

CHINA'S "SUPER-RICH"

ZHAO Litao & SHENG Sixin

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Executive Summary

1. China's social landscape has changed profoundly with the rise of rich entrepreneurs. Their emergence has been particularly rapid since the early 2000s, thanks to the booming property market, the double-digit economic growth on a much larger scale, and large-scale IPOs.
2. The current global financial crisis is only a short setback for China. The number of wealthy households is projected to grow strongly in the years ahead. A new class of wealthy Chinese is coming of age in China.
3. The question is how this group is being accommodated by the larger society. Social tensions have been found to exist between the new rich and the rest of society, resulting in an uneasy situation of status discrepancy in which money does not translate into social prestige.
4. Over the years, the Chinese Communist Party (CCP) has played an important role in legitimating the moneyed class. After the 1989 Tiananmen incident, the CCP sought to maintain regime stability by limiting political activism, accelerating economic reforms, and co-opting business elites into the system.
5. Channels of political participation were opened up for this rising group. Becoming a delegate to the National People's Congress (NPC) or the China People's Political Consultative Congress (CPPCC) is an important way to enhance the political status of private entrepreneurs.
6. According to Hurun China Rich List, the earliest and most influential list of China's super rich, one third of the people on this 2008 list were party members, and 15% were either NPC or CPPCC delegates.
7. In stark contrast to their enhanced political status, the social status of China's richest people is more ambiguous and complicated. Towards them the general

public has mixed feelings of admiration and aspiration in private, and resentment and ridicule in public.

8. History plays some part. Private entrepreneurs were de-legitimated and eliminated in the Mao era. In the early 1980s, the first ones entering private business were most likely those who did not receive much education and could not find a job in the state or collective sector.
9. After CCP legally recognized private enterprises in 1988, higher status people began to “jump into the sea”. However, their image was tarnished by the widely held belief that they amassed wealth through smuggling, bribery, tax evasion, theft of state assets and other illegal means.
10. The growing income inequality is the second factor that brews a sense of relative deprivation, which is further fueled by the fact that youths in all sectors and locales aspire to be high achievers, yet many of them are impatient and unhappy with their current conditions.
11. A third factor has to do with the cultural expectation of the rich as kind and responsible to the larger community. In today’s China, the “unkind” super rich are often criticized for being too exploitative of their workers while donating too little to charity organizations.
12. On their part, China’s super rich and their children increasingly turn to consumerism as a source of identity and status, making China the fastest growing market for foreign luxury goods.
13. While their embracement of consumerism has drawn applause from the international media and business community for becoming consumers in the global marketplace, the divide between the super rich and the rest continues to exist. This is a real threat to China’s “harmonious society”.

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The Emerging Nouveau Riche

- 1.1 Wealth creation is a result of economic development. China's dynamic economic growth since the late 1970s and its shift to a market economy have given rise to a new moneyed class, a heterogeneous group consisting of private entrepreneurs, managers of large corporations, professionals and state officials with discretionary powers.
- 1.2 Particularly since the early 2000s when China's economy has been growing at double digits on a much larger scale and IPOs along with a booming property market have become a new way of wealth creation, China watchers have begun to talk about the coming of age of a new class of wealthy Chinese, particularly those with financial and property assets over 100 million RMB (亿万富翁).
- 1.3 The current global financial crisis is only a short setback for China's growing new rich.¹ Taking into account the global economic downturn, a McKinsey report predicts that the number of wealthy households in China will continue

* Dr. Zhao Litao is a Research Fellow at the East Asian Institute, National University of Singapore; previously a Research Officer at the same Institute, Sheng Sixin is now a PhD candidate at the Australian School of Business, the University of New South Wales, Australia. They would like to thank Professor Zheng Yongnian and Professor John Wong for their very helpful comments.

