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# The Reality of “Common Prosperity” Advocated by the Xi Jinping Administration

**By Yuji Miura**  
(hiraiwa.yuji@jri.co.jp)  
*Advanced Senior Economist*  
*Economics Department*  
*Japan Research Institute*

## Summary

1. The purpose of “共同富裕 (*gongtong fuyu*, meaning common prosperity)” is to strengthen the middle class, contribute to the transition to a consumption-led economy, improve the quality of economic development, and promote social harmony and stability. Common prosperity can be interpreted as an attempt to boost confidence in the Communist Party by addressing equality issues, such as income disparity, that have been put on the back burner under rapid economic development.
2. A notable distribution policy to increase the middle class is tertiary distribution, which transfers wealth from the rich through donations and charity. In secondary distribution, which is aimed at rectifying disparities through taxes, social security and fiscal spending, there are a variety of options but few specific actions. The possible introduction of a real estate tax is the only notable movement.
3. As for the three industries of real estate development, learning support, and IT, the government indicated that “the logic of development is undergoing significant change and their contribution to growth will decline” through common prosperity. The real estate development and learning support businesses were targeted from the viewpoint of reducing the burden on household expenditure related to housing and education, the IT industry from the political point of view that does not tolerate criticism of the government as well as from the economic and social point of view such as prohibition of abuse of monopoly position and protection of rights of gig workers.
4. Tertiary distribution involves the risk of acceleration of “*Guo jin min tu*” (the state advances, the private sector retreats), as more private enterprises are intimidated by forced donations while state-owned enterprises are left out of the framework. It is only secondary distribution that would make common prosperity possible, but the planned introduction of a real estate tax does not give grounds for optimism, as the number of areas of its trial introduction for five years are limited.
5. The economic and financial impact of the real estate development industry is so great that it is difficult to accept that its contribution to growth will decline. It is also questionable whether expenditure on education will decline, given the fact it has become more difficult to grasp the reality of the learning support business as the industry has gone underground.
6. With regard to the IT industry, it is too optimistic to assume that the industry will return to its pre-regulation growth trajectory just because investment has been strong or the legislation has taken effect to a certain extent. Because internet platforms are seen as undermining confidence in authority or subverting traditional values, it is reasonable to assume that the intervention by the Communist Party will not weaken.
7. The reason why the Xi Jinping administration is promoting common prosperity even with the expectation of slowing growth is that the development of SNS has widened the scope of comparison to measure disparities, and the public’s tolerance for disparities has decreased. This means that more and more Chinese people are deviating from the society advocated by the Communist Party, as exemplified by the rise of “内卷 (*nei juan*, meaning involution)” and the “躺平 (*tang ping*, meaning lying flat).” Common prosperity is also a sign of a sense of crisis over the failure of the traditional governing mechanism, which has been designed to boost confidence in the Communist Party through economic growth.
8. As the ratio of owner-occupied houses has risen, more households are identifying themselves as middle class, while more and more households are finding it harder to make ends meet due to the burden of housing loans. It will depend on the trajectory of housing prices whether China can move toward common prosperity through the transition to a consumption-led economy, improved quality of economic development, and social harmony and stability.

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## Introduction

The Xi Jinping administration has elevated “共同富裕 (*gongtong fuyu*, meaning common prosperity)” as the next goal after achieving “小康 (*xiaokang*, meaning moderate prosperity).” Common prosperity means a society in which all the people can feel the affluence, and it also indicates that Xi’s administration will start taking initiatives to reduce disparities that have grown very wide. On the other hand, the administration is tightening the screws on three industries: real estate development, learning support, and IT. At the Communist Party of China (CPC) Central Committee for Financial and Economic Affairs (hereinafter, the “Central Committee for Financial and Economic Affairs”) held in August 2021, the government indicated that “the logic of development (of these industries) is undergoing significant change and their contribution to growth will decline.”

This is nothing less than a warning from the Xi Jinping administration that the business models that have supported the growth of these industries are not compatible with common prosperity, and their contribution to economic growth will gradually decline. In fact, the warning is coming true. It is extremely unusual for the government to take drastic measures to intervene in growth industries that underpin the economy and to approve a downturn in growth due to such intervention in advance.

So, what is the “common prosperity” that the Xi Jinping administration is committed to? First, (1.) after clarifying the essence of it and specific initiatives, (2.) this paper will examine what changes are taking place in the target industries. Next, (3.) it will be verified whether the effort toward common prosperity will succeed. Then, (4.) why the Xi Jinping administration is hastening the realization of common prosperity from the perspective of the people’s tolerance for inequality will be reexamined, and it will be pointed out that the key to achieving common prosperity lies in correcting overpriced housing prices.

## 1. What is common prosperity?

In order to answer to this question, the essence of common prosperity will be first examined based on the discussions by the Central Committee for Financial and Economic Affairs and General Secretary Xi Jinping’s speech at the committee. Next, it will be clarified what kind of distribution policy will be adopted. Then, in order to clarify the outline of common prosperity, the controversy over common prosperity in China and the Xi Jinping administration’s stance on it will be looked at.

### (1) Essence of common prosperity

Common prosperity is General Secretary Xi Jinping’s signature policy for his third term. Common prosperity refers to the prosperity of all people in China, and in order to realize it, there is no doubt that correcting disparities is necessary. However, the Communist Party and the government have not clearly explained what policies will be adopted to realize common prosperity and how it will change China, so there is a lot of speculation.

Naturally, the interpretation of common prosperity in Japan is not uniform. As the Xi Jinping administration has tightened its control over society and ideology, many media have likened common prosperity to the Cultural Revolution, a sociopolitical movement led by Mao Zedong. So, is this an accurate evaluation of common prosperity? Because of the ambiguity of the concept, the term “common prosperity” seems to be departing from its original form and starting to walk by itself not only in China but also in other countries.

The overall picture of common prosperity was presented at the Central Committee for Financial and Economic Affairs held in August 2021<sup>(1)</sup>. Some of General Secretary Xi Jinping’s speech<sup>(2)</sup> at the Central Committee was published in “求是 (*Qiushi*, meaning Seeking Truth),” the leading official theoretical journal of the CPC, in October 2021, which makes these important primary sources for understanding common prosperity.

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To eliminate the negative effects of the variance in interpretation depending on who introduces the topic, let's first approach these two and begin by clarifying the essence of common prosperity.

What should be pointed out first as the essence of common prosperity is the goal to be achieved through common prosperity, which is to increase the proportion of the middle class and build an olive-shaped income distribution structure. The olive-shaped structure refers to the shape that is formed when the population size by income class is placed vertically in order of low, medium, and high from the bottom. China is considered to have a dumbbell-shaped structure with a large number of low-income and high-income people and a small number of middle-income people. The reason for the small middle class is the large income gap between urban and rural areas.

Second, common prosperity is a long-term goal that cannot be achieved overnight. The first phase is the period until the end of the 14th Five-Year Plan (2021-2025), during which firm measures will be taken to narrow the divergence in income and consumption. The divergence between income and consumption means that consumption does not grow as fast as income growth, that is, the propensity to consume is low, and the narrowing of the divergence means raising the propensity to consume. The second phase is the period through 2035, during which the equalization (“均等化” in Chinese) of basic public services will be achieved by making substantial progress. The third phase is the period through the middle of this century, during which the divergence between income and consumption will be reduced to a reasonable level by achieving common prosperity.

Third, there are two economic effects expected from common prosperity: an increase in the propensity to consume through basic and comprehensive life security and a shift to a consumption-led economy; and an increase in total factor productivity (TFP) and an improvement in the quality of economic development through the strengthening of human capital. It should also be noted that China aims to promote social harmony and stability through common prosperity based on the understanding that the collapse of the middle class

in developed countries has brought about political polarization and populism<sup>(3)</sup>.

Common prosperity shows that China's economic policy has shifted its emphasis from efficiency to a balance between efficiency and fairness. The phrase “We will do our best and make efforts to continuously enhance the happiness and security of our people” was included in the 14th Five-Year Plan. Common prosperity is a policy designed to embody this, and is an attempt to enhance the sustainability of economic development, social stability, and confidence in the Communist Party by addressing equality issues, such as income disparity, that have been put on the back burner in the face of rapid economic development.

Fourth, common prosperity is not considered egalitarianism. Common prosperity aims at the prosperity of all people, but it is not uniform egalitarianism (“齐划一的平均主义” in Chinese). The government acknowledges that it is impossible to make everyone and every region wealthy at the same time, and that there are inevitably differences in the degree of wealth. It also states that common prosperity is the result of hard work and China will not fall into the “welfare trap” by raising lazy people.

Common prosperity is positioned as a measure to prevent social phenomena that have emerged in recent years, such as “内卷 (*nei juan*, meaning involution)” and “躺平 (*tang ping*, meaning lying flat).” 内卷 (*nei juan*) refers to the situation where because everyone is trying hard to win the competition, the value of the effort is diminished and results worth the effort cannot be obtained, while 躺平 (*tang ping*) refers to those who lack material greed and are reluctant to compete, work, get married or have children. The CPC is concerned that such pessimistic sentiments will permeate society. The reason that common prosperity is said to include not only material but also spiritual and cultural aspects is that the CPC believes that 内卷 (*nei juan*) and 躺平 (*tang ping*) will undermine China's economic growth and, in turn, people's confidence in the Communist Party.

Fifth, common prosperity is considered not to negate efforts to become rich and innovation. For this reason, it is said that policies to promote the

development of the non-public economy such as private enterprises will not change. Common prosperity emphasizes that efforts are rewarded, that is, enhancing mobility between social classes by allowing people in the lower income group to move up to the upper income group. In other words, 内卷 (*nei juan*) and 躺平 (*tang ping*) are considered to be the results of the decline in mobility between social classes.

Sixth, it is said that the government will crack down on illegal income and strengthen regulations on industries that hinder common prosperity. Illegal income refers to corruption, insider trading and tax evasion. In China, celebrities such as entertainers and social media influencers, who have the power to influence others on the Internet, have been indicted for tax evasion<sup>(4)</sup>.

Real estate development, learning support, and IT were mentioned as the targets of the industrial regulations. Real estate development and learning support seem to have been chosen from the viewpoint of reducing household burdens due to housing loans and education costs, while IT seems to have been chosen from the perspective of preventing the abuse of its monopoly position, guaranteeing the rights for gig workers who provide home delivery services, and avoiding adverse effects on minors. The Central Committee for Financial and Economic Affairs noted that “the contribution (of the three industries) to growth will decline,” and expressed a willingness to see the growth rate of each industry decline due to common prosperity.

With regard to the real estate market, which has

come into focus due to default concerns over China Evergrande Group, the Central Committee for Financial and Economic Affairs stated that a long-term and gradual decline in asset prices would benefit consumers, while 求是 (*Qiushi*) stated that the government would promote the development of rental housing for low-income households based on the basic policy of “房子是用来住的, 不是用来炒的 (housing is for living, not for speculation),” which indicated that China’s real estate market would enter into a correction phase.

## (2) Tertiary distribution is almost compulsory

The main issue in the common prosperity debate is what kind of distribution policy should be adopted to increase the number of the middle class. Income distribution in China includes 1) primary distribution that follows market principles such as wages as compensation for labor, 2) secondary distribution that corrects the bias of primary distribution by tax, social security, and fiscal spending, and 3) tertiary distribution that transfers the wealth of high-income groups to low-income groups through donations and charity (Table 1). A notable move has been seen for tertiary distribution toward achieving common prosperity.

