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REFLECTIONS ON A CHANGING CHINA

Arthur C. Wheaton, Director, Western NY Labor & Environmental Programs and Faculty of Industrial Relations at Cornell University's School of Industrial & Labour Relations, after spending more than two weeks in cities across China, writes on the country's evolving economic and social environment

In June, I boarded an Air Canada flight from Toronto (*Canada*) to Beijing International Airport with my Chinese-born wife and our nine year-old daughter. Designed to help teach our daughter about Chinese culture and to improve her Mandarin language skills, the trip was our first to mainland China in eight years.

We were fortunate to be able to visit some of the same families and places that were part of our first trip. The contrast between then and now in lifestyle and other trends was astonishing. On both trips, I filtered much of what I saw through my lens as an automotive industry specialist for Cornell University's ILR School. Cars are a reflection of what has shifted in many elements of Chinese life and I will report here on some of the changes.

First, it is impossible to summarise China's economic and social conditions. With more than 1.3 billion people living in China, there are too many perspectives to consider for a short answer. Statistics and data on China's economy are available from sources. What is unclear is how accurately those numbers reflect the reality of the people living there. The statistics and economic data tend to focus only on the highly developed regions of China and might not apply to all of China.

According to Helen Wang, author of *The Chinese Dream: The Rise of the World's Largest Middle Class...*, there are more than 300 million Chinese who are considered middle class. That is nearly the population of the entire United States. The middle class has a growing discretionary income and a growing force in the Chinese economy. A lot of Chinese, especially young women consumers, are smitten with luxury brands. They associate Western luxury brands with quality of life and sophistication. They want restaurant meals, health club memberships and travel. They want to see the world. The restaurant business and malls are therefore doing very well in the country.

I can confirm from my own experiences that the love of quality and luxury goods described by Helen Wang is accurate. Thanks to insights from friends on this trip, I hope to provide to *B&E's* readers a few glimpses of the economic and social conditions of China today. Our friends either live or work in Beijing, Xi'an, Shenyang, Shanghai, Shenzhen, Lanzhou or Zhengzhou. Their are into banking, retail, stock trading, financial management, teaching or are military officers and government officials in China.

The changes in the economic and social statuses of the families in the eight years since my first visit are marked. All the families could be described as middle class to upper middle class. When I met these families in 2004, only one owned a car. The rest relied on public transportation, bicycles, taxis and friends. Today, all of them do.

Then, we were driven around by one professional couple – a senior banking manager and a financial manager – in their Toyota Camry. [*The car's trunk was large enough to take golf clubs to the private country clubs for our days on the 180-hole designer golf course. Golf was not just a hobby, but an escape allowing them to unwind and be pampered in style.*] In 2012, this couple picked us up at the Beijing airport in their new BMW X3 SUV. The busy couple is now balancing careers in separate cities. They live in Shanghai and Beijing and spend weekends and holidays together. The husband rents an apartment in Shanghai, while his wife has a company flat in downtown Beijing, where the BMW is parked. The couple has presently rented out their retirement home in Shenzhen. They plan to move into it when they officially retire. We did not get the opportunity to play a full round of golf this time, but did hit 200 golf balls at the exclusive driving range.

In Beijing, we put up at the 8.8 Hotel, about 3 miles from the Forbidden City and Tiananmen Square and across the street from the wife's corporate apartment. She told us not to drink tap water in Beijing. Even to prepare instant cof-

fee and tea using the electric heater in our room, she strictly recommended 'only' bottled water. The hotel had a tasty breakfast buffet for RMB 15 (*yuan*). That was about \$2.50. An old computer with Internet access was provided in the lobby. Interestingly, limited parking was available – if you honked the horn, the gated barrier on wheels was opened by the front desk!

Two-city families in China are not unique. At least three other families we spent time with, have similar circumstances and multiple residences. The incomes and lifestyles have indeed improved since my 2004 visit, but life is more complex.

