

China's Emerging Global Middle Class.
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Dresden Presentation

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Summary.

- Throws light on the emergence of the Chinese economic middle class in a Global context.
- Uses data from the China Household Income Project from 2002, 2007 and 2013.
- “middle class” -> having an income high enough to not be regarded as poor if living in a high income country but low enough for not being regarded as rich in such a country (A global or EU metric).
- In 2013 according to their definitions a third of China’s urban households were middle class in contrast to only a small minority of the rural households and rural migrants living in urban areas.
- Performs some simulations to 2020.
- Examines characteristics of middle class (e.g. location of residence, education, Communist party membership, and savings rates.)

Historical Context

- **At the formation of modern China the entire population was classified into 12 ordered social classes (Chengfen) according to family employment status, income sources and political loyalties at the time of the “liberation” (1949).**
- **The Cultural Revolution 1966-76 saw mass school closures and a purge of “elites”. One Party slogan was “eliminate the distinction between town and country, industry and agriculture, physical and mental labor” -> everyone middle class.**
- **When schools reopened, children from formerly lower social designations were given more education and occupational attainment opportunities than those from higher social designations. Merit based admission to Higher Education establishments did not resume until after 1976.**
- **Post 1980 saw a profound growth spurt precipitated by the Economic Reforms and the effects of the One Child Policy which increased investment in child education especially in Urban China.**
- **At the 16th Congress of Chinese Communist Party (CCP) in 2002 Jiang Zemin announced the goal to “control the growth of the upper stratum of society, expand the middle, and reduce the bottom.”**
- **Use CHIP data to study how this objective panned out in the 2002-2013 Era in the context of class boundaries as percieved in the rest of the world.**

Income and the Class Boundaries (Per person, per day basis).

- Assumptions: Household income the sum of various income components; divided by # of household members to obtain income per capita; income shared equally among household members; expressed in constant prices over time using urban consumer price deflator for urban and migrant samples and the rural deflator for the rural sample; Adult equivalence scale used for upper and middle boundaries (reflecting economies of scale in consumption) not for lower (no economies of scale at the poor end).
- Define four classes: “poor”, “lower”, “middle” and “upper “ classes.
- The 3 Boundaries fixed over time at 2013 levels. 1st cutoff: World Bank’s global “\$2 a day” poverty line. 2nd cutoff: 60% of median daily income per equivalised person of 15 EU countries in 2013. The 3rd cutoff is set at 200% of median income per equivalised person.
- 2013 RMB (current prices) 7.52 135.36 451.2
- 2013 USD (current prices) 2 36 120

The Main Result

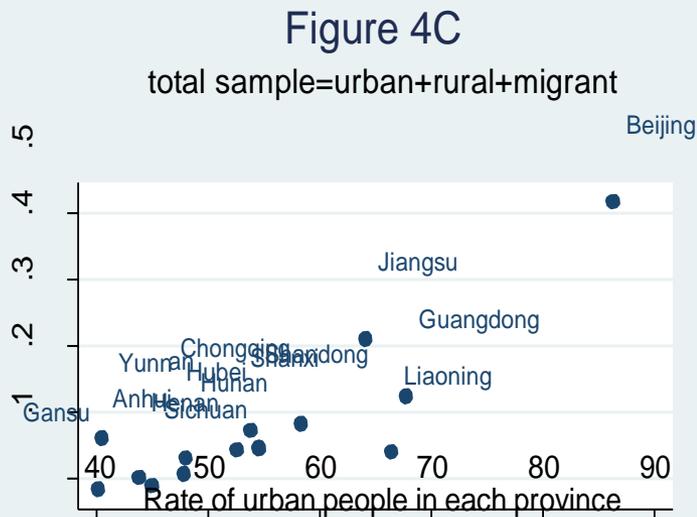
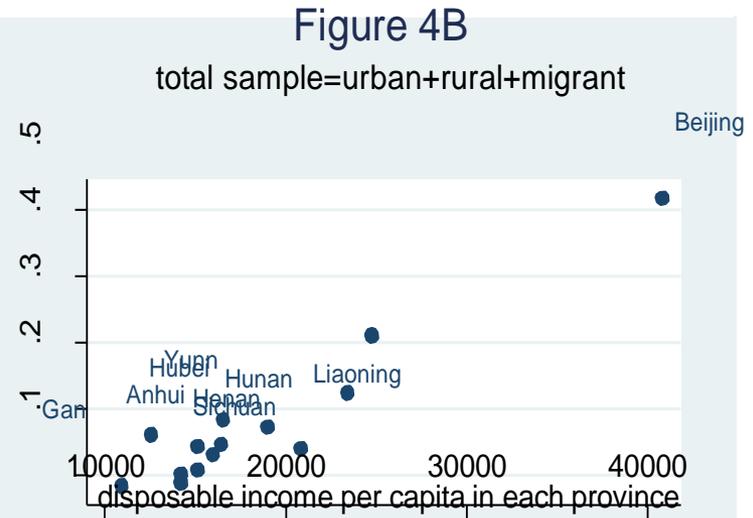
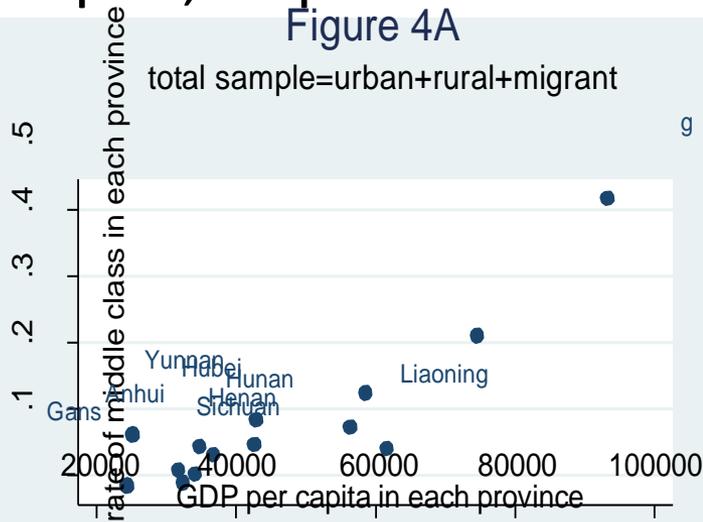
Class Distributions (%) 2002, 2007, 2013 (Table 3 re-arranged)

