



# Winning China's Coming Class Struggle

Because China's growth hasn't floated all boats, investors who can address problems resulting from unequal wealth distribution have a powerful opportunity—and the active support of the country's leaders. **BY**

**ROBERT LAWRENCE KUHN**

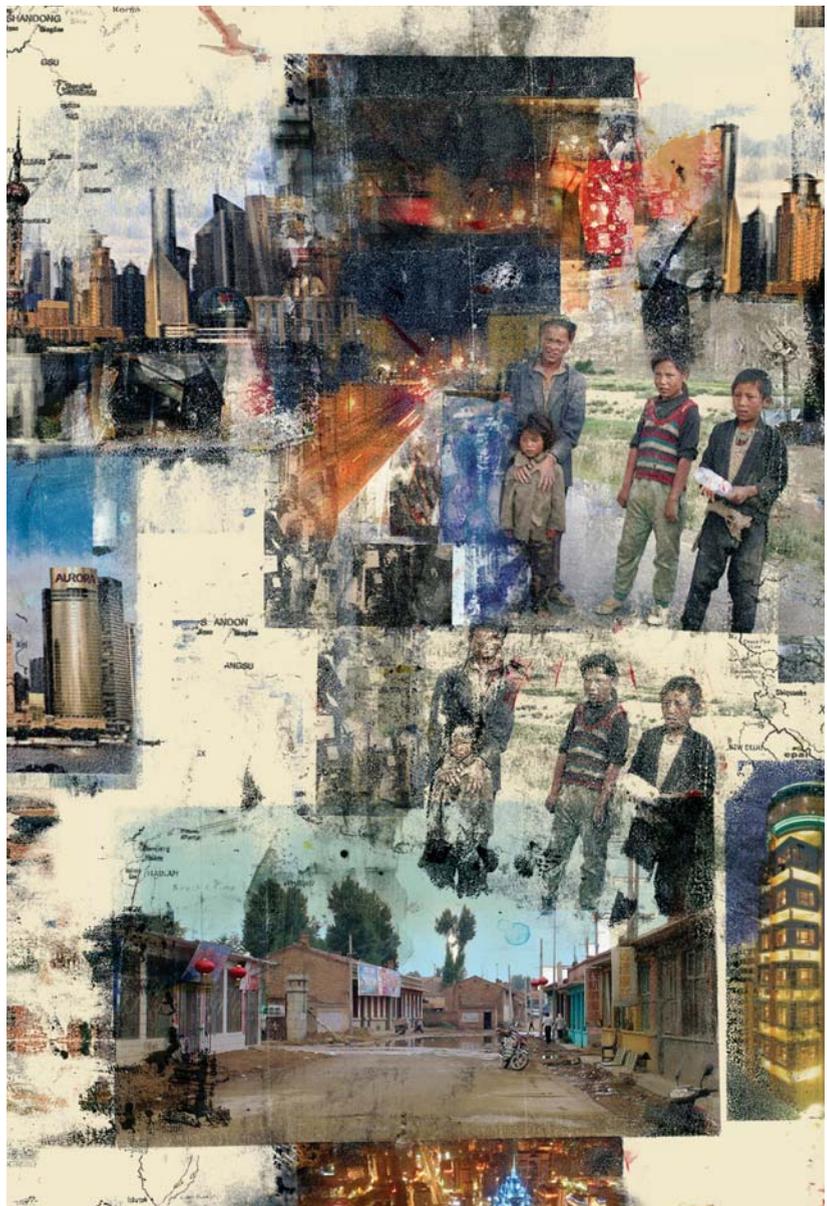


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I write from Xi'an in Central China's Shaanxi Province, a center of historical culture (13 dynasties had their capital here) and rich resources (coal, petroleum, metals). But Shaanxi lags behind the country's more prosperous coastal provinces, and my visit here confirms that "class" in China, generated by severe income disparities between diverse groups, is China's most vexing problem. It also suggests that initiatives and projects to close these economic gaps are a huge if hidden business opportunity to which astute chief executives should attend. It is an opportunity, I believe, of worldwide proportions.

Let me explain. "Class struggle," the classic epitome of Marxist ideology and frenzied essence of Maoist politics, has returned as a core concern of China's leaders, but neither Karl nor Zedong would recognize its current incarnations. In recent talks with China's leaders, I find them now using the emotionally burdened term in novel ways.

Thirty years ago, when Chairman Mao's death mercifully ended the "Cultural Revolution," China's decade-long calamity of self-immolating political turmoil, there were no classes in China—everyone was equal, equally poor. Even 10 years ago, the class struggle in China, which is the natural and inevitable result of reform anywhere, was so sensitive a subject that senior leaders felt uncomfortable discussing this taboo among themselves.