¹ China's property tycoons and stock market investors lost 70% of their stock wealth in 2008 compared with 2007, according to Rupert Hoogewerf, publisher of Hurun Report and founder of the China Rich List. The average wealth of those on the Hurun 1000 Rich List fell 22% to US\$439 million. While a third saw their wealth shrink, a quarter actually increased, suggesting that the impacts of the current global financial crisis are not sweeping and across-the board in China. See http://www.gotoread.com/mag/13136/sarticle_29411.html.

to grow strongly, at around 16% per annum between 2008 and 2015, from 1.6 million to more than 4 million.²

- 1.4 In parallel to the growing number of the wealthy, there is a profound change in how the Chinese value money in comparison with other cherished pursuits. Young people in the 1980s were busy searching for life's meaning in traditional and western cultures. Under a different political and socioeconomic circumstance in the 1990s, young people shifted to seek the good life defined in monetary and materialistic terms. For the majority of the new generation, life's meaning is now in monetary terms.
- 1.5 Surveys done in China have repeatedly shown that China's contemporary youths are increasingly success-oriented. Money and a moneyed lifestyle are becoming increasingly important in urban Chinese aspirations.³ In the 1980s Deng Xiaoping had to try hard to make people believe that "to get rich is glorious"; into the 1990s, this notion became almost universally accepted.
- 1.6 Over the years, the Chinese Communist Party (CCP) has played an important role in legitimating the moneyed class. It officially recognized private entrepreneurs in 1988, and radically amended the Party Constitution in 2002 to allow private entrepreneurs to join the party. Through co-option and inclusion, the CCP has enhanced the political status of private entrepreneurs.
- 1.7 The media have played their part in legitimating wealth as a highly positive value. Discussions about social stratification were restricted in China in the 1990s for fear of social instability. Into the 2000s, however, popular

² Wealthy households are defined as urban households with annual income in excess of 250,000 RMB. See http://www.mckinsey.com/locations/greaterchina/mckonchina/reports/mcKinsey_wealthy_consumer_report.pdf.

³ For a comprehensive review, see Stanley Rosen (2004), "The Victory of Materialism: Aspirations to Join China's Urban Moneyed Classes and the Commercialization of Education", *The China Journal*, No. 51, pp.27-51.

magazines began to report widely on the incomes and lifestyles of some of the wealthiest people in China.⁴

- 1.8 The international media and business community are also making great efforts in legitimating consumerism and moneyed lifestyles in China.⁵ The Millionaire Fair, an annual exhibition that was inaugurated in Europe in 2001 to showcase luxury goods and lifestyles, was held in Shanghai in April 2006. Some 10,000 VIP guests from all over China were entertained in a swirl of gala dinners, cocktail receptions and performances by international troupes.
- 1.9 By now, wealth had been fully legitimated. The problem, however, is that there is a clear distinction between wealth and the wealthy. Paradoxically, the wealthy are widely resented rather than respected in the Chinese society. Private admiration and aspiration for wealth coexists with public resentment and ridicule of the wealthy (仇富), a phenomenon rarely seen in other societies.
- 1.10 Part of the popular resentment stems from the perception that China's nouveau riche made their fortune not through diligence, entrepreneurship and innovation, but through smuggling, bribery, speculation, tax evasion and theft of state assets. There is no merit to the success of the super rich. As a result, the rich are as much hated as corrupt officials (仇官).
- 1.11 Public resentment against the wealthy also has to do with the overriding desire for immediate economic success among the youths. Previous surveys have found that youths in all sectors and locales aspired to be high achievers, yet they were impatient and unhappy with their current conditions.⁶ This

⁴ For example, *Sanlian Shenghuo Zhoukan* (Sanlian Life Week) published a lengthy story titled "Who are the Rich People?" on 19 March 2001, followed by another cover story in October 2002.

⁵ As examples, *Insights* published by HSBC and MasterCard carried a report titled "Understanding the Affluent Consumers of China" in the Second Quarter of 2007; *Insights China*, a publication of McKinsey & Company, published a report titled "The Coming of Age: China's New Class of Wealthy Consumers" based on research conducted in the last quarter of 2008.

⁶ See Stanley Rosen (2004), "The Victory of Materialism: Aspirations to Join China's Urban Moneyed Classes and the Commercialization of Education", *The China Journal*, No. 51, pp.27-51.

dissatisfaction has led to a mixed feeling of both envy and resentment towards the wealthy, which was further aggravated by the reality of growing income inequality across regions and sectors.