| | Overall% | Urban% | Rural% | Migrant% |
|--------------------------------|-----------------|---------------|---------------|-----------------|
| 2002 Poor Class | 26.88 | 1.92 | 40.34 | 6.95 |
| 2007 Poor Class | 11.30 | 0.07 | 20.58 | 1.05 |
| 2013 Poor Class | 3.58 | 0.94 | 6.65 | 1.18 |
| 2002 Lower Class | 72.15 | 95.65 | 59.44 | 92.32 |
| 2007 Lower Class | 83.79 | 88.03 | 78.97 | 93.96 |
| 2013 Lower Class | 77.29 | 63.71 | 88.93 | 79.02 |
| 2002 Middle Class | 0.97 | 2.43 | 0.22 | 0.73 |
| 2007 Middle Class | 4.84 | 11.79 | 0.44 | 4.74 |
| 2013 Middle Class | 18.66 | 34.44 | 4.31 | 19.49 |
| 2002 Upper Class | 0.00 | 0.00 | 0.00 | 0.00 |
| 2007 Upper Class | 0.07 | 0.11 | 0.01 | 0.24 |
| 2013 Upper Class | 0.47 | 0.91 | 0.11 | 0.32 |
| 2002 Lower+Middle Class | 73.17 | 98.08 | 59.66 | 93.05 |
| 2007 Lower+Middle Class | 88.63 | 99.82 | 79.41 | 98.69 |
| 2013 Lower+Middle Class | 95.95 | 98.15 | 93.24 | 98.51 |

Simulation and Projection Exercises

- To explore the role of average income growth versus redistribution, assumes the same annual growth rate of 10.4 percent for all in the 2007 sample to obtain a hypothetical distribution among the four classes in 2013. Then compare the size of the middle class in this hypothetical distribution to that in the observed income distribution for 2013.
- Find Overall hypothetical distribution to be the same as actual masking differences in the sizes of the hypothetical versus observed middle classes in urban versus rural areas. Urban middle class is larger (40% not 34%), and rural middle class is smaller (3% not 4%). -> Although redistribution did not affect growth in the size of China's overall middle class it increased the proportion of the middle-class that was rural versus urban.
- How large will China's the middle class be? Projecting forward to 2020 under a uniform 6.5 percent annual income growth assumption the middle class share in China will almost double, from 19 to 36 percent (60 percent of urban but only 13 percent of rural).

Plots of middle class proportions on provincial GDP per capita, disposable income and urbanization rates.



Characteristics of the Poor, Lower and Middle Classes in 2013.

- The Urban – Rural Divide: If you're poor or lower you're most likely rural, if you're middle you're most likely urban.
- The East/Non East Divide: If you're poor or lower you're most likely Non-Eastern, if you're middle you're most likely Eastern.
- Child/Adult/Elder: Children and Elders over-represented in the poor group under represented in the middle class.
- Education Degree: Strong dependency of class membership on education level and Years of Education.
- Party membership: Communist Party under represented in the poor group over represented in the middle group.
- China's middle class are large savers (>1/3 income).

Comments

- Not really about how Chinese class membership in respective years changed over time, more about class membership as classified in European countries in 2013 changed.
- Had 2002 and 2007 European medians been used the lower class would have been smaller and the middle class correspondingly bigger in those years -> exaggerates growth in the middle class in recent years.
- Class Boundaries, except for the poor, are the classic “relative to median” boundaries tied to the overall distribution => AFPZ semi parametric results.

Minor Details.

- Not sure but it seems that boundaries were adult equivalized (apart from the lowest) but aggregate household incomes were not (i.e. divide total household income by the # of equivalent adults in the household)?
- 15 EU member countries (Austria, Belgium, Cyprus, Finland, France, Germany, Ireland, Italy, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia and Spain) ??Brexit??
- Not sure about projections (are urban-rural population shares being held constant or are projections of those changes being used?)
- Not sure with regard to characteristics: “Children and Elders over-represented in the poor group under represented in the middle class”. ?Urban - rural differences here because of one child policy? Anderson Leo (2010) found children under represented in the poor group.