.<sup>3</sup> In most nations, there is an important link—and an ultimate need—for close ties between economic development and regime efficiency to mediate interests. China's middle class may help create and strengthen these ties by pushing for political reform and better governance in domestic affairs. This group will also demand that China acts as a responsible stakeholder on the foreign policy front, building more constructive relations with the United States and the international community at large.

Each scenario seems to present an extreme case, but both are based on serious assessments of the possibilities. For example, the Chinese middle class has already demonstrated its strong desire and ability to purchase foreign goods. In August 2019, the U.S. wholesale chain Costco expanded into China by opening a store in Shanghai. Within hours of opening on the first day, the store had to close due to the overwhelming mass of customers that showed up.<sup>4</sup> More than half of its products were from overseas, and many sold out almost immediately. Thus China's rising middle class clearly wields incredible economic power and could potentially become a force that seriously undermines the interests of the United States, underscoring the real danger of the more pessimistic scenario. One could argue that the United States has partial responsibility to do whatever it can to promote the optimistic scenario, chiefly by avoiding actions that needlessly inflame Chinese nationalism, and by engaging constructively with China and incentivizing adherence and "buy-in" to the current international system. Unfortunately, the current mainstream discussion of U.S. policy toward China has largely neglected the role and impact of the country's middle class. In general, China has often been treated as a monolithic entity with no distinction between state and society.

Regardless of which scenario unfolds in the years to come, China's emerging middle class will be a driving force behind the country's domestic political evolution, which will feed directly into the PRC's external posture. In order for the United States to establish an effective China policy, the American foreign policy community must acquire a more informed and comprehensive understanding of the Chinese middle class—from its basic composition to its values, worldviews, and potential political agency in deciding the country's future trajectory. In a twenty-first-century world driven by global connectivity, we must ask whether it is desirable and sustainable for the two largest middle-class countries to be set on a confrontational course.

Shanghai was the most Westernized city in pre-1949 China, and it still spearheads the country's dynamic participation in economic globalization and cultural exchange. It is thus the ideal case study for understanding

the rise of the Chinese middle class, the impact of transnational forces on China, and the complex interplay of these two trends within Chinese society, culture, and politics. In a sense, Shanghai has been both a laboratory and a trendsetter for the country's economic and sociopolitical developments in the reform era (from 1978 to the present).

Shanghai has served as the "cradle" of both the new middle class and foreign-educated returnees. According to a study conducted by the Institute of Sociology at the Chinese Academy of Social Sciences, the middle class made up roughly 40 percent of the labor force in Shanghai in 2010.<sup>5</sup> *The Report on China's New Middle Class* indicates that in 2018, over 5 million households in Shanghai could be counted as middle-class families.<sup>6</sup> Looking at the wider region, households in East China (Shanghai, Zhejiang, Jiangsu, Fujian, Shandong, and Anhui) account for 44 percent of the country's middle class.<sup>7</sup> This, of course, is not an entirely new development in Shanghai. As early as 2005, about 82 percent of families in the city owned a residence, and 22 percent of these families owned two properties.<sup>8</sup> Based on a 2019 report by the People's Bank of China, the average value of urban household assets nationwide was 3.18 million yuan (about US\$454,000), with a median value of 1.63 million yuan (US\$233,000). In the same year, the average value of household assets among Shanghai residents was 8.07 million yuan (US\$1.15 million).<sup>9</sup>

In 2009, Shanghai was home to more than one-fourth of the country's foreign-educated returnees, and it was ranked first among China's thirty-one province-level administrative regions for total number of returnees.<sup>10</sup> About 4,000 returnees established innovation-driven business firms in the city. Additionally, a significant number of senior executives of multinational companies and international organizations in Shanghai were returnees. Furthermore, in the same year returnees constituted over 60 percent of the academicians at Chinese Academy of Sciences and the Chinese Academy of Engineering in Shanghai, with 102 of them coming from stints abroad. Among the 66 chief scientists of the National 973 Projects in Shanghai, 97 percent spent time studying overseas.<sup>11</sup> Overall, a higher percentage of returnees in Shanghai hold advanced academic degrees, and they are younger, on average, than their peers in other regions. For example, in 2009 approximately 64 percent of Shanghai's returnees held a master's degree or above, and 73 percent fell between the ages of 21 and 30.<sup>12</sup>

