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How China's Middle Class Views the Trade War

Although It Has Faulted Xi, It May Soon Blame Trump

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The trade war between Washington and Beijing has been analyzed largely through the lens of state-to-state relations. But any attempt to fully assess how the dispute will affect China's domestic development and foreign engagement must take into account the country's dynamic middle class, which has suffered the brunt of the ill effects from the trade war. The Chinese middle class' political clout and fickle views are among the most intriguing—and consequential—factors affecting U.S.-Chinese relations. Without a solid grasp of the complicated relationship between the Chinese leadership and the country's middle class, American policymakers and analysts may have difficulty accurately gauging the efficacy of U.S. trade policy toward China.

Over the past few months, members of China's middle class have been noticeably critical—especially in online public discourse—of the Chinese government's economic and sociopolitical policies, including the way the leadership has handled relations with the United States. Some suggest that this middle-class discontent threatens President Xi Jinping's broader position and economic vision and indicates that the United States holds the advantage [2] in the trade dispute with China. But the middle class' views—which are the foundation of Chinese public opinion more generally—might be poised to turn in the Communist Party's favor. Although the group has faulted Xi's leadership, a severe escalation in the trade war could result in a sudden shift of blame to Washington.

INCREASING INFLUENCE MEETS GROWING UNEASE

Never before has China's fast-growing middle class confronted such daunting economic challenges, which mainly stem from domestic causes but have expanded to include escalating tensions with the United States. As a result, the members of this crucial group have developed an acute sense of anxiety.

China's stock markets have plummeted about 24 percent from January highs, and the Chinese yuan has fallen about ten percent against the U.S. dollar since the Trump administration first announced China-directed tariffs in early April. Fears that a potential bubble in the property market could burst have spread from major metropolises, such as

Beijing, Shenzhen, Guangzhou, and Shanghai, into second- and third-tier cities. A financial technocrat [3] in Beijing neatly captured the tension by saying that the property market hung like "the sword of Damocles over the Chinese financial system."

Economic pressure from the trade war is only the latest factor driving unease within the Chinese middle class. In recent years, a slowing economy, coupled with systemic issues such as official corruption, environmental degradation, food and drug safety scandals, and tightening political and ideological control, has sparked complaints and heightened criticism. Against this backdrop, China's flagship English-language television program *Dialogue* featured a panel discussion titled "Age of Anxiety for the Chinese Middle Class" [4]earlier this year. The participants agreed on the pervasive disquiet among the Chinese middle class, a notable difference from the relative optimism of the recent past.

The sheer size of China's middle class and the speed of its expansion make it an important determinant of the country's economic health and political trajectory.Virtually nonexistent just three decades ago, the middle class now encompasses as many as 400 million people, according to Chinese official accounts [5]. Analysts at McKinsey forecast [6] that more than 75 percent of Chinese urban dwellers (over 550 million people) will be members of the middle class by 2022.

In terms of occupational composition, the Chinese middle class comprises three major clusters. The first is an economic cluster composed of small business owners and entrepreneurs, real estate and stock speculators, and foreign and joint-venture employees. Next is a political cluster populated by low-level government officials, office clerks, and state-sector managers. The third cluster is oriented around culture and education and consists of media figures, academics and teachers, and other intellectuals.

Although these subsets of the middle class differ enormously from one another, they all share what some Chinese scholars call "core middle-class values and attitudes." These include an appreciation of the middle-class lifestyle, affinity for policies that promote education and safeguard the environment, vested interest in the protection of private property rights, resentment of the government's Great Firewall online, favorable attitudes toward economic globalization, and pride over China's rise on the world stage.

Most observers view this cohort as a de facto ally of the ruling Chinese Communist Party. During Xi's first term, for instance, members of the Chinese middle class generally applauded the president for his bold anti-corruption campaign, sweeping military reforms, and strong commitment to green development. But judging from public discourse on Chinese social media, middle-class enthusiasm for Xi has conspicuously waned following his decision last spring to amend China's constitution, especially his decision to abolish presidential term limits, a move that effectively granted him a lifetime tenure.

The economic cluster within the Chinese middle class holds reservations about Xi's strong support for state-owned enterprises, whose government-subsidized expansion has come at the expense of private firms. In this group's view, the market reform plan outlined at the Third Plenum of the 18th Party Congress in 2013, which was supposed to allow the market to play a "decisive role" in the economy, has not materialized.

The political cluster may be under tight control by the party leadership and thus will not publicly express its concerns. Most of these elites came of age politically during the Deng Xiaoping era and generally appreciate the institutionalized rules and regulations that have governed their career trajectories. More important, they fear a lack of succession mechanisms could herald a return to an era of vicious power struggles.

For middle-class intellectuals in China, Xi's constitutional amendments crystallized earlier disillusionment. Since 2013, when Chinese authorities began restricting open discussion in public settings of "seven subversive currents"—which include constitutional democracy, human rights, civil society, and media freedom—intellectuals have turned increasingly critical of the party leadership, especially online. Xi's strongman politics and Cultural Revolution-style personality cult have further alienated members of this group.