Tertiary distribution is defined as activities that an individual or a company freely engages in based on their own values. However, as shown in

**Table 1 Positioning of Distribution in China**

	Primary distribution	Secondary distribution	Tertiary distribution
Driving force	Input of elements	Solving social issues	Ideal society
Goal	Efficiency	Fairness	Happy life
Mechanism	Market	Policies such as taxation	Public interest
Affected area	Market	Administration	Living
Functional bases	Capital, private ownership of property	Authority	Morality and values
Relationship with wealth	Creation	Distribution	Optimization
Public nature	Privateness	National public nature	Social public nature
Civilization form	Material civilization	Political and social civilization	Spiritual civilization

Source: Prepared by The Japan Research Institute, Limited based on local media reports



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the fact that more than 70 listed companies have announced donations related to common prosperity since August 2021<sup>(5)</sup>, donations are perceived as almost compulsory rather than voluntary. In China, where the culture of giving and philanthropy is far from ingrained<sup>(6)</sup>, the flurry of activity just a month after the Central Committee for Financial and Economic Affairs mentioned common prosperity is due to companies' keen awareness of the political intent behind tertiary distributions.

In terms of size, IT companies and their founders stand out. Tencent, a communications platform, announced in April 2021 that it would invest 50 billion yuan in "sustainable social value innovation" to promote basic science, innovation in education, rural revitalization, and carbon neutrality<sup>(7)</sup>, and in August 2021, another 50 billion yuan in a "common prosperity special plan" to align with the Central Committee for Financial and Economic Affairs. The "common prosperity special plan" will focus on boosting incomes for low-income earners, medical support, agricultural efficiency, and educational support.

Alibaba, China's largest e-commerce company, also announced in September 2021 that it would invest 100 billion yuan to establish a "common prosperity development fund" aimed at technological innovation, economic development, quality employment and support for the socially vulnerable<sup>(8)</sup>. Rather than donating money to external nonprofit organizations (NPOs), both companies will establish a dedicated department within the company to utilize their respective technologies and contribute to common prosperity. This is because there are few NPOs that can accept such donations due to stringent regulations by the government, but it is also believed that these moves by the two companies are intended to promote charitable activities related to common prosperity and to link them to the expansion of their businesses.

According to the "Hurun China Philanthropy List 2021," a survey of individual donations by business owners, donations by business owners in the real estate development and IT industries are prominent (Table 2). Donations are often made by transferring shares of the company. As Table 2 indicates the results before the meeting of the

Central Committee for Financial and Economic Affairs, it is expected that donations will increase in the future as well as the number of donors. In July 2021, Lei Jun, CEO of Xiaomi Corporation, which manufactures and sells smartphones, announced that he would donate shares equivalent to 11.4 billion yuan to the Xiaomi Foundation and the Lei Jun Foundation, which he founded<sup>(9)</sup>.

### **(3) Secondary distribution offers plenty of options**

While there has been a vigorous movement toward tertiary distribution, there has been little movement toward secondary distribution. The only thing that stands out is the proposed real estate tax, which is equivalent to Japan's fixed asset tax. In October 2021, the Standing Committee of the National People's Congress (NPC; equivalent to the Diet) decided to introduce a real estate tax in some cities<sup>(10)</sup>. However, the government has been allowed to conduct only five-year trials, and this does not mean that the real estate tax law has been adopted. The law is still a long way from being adopted in 2026 at the earliest.

Although not covered by the Japanese media, General Secretary Xi Jinping's speech included a secondary distribution policy that regulates the income of high-income earners in addition to the real estate tax, showcasing a broad range of options. The first is personal income tax. Like Japan, China's personal income tax rate is a progressive system in which the maximum rate is 45%. Personal income tax, however, is limited in its scope of taxation and has little ability to correct income disparities<sup>(11)</sup>. If this can be improved, it would be very effective in rectifying disparities.

The second is capital gains tax. Capital gain is the gain on the sale of assets held, such as real estate, stocks, and investment trusts, and is subject to capital gains taxation in developed countries. In China, 20% of the profit from the sale of a residential property is taxed as personal income tax. However, if the owner lives in the property for more than five years and if it is the only prop-

**Table 2 Donations by Company Managers (Top 10)**

Rank	Name	Amount of donation (100 million yuan)	Donation targets	Company name	Industry
1	Huang Zheng	120	Education	Pinduoduo (PDD)	E-commerce (EC)
2	He Xiangjian & family	63	Health, poverty and culture	Midea Group	Home appliances, real estate
3	Hui Ka Yan	24	Poverty, health and education	Evergrande Group	Real estate, investment
4	Yang Guoqiang and Yang Huiyan (father and daughter)	15.4	Poverty and education	Country Garden	Real estate, investment
5	Xu Hang	10.2	Education, poverty and health	Shenzhen Parkland Group	Medical equipment
6	Li Yongxin	7	Education	Beijing Offcn Education & Technology	Education
7	Hoi Kin Hong and Hoi Wa Fong (father and son)	6.4	Education, poverty and health	Powerlong Group	Real estate
8	Zhang Yiming	5	Health, poverty and culture	Beijing ByteDance Technology	Media, entertainment
9	Chu Mang Yee & family	3.7	Poverty	Hopson Development Holdings	Real estate, investment
10	Huang Rulun & family	3	Health, poverty and education	Century Golden Resources Group	Services
10	Dang Yanbao	3	Education, health and environment	Ningxia Baofeng Energy Group	Energy

Notes: Donations during the period between April 1, 2020 and April 30, 2021

Source: Prepared by The Japan Research Institute, Limited based on Hurun China Philanthropy List 2021

erty held by the owner, the tax is exempted<sup>(12)</sup>. Compared to Japan, the scope of tax exemption is broader and the tax rate is lower in China<sup>(13)</sup>.

China also has a flat tax rate of 20% on capital gains from the sale of stocks and mutual funds, as well as income gains from continuing to hold assets such as rent income and bond interest<sup>(14)</sup>. China's tax rate is not particularly low as it is around 20% in developed countries<sup>(15)</sup>. There are opinions in China that raising the capital gains tax will lead to a correction of inequality<sup>(16)</sup>, but there are also opinions that it will cause capital flight<sup>(17)</sup>, and the future is difficult to predict.

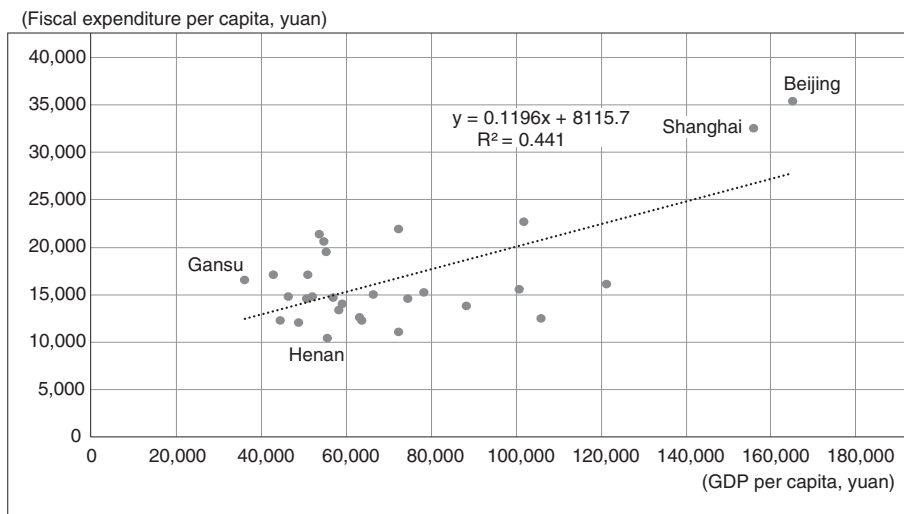
General Secretary Xi Jinping has also made clear his commitment to help low-income families. The first measure is the expansion of government spending. He said that the government would increase spending in less-developed regions. Fiscal expenditure per capita by region is positively correlated with GDP per capita, and fiscal expenditure does not have the function to correct disparities (Fig. 1). Boosting the economy in underdeveloped regions through fiscal spending

will contribute to narrowing regional disparities.

The second measure is the expansion of public services. General Secretary Xi Jinping cited the following: 1) reducing the burden of educational spending on low-income households and enhancing educational standards; 2) reducing disparities in pension payments and medical insurance systems; 3) gradually raising the level of pension benefits; 4) raising the minimum standard of living security; and 5) developing rental housing to prevent speculation.

Out of these measures, efforts for reducing the burden of educational spending were implemented in July 2021 ahead of the Central Committee for Financial and Economic Affairs, based on the "Opinion on Further Reducing the Burden on Students and the Burden Related to Extracurricular Activities During the Compulsory Education," which centered around making cram schools non-profit<sup>(18)</sup>. However, since cram schools are extracurricular activities and making them nonprofit does not involve government spending, making cram schools nonprofit is not considered as an ex-

**Fig. 1 Relationship Between GDP Per Capita and Fiscal Expenditure Per Capita (2020)**



Notes: Excluding Tibet Autonomous Region and Qinghai Province  
 Source: Prepared by The Japan Research Institute, Limited based on CEIC (original source is the National Bureau of Statistics of China)

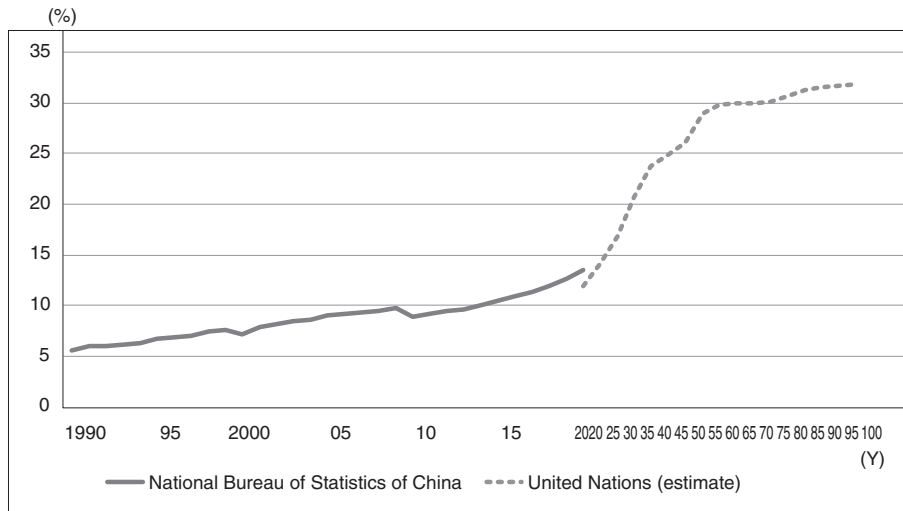
pansion of public services. Enhancing educational standards may mean an improved quality of education in rural areas, as compulsory education is close to full coverage. The problem in rural areas is that they cannot secure enough teachers in both quality and quantity due to budget constraints.

Reducing disparities in pension payments means correcting the gap in the level of benefits, which varies depending on the type of insurance you have. In China, there are two types of public pension systems: the Basic Old Age Insurance (BOAI) for Urban Workers for the employees of state-owned enterprises and large-scale private enterprises called “職工 (workers),” and the Basic Old Age Insurance (BOAI) for Urban and Rural Residents for other workers and non-workers. The former is designed by combining a pay-as-you-go system and a system based on the accumulation of individual premium reserves, and is characterized by “high burden and high benefits” against the background of the investment of public funds, while the latter is characterized by “low burden and low benefits” because it is operated by a system based on the accumulation of individual premium reserves even though public funds are invested. Reducing disparities in pension payments means raising the benefit level of the latter.

Behind this is the aging of the population. According to the Seventh National Population Census published in May 2021, the percentage of the population aged 65 or older was 13.5% in November 2020<sup>(19)</sup>, higher than the UN estimate of 12.0%, indicating that the aging rate was higher than expected (Fig. 2). China has yet to introduce a long-term care insurance system. It is considered that the increase of the benefit level is intended to address the anxiety of elderly people and their family members providing nursing care.