1.12 In Chinese history, wealth does not automatically translate into social prestige. But this is because the Confucian elite despised materialistic pursuits and business people. In contrast, making (clean) money is a fully legitimate pursuit today. The fact that wealth still does not translate into social acceptance and prestige reveals deep tensions between the haves and the have-nots, not between the cultural elite and the business elite. This is why some sociologists are concerned that China is heading to a fractured society (断裂的社会).⁷

1.13 Social cohesion is in danger today. The new rich are increasingly turning to consumerism as a source of identity and status, as they are applauded by foreign investors and companies for becoming consumers in the global marketplace. Their luxurious and often exclusive lifestyle, however, has reduced their interactions with people from the lower social strata. On their part, people who are not so well off distrust the rich as corrupt and lacking in social responsibility. The divide between the two groups presents a tremendous challenge to the CCP. So far it is not clear how the CCP's proposals for building a harmonious society can address this problem.

The Profile of China's (Super) Rich

2.1 The number of wealthy Chinese has been increasing rapidly in China since the early 2000s. The estimated number varies, depending on the definition and the purpose of analysis. According to a latest survey done by Capgemini and Merrill Lynch, in 2007 about 413,000 mainland Chinese came under the category of High Net Worth Individuals (HNWIs), who hold at least US\$ 1 million in financial assets, excluding collectibles, consumables, consumer durables and primary residence. China ranked second after Japan (more than

⁷ Sun Liping, a sociologist now in Tsinghua University, coined the term, which attracted much attention both inside and outside China.

1.5 million HNWI) in the Asia Pacific region. Globally it surpassed France to rank No. 5 after the US, Japan, Germany and the UK.

- 2.2 China's HNWI population declined to 364,000 in 2008, a 12% drop from 2007. Despite steep market capitalization losses, the closed nature of China's financial markets, coupled with robust economic growth, buffered China from the steeper losses felt elsewhere. In 2008, China's HNWI population overtook that of the UK to become the fourth largest in the world.⁸
- 2.3 A 2009 report by McKinsey estimated that the number of wealthy households—with annual income in excess of 250,000 RMB—reached 1.6 million in China in 2008, less than 1% of urban Chinese households, compared with around 10% in the United States, Germany and Japan. It predicted that the number is likely to increase 16% per annum in the next five to seven years. By 2015, China will have more than 4 million wealthy households, the world's fourth largest after the US, Japan and the UK.⁹
- 2.4 The emergence of the super rich is a relatively new phenomenon in China. This is evident in *Hurun China Rich List*, the earliest and most influential annual list of China's super rich. When the rich list was first produced in 1999, mainland China had only one US dollar billionaire (Rong Yiren). With soaring property prices, the rebounding stock market, and the start of large IPOs in the 2000s, the super rich list has been expanding quickly. In 2007, the billionaire list swelled to 106.¹⁰
- 2.5 China's skewed growth pattern is conducive to producing the super rich. According to *Hurun China Rich List*, the growth of super rich and the wealth

⁸ See Capgemini and Merrill Lynch, *World Wealth Report 2009*. At the end of 2008, the world's population of HNWI decreased 14.9% from the year before to 8.6 million, with North America down 19.0%, Europe 14.4%, and Asia Pacific 14.2%. In the Asia Pacific region, Japan suffered a mild drop of 9.9%, while Hong Kong and India suffered greater losses (61.3% and 31.6% respectively).

⁹ "The Coming of Age: China's New Class of Wealthy Consumers", McKinsey & Company (2009).

¹⁰ See <http://www.businessday.com.au/business/chinas-rich-flaunt-their-billions-20080330-22h0.html>

they amassed by far outpaced China's GDP growth. The list is expanding quickly, even though the requirement for listing has been raised. As Table 1 clearly shows, the average wealth of super rich is growing at a stunning pace.

TABLE 1 CHINA'S SUPER RICH: RAPID GROWTH IN NUMBER AND WEALTH

Year	Wealth of the 50 th richest (million RMB)	Wealth requirement for listing (million RMB)	Number of super rich on the list
1999	50	50	50
2000	350	350	50
2001	900	500	100
2002	1,200	700	100
2003	1,500	900	100
2004	1,900	1,250	100
2005	2,600	500	400
2006	4,200	800	500
2007	12,000	800	800
2008	10,000	700	1,000

Source: *Hurun China Rich List*: 1999-2008

2.6 China's super rich share some common characteristics, which facilitate the formation of identity and group consciousness. As is often the case in emerging economies, China's super rich are relatively young. *Hurun China Rich List* shows that the average age of the top 1,000 China's super rich was only 48 in 2008. Using a different definition, a McKinsey report found that some 80% of China's wealthy are under 45, compared with 30% in the US and 19% in Japan.¹¹

2.7 In terms of education, by the end of the 1990s, China's super rich were not well educated. Therefore there is a strong need for them to acquire educational credentials to enhance their social status. The rapid expansion of higher education since 1999, particularly the burgeoning of executive programs that charge high fees, has provided opportunities for China's new rich to receive higher education and expand network ties. As a result,

¹¹ Defined as urban households with annual income over 250,000 RMB. See "The Coming of Age: China's New Class of Wealthy Consumers", McKinsey & Company (2009).

according to *Hurun China Rich List*, while only 15% on the list received higher education in 1999, the figure jumped to 77% in 2003.