The changes we saw in our friends' lives occurred during the same time their nation's saw a burst of automotive activity. In 2004, China passenger car sales exceeded two million vehicles for the first time. China is now the largest automotive market in the world. From January to June 2012, China sold more than 7.6 million passenger cars. GM and Volkswagen continue to lead the market in car sales making large profits.

The booming economy and massive increase in car sales are evident on the streets. Cars by Buick, VW, Audi, Volvo, Hyundai, Land Rover, Nissan and others are very common. Some of the car brands rarely seen in the United States – Peugeot, Citroen, Renault and Fiat – are also prevalent.

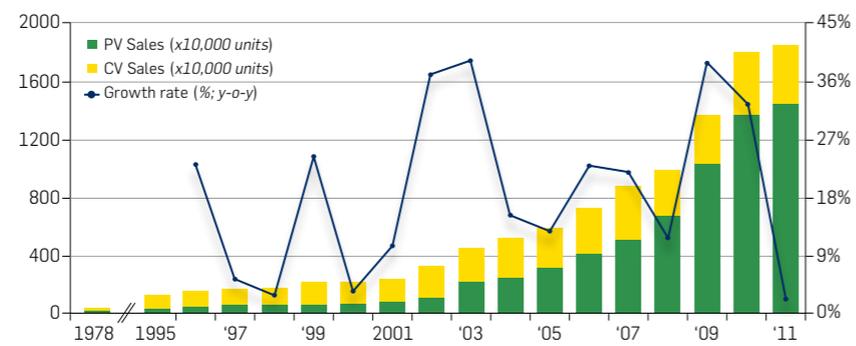
There were many other Chinese brands harder to identify except for the fleets of Build Your Dream (BYD) taxis in Xi'an. The abundance of cars and limited infrastructure are causing traffic jams forcing controversial policy changes to slow growth. The restrictive policies also highlight the tensions between the "haves" and the "have nots" desiring cars.

Shanghai began auctioning license plates in 1994 to limit car sales in China's largest city. The rich can simply pay more money to get what they want. In Beijing, there is a quota of 20,000 license plates per month selected by lottery and drivers are only allowed to drive 4 days per work week. Also, the city has implemented the odd-even licence plate number system that allows cars with odd and even numbers to be driven only on alternate days.

During my visit, the city of Guangzhou had just implemented its new policy for a 5,000 license plate auction and 5,000 plate lottery per month – total of 10,000 cars a month. Instead of registering around 1,000 cars per day, registrations will be limited to 120,000 per year (*less than 330 a day!*). Guangzhou announced this policy unilaterally and with almost no notice. Some car dealerships stayed

How the Chinese auto market got its wheels spinning after the 1990s

In 2005, Passenger Vehicles (PVs) outsold Commercial Vehicles (CVs) for the first time



Source: China Association of Automobile Manufacturers

open all night to register cars before the July 1 deadline. The policy is a hybrid attempt to satisfy two constituencies – auctions favour those with more money, while lotteries allow a more egalitarian chance to own a car.

In 2004, a battle waged between cars and two-wheeled vehicles for control of the streets. Navigating major streets required great courage for pedestrians and drivers. Bicycles were used to move furniture, appliances and multiple people, as cars whooshed by and honked their horns. In waves, pedestrians attempted to cross the streets with few crosswalks or signals to help them.

Today, the automobile appears victorious in most large cities. The economic expansion of 9-10% of GDP per year has given millions of Chinese citizens enough discretionary income to live the Western dream of owning a home, driving a car and buying luxury goods. Bicycles and scooters are seen more on side streets than on major roadways. But yes, besides this change, taxis, subways and buses still provide quick and easy access for those without a car, and pedestrians still face obstacle courses when crossing the street!

The second family we visited included a government professional employee, a military officer and a teenage daughter. They live in Shenyang in Liaoning province (*in North-east of China*) and flew to Beijing for some sight-seeing and visit family. They now own a Mazda6 sedan and two homes.