There have also been significant disparities in medical insurance. In China, there are two types of medical insurance systems: the Medical Insurance for Urban Workers, mainly targeting “職工 (workers)” similarly to the pension insurance, and the Basic Medical Insurance for Urban and Rural Residents, which covers those who are not covered by the former system. The latter has integrated the Basic Medical Insurance for Urban Residents and the New Rural Cooperative Medical Insurance. While Medical Insurance for Urban Workers is characterized by “high burden and high benefits,” the Basic Medical Insurance for Urban and Rural Residents is characterized by “low burden and low benefits.” Reducing disparities in medical insurance systems means raising

**Fig. 2 Percentage of Population Aged 65 or Older**



Source: Prepared based on NSB and UN (World Population Prospect 2019)

the benefit level for the latter.

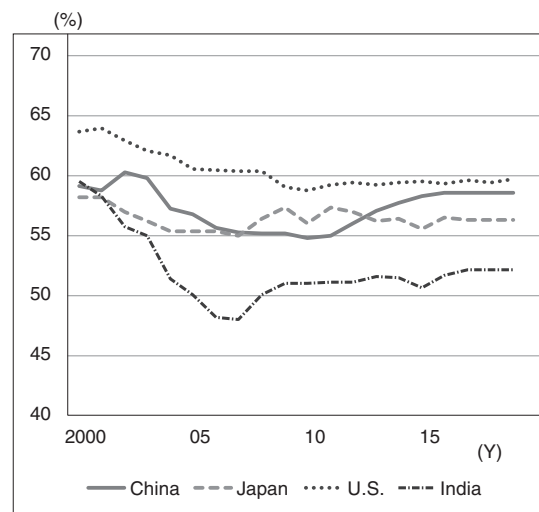
In addition, since the Central Committee for Financial and Economic Affairs stated that the ratio of employee compensation to national income would increase due to common prosperity, many media are paying attention to the increase in the minimum wage<sup>(20)</sup>. In 2021, 10 provinces and cities increased their minimum wage<sup>(21)</sup>. However, annual increases of this magnitude are not uncommon, and are unlikely to increase the share of employee compensation.

In China, the percentage of employee compensation was not particularly low at 56.8% in 2019, and as it has been increasing since 2010, there is little room for a further increase in the percentage of employee compensation (Fig. 3). The expansion of the middle class through common prosperity is a problem of distribution between high-income and low-income groups, not between companies and employees.

#### **(4) Controversy over common prosperity: Revolution or better governance**

The interpretation of common prosperity varies widely depending on whether the current state of

**Fig. 3 Labor Distribution Ratio in China (Comparison with Japan, U.S. and India)**



Source: Prepared by The Japan Research Institute, Limited based on Penn World Table, version 10.0

the Chinese economy and society is viewed positively or negatively, causing controversy in China. The controversy stems from the fact that common prosperity is not egalitarianism, that is, it is not classical socialism which aims at “equality of outcomes” such as rationing, while it is not against capitalism, or the opportunity to become rich through effort and innovation. General Secretary Xi Jinping has repudiated the economic systems at



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the two poles, but has not clearly indicated where common prosperity will land.

Prominent blogger Li Guangman was the first to draw attention to the debate over common prosperity. He said a series of measures, from delaying the initial public offering (IPO) of Ant Group, a financial technology company under Alibaba Group, to uncovering tax evasion in the entertainment industry<sup>(22)</sup>, meant that a “revolution” was taking place, that China was returning to the essence of socialism and that the capital market<sup>(23)</sup> was no longer a paradise for capitalists to get rich overnight<sup>(24)</sup>.

On the other hand, the CPC and the government rejected such a view. Hu Xijin, editor-in-chief of the *Global Times*, a leading international magazine under the auspices of the People’s Daily newspaper, said that the series of measures was not a “revolution” but an improvement in social governance<sup>(25)</sup> and that he was concerned that a misinterpretation of common prosperity would cause ideological confusion and panic.

Hu Xijin also said that common prosperity is not egalitarianism based on “殺富濟貧 (kill the rich and save the poor),” citing Vice Premier Liu He’s September 2021 speech in which he said that the policy of supporting private economic development has not changed and will not change in the future, that there will be no attacks on private companies or taking away legitimate property, and that reform and opening-up policies will not change<sup>(26)</sup>. A similar sentiment was expressed by Han Wenxiu, Executive Vice Minister of the Central Committee for Financial and Economic Affairs<sup>(27)</sup>. The Communist Party then sided with Hu Xijin by publishing a portion of Xi Jinping’s speech in 求是 (*Qiushi*).

The Communist Party tried to correct people’s interpretation of common prosperity only because it was concerned that private investment would diminish due to common prosperity. As Professor Zhang Weiyang at Peking University pointed out, if the market intervention of the government is intensified through common prosperity, it may lead to communal poverty<sup>(28)</sup>, indicating that there is a strong sense of caution about common prosperity. Professor Zhang’s post has been removed from the

Internet, and instead, there is a growing emphasis that linking common prosperity with communal poverty is a misinterpretation<sup>(29)</sup>.

However, it seems that such efforts to sway public opinion have not always achieved the expected results. China’s GDP growth in the July-September 2021 quarter was up 4.9% from a year earlier, a sharp slowdown from the 7.9% growth in the April-June 2021 quarter. In China, a series of problems have raised concerns about the future of the economy, including the emergence of defaults by real estate developers and electricity shortages. And the view that common prosperity was one of them was not dispelled.

To this end, China’s official news agency Xinhua published an article in October 2021 entitled “10 Questions on the Chinese Economy,” which was answered by authoritative sources, reiterating that China has the capacity and conditions to achieve the 2021 economic and social development goals and that long-term economic growth trends will not change<sup>(30)</sup>. With regard to common prosperity, the article again rejected egalitarianism, citing the debate between “carving the pie” and “making the pie bigger,” and emphasized the importance of encouraging efforts to get rich and innovation, saying that common prosperity is not about raising lazy people.

## 2. Target industries

As for the three industries of real estate development, learning support, and IT, the Central Committee for Financial and Economic Affairs indicated that “the logic of development is undergoing significant change and their contribution to growth will decline” through common prosperity. After clarifying why these three industries were chosen as targets, let’s look at what kind of regulations have been adopted and their impact.

## (1) Real estate development industry: Fueling the decline in housing prices

The main reason for targeting the real estate development industry is that housing loans are one of the factors that put pressure on households due to high housing prices. In China, people who can no longer afford to live comfortably due to housing loans are called “房奴” (mortgage slaves) (Miura [2019]). Mortgage slaves symbolize the real life of the common people, whose quality of life has declined despite their deceptive wealth, becoming a cause of 躺平 (*tang ping*).

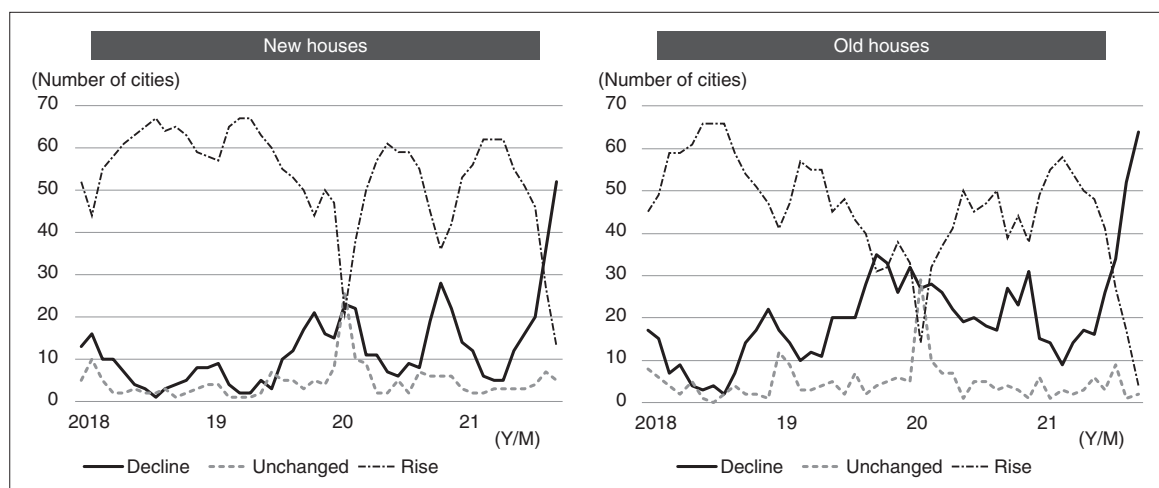
In fact, only high-income earners can afford to buy houses nowadays. According to a survey of the ratio of house prices to annual income (house-price-to-income ratio) in 504 cities around the world as of June 2021, which was conducted by NUMBEO, a provider of lifestyle-related information for major cities around the world, Shenzhen ranked second with 46.3 times, followed by Beijing (41.7 times, ranked 5th), Shanghai (36.0 times, ranked 7th), Guangzhou (30.5 times, ranked 12th), Hangzhou (26.1 times, ranked 16th), and Wuhan (22.4 times, ranked 26th), exceeding major cities in developed countries, such as Lon-

don (15.7 times, ranked 74th), Tokyo (15.4 times, ranked 77th) and New York (10.1 times, ranked 206th) (Miura [2021b]).

According to a survey on household assets conducted by the People’s Bank of China in 2019 (hereinafter, “the People’s Bank of China Household Assets Survey”)<sup>(31)</sup>, 96% of households in urban areas own a home. The high ratio of owner-occupied houses indicates soaring housing prices are caused not by real demand for housing but by speculation aimed at making a profit. This contradicts “房子是用来住的，不是用来炒的 (housing is for living, not for speculation),” a message that the Xi Jinping administration has repeated, and it is natural that the real estate development industry has been chosen as a target.

A real estate tax is expected to change the development logic of the real estate development industry. Looking at recent trends in housing prices, the prices of new houses and used houses have been decreasing since June and April 2021, respectively, in an increasing number of cities (Fig. 4). This is as a result of the regulation on the total amount of real estate-related loans provided by banks and the “three red lines” that specify the targets for reducing the debts of real estate development companies (Miura [2021b]). In October 2021, real estate developers, which had been

**Fig. 4 Changes in House Prices in 70 Cities (Month-over-Month)**



Source: Prepared by The Japan Research Institute, Limited based on CEIC (original source is NSB)

struggling with cash flow, began a full-scale discount campaign, pushing down housing prices further<sup>(32)</sup>. The addition of a real estate tax could prolong the price decline.

## (2) Learning support industry: A series of bankruptcies due to the shift to nonprofits

The learning support business was targeted because, like housing, education spending is a burden on households. In China, there are “priority schools” defined by the government, from elementary schools to universities, and it is recognized that the best way to achieve upward mobility is to enroll in them. According to the “Analysis and Forecast of China’s Economic Situations 2007” compiled by the Chinese Academy of Social Sciences, a government think tank, 60.8% of respondents who are suffering from poverty cited “education” as a reason why the rich are rich (Miyura [2010]). Parents are willing to spend money to get their children into a better school and a prestigious university.

Under such an environment, a learning support business similar to Japan’s cram schools developed rapidly. There are many cram schools that

provide support for taking entrance exams, from elementary schools to universities, and extracurricular activities such as piano lessons are popular as parents are not sure what kind of potential their children may have. Given this situation, the amount of money households spends on education outside school has tended to increase endlessly.

In Beijing, Shanghai and Shenzhen, households with children aged between 4 and 17 years spend an average of 16,000 yuan a month on out-of-school education, which accounts for 9.4% of household income, second only to food (10.8%) and exceeding transportation (7.4%)<sup>(33)</sup>. Out-of-school education expenses as a percentage of household income increases as children get older, peaking at 12.6% when they reach 14 years old, or before starting high school.