2.8 In terms of gender composition, not surprisingly, male dominates the rich list. A total of 88 women made it to *Hurun China 1000 Rich List* in 2008, compared to 8% of super rich women in 2007 and 7% in 2006. Some of them are self-made super rich. Examples include Zhang Yin (张茵) running *Nine Dragons Paper Holdings*, and Chen Ningning (陈宁宁) of the mining industry. Others acquired wealth from their husband or father, like Chen Jinxia (陈金霞) who inherited from her super rich husband Wei Dong (魏东), and Yang Huiyan (杨惠妍) whose father transferred 70% of a Guangdong-based property development company—Country Garden (碧桂园)—to her before its IPO in 2007.

2.9 Geographically speaking, China's super rich are concentrated in a few developed provinces and cities. According to *Hurun China Rich List 2008*, Zhejiang, Guangdong, Jiangsu, Fujian and Shandong produce the largest number of super rich by birth place. More super rich have their business headquarters in Guangdong than other places, followed by Zhejiang, Shanghai, Jiangsu and Beijing.¹²

TABLE 2 GEOGRAPHIC DISTRIBUTION OF CHINA'S SUPER RICH AND THEIR HEADQUARTERS

Birth Place	Number (%)	Place of Headquarter	Number (%)
Zhejiang	177 (23.0)	Guangdong	168 (16.8)
Guangdong	98 (12.7)	Zhejiang	149 (14.9)
Jiangsu	77 (10.0)	Shanghai	98 (9.8)
Fujian	56 (7.3)	Jiangsu	94 (9.4)
Shandong	43 (5.6)	Beijing	90 (9.0)
Subtotal	451 (58.5)	Subtotal	599 (60)

Source: *Hurun China Rich List 2008*

¹² The same report also shows that Beijing has the largest number of rich holding assets over 100 million RMB, followed by Shanghai, Guangzhou, Shenzhen and Hangzhou.

2.10 Real estate is the sector producing the largest number of super rich, accounting for about one-fourth. Manufacturing is the second largest sector, which reflects China's status as the world's factory. Other sectors lag far behind. Nevertheless, the pharmaceutical sector and the energy sector are rising in recent years (see Table 3).

**TABLE 3 DISTRIBUTION OF CHINA'S SUPER RICH BY INDUSTRY:
2006-2008**

2008		2007		2006	
Industry	% of super rich	Industry	% of super rich	Industry	% of super rich
Real estate	23.4	Real estate	24.0	Real estate	25.5
Manufacturing	18.8	Manufacturing	22.0	Manufacturing	19.5
Pharmaceutical	7.1	IT	8.0	IT	6.6
Energy	6.4	Pharmaceutical	6.0	Pharmaceutical	5.7
Finance	6.3	Finance	5.0	Mining	4.9
IT	6.0	Energy	4.7	Retail	4.8
Mining	4.2	Steel	4.4	Chemical	4.6
Chemical	3.9	Retail	4.0	Steel	4.5
Subtotal	76.1	Subtotal	78.1	Subtotal	76.1

Source: *Hurun China Rich List 2006-2008*

The CCP's Co-option of the New Rich

3.1 After the 1989 Tiananmen incident, the CCP sought to maintain regime stability by limiting political activism, opening up economic sectors to non-state capital, and co-opting all kinds of elite into the system. The new strategy of building an extensive "elite alliance" included not only the intellectual and cultural elites, but also the economic elite in the private sector.

3.2 Unlike co-opting the intellectual and cultural elites, who enjoyed high social prestige after the Cultural Revolution, co-opting private entrepreneurs became a contentious issue. The CCP had spent decades de-legitimizing capitalists. To many senior party members and officials, the CCP has always been a party

against the exploitative capitalists. It is unthinkable that it would now shift to embrace them.