Shanghai's competitiveness both nationally and internationally relies heavily on its pool of human talent. As follows, a country's most important resource is arguably its higher education system and other institutions that promote cultural and knowledge-based economic activities. The concentration of prominent universities and cultural institutions (e.g., museums, art galleries, theatrical companies, and other performing groups) in

Shanghai not only makes the city one of China's two educational centers (the other being Beijing) but also helps foster a distinct Shanghai culture (*haipai wenhua*). In contrast to the mainstream Beijing culture (*jingpai*), which is sometimes characterized as aristocratic, conservative, elitist, and bureaucratic, *haipai* culture is often described as pragmatic, entrepreneurial, innovative, pluralistic, leisurely, modern, and forward looking.<sup>13</sup>

The *haipai* culture—whether in the domains of art, literature, music, or the public discourse—has a high tolerance for different values, views, and lifestyles. This is partly attributable to the fact that Shanghai is a relatively young, largely immigrant-friendly city with strong foreign influences, in both its colonial past and its globalized present. For instance, the host of the Jin Xing Show—the highest-rated late-night talk show in China from 2015 to 2017—is a transgender woman. Jin Xing is a new Shanghaiese, an ethnic Korean, and a returnee from the United States. The recurrent theme of this Shanghai-based show was to introduce Western ideas, new social norms, progressive values, and middle-class lifestyle trends to the Chinese public.<sup>14</sup> The Jin Xing show ended in late 2017, but Jin Xing has continued to host other popular TV programs promoting *haipai* culture.

These dynamic and pluralistic developments in the distinct subculture of Shanghai are vitally important. As some scholars observe, present-day Shanghai “has been transformed into a city of world significance.”<sup>15</sup> This is not only because of the city’s growing economic and financial status that has resulted from the explosive growth of the middle class, but also because the city exemplifies the reemergence of a cosmopolitan culture and the dynamism of transnational forces.

#### SHANGHAI: “THE OTHER CHINA”?

Shanghai is, of course, not reflective of all of China. The metropolis is to China what New York City is to the United States. Notably, Shanghai’s rise as a cosmopolitan city coincided with the decline and disintegration of the Middle Kingdom after the Opium Wars. This has left an indelible impact on the identity and characteristics of Shanghai. Unsurprisingly, many historians of Shanghai recognize it as a city at the crosscurrents of history, often undergoing experiences quite different from the rest of the country.<sup>16</sup> Stella Dong, for example, argues that for more than a century prior to the Communist victory in 1949, “China’s losses were always Shanghai’s gains.”<sup>17</sup>

Thus some scholars of Shanghai history assert that the city could be a “lens through which one sees a distorted vision” of China.<sup>18</sup> For instance, despite the devastating dual impacts of the Japanese imperialist invasion in 1937 and the Chinese Civil War, for most of the first half of the twentieth century, Shanghai was seen as “the most urban, industrial, and cosmopoli-

tan city in all of Asia.”<sup>19</sup> In a sense, Shanghai’s prosperity in the early decades of the twentieth century was achieved in large part as a result of its relative independence from China itself.<sup>20</sup> According to one analyst, “Shanghai’s independence relied on China’s weakness.”<sup>21</sup> A strong central government in Beijing, especially when led by top leaders who did not come from Shanghai, could marginalize the importance of this cosmopolitan city.

“Other China,” a term coined by French historian Marie-Claire Bergére, later became the defining label that described Shanghai’s course of development in contrast to that of the rest of the country.<sup>22</sup> In spite of the city’s unique cosmopolitan influence and strong local identity, Shanghai nevertheless played a central role in promoting Chinese nationalism in the first half of the twentieth century by offering a “new vision of the place of China in the world.” Bergére observes that “Shanghai is at once more open to the outside world and more aware of the place which China should have in it. Nationalism and cosmopolitanism proceed in a parallel and complementary fashion.”<sup>23</sup> In the 1930s, a large number of prominent Chinese writers, publishers, educators, and artists, including many foreign-educated returnees, resided in Shanghai. Most of them were also advocates of Chinese nationalism. As Carrie Waara notes, “It was their international orientation combined with their strong economic and cultural nationalism that gave the Shanghai style its own unique and local flavor.”<sup>24</sup>

What was true about the multiple identities of Shanghai in the first half of the twentieth century holds true to this day. Since Shanghai serves as the exemplar of China’s coming-of-age in the modern era, the city’s rise to international prominence reinforces Chinese nationalistic sentiments. Shanghai’s local, national, and cosmopolitan identities are all dynamic; they serve to mutually reinforce one another while also retaining independent value in different specific contexts. Shanghai’s opening to the outside world is not cultural convergence, but cultural coexistence and diversity.

