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 Western 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 BeE’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 18-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 10 (US$1.47) per person. That was about $2.50. An old computer with Internet access was provided in the bobs. 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, and Nissan are very common. There were many other Chinese brands rarely seen in the United States – the employer provides matching funds if the employee contributes a percentage of his or her wages. For many, this is the only way to buy a car. High prices of automobiles lead many to purchase smaller cars, bringing traffic jams forcing controversial policy changes to slow growth. The restrictive policies are aimed at heightening the tensions between the “haves” and the “have-nots” desiring cars.

Shanghai began rationing 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 week. Also, the city ordered the odd-even license 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 three policies to curb the growing number of automobiles. The first policy is a lottery system allowing a limited number of cans 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 his teenage daughter. They live in a house in Huadu District, a suburb of China. They own a M multivan 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 the retirement fund in the United States – the employer provides matching funds if the employee contributes a percentage of his or her wages. For 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 own only 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 52 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 Terracotta Army in Lintong District, Xi’an. These tourist and cultural attractions are meet-spring 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 is a large selection of souvenirs. They are more than identical goods sold in New York City.

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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 Canmy. 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 $29,000 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 paid for. 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 pricey 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 is in their hometown of Chanyang which 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 band lives in Lanzhou, where two of the clothing 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 cost 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 attraction in China. The complex is about 35 kilometers from Xi’an.

The parking lots, restaurants, and restroom facilities outside the airport 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 tend to be informal and quaint. One disappointing aspect however was sometimes paying for access to patrolling-smelling rest-rooms.

According to The Wall Street Jour- nalist, China has met its target of tar- gets 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 99% of people. Smaller cities and rural areas have a lesser percent- age. The Chinese government has not been able to achieve its stat- ed goals. The surrounding areas outside the large cities have many chal- lenges 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 traf- fic in the middle and right hand lanes. Cars are able to dart in and out of lanes and seem to obey the speed limit.

We managed to visit several famous places in and near Xi’an. We climbed Huashan (flower) mountain, rode bicy- cles on top of the Xi’an ancient city wall, walked the Huaq- ing pools and ancient span, and climbed the Banay Pagoda with its scenic city view. The fourth family spent time with us is comprised of a successful fashion designer and his extended family. 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 the visit in 2004, they were designing clothes and running a retail clothing chain. Sky-rocketing 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 shopping, desire for luxury name brands, and a willingness to spend money on quality. The choices concern- ing travel, dining and purchasing were based on quality experiences. Not cheapest prices. Having said that, China does have plenty of choice 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 smooth 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 less lean.

The first lesson that I took away was to be thankful for our clean drink- ing water. It was easy to forget that not everyone can just go to the same drinking fountain to get fresh clean water. In the poorer rural areas, out- side the big cities, access to clean rest- rooms is a challenge. Finding rest- rooms was not difficult. Finding a sit down toilet with toilet paper felt like a luxury present.

The second lesson related to access to information and data. While in Chi- na, I learned very quickly that it was very difficult to get good internet service. 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 finance and economics 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 try- ing to sell you fruit.

I look forward to our next trip to China. It is hard to pre- dict 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
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 in 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 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.

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The complex real estate market in China

Real growth or a bubble in the making?

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Source: National Bureau of Statistics of China

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 for having a detailed conversation with people from eight cities: Beijing, Xian, Shenyang, Shanghai, Shenzhen, Lanzhou, Zhengdong and Chongqing. There are over 660 big cities and over 600,000 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.

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