- 3.3 Despite much controversy in the late 1990s, Jiang Zemin decided to open the party to private entrepreneurs. He did so by portraying the CCP as representing the broadest interest of the Chinese society as well as the most advanced productive force. Either way, private entrepreneurs should be allowed to join the party. In 2002, the Party Constitution was amended to officially endorse the radical move to embrace the “capitalists”. In 2008, one third on the *Hurun China Rich List* was estimated to be CCP members.
- 3.4 Another way to co-opt private entrepreneurs is to open the channels of political participation for this rising group. Becoming a delegate to the National People’s Congress (NPC) or the China People’s Political Consultative Congress (CPPCC) is an important way to enhance the political status of private entrepreneurs.
- 3.5 According to Rupert Hoogewerf (known in China as Hu Run, founder of the *Hurun China Rich list*), 2008 became the year of China’s entrepreneurs coming of age in terms of political status. Among 1000 on his super-rich list in 2008, 80 were delegates to NPC and 68 to CPPCC. This means that about 15% of China’s super rich were either NPC or CPPCC delegates, compared with 10% in 2007.¹³
- 3.6 With newly recognized political status, China’s super rich are becoming more assertive in voicing their concerns. A recent example is Zhang Yin, who topped the 2006 Hurun China Rich List (but fell to the 2nd in 2007 and 15th in 2008). She made her fortune by buying scrap paper for use in China. Zhang Yin made three proposals during the annual session of CPPCC in 2008. The first proposed to amend the Labor Contract Law (effective as of January 1, 2008) to exempt labor-intensive companies from signing permanent contract with their employees; the second was to cap the income tax rate at 30%

¹³ <http://www.hurun.net/listreleaseen300.aspx>

instead of 45%; and the third proposal asked the government to lift the duty levied on imported environmental remediation facilities for five to seven years.

- 3.7 While her proposals led to heated debate as to whether she was representing public interest or her own interest, this episode clearly shows the enhanced political status of China's super rich and their growing willingness to voice their concerns through newly available political channels.
- 3.8 Many agree that property developers have become the best organized interest group in China, with the potential to reverse the central government's policy. In 2003, China's central bank released Document 121, announcing measures to control lending to the real estate sector to prevent further overheating. In response, property developers took quick actions to organize conferences to shape public opinion on one hand, and work through All-China Federation of Industry and Commerce to oppose Document 121 on the other.
- 3.9 The State Council soon released Document 18, stressing the importance of the real estate sector and recognizing its healthy development. The new document effectively overturned the central bank's decision. This episode was widely seen as the first case in which an interest group has mobilized support from within and without the system to reverse a major government policy.
- 3.10 Of course, the enhanced political status of China's super rich and their increasing assertiveness does not mean that they are becoming an independent and politically active class. As the largest beneficiary of China's economic reform, they are not keen to change the existing structure that best accommodates both their economic and political interest.

Social Attitudes towards the Super Rich

- 4.1 In stark contrast to their enhanced political status, the issue regarding the social status of China's richest people is much more complicated. Their wealth does not automatically translate into high social prestige, as is the case

in most other societies. Instead, the general public has this mixed feeling of private admiration/aspiration and public resentment/ridicule towards China's super rich.

- 4.2 History plays some part. Private entrepreneurs were de-legitimated and eliminated in the Mao era. In the early 1980s, the first ones that entered private business were most likely those who did not receive much education and could not find a job in the state or collective sector. The image of private entrepreneurs—China's richest people back then—was as bad as ever.
- 4.3 The CCP legally recognized private enterprises in 1988. Since then, people with secure jobs in the state sector began to enter the private sector. “Jumping into the sea” (下海) became the most attractive option for many officials, academics, professionals and state workers. Those who were forced to leave the state posts after the 1989 Tiananmen incidents found an alternative career path in the lucrative private business.
- 4.4 Many of the richest in the 1990s had what it took to become a person with high social status, including good education and high prestige brought over from their previous job. Yet their money was considered dirty or unjustifiable. They were believed to have amassed wealth through smuggling, bribery, tax evasion, theft of state assets and other illegal means. The biggest winners were reportedly children of high-ranking officials or those who have cultivated good connections with them.¹⁴
- 4.5 China's mass media, while shedding positive light on the moneyed lifestyle and playing an important role in legitimating money and consumerism, successfully focused public attention on the “original sin” of China's richest