Behind the increase in out-of-school education spending is the large effect of an increase in the number of years of school attendance on future income, that is, the high return on education investment. Graduating from a prestigious university does not guarantee a successful future, of course, but there is an income disparity depending on academic background and school name (Table 3, 4), and it is recognized as an equation to increase the rate of return on investment that it is better to go to a university rather than a high school, and to a more prestigious university, and preferably have a

**Table 3 Difference in Income by Educational Background in Shenzhen (2020)**

Educational background (highest educational attainment)	Income(yuan per month)			
	Highest	Median	Lowest	Average
Post-graduate course(Master's and doctorate degrees)	63,489	18,447	5,119	15,429
University (Bachelor's degree)	52,960	10,744	4,416	11,652
University(Junior college)	48,490	7,625	3,856	9,372
High school	19,774	5,194	2,990	5,981
Junior high school	9,925	4,715	2,939	5,007

Source: Prepared by The Japan Research Institute, Limited based on local media reports

**Table 4 Comparison of Income by Level of University (2020)**

(yuan per month)

Educational background (highest educational attainment)	Top-level universities	High-level universities	General universities
Junior college	6,110	5,842	4,268
University	8,199	6,945	4,862
Master's	10,540	9,406	6,879
Doctorate degrees	12,972	11,738	8,706

Notes: High-level universities refer to 211 universities (Project 211 universities) designated by the Ministry of Education in 1995 as the targets for priority investment toward the 21st century. Top-level universities refer to 39 universities (Project 985 universities) that were selected from the Project 211 universities in 1998.

Source: Prepared by The Japan Research Institute, Limited based on local media reports

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master's or doctoral degree.

However, this equation caused two problems. One of these is an increase in the burden of expenditures for out-of-school education such as cram schools. This is believed to be one of the factors behind the declining birthrate that the government is concerned about. Another is the increased burden on children to meet their parents' expectations. The progress of elementary school learning in China is faster than that in Japan, and the content is diverse, such as beginning learning English in the first grade of elementary school<sup>(34)</sup>. In order to maintain this system, a large amount of homework was given, which reduced the amount of sleep children had.

To solve this problem, in July 2021, the government decided to make private cram schools nonprofit<sup>(35)</sup>, thereby reducing the burden on families. In addition, in order to reduce the burden on children, the government instructed schools not to give written homework to Year 1 and 2 students in elementary school and to limit written homework for Year 3 to 6 elementary school students to the amount that can be completed within 60 minutes and junior high school students to the amount that can be completed within 90 minutes, expanding the scope of instructions to specific numbers of learning hours. In September 2021, it was decided to abolish the examination for Year 1 and 2 students in elementary school<sup>(36)</sup>.

### **(3) IT industry: Unrelenting decline in stock prices**

There are a variety of reasons for the proposed tightening of regulations on the IT industry. The first is a display of power by the Xi Jinping administration against the platforms. Ant Group was forced to postpone its IPO on the Shanghai and Hong Kong stock exchanges in November 2020, ostensibly because the company failed to meet investor disclosure requirements. However, given the fact that the company had already received approval from both exchanges and Chinese securities authorities, Western media attributed the

postponement to company owner Jack Ma's criticism of the financial authorities which resulted in Xi Jinping's ire<sup>(37)</sup>.

General Secretary Xi Jinping is tightening the screws on the huge private sector. The Central Commission for Discipline Inspection (CCDI) launched its major corruption and illegal transaction investigation into the financial services sector for the first time in 15 years in October 2021<sup>(38)</sup>. The aim is to find out whether state-owned commercial banks and investment funds have a collusive relationship with fast-growing private companies, with a focus on transactions with companies such as Ant Group, Evergrande Group, and Didi Chuxing Technology (DiDi), a vehicle for hire company<sup>(39)</sup>.

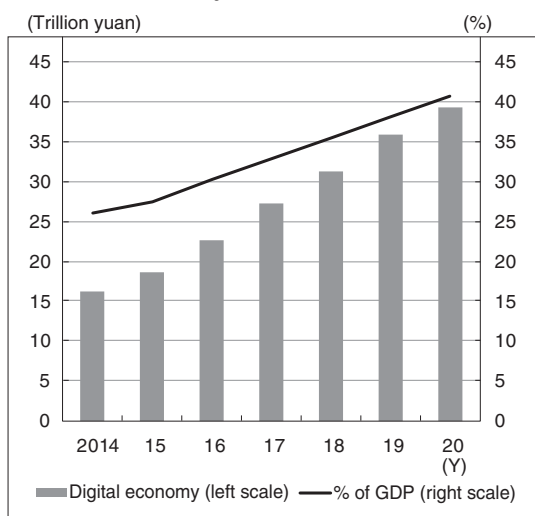
The second is the prohibition against abuse of monopoly position. In China, the Anti-Monopoly Law was enforced in August 2008<sup>(40)</sup>. In February 2021, the government issued guidelines in the platform area<sup>(41)</sup>, keeping an eye on the IT industry. The State Administration for Market Regulation, which monitors monopolies, fined Alibaba 18.2 billion yuan in April 2021<sup>(42)</sup> and on-demand delivery service agency Meituan 3.4 billion yuan in October 2021<sup>(43)</sup> for abusing its monopoly position by refusing to allow merchants to open stores on platforms operated by other companies. Meituan reported a net loss after it recorded the fine as a lump sum in its July-September 2021 earnings announced in November 2021<sup>(44)</sup>.

The State Administration for Market Regulation (SAMR) fined Alibaba, DiDi, Tencent, and retail giant Suning.com in July 2021 for violation of the Anti-Trust Law resulting from the failure to file M&A applications<sup>(45)</sup>, and Alibaba, Tencent, e-commerce giant JD.com, and search giant Baidu, among others in October 2021 for the same reason. The SAMR also ordered Tencent to relinquish its exclusive music licensing rights, saying that the company is gaining too much market power. Many of the companies subject to antitrust fines are platform businesses<sup>(46)</sup>.

求是 (*Qiushi*) quoted General Secretary Xi Jinping as saying, "We must firmly oppose the disorderly expansion of capital and strengthen antitrust oversight." Disorderly expansion of capital



**Fig. 5 Scale of China's Digital Economy**



Source: Prepared by The Japan Research Institute, Limited based on China Academy of Information and Communications Technology (CAICT) [2021], etc.

has become a cliché in the crackdown on platforms. Although China's digital economy grew to account for 40% of GDP in 2020 (Fig. 5), the IT industry's growth period, symbolized by the rise of companies rivaling "GAFA" in the United States, is likely to end with common prosperity<sup>(47)</sup>.

Third, there is growing concern about financial risk. One reason for the delay behind Ant Group's IPO was the fact that the company had not complied with strict regulations and capital requirements imposed on commercial banks although it sells financial products through "支付宝 (Alipay)," an electronic payment service with 1 billion users, which could amplify financial risks<sup>(48)</sup>. The People's Bank of China has regarded it as an issue that platforms have been expanding their financial services under such environment and has repeatedly called for them to become a financial holding company since the beginning of 2021<sup>(49)</sup>.

Fintech, a combination of finance and technology, has boomed by offering consumers unprecedented convenience. But the growing opinion that they are not fulfilling their responsibilities commensurate with financial risk has forced the platforms that have grown by leveraging fintech to review their business model, which steers consumers from digital payments to asset manage-

ment, insurance and credit score services. It is not hard to imagine that there was pressure from the banking industry which competes with platforms in the asset management business behind this.

The fourth is the prevention of monopolization, misuse and leakage of information. With the spread of electronic payments, Alipay and WeChat Pay, provided by Tencent, are accumulating a huge amount of personal information every day. In June 2018, under the pretext of strengthening financial supervision and preventing money laundering and tax evasion, the People's Bank of China linked electronic payments, which had been solely managed by fintech companies, to "网联 (Wanglian, or Nets Union Clearing Corporation (NUCC)," a system participated in by banks, enabling real-time monitoring of money flows<sup>(50)</sup>.

The government will also impose restrictions on how information can be obtained and used. In June 2017, China enacted the Cybersecurity Law ("网络安全法" in Chinese)<sup>(51)</sup>, the first law dedicated to the handling of personal information, mandating efforts to protect the rights of individuals, strengthen the security of organizations, and protect national security and the public interest. Since the beginning of 2021, the relevant laws have been further systematized with the addition of the Data Security Law ("数据安全法" in Chinese)<sup>(52)</sup> enforced in September 2021, the Cryptography Law<sup>(53)</sup> enforced in October 2021, and the Personal Information Protection Law<sup>(54)</sup> enforced in November 2021, requiring companies to be much more careful when handling information.

The government has tightened its grip on platforms in line with a series of legislative developments. In July 2021, for example, the government stopped the downloading of DiDi's smartphone apps, saying the company was illegally collecting personal information through the apps. In August 2021, the government released draft regulations covering the acquisition and use of data on the Internet in order to prohibit unfair competition<sup>(55)</sup>.

The draft would ban three key areas: 1) the use of data and algorithms that affect user choice; 2) the "either-or" approach, which does not allow merchants to open stores on other platforms; and



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3) technologies that improperly acquire and use data. These will definitely impact the business models of platforms. In addition, in November 2021, the People's Bank of China said it would strengthen personal information protection measures to curb the unauthorized collection and misuse of data by fintech companies<sup>(56)</sup>.

The government is also concerned about the leakage of information held by platforms. In July 2021, the Cyberspace Administration of China (CAC) began screening three companies listed on the U.S. market, including DiDi, for national security reasons<sup>(57)</sup>. Concerns over the leakage of not only personal information but also information on transportation infrastructure are said to be behind this. In the same month, the government released a draft regulation that would require the prescreening of overseas listings of platforms with more than 1 million users<sup>(58)</sup>, but some observers say that overseas listings of platforms with large amounts of data would eventually be banned<sup>(59)</sup>. DiDi was delisted from the New York Stock Exchange just five months after its listing<sup>(60)</sup>.

The fifth is the protection of the rights of gig workers. Gig workers are workers who take on tasks via the Internet, ranging from simple tasks such as home delivery to more sophisticated tasks such as translation. The number of gig workers, which is estimated at 200 million as of June 2021<sup>(61)</sup>, is expected to increase to 400 million in 2036<sup>(62)</sup>. While there is a positive view that gig workers will promote diverse workstyles, there is also a view that the rights of gig workers are not adequately protected, such as the lack of workers' compensation insurance for accidents that occur in delivery work.

In July 2021, the government issued a circular on the protection of the rights of delivery workers<sup>(63)</sup>, and in September it renewed calls for the rights protection to 10 gig worker platforms, including Alibaba, DiDi, Meituan and Tencent<sup>(64)</sup>. Specifically, the government calls for labor contracts to be concluded with gig workers whose contract relationships have been established in accordance with the law, and memorandum of understanding with gig workers whose contract relationships have not been established to protect their

rights related to compensation, rest and safety.

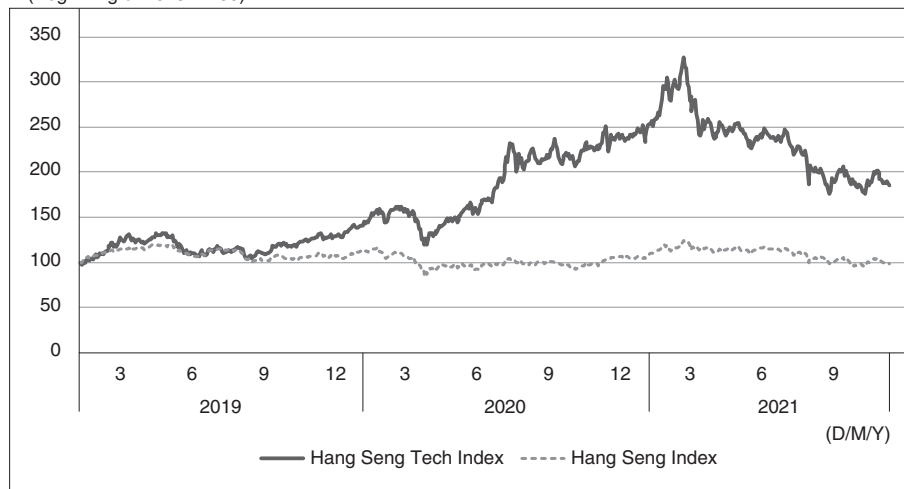
Protection of Gig workers' rights represents a significant cost increase for platforms. JD.com reported in its April-June 2021 report that the average monthly salary of its 260,000 delivery workers was 11,000 yuan, and that it had enrolled them in the same social security covering pensions, medical care, unemployment, work-related injuries and childbirth as well as housing reserve systems, as those of corporate workers. However, the company's net income decreased by 90% year on year as a result<sup>(65)</sup>. It would be difficult for Meituan, which has 9.5 million delivery workers, to take the similar measures, and a fundamental overhaul of its business model will be required<sup>(66)</sup>.