Today, in perhaps the most remarkable story of sustained economic growth in the history of the world, the standard of living of the Chinese

people has risen dramatically, but the rise has been an uneven one. Some areas and sectors, largely coastal and urban, have become rich; others, largely inland and rural, have remained relatively poor. "Relatively" is the psychological driver here because comparisons between peers generate the emotional energy that imparts social power and affects social stability.

Even though the standard of living of China's rural population, which is about two-thirds of the entire population, has grown substantially in absolute terms, in relative terms, compared to the urban population, it has fallen—and human beings are wont to judge their circumstances not in comparison to what they had in the past but in comparison to what others have in the present. In terms of wealth, China has gone from one of the most equal countries in the world—everyone equally poor—to one of the least. Even as China's overall economic growth continues to exceed expectations, its economic disparities continue to grow larger—and the increasing incidents of social unrest by rural residents is a direct result.

Building a "harmonious society" is Chinese President Hu Jintao's overarching goal for his administration. Harmony is needed *because* there are now classes, which naturally generate disharmony; after all, if China's social classes were already harmonious, there would be no reason to set "harmonious" as an overarching goal. The recrudescence of religion, which leaders now see as an integral and proactive part of a harmonious society, reflects this new social reality.

The growing problem of classes in China, I predict, foreshadows similar problems throughout the world. A primary criticism of globalization is that in its rough wake intractable classes are created. Pressures will continue to build as globalization proceeds and exacerbates class distinctions. Class struggle will re-emerge as a central concern of our time and affect many countries.

This problem of class can be solved only if enlightened governments can reallocate resources and redistribute income without much eroding the commitment of domestic entrepreneurs and foreign investors to continue to start and build businesses. These governments will look for projects that can have rapid impact on people's lives, psychologically as well as materially.

In my talks here with Shaanxi Governor Yuan Chunqing about President Hu's goal of creating a harmonious society, I was struck by his commitment to improve people's lives through education and health care. Governor Yuan said that his goal for the poorer towns is to make "the best building a school and the second best a hospital." (Another of Governor Yuan's priorities is the environment, the protection of which, under President Hu's "scientific development perspective," must be balanced with economic growth. I was impressed when Governor Yuan told me that of Shaanxi's almost 40 million citizens, 2.9 million have bitter water to drink, the product of pollution largely affecting rural classes, and that he is determined to alleviate this problem ahead of the national standard.)

Think about education and health care in a class society. People of every class and every culture are united in desiring more for their children than they have for themselves. Above all else, parents are willing to sacrifice for their children. Thus, in seeking to close economic gaps, education and

dards of living of their poor. Innovations such as communication technologies and online education are obvious, but it would be a mistake to limit one's creativity to the obvious.

These are not short-term investments. For the very reason that poorer classes are poorer means that

ects, the power of China's provincial governments is especially strong.)

In addition, don't neglect evaluating officials when deciding which projects to pursue. Avoid those that depend on one person. Diversify relationships. Look to likely leaders of the next generation; in government organizations, one's real power often relates more to one's next job than to one's current job.

This much we know for sure. Globalization will continue apace, and class struggles will become a worldwide issue. There may be troubled times ahead. Populist leaders in some countries may use class struggle in their call to restrict or even nationalize industries, but that, of course, would be self-defeating. In China, it is almost impossible for such central planning and control to reassert itself. The Chinese model, with all its imperfections and inefficiencies, is working and many developing countries are watching with wonder. Assuming that rationality does not evaporate in the world—unfortunately, not a sure bet—those companies that participate in the rebalancing of wealth will prosper. They will do well by doing good. ▲

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health care are core areas that have the most immediate and potent impact. Whereas it might take decades to build infrastructure such as roads and power plants in remote regions, and thereby to create higher paying jobs, all of which should be done, of course, the impact of education can occur rapidly. What parent would not be pleased to endure relative economic privations if at the same time his or her child had proper education and proper health care so that he or she would have an equal opportunity in the future?

Economists and analysts recognize education and health care as growing industries. I suggest that this growth, worldwide, will exceed their expectations, because it will be driven by an urgent need to redress the inequities of class while limiting class struggle.

How should international companies respond to this challenge, both in China and elsewhere? Analyze core competencies to assess whether your firm can participate in the rebalancing of classes, and if so, in which areas. Explore selective initiatives of governments to increase the stan-

there are limited funds for their improvement. Seek to combine multiple projects in a package deal. In China, companies needing government approvals for high-return investments in rich coastal areas may encourage a positive response by agreeing to also develop projects in less developed inland areas. Here is the surprise in the package: The payoff for companies can be double: winning approval for their short-term project and positioning themselves to participate in the long-term economic benefits of the sure-to-come growth of poorer areas.

All this takes work, particularly working with governments, a prospect that many chief executives loathe. There is no short cut; one must spend time and put forth effort to learn how to interact efficiently with each kind and level of government. Here are some guidelines. Locate and assess decision-making authority by governmental level. In China, one needs to understand which projects are approved at the national level and which at the provincial, municipal and county levels. (For many proj-