Across all segments of China's middle class, Xi's actions are viewed as playing into Western fears [7] about China. From this vantage, Xi has provided American hawks with further evidence to conflate China with other authoritarian regimes such as Russia and Turkey. Fostering an atmosphere of distrust, it is believed, can only strengthen interest in a U.S. containment policy toward China.

Two recent highly publicized events further aroused middle-class resentment of the CCP leadership. The first was the collapse of the online P2P (peer-to-peer) lending markets, which wiped out about 7,000 platforms [8] and affected hundreds of thousands of middle-class investors. The second event was the revelation that faulty vaccines for diphtheria, tetanus, and whooping cough had been administered to nearly half a million children [9].

As U.S.-Chinese trade frictions have mounted, Chinese social media has seen a new wave of criticism—both explicit and implicit—directed toward the party leadership. Fairly or unfairly, Chinese citizens go online to bristle at the leadership's overconfidence in China's economic leverage, misallocation of state financial resources for personalized domestic "achievement projects" and ill-evaluated foreign aid programs, and miscalculation over the Trump administration's strategy toward China.

A SHIFT IN BLAME?

So far, the Chinese middle class has leveled its ire at the Communist Party leadership. But the object of middle-class criticism is neither fixed nor exclusive. Strong U.S. pressure on trade, combined with China's vulnerable position, does not necessarily mean that the Trump administration is winning or that the current dynamic will hold.

In fact, a repositioning might already be under way. The Chinese media, which were more favorable of Trump than U.S. outlets during the first year of his presidency, now largely attribute trade friction to a "crazy" and "greedy" American president. U.S. trade actions against China and the Trump administration's strategic shift [10]—from partner to rival—have led most Chinese to conclude that the primary goal of the United States is nothing more than to contain a rising China. In addition, the recent passage [11]of the Taiwan Travel Act in the U.S. Congress ostensibly normalized official visits between the United States and Taiwan. Chinese leadership is harnessing and weaponizing this event, inciting talk of an American conspiracy with ill intentions in official media [12].

Xi and his team will likely also adjust economic policies to counter increasingly vigorous U.S. trade tactics. The leadership has an incentive to adopt more economic reform measures, including accelerating domestic consumption, instituting new financial mechanisms to support small private businesses, and promoting imports. They will more aggressively pursue economic cooperation, primarily with Russia but also with the EU, Canada, Japan, and many other countries throughout the world.

Whether the Chinese middle class will ultimately rally in support of the Chinese leadership's hard-line reaction toward the United States is not entirely clear. But many Chinese are deeply familiar with two major events in recent history, namely Japan's "lost decade" of economic growth [13]in the 1990s and the collapse of the Soviet Union [14] in 1991. Some official Chinese sources have implied that both episodes were products of an American conspiracy. Fear of a similar plot against China—however irrational—might ultimately be enough to tip support in favor of Xi's aggressive response.

On top of the United States' increasingly confrontational trade posture toward China, the broader anti-China trend in U.S. politics has been an intensely unwelcome surprise to the Chinese middle class. Its disappointment seems especially acute because the United States' own middle class has long served as a model for China's fellow strivers. From 1978 to 2014, China sent a total of around 1.4 million students and scholars to the United States. Many returned home with renewed aspirations for American-style middle-class lifestyles and values.

Recent statements by U.S. government officials [15] implying that professors, researchers, and students from China serve as spies for the Chinese government, as well as confrontational statements such as FBI Director Christopher Wray's characterization of China as a "whole-of-society threat," have bred deeper hostility. Where once the Chinese middle class eyed the United States with envy, it now looks on with despair. Even as China is experiencing social calls to preserve LGBT rights and address systemic sexual harassment [16]—movements primarily inspired by parallel events in the United States—fewer Chinese perceive the United States as a "shining city on a hill."

Ultimately, Washington's failure to distinguish the perspective of the CCP ruling elite from that of Chinese society more broadly risks undermining the effectiveness of U.S. policy toward China. China is currently in the midst of a delicate process to transition its economy away from manufacturing and toward domestic consumption and innovation. Its leaders view this shift as fundamental to sustaining the growth of China's middle class and, consequently, preserving support for Communist Party leadership. The Chinese leadership knows the tremendous and ever-increasing political influence of China's middle class. U.S. policymakers would be wise to grasp this same dynamic.

Links
[1] https://www.amazon.com/Chinese-Politics-Jinping-Era-Reassessing/dp/0815726929/
[2] https://www.nytimes.com/2018/08/14/world/asia/china-trade-war-trump-xi-jinping-.html
[3] https://mp.weixin.qq.com/s/CQtn-MibIilHFEzfVGrC-g
[4] https://eblnews.com/video/age-anxiety-chinese-middle-class-293588
[5] http://www.chinanews.com/gn/2018/03-24/8475281.shtml
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