The sixth is to correct minors' dependence on games. At the end of August 2021, the government announced that minors will be banned from playing online games for more than 3 hours per week<sup>(67)</sup>. The issue became a hot topic of conversation after the *Economic Information Daily* described online games as "spiritual opium,"<sup>(68)</sup> and a number of young people posted online comments protesting the restrictions. Shares of Tencent and NetEase, which distribute online games, fell sharply due to the restrictions. China's online gaming market, which has grown 20% in recent years, is expected to slow to 5% year-on-year growth in 2021<sup>(69)</sup>.

The impact of a series of regulations on the IT industry is evident in stock prices. The Hang Seng Tech Index of Chinese technology companies listed on the Hong Kong market had continued to rise significantly above the Hang Seng Index, which tracks the performance of the overall Hong Kong market, but reversed course in March 2019 and has been declining intermittently (Fig. 6). In the same month, the government issued guidelines targeting the fintech industry, and the market appears to have grown weary of tighter regulations in the expected growth sector, as well as the wide range of intermittent regulations that have followed.

**Fig. 6 Changes in Hang Seng Index and Hang Seng Tech Index**

(Beginning of 2019 = 100)



Source: Prepared by The Japan Research Institute, Limited based on CEIC

### 3. Will common prosperity lead to a correction of disparities?

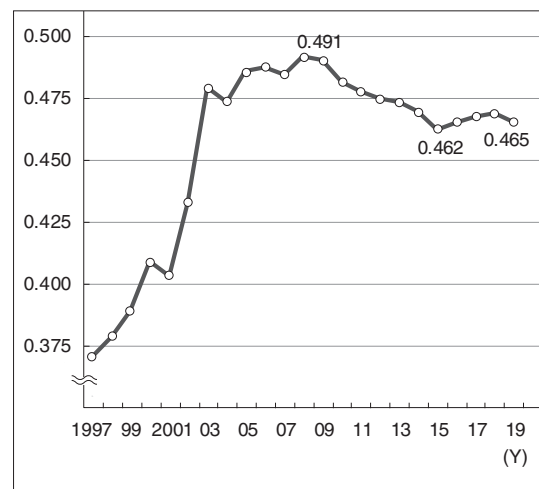
After reviewing the current state of disparities, it will be examined whether the policies set forth in the context of common prosperity —tertiary distribution, secondary distribution, and industrial regulations— will actually contribute to narrowing disparities.

#### (1) Income gap is 10 times, while asset gap is 24 times

The Gini coefficient is the most commonly used indicator of income inequality. Although China's Gini coefficient has declined since its peak in 2008, it remained high at 0.465 in 2019 (Fig. 7). The Gini coefficient is highest in Latin America, with the median value between 0.44 and 0.46 in the late 2010s, compared with that between 0.35 and 0.37 in Asian countries. China can be said to be a country with a large income gap not only in Asia but also globally.

This problem becomes even more clear when looking at disposable income by income class. Disposable income per capita of the top 20% of

**Fig. 7 China's Gini Coefficient**



Source: Prepared by The Japan Research Institute, Limited based on the International Monetary Fund (IMF) and the National Bureau of Statistics of China

China's population (5th quintile), including rural areas, is 80,294 yuan, which is 10.2 times higher than the disposable income of the bottom 20% of China's population (1st quintile), which is 7,869 yuan (Upper Table of Table 5). The gap between the 1st quintile and the 5th quintile in Japan is only 2.6 times, showing how wide the gap in China is.

Looking at disparities by income class in urban

**Table 5 Disposable Income Per Capital by Income Class**

<China on the whole>

(Yuan/Year)

	Low income class	Lower middle income class	Middle income class	Upper middle income class	High income class
	1st quintile	2nd quintile	3rd quintile	4th quintile	5th quintile
2013	4,402	9,654	15,698	24,361	47,457
2014	4,747	10,887	17,631	26,937	50,968
2015	5,221	11,894	19,320	29,438	54,544
2016	5,529	12,899	20,924	31,990	59,259
2017	5,958	13,843	22,495	34,547	64,934
2018	6,440	14,361	23,189	36,471	70,640
2019	7,380	15,777	25,035	39,230	76,401
2020	7,869	16,443	26,249	41,172	80,294

<Urban areas>

(Yuan/Year)

	Low income class	Lower middle income class	Middle income class	Upper middle income class	High income class
	1st quintile	2nd quintile	3rd quintile	4th quintile	5th quintile
2013	9,896	17,628	24,173	32,614	57,762
2014	11,219	19,651	26,651	35,631	61,615
2015	12,231	21,446	29,105	38,572	65,082
2016	13,004	23,055	31,522	41,806	70,348
2017	13,723	24,550	33,781	45,163	77,097
2018	14,387	24,857	35,196	49,174	84,907
2019	15,549	26,784	37,876	52,907	91,683
2020	15,598	27,501	39,278	54,910	96,062

<Rural areas>

(Yuan/Year)

	Low income class	Lower middle income class	Middle income class	Upper middle income class	High income class
	1st quintile	2nd quintile	3rd quintile	4th quintile	5th quintile
2013	2,878	5,966	8,438	11,816	21,324
2014	2,768	6,604	9,504	13,449	23,947
2015	3,086	7,221	10,311	14,537	26,014
2016	3,006	7,828	11,159	15,727	28,448
2017	3,302	8,349	11,978	16,944	31,299
2018	3,666	8,508	12,530	18,051	34,043
2019	4,263	9,754	13,984	19,732	36,049
2020	4,682	10,392	14,712	20,885	38,520

Source: Prepared by The Japan Research Institute, Limited based on CEIC (original source is the National Bureau of Statistics of China)

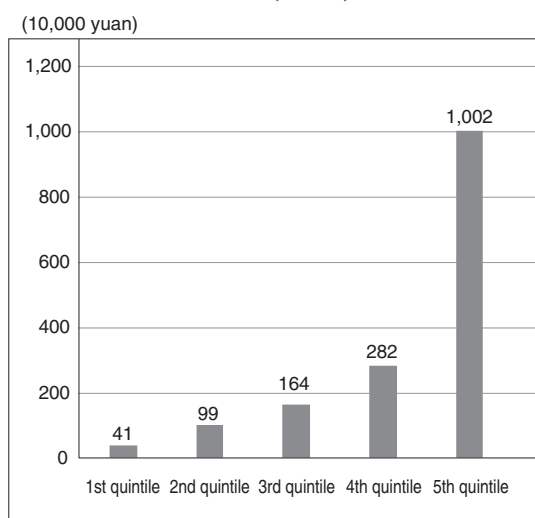
and rural areas, the gap between the 1st quintile and the 5th quintile in urban areas was 6.2 times in 2020 (Middle Table of Table 5), that in rural areas was as high as 8.2 times (Lower Table of Table 5), indicating that the gap in rural areas was larger than that in urban areas. However, while the gap in rural areas has been on a decreasing trend from 8.7 times in 2016, the gap in urban areas has been gradually widening since 2013. The income gap for the middle class (3rd quintile) between urban and rural areas was 2.7 times in 2020, which has not changed much since 2013.

This gap shows how difficult it is for common prosperity to increase the middle class.

The disposable income of the middle class (3rd quintile) in China as a whole is 26,249 yuan. Those households whose disposable income is below this level are the 1st quintile in urban areas and the 1st to the 4th quintiles in rural areas (shaded cells in Table 5), which is equivalent to a population of 590 million, or 41.7% of the total. These 590 million people are in line with the statement by Li Keqiang, Premier of the State Council of the People’s Republic of China, “There are 600 million people in the middle and lower income brackets whose average monthly income is about 1,000 yuan (about 18,000 yen), and they cannot even rent a room in a medium-sized city<sup>(70)</sup>” at a press conference after the end of the National People’s Congress in May 2020. How to raise their incomes will determine the outcome of common prosperity.

There are disparities not only in income but also in wealth. The wealth gap is worse than the income gap. According to the People’s Bank of China Household Assets Survey, the average assets per household in the 1st quintile are 410,000 yuan, while those in the 5th quintile are 10.02 million yuan. There is a 24 fold gap between the two, with the 5th quintile representing 63.1% of total household assets (Fig. 8). Since 70% of household assets are housing assets, the wealth gap is determined by the value of the housing assets held, or more precisely, the number of housing assets owned. China’s home ownership rate is 96%, far higher than that of Japan (61.2% in 2018), which is said to be the highest among developed coun-

**Fig. 8 Household Assets by Asset-based Class (2019)**



Source: Prepared by The Japan Research Institute, Limited based on local media reports

tries<sup>(71)</sup>. China’s wealthy households own multiple houses. According to a household survey published by the Southwestern University of Finance and Economics in 2019, 65.8% of prospective home buyers already own a house, with 18.1% owning more than two houses<sup>(72)</sup>.

It should be noted that the real wealth gap is likely to be greater than that based on a study by the People’s Bank of China. According to the National Bureau of Statistics of China, the home ownership rate among rural household registration holders called “peasant workers” who enter urban areas from farming villages for the purpose of employment was 17.8% in 2016, and more than 80% of them do not own a house<sup>(73)</sup>. The latest situation is unclear, but even assuming that the rate rose to 30% in 2020, 70% of all 280 million peasant workers<sup>(74)</sup>, or 200 million, do not own a home, and their household assets are estimated at almost zero.

According to the “Hurun Report,” which releases the annual lists of billionaires, there were 3.99 million wealthy households with assets of 6 million yuan (about 108 million yen) in mainland China (excluding Taiwan, Hong Kong and Macau) at the end of 2019, and their total assets were 94 trillion yuan, equivalent to China’s GDP (98.6

trillion yuan) (Hurun Report [2020]). Of these, 64,000 households are super-rich with 100 million yuan (about 1.8 billion yen) in household assets.

In terms of international comparison, the top 1% of Chinese wealth holders account for 30.6% of total wealth, which is lower than Russia (58.2%), Brazil (49.6%), India (40.5%), and the United States (35.3%). Therefore, it cannot be said that there is an extraordinary number of ultra-high-net-worth individuals in China. However, Credit Suisse estimates that 5.28 million people in China have assets of more than 1 million dollars, far more than India’s 700,000, indicating that China has a considerable number of wealthy people (Credit Suisse [2021]).

## (2) Evaluation of distribution policy

### 1) Tertiary distribution: Private companies are wary of requests for donations

Tertiary distribution, which is based on donations and charity, is spreading in society as a policy to show off the prestige of the Xi Jinping administration toward the realization of common prosperity. However, it is unlikely that this will correct the inequality. The 100 billion yuan in donations from tech giants like Alibaba and Tencent is certainly large, considering that in 2020, donations from social organizations across the country totaled 105.9 billion yuan<sup>(75)</sup>. Still, the problem remains that as long as donations depend on corporate profits, resources are limited and it is not sustainable.

According to the Ministry of Finance, government expenditures in 2020, including those of local governments, were 3.6 trillion yuan for education, 3.5 trillion yuan for social security, 1.9 trillion yuan for public health and medical care, and 2.4 trillion yuan for agriculture, forestry and fisheries<sup>(76)</sup>. Donations may contribute to lifting up limited areas and low-income populations, but they are unlikely to play a role in supporting common prosperity throughout China. Tax incentives are used not only in China but also in many coun-

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tries, to encourage companies to fulfill their social responsibilities through the return of profits. However, it is secondary distribution that makes common prosperity possible.