On many occasions, the couple have to live separately due to individual job responsibilities. Their decision to own two homes also reflects the diversity in China's complex housing market. Government employees in China have access to a housing fund and low rate financing. The housing fund is similar to a 401K retirement plan in the United States – the employer provides matching funds if the employee contributes a percentage of his or her wages. For

Abundance of cars and limited infrastructure are causing traffic jams, forcing controversial policy changes to slow growth in China



Jing'an district, Shanghai: The Jing'an Buddhist temple in the background is situated on West Nanjing Road, in Shanghai province. To take a look of the inside of this piece of Buddhist architecture, you would require to pay a fee of RMB 30 (it is open between 8am and 5pm). This temple, built in 247 AD, was originally located beside Suzhou Creek, but was relocated to its current site in 1216. Jing'an is close to Shanghai's business hub. As such traffic conditions in this city is growing worse by the day. With cities like Beijing and Guangzhou already having implemented policies to curb the growing auto revolution in China, we might soon see one of the laws to curb the growing number of automobiles replicated in Jing'an

government workers, these funds can only be used to purchase a home. In their case, the decision to purchase the second home was driven by the desire to maximise the employee benefit while upgrading to a newer and nicer home. They can only use this government benefit twice and the city of Shenyang has even placed restrictions on the number of homes you can own in downtown areas.

We had the opportunity to visit four World Heritage sites on this trip. The travel and tourist destinations available in China include an impressive 43 UNESCO World Heritage sites. To put this in perspective, according to UNESCO, India has 29 and US has 21 such sites. We managed to see the Summer Palace in Beijing, the Temple of Heaven in Beijing, the Great Wall, and The Mausoleum of Emperor Qin-Shi Huang (*and his Terracotta Army*) in Lintong District, Xi'an. These tourist and cultural attractions are awe-inspiring and eye-opening. The scenic parks and cultural significance of these sites are quite impressive. Photos of world leaders visiting these locations are proudly displayed. The crowds of paying tourists purchasing souvenirs help the local economy and help spread the news about the wonders of China.

What caught my eye while visiting these highly regarded places was the disparity between the "haves" and the "have-nots". Outside and near the entrances of these parks are many eager entrepreneurs pushing their unauthorised goods and services to the visitors. Handmade crafts, local fruit, souvenirs, toys and tour-guide and restaurants services are sold by aggressive unofficial vendors.

The second family joined us on our visits to the Great Wall, Forbidden City, Tiananmen Square, Summer Palace, Olympic Park and numerous restaurants. Shopping, din-

ing, and travel was nearly nonstop for three weeks. We had a great time soaking up the Chinese culture.

The shopping choices available were much greater than the United States. China has embraced luxury and name brands from Europe, Asia and North America. Levi's, Calvin Klein, Estee Lauder, Coach, Nike, Canon, Apple, and Sony could be found in every mall and most shopping centers. Pizza Hut, KFC, Starbucks and McDonald's were easy to find and filled with happy customers. The prices for these goods and services were far more expensive than traditional Chinese brands and often much more expensive than identical goods sold in New York City.

After five days in Beijing, we were ready for our second destination. We debated taking a train or flying 1000 km west to Xi'an. We decided to fly which cost about RMB1000 per person (*\$160 each way*) returning to the Beijing International Airport for our two-hour flight to Xi'an.

While waiting for our flight, I explored the airport making some interesting observations. The airport terminals have special water stations dispensing free hot or cold water. The sign on the machine explains that this water is safe to drink and has been tested. These machines are not simple drinking fountains. They are more like free vending machines with the option for boiling hot or cold drinking water. Cups are sometimes provided. Many airport customers fill their water bottles with hot water for tea.

A second discovery in the airport involved wireless Internet access. My iPhone had not been able to access wireless servers during my trip. After dozens of tries, I gave up on the effort until I returned to the airport. I happened to notice a kiosk at the coffee shop that said something about Internet access. The kiosk inside the PEK airport required

me to scan my passport in order to get a Wi-Fi password. Having some time to kill before my flight I gave it a try. It took six or seven attempts to get the website to accept the log in and password. About 10 minutes before boarding the airplane, I was able to download the subject line of my emails. It did not download the full message but at long last I could see some email on my phone. That ended up being the first and only time I was able to access a Wi-Fi connection on my phone in China. I must however add that Internet access does work there if you have a Chinese wireless provider. The 388 million smartphone and tablet users are proof.