Some Chinese scholars argue that Shanghai’s recent experiences invalidate many of the conventional approaches to Chinese cultural studies, such as the simplistic dichotomy between the West and the East, along with the model of Western impact and Chinese response.<sup>25</sup> These scholars assert that cultural transnationalism functions as a two-way street. The localization of transnational cultural movements in Shanghai since the 1990s demonstrates that the city’s political and cultural elites feel confident in promoting foreign exchanges. It also conveys “a sense of entitlement in claiming the localized foreign culture as their own,” a characterization used by Yan Yunxiang to describe the “cultural globalization” of another Chinese city.<sup>26</sup> However, in a way, Shanghai’s pride in its cosmopolitanism and local identity has also hindered the city’s pursuit of excellence in cultural and educational development.<sup>27</sup> The dynamism of transnational cultural forces makes

it possible for Shanghai's scholars, educators, and artists to consider issues in conjunction with the international community.

Yet it would be a mistake to overlook the trailblazing role Shanghai has played both in the previous century and in more recent decades. Understanding Shanghai is vital to understanding modern China.<sup>28</sup> Due to its special role in cultural dissemination, Shanghai has long been called China's "window" or "gate" to the outside world, the "bridge" between the East and West, and the "key" to grasping the driving force of China's rise in our time. Shanghai often served as a bridge, for example during the Republican era, in managing the influence of the West and "leading the rest of China into the modern world."<sup>29</sup> To a certain extent, Shanghai is the product of the integration of two civilizations. It was Shanghai that introduced the world to China, and it was also Shanghai that brought China into the world.<sup>30</sup>

Thus Shanghai's designation as the "other China" can be challenged on three fronts. First, despite strong Western influence on the city, Shanghai has always remained an inherently Chinese city. Shanghai was always "China's Shanghai," and it never lost its cultural identity or feeling of "Chineseness."<sup>31</sup> A 2003 Chinese book on foreigners in Shanghai used the phrase "China has a Shanghai" to characterize Shanghai's contribution to the development and diversity of the country.<sup>32</sup> Throughout the twentieth century, Shanghai always held an important position in China's economic, political, social, and cultural life. As discussed in the prologue of this book, Shanghai was the birthplace of China's attempt at Western-style modernization *and* of Chinese Communism, the two most important forces that have shaped the country's contemporary history. Time and again, in virtually all major phases of PRC history—the socialist transformation, the Cultural Revolution, reform and opening up, and China's search for global superpower status—Shanghai has proved to be a critical ideological and political battlefield "too important to lose" to competing forces.<sup>33</sup>

Although Shanghai's prominence as a wellspring of Western cultural influence in China has fluctuated over the last century and a half, the rise of modern China would be inconceivable without Shanghai. According to Albert Feuerwerker, "Shanghai set the style of the foreign presence in China"—a style that other Chinese cities "sought to emulate."<sup>34</sup> And as Shanghai-born and U.S.-educated historian Lu Hanchao observes, the Western influence on the Shanghai lifestyle during the pre-1949 era not only endured, but also spread in many important respects to other Chinese cities over the second half of the twentieth century.<sup>35</sup>

Second, Shanghai has set the pace for the country's socioeconomic development since the 1990s, when China designated Shanghai as "the head of the dragon" and aimed to transform the Yangtze Delta region into an economic powerhouse. To a great extent, Shanghai is the *de facto* capital

of all Jiangnan (consisting mainly of Zhejiang and Jiangsu provinces). The Shanghai-based middle class shares close ties to the hundreds of millions of middle-class families who reside in major cities across the region, such as Suzhou, Wuxi, Changzhou, and Ningbo. Analyzing Shanghai is the key to fully understanding China, arguably now more than ever. In May 2019, Xi Jinping convened a Politburo meeting to discuss the “high-quality” and “more integrated” new development plan, which emphasizes modern manufacturing and the service sector for the Yangtze River delta—Shanghai’s geographic domain.<sup>36</sup> The Chinese leadership proclaimed that this regional plan would have “a great demonstration role” for the country’s economic growth in Xi’s new era.

