Critical Issues Confronting China: 
China’s Middle-Class Families: Catching up with the West 
Terry Sicular, Western Ontario University 

March 27, 2019

Casual observations of people’s lives in Beijing and Shanghai can leave the impression that a large portion of Chinese households has caught up with the living standards of the West. The country’s economic growth is faster than many other developing countries in recent decades, and China has become the second largest economy of the world in 2010 at the market exchange rate. However, China’s income per capita is only about $10,000 per year, the same level as Pakistan, Brazil and Lebanon, and far behind North America and Western Europe. 

To bridge this gap between China’s overall rapid economic growth and GDP per capita, Terry Sicular, Professor of Economics at the Western Ontario University, delved into the Chinese Household Income Project (CHIP) survey data from 2002 to 2013. In collaboration with her colleagues, she sought to address the following questions: What proportion of the Chinese population has attained levels of personal income similar to that of the middle class of North America and Europe? What kind of Chinese citizens belong to this global middle class? What are the common characteristics of their background? What pathways did they follow to reach this class?

Sicular found that there was a substantial economic catchup at the household level, but this group of Chinese middle class only constituted about 20 percent of the total population as of 2013, though this figure is expected to grow to about one third with new survey data of 2019. She also found a considerable amount of heterogeneity in these people’s background, as well as an evident rural-urban divide.

At the outset of her talk, Sicular defined “middle class” as households neither rich nor poor by developed countries’ standards. Such a definition automatically placed China in a global context. The boundaries of this middle class were defined between 60 percent and 2.0 times that of the EU (European Union) countries’ median income. At the purchasing power parity (PPP) exchange rate, these boundaries translate into a Chinese income between 120RMB and 450RMB per person per day. While in line with middle-class incomes in developed countries, this income range is higher than that used by other studies, and consequently, it yields a relatively low estimate of the size of China’s middle class. By this definition, in 2013, China had 19 percent of its population, that is, 254 million people, in what Sicular called “the global middle class.”
compared to 12 million in 2002. This implied a 30 percent average annual growth rate in the size of China’s global middle class, while China’s GDP grew at 10 percent per year during this same period.

To extract the profile of the people in this class, Siccular sliced the data in various ways. Her analysis showed that they predominantly live in China’s eastern region, and more than 95 percent of them are ethnic Han Chinese. Seventy-eight percent of them have urban hukou (household registration), nine percent have rural hukou, and 13 percent are migrant workers with rural hukou but live in urban areas. Looking at the data from a different angle, she found that about one third of urban Chinese residents are in this middle class, as compared to 20 percent of migrant workers and only four percent of the rural population. About three quarters of the Chinese middle class have access to the internet; almost half of them own private vehicles. Sixty percent have wage income and another 11 percent have pensions as their major source of income. That is, nearly two thirds of them have steady jobs with good wages or are retired from such jobs. Only 13 percent of them earn their major income from business.

Siccular explored pathways to this middle-class. If you were born with an urban hukou, there is one-third chance that you are middle class, and most likely—about 80 percent—you are a wage earner. If you were born with a rural hukou, your chance to become middle class is only seven percent. If you have a rural hukou and stay in the rural area, it is extremely unlikely that you become middle class. If you choose to migrate, you have a 12 percent chance to make it into the middle class. If you convert to an urban hukou—through higher education, or job relocation, or land appropriation—you have a 26 percent chance to become middle-class.

She used multi-variable regressions to discover the likelihood of people with certain characteristics to become middle-class. Overall, hukou at birth, your geographic location, your parents’ education level, and your parents’ primary employment turned out to be statistically significant factors in determining whether you become middle-class. Siccular’s study confirmed her prior analysis that birth in the east coast areas with an urban hukou and parents with higher education, earning good wages, make one more likely to be middle-class. A certain amount of heterogeneity in the middle-class profile was also found.

Siccular was surprised by three findings in her study. First, the savings rate of the Chinese middle class is about one-third higher than that of the lower class, which is 20–25 percent. This implies that, if China wants to transit from an export and investment-driven economy to a consumption-driven economy, an extra unit (Yuan) of income going to the Chinese lower class will be a more potent force than one going to the middle class because of the lower class’s greater willingness to consume.

Second, Siccular was taken aback that among the middle-class Chinese, about 70–80 percent
of them have wage earnings or pensions from prior wage employment as their major source of income. Only 13 percent seem to be business people. She conjectured that this might have to do with the state taking over a bigger share of the economy in recent years, as Nicholas Lardy detailed in his latest book The State Strikes Back: The End of Economic Reform in China?

Third, even after four decades of economic reform in China, hukou still plays a larger-than-expected role in determining one’s chance to make it to the middle class. The urban-rural disparity remains very significant. The main route for rural-born people to reach the middle class is by leaving the countryside and, if possible, obtaining an urban hukou. Those born with well-educated parents who had good paying jobs are more likely to succeed. Regardless, the likelihood of success for rural-born people is exceedingly low.