When we arrived in Xi'an, we met family number three – a successful clothing retailer, his wife and twin daughters. They have three homes already, and are awaiting completion of two new homes in Shenyang and Xi'an!

We drove to their luxury high-rise home in a gated community in their high-end Camry. They hope to upgrade to a BMW X6 soon as SUVs are becoming more popular and can be very expensive. For example, a Jeep Grand Cherokee that costs \$28,000 in US can cost as much as \$84,000 in China after taxes and fees.

We did not get to see the parking space. When they purchased their beautiful apartment, the parking was sold out. They ended up paying about \$30,000 for a parking spot in the neighboring apartment complex underground ramp. While cars are seen almost everywhere, parking can be a difficult and expensive problem.

The rationale for family three's multiple residences is also complicated. The primary home is in Xi'an, where the twins go to school. A second home in their hometown of Chaoyang is occupied by the husband's parents. The husband lives in Lanzhou, where two of the clothing stores are located. He does not have a car in Lanzhou because the

stores are within walking distance.

The first of the new homes being built in Xi'an is a luxury condo in a gated community. It will replace the primary residence. We visited the lobby of the new high rise complex as the family pampered us with coffee, tea and luxury seating areas. It is in the brand new part of town that resembles a mix of Beverly Hills, California, and Las Vegas. It boasts beautiful landscaping, lots of bright lights, all new roads and the best schools in the area.

The second new home is being built in Shenyang, another ancient capital, and will serve as their summer vacation home. It will be a shared duplex. That will allow them to spend time with the extended family and take advantage of the region's cooler summer climate.

One big difference in Chinese home ownership compared to US is the absence of an annual property tax. Once the home is purchased, it can be maintained for very little money beyond the utilities and maintenance. Home ownership for the third family serves as an investment and a lifestyle choice.

In order to cool the housing market, the city of Xi'an has placed a strict limit of owning two homes in the city. If you currently own two homes in the city of Xi'an, you must sell one before you can purchase another in Xi'an. Xian cannot restrict homes purchased in other provinces.

While in Xi'an, we visited the Mausoleum of Emperor Qin Shi Huang and the Terracotta Army. It claims to be the most famous tourist destination in China. The complex is about 35 kilometers from Xi'an.

The parking lots, restaurants, and restroom facilities outside the official park can range from convenient and clean to revolting. Many surrounding areas had souvenir shops with affordable and interesting goods to sell. Parking lots seemed safe with little apparent criminal activity.

Restaurants tended to be informal and quaint. One discomfiting aspect however was sometimes paying for access to putrid-smelling restrooms.

According to *The Wall Street Journal*, China has failed to meet its targets for clean drinking water. Water quality and sanitary conditions in the big cities have improved since 2004. Large cities have drinkable tap water that does not require boiling for about 80% of people. Smaller cities and rural areas have a lower percentage. The Chinese government has not been able to achieve its stated goals. The surrounding areas outside the large cities have many challenges remaining.

Driving in Xi'an is not for the faint of heart. The city is filled with very aggressive drivers that honk their horns and pay little attention to staying in their lane or obeying traffic signals. It was not unusual to have 5 cars trying to fit into two or three lanes of traffic.

Once outside the city limits we got onto the highway that required a toll. The amount of traffic on the paid highways was very light compared to the city. Driving was at much higher speeds (*we averaged about 120km/hour in the left lane*) and people stayed in the proper lane. Trucks made up a higher percentage of traffic in the middle and right hand lanes. Cars are able to drive at higher speeds and access the left lane.