In fact, many important phenomena in post-Mao China—the resurgence of a commercial society, the establishment of a stock market, foreign investment, land leasing, property booms, rural–urban migration, the proliferation of e-commerce, the application of artificial intelligence in urban development, and the negative externalities of capitalist development—were either initiated in Shanghai or otherwise affected the city in a deep and direct way. Over the past quarter-century, the city has experienced a remarkable economic boom and transformation. Many of these developments rapidly spread to other parts of the country. In a profound way, the resurgence of Shanghai as a cosmopolitan city has become a metaphor for China’s drive to join the “global club”—a symbol of China’s coming of age in the twenty-first century.

The quick emergence and growth of the middle class have spread beyond Shanghai in recent years to other Chinese cities, including Tier-two and Tier-three cities in inland regions. According to a study conducted by Dominic Barton and his colleagues at McKinsey, in 2002, 40 percent of China’s relatively small, urban, middle class resided in the four Tier-one cities—Beijing, Shanghai, Guangzhou, and Shenzhen. However, by 2022, the proportion of China’s middle class that resides in those megacities is expected to drop to about 16 percent, and 76 percent of the middle class will live in Tier-two (45 percent) and Tier-three (31 percent) cities.<sup>37</sup> In terms of the geographic distribution of the middle class, the study forecasts that China’s middle class will shift from 87 percent living in coastal regions and 13 percent in inland regions in 2002, to 61 percent and 39 percent, respectively, by 2022.<sup>38</sup>

Third, Shanghai is also a source of political leadership for China. Over the past two decades, many of the nation’s top officials have had personal ties to the city, or they have been promoted to Beijing from political postings in Shanghai. In the third generation of leadership, examples include former secretary general of the Chinese Communist Party (CCP) Jiang Zemin and former premier Zhu Rongji; in the fourth generation, former vice president

of the PRC Zeng Qinghong and former chairman of the National People's Congress Wu Bangguo; and, in the fifth generation, president of the PRC Xi Jinping, CCP propaganda chief Wang Huning, and current executive vice premier Han Zheng. The latter three currently sit at the pinnacle of power as members of the seven-member Politburo Standing Committee. With the exception of Xi Jinping, who only served as party secretary in Shanghai for eight months, most of the aforementioned top leaders were either born and raised in Shanghai or spent many years running the city. Generally, leaders who grew up in Shanghai or began their political careers there tend to have a more nuanced understanding of the globalized world. They have a better comprehension of the factors that have driven the development of middle-class Shanghai, and their unique perspectives have helped them shape China's domestic and foreign policy as the nation's top officials. In post-Deng China, there have been three important political developments: (1) the rise of the so-called Shanghai Gang in the national leadership; (2) the adoption of Jiang Zemin's theory of the "Three Represents," which instructs the CCP to recruit private entrepreneurs and capitalists into the party to broaden its power base; and (3) Xi Jinping's call to fulfill the "Chinese dream" and the "great rejuvenation of the Chinese nation." Together, these seminal developments have bolstered the reemergence of Shanghai as China's cultural capital, and they have accelerated the rapid growth of the city's middle class.

Shanghai, therefore, cannot be the "other China." Instead, one may argue that due to its distinct cosmopolitan subculture, Shanghai is a unique city within China that yields the power to *change* the country to align more with international norms and values. Robert Hormats, former U.S. State Department under secretary for Economic, Energy and Agricultural Affairs, observed that Shanghai has a much better record of respecting intellectual property rights than any other Chinese city.<sup>39</sup> Zhang Chuanjie, deputy director of the Center for U.S.-China Relations at Tsinghua University, conducted a public opinion survey measuring Chinese attitudes toward the United States. Zhang broke down the responses across five demographic variables: gender, age, education, income, and location. He found that *location* was the only dimension along which there were strikingly different Chinese views of the United States. Specifically, Professor Zhang found that respondents from Shanghai have a much more favorable view of the United States than do respondents from elsewhere in the country.<sup>40</sup>

All of these unique features of Shanghai make the city an attractive subject for academic inquiry, and also an ideal case study, as previously noted, to document the rise and expansion of the Chinese middle class and the impact of transnational forces on China. This book combines eclectic human stories with rigorous empirical analysis to reveal how Shanghai has served three essential functions throughout China's modern history: (1) in-

troducing and absorbing foreign culture and investment; (2) highlighting the growing diversity in Chinese society and the imperative for an inclusive culture; and (3) disseminating and showcasing cosmopolitan (or “post-modern”) views, ideas, and values to other parts of the country.<sup>41</sup>