In China, however, the primary role of secondary distribution has been neglected, and private companies have become wary of tertiary distribution. The demand for donations has spread not only to large private enterprises but also to small and medium-sized private enterprises, forcing managers to meet monthly with local governments asking for donations under various pretexts, including funding for library construction and support for people affected by floods<sup>(77)</sup>.

Tertiary distribution also has the problem of state-owned enterprises being kept outside the framework. State-owned enterprises are said to contribute to common prosperity by paying contributions to the government, which is their investor. However, the ratio of after-tax profit submitted from state-owned enterprises to the government, which was supposed to be raised to 30% by 2020, was only 7.6% in 2019, down from 11.9% in 2015 (IMF [2020]). Common prosperity implies the risk of accelerating “国进民退 (*Guo jin min tui*)” in which state-owned enterprises advance while private enterprises are gradually forced to retreat.

## 2) Secondary distribution - Reforms that call into question the administration's commitment

In Japan, many media predict that a real estate tax will be introduced in earnest and that China's disparities will be corrected. However, it has been five years since the draft legislation was prepared<sup>(78)</sup>, and the number of cities to which real estate taxes would be introduced has decreased from 30 originally to 10<sup>(79)</sup>, so it is hard to be optimistic about the future outlook. Even if a real estate tax is introduced, if it is modeled after the experience of Chongqing and Shanghai, where the tax was introduced ahead of others in 2011, it will have a limited effect on narrowing the asset gap.

China's current real estate tax system stipulates exceptions that are not included in Japan's fixed asset tax, such as exempting the first home from taxation, targeting only luxury homes, and exclud-

ing land use rights from the scope of taxation by imposing a tax only on buildings<sup>(80)</sup>. The *South China Morning Post* said there was no evidence that the tax helped curb housing prices, as housing prices were up 108% in Chongqing and up 155% in Shanghai compared to when the real estate tax was introduced<sup>(81)</sup>. The same point has been made in China<sup>(82)</sup>, and it is too early to discuss the effect of a real estate tax on the correction of disparities before the scope of taxation and the tax rate are decided.

The introduction of an estate tax, which is equivalent to Japan's inheritance tax, will also be a focal point in preventing asset disparities from being inherited across generations. While there are negative opinions about the introduction of an estate tax because it is not a universal tax that has been introduced in all countries and because it does not fit in Chinese society<sup>(83)</sup>, there are also opinions in the media that cite the inheritance tax as one of the reasons why most Japanese people feel that they belong to the middle class and advocate the necessity of introducing an estate tax<sup>(84)</sup>. The differences in opinions have led to heated debates in media. However, the Communist Party and the government have never mentioned an estate tax as a policy to realize common prosperity, and it is unlikely that an estate tax will be introduced.

The effect of personal income tax is also unpredictable. China collected 1 trillion yuan through the tax in 2019, accounting for only 6.6% of total tax revenue, far less than the 27.7% in Japan. This is because China's taxable income threshold level is high and the scope of taxable income is limited (Shen [2013]), a wide range of deductions are allowed for rent, education, medical care, and nursing care as well as housing loans (PWC [2020]), and tax-saving measures are allowed to convert wages into corporate income by becoming sole proprietors and to reduce taxable income by recording expenses<sup>(85)</sup>.

Whether or not personal income tax will contribute to narrowing the income gap depends on the extent to which the effective tax rate can be raised by reviewing the scope of deductions and items exempt from taxation and by strengthening



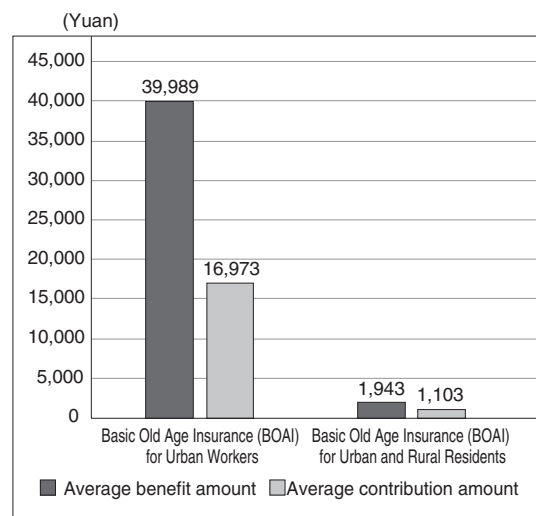
tax collection. The same is true of capital gains tax. Experts argue that the maximum personal income tax rate of 45%, which is higher than the capital gains tax rate of 20%, is disadvantageous to people who do not own assets, and that it is regressive that indirect taxes, such as value-added tax (VAT), account for a higher percentage of tax revenue than direct taxes, such as personal income tax<sup>(86)</sup>. However, the government has not provided any information on these issues.

Fiscal spending on underdeveloped areas is also expected to face difficulties due to strong opposition from coastal provinces and cities. In China, similar to Japan's local allocation tax (LAT) grants, there are transfer payments that are granted by the central government to local governments in order to close the fiscal gap among regions. It was agreed between the central government and the local governments at the time of the Tax-Sharing Reform in 1994 that the transfer payments would be allocated according to the amount of tax collected by the local governments (Kajitani [2014]). Substantial effort is required to reverse this, and even the Xi Jinping administration cannot proceed at will.

Public services, such as education and social security, face financial problems. The gap between pension and medical insurance systems due to their fundamentally different institutional design is so large that it is difficult to bridge it. For example, while the average benefit amount of Basic Old Age Insurance (BOAI) for Urban Workers in 2019 was 39,989 yuan, that of Basic Old Age Insurance (BOAI) for Urban and Rural Residents in 2019 was 1,943 yuan, and there is a 20.6 fold difference between the two (Fig. 9). Although this is due to the difference in the amount of contribution, it is difficult to increase the amount of benefit by increasing the premium because the Basic Old Age Insurance (BOAI) for Urban and Rural Residents mainly covers the unemployed in urban areas, employees of small and medium sized enterprises, and farmers. Medical insurance has the same problem.

Another serious problem is that the social security fund, which holds insurance premiums, has started to lose its reserves. Looking at the balance

**Fig. 9 Differences in the Amount of Contributions and Benefits in Public Pension Insurance (2019)**



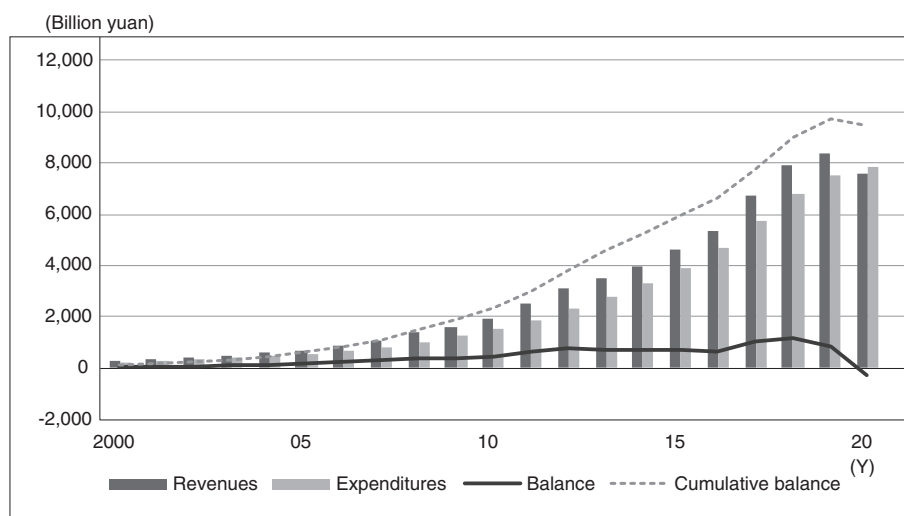
Source: Prepared by The Japan Research Institute, Limited based on NBS materials

of the social security fund under the jurisdiction of the Ministry of Human Resources and Social Security, which includes pensions, employment (unemployment), and industrial accidents, the single-year balance showed a deficit for the first time in 2020 (Fig. 10), due to an increase in the expenditure of the employment insurance fund amid the COVID-19 pandemic and an increase in the expenditure of the pension fund as a result of the aging of society. While the cumulative balance of payments, including reserves, remains in the black, pension expenditures are expected to increase in the future, and the surplus is expected to shrink. It can be said that expanding public services for low-income households is a policy that is easier said than done.

### (3) Tentative assessment of industrial regulations

- 1) **Real estate development industry: Avoiding Intermittent declines in housing prices**  
There are many voices predicting the stagnation

**Fig. 10 Balance of Social Security Fund (Pensions, Employment and Industrial Accidents)**



Notes: Cumulative balance refers to the balance of payments including reserves.  
Source: Prepared by The Japan Research Institute, Limited based on NBS materials

of the Chinese economy if a real estate tax<sup>(87)</sup> is introduced. This is not entirely unfounded, as the Central Committee for Financial and Economic Affairs concluded that a prolonged and gradual decline in asset prices would benefit consumers. However, it is difficult for real estate developers to accept that their contribution to growth will decline because the economic and financial impact of the decline is too great.

According to the National Bureau of Statistics of China, real estate development accounted for only 7.3% of China's GDP in 2020. However, Professor Kenneth Rogoff of Harvard University and his colleagues estimate that if related industries are included, real estate development accounted for 29% of China's GDP (Rogoff and Yang [2020]) and Standard & Poor's also estimates it to be 30% of China's GDP<sup>(88)</sup>. Another drawback is the heavy dependence of the financial sector on real estate, with the amount of debt held by the real estate development industry exceeding that of the mining and manufacturing industry (Miura [2021b]). The Xi Jinping administration has no choice but to avoid a situation in which the real estate development industry is significantly depressed by the introduction of a real estate tax.

In fact, since the beginning of August 2021, some cities have started restricting housing price

cuts<sup>(89)</sup>, indicating that the situation is not progressing as expected. Measures to restrict price cuts were taken in Tangshan (Hebei Province), Shenyang (Liaoning Province), Heze (Shandong Province), Kunming (Sichuan Province), Jiangyin (Jiangsu Province), and Yueyang (Hunan Province)<sup>(90)</sup>, and spread to 15 cities in mid-October 2021<sup>(91)</sup> and 22 cities in mid-December<sup>(92)</sup>.

There are other reasons why the government cannot tolerate falling housing prices. One is the risk that a prolonged decline and a stronger expectation of lower prices could lead to a “過冷 (supercooling)” spiral, in which homeowners sell more and new buyers hold back, causing further price declines. The financial system would be destabilized if a vicious circle of “overcooling” starts and nonperforming loans increase not only among real estate developers but also among individuals. Since typically a mortgage covers 70% of the house price and a cash payment 30%, if the house price falls more than 30%, the bank will not be able to collect the full loan even if it sells the house which is the collateral for the loan.

The other is that it has a great impact on the finances of local governments. Local government revenue consists of general budgetary government revenue, which consists of tax revenue and non-tax revenue, and governmental fund revenue,

which is equivalent to a special account. The revenue in 2020 was 10.4 trillion yuan and 9 trillion yuan, respectively. Revenue from the transfer of land use rights was 8.2 trillion yuan, accounting for more than 90% of governmental fund revenue, exceeding tax revenue of 7.5 trillion yuan (Fig. 11). The price of land use rights is determined by bidding. In 2021, however, due to the worsening cash flow of real estate development companies and increasing uncertainty about housing prices, the number of auctions won by bidders at the reserve price and the number of unsuccessful auctions without a bidder have been increasing<sup>(93)</sup>. Falling housing prices will hit local governments hard.

According to the People's Bank of China's Urban Household Survey released in October 2021, while the percentage of people who expected that housing prices would "decline" rose slightly to 11.7% from 10.0% in the previous quarter, it remained below "unchanged" (55.8%) and "increase" (19.9%)<sup>(94)</sup>. The focus of real estate development policy is not on lowering housing prices, but on a tightrope response by tightening the screws on real estate development companies and eliminating excessive debt, while taking care not

to threaten the stability of the financial system and local government finances due to a pessimistic view that housing prices are going to fall.