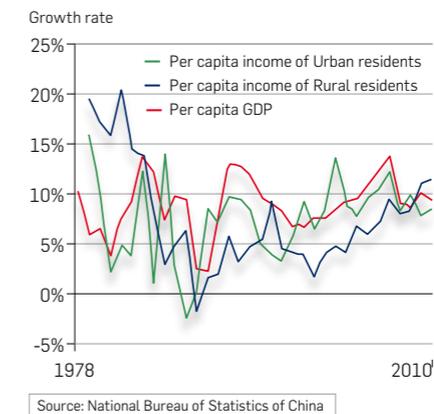
We managed to visit several famous places in and near Xi'an. We climbed Huashan (*flower*) mountain, rode bicycles on top of the Xi'an ancient city wall, walked the Huaqing pools and ancient spas, and climbed the Dayan Pagoda with its scenic city view.

The fourth family we spent time with is comprised of stock trader, fashion designer and teenage son. They flew to Xi'an to join us. They live in Shanghai and Zhangzhou where their son goes to school. They own a Buick Excelle that stays in Shanghai. During my visit in 2004, they were designing clothes and running a retail clothing chain. Skyrocketing prices for renting retail space and diminishing margins on clothing can make it a difficult business. They did not own a car and were in the process of buying a new home in Shanghai. They now sublet the former retail space in Xi'an and closed the store. They seem to be much happier these days and are looking for the best fashion colleges in the world for their son to attend.

What all four families had in common is their love for

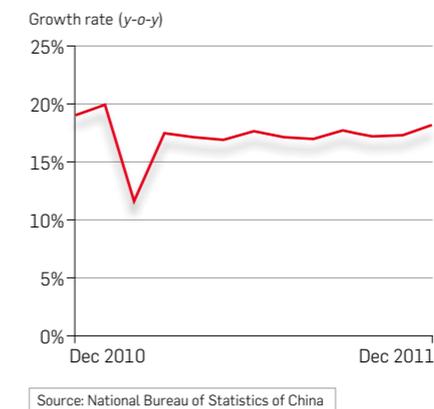
Rise in China's Per capita income

GDP and earnings: Proportional change



Sales of Consumer goods

Quick growth despite fears of a slowdown



shopping, desire for luxury name brands, and a willingness to spend money on quality. The choices concerning travel, dining and shopping were based on quality experiences. Not cheapest prices. Having said that, China does have plenty of choices for every budget and varied tastes.

On July 10, 2012 we boarded our Delta Airlines flight in Beijing to make our way home. We had a very busy and enjoyable stay in China. We spent time with family and good friends. We saw many cultural, historic and scenic sites. We left with fond memories, souvenirs, photos and a few lessons learned.

The first lesson that I took away was to be thankful for our clean drinking water. It was easy to forget that not everyone can just go to the sink or drinking fountain to get fresh clean water. In the poorer rural areas, outside the big cities, access to clean restrooms is a challenge. Finding restrooms was not difficult. Finding a sit down toilet with toilet paper felt like a birthday present.

The second lesson related to access to information and data. While in China, I learned Internet access is spotty. While searching websites at my hotel and in friends' homes, many websites were blocked. A simple search for an article on "Chinese debt levels" that I read on the plane was blocked by all

the Internet web sites. *The Wall Street Journal*, *Financial Times* and other Western sources for financial data were either limited or blocked when the topic searched was "China"!!!

The third and final lesson was that the growing middle class in China is very real. Nearly everyone in Beijing I saw talking on a phone had a new model iPhone or other advanced smartphone. The cameras were those of Canon, Nikon and other high-quality brands. The cars I rode in were more luxurious and expensive than what I drive at home.

Meanwhile, the poor in rural areas were begging for your empty water bottles to get the deposit money or trying to sell you fruit.

I look forward to our next trip to China. It is hard to predict how things will change in a few years. The Chinese economy is facing many of the same challenges as Europe, the United States and other major economies. The focus on jobs is on the minds of leaders in many countries. China is no exception.