#### **INQUIRIES, METHODOLOGY, AND ORGANIZATION OF THE BOOK**

Examining Shanghai’s resurgence since the 1990s sheds light on the city’s roles, which are of prime interest to the policymaking circles in the United States and China, the China studies scholarly community, and the social sciences community as a whole. This book explores the aforementioned three important inquiries by placing them in the context of two sets of major policy and intellectual debates about China’s future relationship with the United States and the world: (1) How do China’s unprecedented and multidimensional international exchanges—for which Shanghai serves as a nexus— influence policy debates about U.S.-China decoupling in Washington, as well as concerns in Beijing about an alleged U.S.-led conspiracy to contain China? (2) How should one assess the impacts of foreign influence and changing levels of social stratification in China? What can a conceptual and empirical analysis reveal about the main characteristics of China’s middle class?

This study adopts an analytical framework appropriate for understanding the dynamic and complicated interactions among the economy, politics, culture, and education, with a focus on the cultural and educational aspects of the emerging Chinese middle class. The book adopts the generally accepted definition of culture as a set of values, practices, norms, customs, symbols, anecdotes, and myths that create specific meaning for a society. Culture also includes lifestyles, religious beliefs, artistic and scholarly works, philosophies, and historical memories. Culture is often classified into two categories—elite culture and popular culture. The former refers to literature, art, and education, and the latter includes mass entertainment, talk shows, and new media outlets, including popular bloggers that disseminate new ideas and expressions. Museums, art galleries, pubs, teahouses, and other public gathering places serve as common cultural venues.

The concept of cultural diversity in an increasingly globalized world has three main features. First, institutions and individuals are the agents or players in promoting various kinds of cross-cultural endeavors. Second, symbols and ideas are used to promote communication and understanding of beliefs and norms across national borders. Third, methods and tools are available to facilitate transnational movement.<sup>42</sup> Together, these three components constitute the transnational forces of culture. In a sense, “cultural globalization” is a conceptual paradox. Globalization suggests diffusion

and convergence of local and national norms or ideas, while culture implies distinct features embodied in heritage historical circumstances. Cultures are necessarily diverse and inconsistent; the people of a given culture have experienced varied pasts involving different memories, symbols, myths, styles, and norms.<sup>43</sup>

Rather than using “cultural globalization,” this work uses the terms “cultural transnationalism” and “cultural internationalism,” which can be used interchangeably. The idea of cultural transnationalism involves the formation of shared norms, common knowledge, and multiple identities through transnational exchanges, resulting in greater interconnectedness among different populations and traditions.<sup>44</sup> This book applies four methodological approaches with original research: (1) biographical and occupational data analysis, (2) case studies of Shanghai’s institutions of higher education, (3) survey questionnaires, and (4) content analysis of avant-garde artwork.

The next two chapters address the aforementioned inquiries. Chapter 2 focuses on the policy debate between continuing U.S.-China engagement versus decoupling on various fronts. Chapter 3 examines the scholarly discourse about social stratification and cultural pluralism, specifically in regard to present-day China. The chapter also reviews the Chinese scholarly literature on the main characteristics of the Chinese middle class and the impact of international exchanges.

Chapter 4 shows that the modern history of Shanghai is also the history of China’s integration into the outside world. Shanghai was always, and has remained, the most westernized and cosmopolitan city in China. This chapter examines the degree to which Shanghai’s culture has been subsumed by foreign influences, which has left a lasting impact on the social norms and cultural values of the city’s inhabitants. About 500,000 non-PRC citizens, including Taiwanese communities, live in Shanghai and have shaped the city’s social fabric by fostering a distinct middle-class culture. The chapter also highlights how some of the seemingly local and international identities formed in this process have become contentious political issues dividing segments of Chinese society. By examining both Shanghai’s exceptionalism and its cultural transnationalism, the chapter argues that Shanghai’s contemporary culture is simultaneously local, national, and international, and that *haipai* culture balances out the ultranationalistic sentiments expressed in other Chinese cities, such as Beijing.

Chapter 5 documents a fascinating set of transnational exchanges that have taken place in Shanghai over the past three decades, especially after Deng Xiaoping’s decision to develop and open up the Pudong district to foreign investment. The discussion bolsters the argument that new market forces may function only as the “*engine of change*,” whereas a new middle-class culture can determine the “*direction of change*.” The middle class often

serves as the agent of market efficiency, and the CCP needs to control that dynamic in the interest of its own longevity. The chapter examines the seemingly contradictory phenomena of the parallel development of private firms, state-owned enterprises, and foreign companies in the city over the past decade.