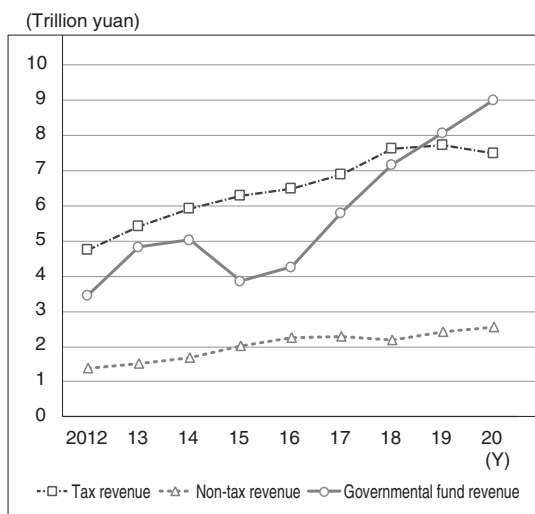
The government plans to ease the household registration system to encourage people to move from rural to urban areas to support housing prices. In 2020, it became easier for people in rural areas to move to cities with populations of 3 million or less<sup>(95)</sup>, but the scope will be expanded to cover all cities in 2022<sup>(96)</sup>. Although this is contrary to the urbanization policy that restricts population inflow into large cities (Miura [2014]), it is considered to be a measure to ease the downward pressure on housing prices by eliminating demand for speculative purposes. A scenario, in which housing prices will be reduced as a result of the introduction of a real estate tax and the Chinese government will get closer to achieving common prosperity, is unlikely to be realized.

## 2) Learning support industry: Will it ease the burden?

As a result of the government's decision to make cram schools nonprofit, the learning support industry was significantly affected. By September 2021, 180,000 relevant companies had gone bankrupt, led by a long-established cram school chain called 巨人環球教育科技有限公司<sup>(97)</sup>. There is no question that the learning support industry will be faced by a situation described as "the logic of development is undergoing significant change and the industry's contribution to growth will decline." The National Development and Reform Commission (NDRC) wants local governments to set standard fees for cram schools by the end of the year<sup>(98)</sup>. If the fee standard set by the local government is low, the learning support industry could see a further decline.

On the other hand, the establishment of standard fees is good news for families whose budgets have been squeezed by ever-increasing education spending. However, it is doubtful whether it will reduce the burden on all households. A series of regulations cannot limit parents' desire to secure more study time for their children under good teachers in order to successfully compete in entrance exams. In fact, there have been private tu-

**Fig. 11 Fiscal Revenue of Local Governments**



Notes: Revenue from the transfer of land use rights accounts for 90% of governmental fund revenue.  
Source: Prepared by The Japan Research Institute, Limited based on Materials of the Ministry of Finance

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tors who provide teaching at home pretending to be dietitians or housekeepers, and cram schools that provide teaching at hotels by taking “food and drink charges” as tuition fees<sup>(99)</sup>. The Ministry of Education has said it will crack down on such violations<sup>(100)</sup>, but of course there are limits.

The “declining contribution to growth” of the learning support industry is only a superficial story, and it can be assumed that it has become difficult to grasp as an industry as their activities have gone underground. In a society where emphasis is put on academic background, students are eager to go to university to obtain such academic background. They also aim to go to a prestigious, well-known university. Unless there is a change in the environment that requires high scores in the National College Entrance Examination (NCEE), commonly known as “*高考 (gaokao)*” for such purposes, education spending and the burden on children will not decrease dramatically.

The government’s tightening of the crackdown could drive up the cost of private tutoring and cram schools that provide services informally. This creates a situation in which the quality and quantity of out-of-school learning is influenced by the economic power of parents. The measure to make the learning support industry nonprofit has had a great impact on society as a policy to show off the power of the Xi Jinping administration toward common prosperity. However, it is highly questionable to what extent it will contribute to the policy goals of not only reducing the burden on households’ educational expenditures and children’s learning, but also strengthening human resources development through the equalization of educational opportunities and stopping declining birth rates.

It is best to learn ahead of the school curriculum outside the school if students are to be screened by “*高考 (gaokao)*” even if they learn less and take fewer tests at school. Since this is also a competition between families with children taking entrance exams, households that welcomed the series of regulations as a way to reduce the burden on them will eventually be brought back to the situation before the regulation. China has a tradition of “*科举 (keju)*, meaning the Chinese imperial ex-

amination)”, and many families are supporters of an examination system that allows people to move up the social hierarchy (Zhai [2019]).

### **3) IT industry: Different development logic from Europe and America**

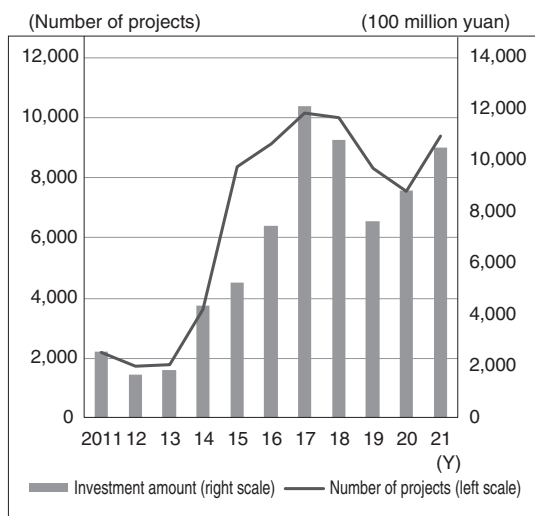
Platforms are subject to a wide range of regulations, many of which are severe enough to force companies to rethink their business models. As symbolized by the drop in stock prices as seen in Fig. 6 above, it appears that there has been a situation predicted in the statement, “The logic of development is undergoing significant change and the industry’s contribution to growth will decline.” What is most concerning is that investors dislike tighter regulations and less money will flow into the IT industry.

But while public companies such as Alibaba and Tencent are increasingly worried about the future, investment in startups is strong. According to Zero2IPO, which studies investments in unlisted companies, the number of projects and the value of venture capital (VC) and private equity (PE) investments<sup>(101)</sup> from January to September 2021 totaled 9,391 and 1,054 billion yuan, up 71.8% and 75.0%, respectively, from the same period last year (Fig. 12). This is the first time since 2014 that the investment has grown by more than 70% in both the number of projects and value.

This is because the growth potential of China’s IT industry is seen as high. Looking at the investment fields of VC and PE investment from January to September 2021, the IT industry accounted for the largest share at 240 billion yuan, accounting for 22.8% of the total, followed by biotechnology, medical and health industries (181.5 billion yuan, 18.2%), and semiconductor and electronics industries (136.9 billion yuan, 13.0%) (Fig. 13). The share of these three industries has not changed in recent years.

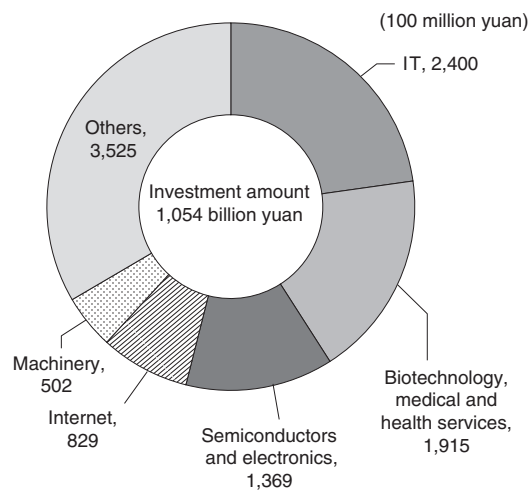
On the A-shares market, where Chinese stocks listed on the Shanghai Stock Exchange and the Shenzhen Stock Exchange trade in yuan, the amount of funds raised through IPOs from January to September 2021 reached a record high (KPMG [2021]). The attractiveness of China’s IT industry, which is prone to winner-take-all due to

**Fig. 12 Venture Capital (VC) and Private Equity (PE) Investments in China**



Notes: The figures for 2021 are for the period between January and September.  
 Source: Prepared by The Japan Research Institute, Limited based on local media reports

**Fig. 13 VC and PE Investments in China by Investment Fields (January to September 2021)**



Source: Prepared by The Japan Research Institute, Limited based on local media reports

a market of more than 1.4 billion people and network effects<sup>(102)</sup>, does not fade easily.

This move is a reversal of the view that the growth period of the IT industry will end. In line with the emphasis on common prosperity, regulations were tightened in rapid succession in the second half of 2021, and there is no denying that there was a tendency to overestimate the effects of the regulations. Prohibiting the abuse of monopoly positions and protecting the rights of gig workers are issues that are being discussed in developed countries, and should be evaluated from the viewpoint of improving the health of the IT industry rather than regulating it.

Still, it would be too optimistic to assume that China's IT industry will return to its pre-regulatory growth trajectory simply because VC and PE investments are strong or because the development of relevant laws has been completed. Since the IT industry, particularly platforms, is unique in its impact on society, it is reasonable to assume that the Communist Party's intervention will not weaken and that it will likely act as a factor restraining the industry's growth.

One of the defining problems of platforms is that their rise is thought to undermine confidence

in the Communist Party. In developed countries, from the viewpoint of social psychology, it has been extensively studied that the development of the Internet has affected not only communication but also the state of society itself (Wallace [2018]). A similar study is under way in China, one of which points out that the growing desire to maximize individual autonomy (“最大限度扩大个人自主权的欲望” in Chinese) as a result of the development of SNS raises doubts about authority (Wang [2019]).

The high level of caution about this issue is supported by the fact that Xi Jinping thought has been introduced into China's national curriculum from elementary school up to university. The growing tendency to rely on information from homogeneous groups via social networking services (SNS), rather than television or newspapers, is a phenomenon that has never been seen before in China, and it is obvious that the Communist Party and the government, wary of it, are trying to increase their influence over platforms. In June 2021, the government asked platforms like Alibaba, Tencent, and ByteDance, which owns TikTok, a video-sharing social networking services, to share the data they collected via social media and



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e-commerce<sup>(103)</sup>.

In China, public opinion has been formed or guided from the top to the bottom through media such as television and newspapers. Today, through the analysis of data on social media, it can be identified what individuals are thinking, what influences their thinking, and who such thinking has affected. In order to stabilize the one-party system, the personal information held by platforms makes the government drool at the mouth.

A series of regulations, like the postponement of Ant Group's IPO, could be interpreted as a kind of demonstration that the government has the power of life and death over platforms. While data security in developed countries is primarily concerned with the protection of personal information, data is deemed a national strategic resource in China, and emphasis is placed on the importance in national security<sup>(104)</sup>. However, even though the Data Security Law went into effect in September 2021, it has not been revealed what data would be subject to fines as of the end of November 2021, and platforms remain apprehensive.

Another problem that symbolizes the peculiarity of platforms is that they are thought to destroy traditional values. Singles Day (November 11), which Alibaba turned into a nationwide sales event in China, lost its flavor in 2021 when leftist organizations slammed the day as the original founding day of the Air Force and described the event as "a dirty, ugly tumor that corrupts the thought, spirit, and will of our people."<sup>(105)</sup> The problem is that the government has accepted leftist groups' claims and has suspended more than 20,000 SNS accounts, including those of male influencers wearing makeup by saying they were "vulgar."<sup>(106)</sup>

Many of the services offered by platforms had never existed in China before. If they are allowed to be criticized for corrupting traditional values, then platforms could not be in business in the first place. Because platforms are perceived as having an impact on social change and governance as a result, they are much more complex and unstable than real estate development and learning support industries.

While the Communist Party says that common

prosperity does not negate efforts to become rich and innovation, it has not gone so far as to silence the leftist group's wild criticism under the slogan "殺富濟貧 (kill the rich and save the poor)." This ambivalent attitude suggests that the Xi Jinping administration is in the process of exploring how to balance the positives of platforms, such as driving economic growth and promoting digitalization, with the negatives, such as the erosion of confidence in the Communist Party and the destruction of traditional values.