In July, China's Premier Wen Jiabao said that ensuring



Scenes from modern China (Clockwise from Right): Graduates from 28 universities look for job opportunities at the Graduates Job Fair in Shanghai; Pedestrians walk past a shopping mall housing foreign brand outlets in Shanghai; A restaurant in Xi'an; Customers gather at Apple's second store in Pudong, Shanghai; Shoppers queue to enter a Louis Vuitton store in a mall in Shanghai



employment is the priority of China's development strategy. China's labor situation will become more "severe," he said, underscoring concern that the weakest economic growth since 2009 will lead to increasing job losses. The government will continue to implement a more "proactive" labor policy, Wen said at a government meeting on employment, according to a statement posted on the central government's website. The job situation will become more "complex," Wen said. To buoy the economy, China has adopted a string of pro-growth measures, including lowering banks' reserve ratio to boost lending, subsidising energy-saving household electrical appliances and speeding up approval for major construction projects. The central bank cut the benchmark interest rate two times in a month, in a bid to inject liquidity into the market.

China's economy expanded 7.6% y-o-y in the second quarter of 2012, slowing from 8.1% in the first quarter as per the National Bureau of Statistics. The growth rate marked the sixth consecutive quarter of decline and was the slowest pace since the first quarter of 2009. "As current economic situations at home and abroad are very complicated, Chinese companies should look for momentum for growth even out of the downward economic pressure," Li said

(Top): June 30, 2012, Xi'an: The under-construction luxury residential complex where the clothing retailer and his family whom Art Wheaton visited in China plans to move-in in future; **(Bottom):** Shanghai: A slum area in downtown Shanghai. Such localities are being demolished as newer housing complexes add fuel to the already raging fire in China's real estate industry



at a meeting held in Wuhan, capital of Hubei (as reported in *Xinhua Daily*).

I do not own a crystal ball or claim to see into the future. My feeling is that China will continue to be a diverse and growing country. The growing middle class in the cities will continue to desire and purchase goods and services. China will face increasing environmental and economic challenges with strong, if unpredictable, governmental policies. Those challenges will be more severe in the rural and poorer parts of China.

The Chinese families I met have a strong commitment to give their children the best education possible in order to find good jobs in future. China's youth and young adults have been exposed to the hard work of their parents and the benefits of good jobs.

While walking around Beijing, I noticed many posters mentioning "Beijing Spirit: Patriotism, Innovation, Inclusiveness and Virtue". These qualities and aspirations should serve the people of China well into the future. The consumers' emphasis on quality and value will push Chinese manufacturers to improve or be left in the past. The marketplace and economy in China will continue to attract the best companies in the world. I only hope that economic success is shared throughout all of China – and that China can continue to remain the epicenter of growth for the global economy. Yes, the umpteen pro-growth measures may not be enough to save the Chinese double-digit growth story for ever, but my bet is – China will continue to lead the world into the 22nd century. Not only because it has companies that produce goods for billions around the world, but because it is a complete consumer market in itself. [Rather – gauging its size, and the urban-rural divide still – many geographical markets combined together].

More than two weeks in China gives you a good idea about what the dragon nation was, is and can become. Penning down this cover piece for the 'Inside China' issue of *Business & Economy*, was an interesting exercise. What I have written here is after visiting (or having a detailed conversation with people from) eight cities: Beijing, Xi'an, Shenyang, Shanghai, Shenzhen, Lanzhou, Zhengzhou and Chao-oyang. There are over 660 big cities and over 930,000 villages in China, and therefore so much more to discover and write about the changing China story. Pay a visit to China. Am very confident you will find the untold bit in my article interesting. B&E

With inputs from: Mary Catt, Asst. Director of Communications, Cornell University ILR School

The complex real estate market in China

Real growth or a bubble in the making?

Regions	Investment		Growth Rate y-o-y (%)	Residential Buildings
	(RMB 100 million)	Residential Buildings		
National Total	61740	44308	27.9	30.2
Eastern	35607	25215	27.2	31.1
Central	13197	9832	25.5	25.3
Western	12936	9262	32.8	33.3

Regions	Floor Space of Commercial Buildings Sold		Sales of Commercial Buildings	
	Absolute value (x 1000 sq m)	Growth Rate y-o-y (%)	Absolute value (x 1000 sq m)	Growth Rate y-o-y (%)
National Total	109946	4.9	59119	12.1
Eastern	51052	0.1	34628	3.8
Central	29312	11.3	11895	29.4
Western	29581	8	12596	23.9

Source: National Bureau of Statistics of China