Chapter 6 reviews three important political events that took place in Shanghai within the past thirty years: the rise of the Shanghai Gang in the mid-1990s, the fall from power of Shanghai Party secretary Chen Liangyu in 2006, and the surprising ascension of many members of the Shanghai Gang at both the 2012 and 2017 party congresses. The chapter argues that something new is afoot in Chinese elite politics, largely due to the political dynamism stemming from Shanghai. This analysis showcases some of the new rules and norms embraced by the country's top leaders as they seek to manage intraparty political conflict and increasing localism in socioeconomic policy, while also maintaining rapid growth, social stability, national cohesion, and one-party rule—some of the enduring challenges of governance in the Xi Jinping era.

Chapters 7 and 8 focus on the role and impact of international educational exchange, especially with respect to Western-educated Chinese returnees. Over the past two decades, and more so in recent years, China has seen a tidal wave of these returnees coming home after studying abroad. Examining this population provides insight into the macro trends of China's study abroad movement during the reform era, and it also offers a deeper look into the microlevel impact of U.S.-China cultural and educational exchanges. Large-scale quantitative research on China's top universities reveals the status, distribution, and leadership roles of returnees working in college administration, curricular development, social science research, and other aspects of academia.

Chapter 9 presents a longitudinal survey of foreign-educated elites in Shanghai, examining how they differ from those who never studied abroad. The survey shows that U.S.-educated Chinese elites are not necessarily less nationalistic and more pro-American than other Chinese elites. However, one must not disregard how U.S.-China educational exchanges can have both short- and long-term, positive impacts on the multifaceted transformations taking place in the world's most populous country. This detailed and empirically grounded study of Chinese foreign-educated returnees elucidates how to improve future U.S. educational exchanges with China; how to positively nudge Chinese political, educational, and cultural elites; how to prevent anti-American sentiment from dominating Chinese public discourse and defining the views of China's younger generations; how to turn this emerging power from a potentially formidable authoritarian adversary into a liberal and likeminded partner; and how best to navigate a

way forward that contributes to a peaceful and secure world in this era of dramatic—and often disruptive—change. This is a tall order, but a failure by foreign policy scholars and professionals to recognize and study these questions could, in hindsight, be a mistake of historic consequence.

Chapters 10 and 11 analyze avant-garde art in Shanghai, with a focus on exploring the booming contemporary art scene in the city and understanding how avant-garde artworks reflect the profound change in artistic and intellectual pursuits of some of the most forward-looking, critical minds in this influential cultural hub. Chapter 10 explores the stunning development of art galleries in Shanghai over the past decade, including some large-scale, privately owned art museums. The chapter also highlights the important role of the Shanghai Biennale and the great impact of international cultural exchanges in the reform era.

Chapter 11 offers an analytical discussion of some representative work of Shanghai's avant-garde artists, revealing that the political messages conveyed in their art tend to be subtle, culturally broad, and oftentimes restive without the brashness of some of the antiregime "shock" artists based in Beijing. Shanghai's avant-garde artists use modern media (e.g., computer programs that require audience participation, international symbols, and performance art), yet these works do not situate themselves solely in their contemporary and immediate environment. Rather, they start a more critical, international dialogue about China's—and the world's—growing obsession with consumerism and its negative effects, especially these artists' widely shared resentment of the perceived U.S. policy of containing China's rise, as well as American moral hypocrisy in world affairs. The messages these artists share tend to transcend the usual intellectual boundaries between modernity and tradition, socialism and capitalism, East and West, and politics and culture. A close inspection of these works provides a look into the rapidly changing perspective of the denizens of Shanghai and the intellectual community's critical but constructive demand for a dialogue with the West on equal footing. Through their works, Shanghai artists have sought to convey a powerful sense of common humanity, which can triumph over seemingly stark cultural differences.

Chapter 12 discusses what all of these developments related to Shanghai's middle class, especially as a reflection of the dynamic and diverse nature of Chinese society as a whole, mean for China, the United States, and the world. It offers further thoughts for U.S. policymakers about how to minimize misunderstanding and mistrust between the two countries and how to maximize the positive and constructive role of the Chinese middle class in both U.S.-China and global relations.