In November 2021, the Communist Party adopted its third historic resolution at the Sixth Plenum of the Central Committee of the Communist Party of China (CCCPC). The resolution is interpreted as a statement to demonstrate at home and abroad that Xi Jinping has a solid power base. However, it is also significant in a sense that it shows how much the Communist Party values information on the Internet, as exemplified in its statement saying "the Internet is the main arena, battleground, and front line of the ideological struggle, and we will create a clear cyberspace domain"<sup>(107)</sup>.

In December 2021, Weibo Corporation, the operator of Weibo, the Chinese equivalent of Twitter, was fined 3 million yuan for "providing an environment to disseminate information contrary to laws and regulations."<sup>(108)</sup> It is not clear what the breach was, but it is well known that a female tennis player made a Weibo post saying that she had been forced to have a sexual relationship with Zhang Gaoli, former Vice Premier of the State Council, which contributed to the diplomatic boycott of the Beijing Winter Olympics. Chinese platforms are not free from the risk of being under the Communist Party's strong influence and forced to follow a development logic that differs from that of the West.

#### **4. Why common prosperity?: Less tolerance for inequality**

The purpose of the "common prosperity" initiative is to strengthen the middle class and make

many more people feel the fruits of economic growth. However, as seen in Fig. 7 above, although the income gap in China is large, it has not expanded rapidly in recent years, but rather has been gradually decreasing. In other words, there is no evidence that the middle class has diminished rapidly. So, why is the government trying to promote common prosperity despite the risk that it will become a negative factor for the economy?

This issue is easier to understand when approached from the perspective of the public's tolerance for inequality. Public tolerance for inequality in China continues to decline. Income and asset disparities can be quantified, but it is difficult to quantify tolerance because it is a psychological issue. The World Values Survey (WVS) makes this clear. The WVS is an international project that examines the cultural, moral, religious and political values of people from different countries, and China has been participating in the survey from an early stage.

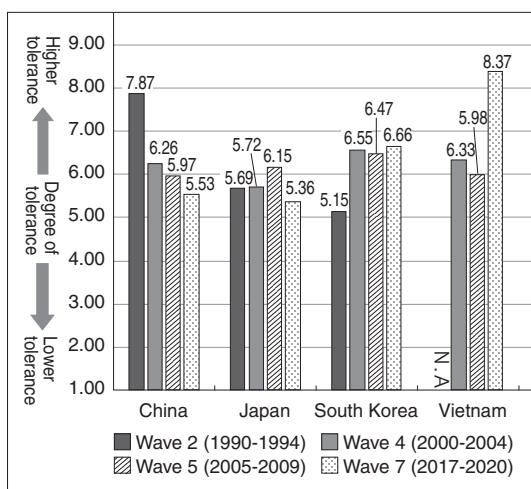
The WVS measures tolerance for income inequality by giving the opposite views of income inequality: "Income should be more equal" (Score 1) and "Income should be an incentive for indi-

vidual efforts" (Score 10), and letting respondents choose where their views fall. Comparing four Asian countries (China, Japan, South Korea and Vietnam), only China has consistently shown a decline in tolerance for income inequality over the past 20 years (Fig. 14).

This is in line with the declining tolerance for competition<sup>(109)</sup> (Fig. 15) and suggests that China is transforming itself into a society that is less receptive to competition. Common prosperity can also be interpreted as a new governance mechanism created by the Xi Jinping administration, which fears that the traditional governance mechanism of boosting confidence in the Communist Party through economic growth is no longer functioning.

The decline in the tolerance for income inequality is believed to be due to the shift of the center of gravity of inequality from income to assets, and the spread of social networking services (SNS) and other means to measure inequality. In a survey of migrant workers conducted by the National Bureau of Statistics in 2010, migrant workers selected the following comparison targets to judge their living conditions: 1) migrant workers in the same

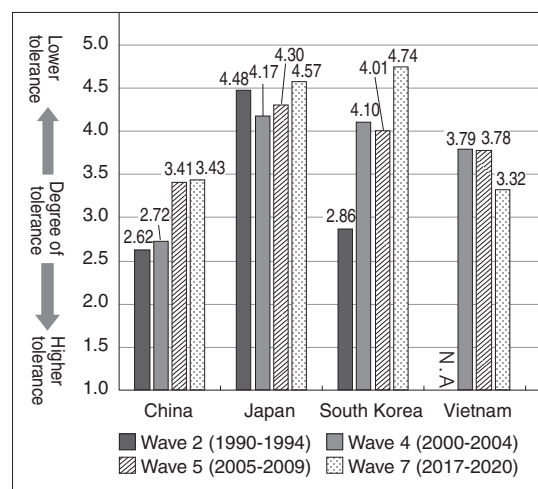
**Fig. 14 Tolerance for Income Inequality (Median Value)**



Notes: The figure after "Wave" indicates the number of the survey. The figures in parentheses indicate the period the survey covers.

Source: Prepared by The Japan Research Institute, Limited based on WVS

**Fig. 15 Tolerance for Competition (Median Value)**



Notes: The figure after "Wave" indicates the number of the survey. The figures in parentheses indicate the period the survey covers.

Source: Prepared by The Japan Research Institute, Limited based on WVS

city (23.6%), 2) urban household registration holders (23.4%), and 3) rural residents in their hometown (19.3%), in descending order (Miura [2012]). Similar surveys have not been conducted since then, but the spread of SNS seems to have completely changed this situation.

WeChat, an instant messenger app developed by Tencent with more than 1 billion users, was launched in 2011. Weibo, which has more than 500 million users, was launched in 2009. While social networking services similar to Instagram and Facebook are also spreading in China, many of them were launched around 2010. These services have given users opportunities to have a glimpse into the daily lives of an unspecified number of strangers.

Since much of the information on SNS is “success stories,” it sometimes heightens viewers’ feelings of inferiority. The Royal Society for Public Health (RSPH) of the U.K. reported in May 2017 that many young people develop negative feelings of anxiety, loneliness and inferiority complex through social media (RSPH [2017]). It is not surprising that similar changes have taken place in China, reducing the tolerance for inequality. Similar to the cases of 内卷 (*nei juan*) and 躺平 (*tang ping*), this issue represents a departure from the society led by the Communist Party, or a rejection

of the leadership itself, and cannot be overlooked by the Communist Party.

This perception has spread among radical leftist groups, fueling criticism of objects and phenomena that run counter to common prosperity. The criticism, initially vague as “disorderly expansion of capital,” has become increasingly intense with a focus on specific organizations and groups, such as TV stations making shows that lionize androgynous male idols, online game provider Tencent, Alibaba that created the “Singles Day” event, and the young people who use them.

Criticism is also turning to entrepreneurs. Zhong Shanshan, who topped the 2021 list of billionaires with his business of manufacturing and sale of mineral water (Table 6), donated 20,000 boxes of mineral water during the Henan floods in the summer of 2021, but was derided as “making a small donation despite his huge assets.”<sup>(110)</sup> Being on the list in Table 6 was a sign of success, but it could degenerate into a “donation register” that invites donations due to common prosperity. The reason why common prosperity reminds us of the Cultural Revolution is that many people feel fear of the opinions of leftist groups quietly permeating society.

**Table 6 Top 10 of Hurun China Rich List 2021**

Rank	Name	Assets (100 million yuan)	Company name	Industry
1	Zhong Shanshan	3,900	Yangshengtang Drinking Water (YST)	Manufacturing and sales of mineral water
2	Zhang Yiming	3,400	ByteDance	IT (video-sharing services)
3	Zeng Yuqun	3,200	Contemporary Amperex Technology Co., Limited (CATL)	Manufacturing and sales of batteries for electric vehicles (EVs)
4	Ma Huateng	3,170	Tencent	IT (Internet-based services such as SNS and games)
5	Ma Yun & family	2,500	Alibaba	IT (EC)
6	Huang Zheng	2,290	Pinduoduo (PDD)	IT (EC)
7	Wei Jianjun	2,180	Great Wall Motor	Manufacturing and sales of automobiles
8	Li Ka-shing	2,150	Cheung Kong (Hong Kong)	Real estate
9	He Xiangjian & family	2,130	Midea	General home appliances
10	Wang Wei	1,930	S.F. Holding	Logistics

Source: Prepared by The Japan Research Institute, Limited based on Hurun Report 2021

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## Conclusion: Key to common prosperity is housing prices

The purpose of common prosperity is to increase the proportion of the middle class and build an olive-shaped income distribution structure. In WVS (Wave 7), based on a question to identify the income levels of households from on a scale of 1 to 10, those that selected 1 to 3 were classified as the low-income group, 4 to 7 as the middle-income group, and 8 to 10 as the high-income group. The ratio of the middle-income group in Japan was only 32.3%, less than the 43.0% of the low-income group, while 59.7% of the respondents in China belonged to the middle-income group, exceeding the 36.8% of the low-income group. Therefore, it is hard to say that China's middle class population is small.

The middle class as measured by subjective standards is larger than the middle class as measured by objective standards, because the number of households that identify themselves as the middle class after buying a house has increased. Buying a house is an important milestone for being identified as middle class, and it is obvious that the number of households that consider themselves middle class has increased in line with the rise in the ratio of owner-occupied houses. The problem is that housing loans have made the lives of more households harder than before, and their sense of actual living standards and their self-perception as middle class have ceased to match. It is said that the number of households who regard themselves as 房奴 (mortgage slaves) reached as many as 200 million<sup>(111)</sup>.

Looking at the Quality of Life Index compiled by NUMBEO based on 1) cost of living, 2) property price, 3) environmental pollution, 4) crime rate, 5) quality of health care, 6) commuting time, and 7) climate, the quality of life in China is amazingly low. As of June 2021, Shanghai ranked 207th out of 241 cities surveyed, while Beijing ranked 212th, far behind Tokyo (87th), New York (129th) and London (149th). China's low rankings are mainly due to high housing prices.

The decline in the real quality of living due to housing loans is not limited to China, but the

maximum limit for housing loans in China is 50% of household income<sup>(112)</sup>, far higher than the 30 to 35% limit in Japan<sup>(113)</sup>, making the decline in the real quality of living more severe. People still buy homes because they believe that house prices will always rise. In other words, people believe that the current hardships of living associated with loan repayments will be offset by the rise in house prices in the future, and that they will be able to gain significant profits in some cases.

If this vicious circle is not stopped, the quality of life will not improve and it cannot be expected that the number of 内卷 (*nei juan*) and 躺平 (*tang ping*) will decrease and that confidence in the Communist Party will increase. I pointed out earlier that a scenario, in which housing prices will be reduced as a result of the introduction of a real estate tax and the Chinese government will get closer to achieving common prosperity, is unlikely to be realized. But it is the only way to achieve common prosperity through improved quality of life.

This policy is also supported in terms of avoiding the collapse of the real estate bubble. China is estimated to have 300 million housing units in 2018, more than the 276 million urban households<sup>(114)</sup>. It is clear that the business model of the real estate development industry, which is based on the "faith" that house prices will definitely rise, will reach its limit. And with a possible population decline in 2022, that limit could come sooner than expected<sup>(115)</sup>.

The future trajectory of house prices will determine whether China will be able to move toward achieving common prosperity through the transition to a consumption-led economy, improved quality of economic development, and social harmony and stability.

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## End Notes

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101. Venture capital (VC) investment and private equity (PE) investment are distinguished by the growth stage of investee companies. Investments in companies in the early stage of growth are called VC investments, while investments in companies with established business models during the period of expansion and development are called PE investments.
102. Network effects refer to the situation where the more users of a product or service, the greater the value of the product or service as an infrastructure. In Japan, LINE has become widely used as a messaging application, and it is said that this was because of the network effect that LINE launched the service ahead of other companies and users who decided to use a messaging application later inevitably chose LINE. As a result, in the IT field, a winner-take-all situation is likely to occur in which leading companies monopolize or dominate the market.
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