¹⁴ The 12 largest real estate developers in Guangdong are all reported to be the children of high-ranking officials. In Shanghai, the princelings control nine of the 10 largest real estate development companies and 13 of the 15 largest construction firms. See <http://www.businessday.com.au/business/chinas-rich-flaunt-their-billions-20080330-22h0.html>

people.¹⁵ A Shenzhen-based lawyer collected case files of 85 influential entrepreneurs sentenced or accused of criminal offences in 2009, with 36 from state-owned enterprises and 49 from private enterprises. Among 21 private entrepreneurs already sentenced, seven were sentenced to death. This report has attracted the attention of the state media, such as *Xinhua*, *China Daily* and so on.¹⁶

- 4.6 The growing income inequality further fuelled public resentment towards the super rich. Another factor has to do with the cultural expectation of the rich to be kind as well. Traditionally, the rich were expected to have varying responsibilities towards members of their extended family, lineage, and local community. “The unkind rich” (为富不仁) were looked down upon by other family and community members. In today’s China, the super rich are criticized for being too exploitative of their employees (usually migrant workers from poor areas) and donating too little to charity organizations.
- 4.7 China’s super rich will continue to be put under scrutiny. In fact, the 2008 Sichuan earthquake was a watershed, which greatly raised public awareness about volunteerism, philanthropy and corporate social responsibility. It was the first time that those on the *Hurun China Rich List* came under significant social pressure to make a donation in public.
- 4.8 The public hatred of the super rich reveals deep tension within the Chinese society. In early 2003, three leading private entrepreneurs were murdered within three weeks of each other. There were many speculations of “revenge against the rich” as the motive.

¹⁵ A most recent example is Huang Guangyu, who was the richest man in China for the third time in five years until 2008. Huang was detained on November 24, 2008 on charges of managing share trading in two companies, although many believe that his arrest was linked to a politically motivated anti-corruption campaign.

¹⁶ See for example http://www.chinadaily.com.cn/bizchina/2010-01/07/content_9277830.htm; http://news.xinhuanet.com/english/2010-01/07/content_12767998.htm.

- 4.9 On their part, China's super rich increasingly turn to consumerism as a source of identity and status, drawing applause from the international media and business community for becoming consumers in the global marketplace. In part because of this, China is quickly becoming the third largest high-end consumer of luxury goods (handbags, shoes, jewelry, perfume, and the like), accounting for more than 12% of global sales today, compared with only 1% in 2000. Some even predicted that within a decade, China will likely overtake Japan and the U.S. to become the top luxury market.¹⁷

BOX 1 CONSUMPTION BEHAVIOR OF CHINA'S SUPER RICH

Preferred international holiday destinations: 1. France, 2. Australia, 3. Hawaii, 4. US Mainland, 5. Singapore, 6. Dubai, 7. UK, 8. Japan, 9. Canada, 10. Italy, 11. Germany

Preferred domestic holiday destinations: 1. Yunnan, 2. Hong Kong, 3. Sanya, 4. Tibet, 5. Jiuzhaigou, 6. Xinjiang, 7. Macao, 8. Hangzhou, 9. Xi'an, 10. Qingdao

Preferred luxury brands: 1. BMW, 2. Louis Vuitton, 3. Mercedes Benz, 4. Cartier, 5. Chanel, 6. Rolex, 7. Ferrari, 8. Giorgio Armani, 9. Gucci, 10. Vacheron Constantin

(Source: Hurun 2008 Best of the Best Awards)

- 4.10 The rest of the Chinese society also aspires to become high achievers, yet most of them have to live with the reality that immediate economic success is not within their reach. Many of them are impatient and dissatisfied with their current conditions. In the context of increasing income inequality, it is very difficult for them to accept the super rich as respectable and their luxurious lifestyle justifiable, no matter how enviable they are.
- 4.11 The division between the super rich and the rest presents a challenge to China's social cohesion and social stability. There is no easy solution. To a large extent it will depend on whether China's evolving market economy will produce winners based on merits, whether China's super rich show greater

¹⁷ See http://www.businessweek.com/magazine/content/06_06/b3970072.htm

social responsibility, and whether the aspiration of the young generation is managed or accommodated in a way that the kind and degree of inequality is acceptable to them. The divide between the rich and the rest presents a tremendous challenge to the CCP's harmonious society. So far it is not clear how the CCP's proposals can effectively address this problem.