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Cover Story

# Cashing In on Communism

By Maureen Fan

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A COUPLE OF YEARS AGO, SHI XIAOYAN SOLD 17 OF HER 20 CARS. That left her with just the Porsches -- a Boxster and the 911 Turbo -- in the garage downstairs. Shi, who also goes by Celia, is the founder and chief executive of Illinois, the Beijing-based home furniture chain, and No. 21 on a list of the richest women in China, with a reported total wealth, along with her husband, Ye Mingqin, of \$125 million. These days, she drives a \$38,000 convertible Mini Cooper.

"I drive an economic car -- saves gas," she explains. "You know, you have to save something for your next generation; you shouldn't spend everything."

The next generation, of course, includes Shi's son Jason, 11. Three years ago, for his eighth birthday, Jason got a Subaru Impreza, which he had customized and regularly drives at his father's racetrack.

That kind of conspicuous consumption might not be quite so conspicuous in Beverly Hills or even Great Falls. But this is China, where, until fairly recently, being rich was not only rare but virtually criminal.

After the 1949 Communist revolution, private wealth became a huge social liability.

Much of it was confiscated by officials or voluntarily handed over by owners who feared persecution otherwise. Villas and large homes were seized and transformed in the interests of the state: housing for municipal workers, medical schools, government offices and the like.

Treasures in the form of antique paintings, calligraphy, Ming and Ching dynasty vases and jade sculptures were burned or smashed, often by their owners. With the Great Leap Forward and various other anti-

capitalist campaigns in the late 1950s, Red Guards came and took whatever trappings of wealth remained.

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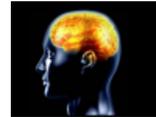
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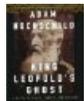


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If, at the beginning, Communist officials were close to the people -- farmers and peasants who were reacting to the corruption of the overthrown Kuomintang government -- eventually, they became enamored of and kept many of the confiscated goodies. Jiang Qing, leader Mao Zedong's wife, was notoriously extravagant -- reportedly having her swimming pool filled with mineral water, riding horses in parks closed to the public and watching foreign movies -- all while urging her countrymen to embrace poverty. After the Cultural Revolution (1966 to 1976), many people petitioned the government to get their possessions back: A few things were reportedly returned, but not many.

Well-known Communist slogans at the time included: "The poorer you are, the more glorious you get" and "To cut off the tail of capitalism." Free enterprise became so thoroughly reviled that even peasants selling fresh eggs were criticized as capitalists. During the Cultural Revolution, capitalists and rich landlords joined "rightists" and other "bad elements" as targets of persecution. People who spoke English or had Western training or education were fired, denounced or paraded through the streets.

Essentially, the rhetoric for three decades made it seem to be a crime to get rich.

China's "opening and reform" period began in 1978, thanks to Deng Xiaoping, the pragmatic son of a well-off landowner. After Mao's death in 1976, which ended the brutality and chaos of the Cultural Revolution, Deng marshaled reform-minded colleagues to restructure China's shattered economic system. Though Deng continued to elevate socialism over capitalism, he believed in market forces and pushed for stronger economic ties with the outside world. In 1979, he allowed parts of the southern province of Guangzhou to become a special economic zone -- Western-style management of business was permitted, and foreigners were encouraged to invest in and run factories there. He also visited the United States that year, which bolstered his desire to modernize China by turning from heavy to light industry and acquiring more technology.

The earliest Communist-era entrepreneurs, from about 1978 to the mid-1980s, were mostly people on the margins of society, members of the lower classes and sometimes criminals, people who knew little about the market but had nothing to lose by risking denunciation or the scorn of their neighbors, not to mention what little money they had. They often had to smuggle everything in -- from clothing to radios to watches -- just to build an inventory. But after making money was sanctioned by the government, many of the people who decided to *xia hai*, or jump into the commercial sea, and start their own businesses were either government officials or people with close connections to officials.

Any early belief that increasingly free enterprise would lead to political liberalization was crushed in the 1989 massacre of pro-democracy demonstrators by government troops in Tiananmen Square. Many entrepreneurs joined the students, calling not just for democracy but also for an end to government corruption. Much, but not all, business came to a standstill, until 1992 when Deng took a now-famous tour of the south, a trip that generated hundreds of newspaper articles and at least 20 books. Though 88 and already ailing, and with many of his pronouncements issued by a daughter, Deng promoted a package of economic reforms. He thought fair competition would stimulate business and allow some people to get rich, which would slowly spur others to follow suit. On his southern tour, he repeated a phrase he first used in October 1985 when meeting with a U.S. business group in Beijing: "Rang Yi Bu Fen Ren Xian Fu Qi Lai" (Let Some People Get Rich First). This call for economic exemplars was erroneously translated by Western media into the much more black-and-white "To Get Rich is Glorious," which became a catchphrase in the West for another burst of entrepreneurial activity in China. Though Deng continued to praise socialism, his push for economic reform became enshrined in the constitution and in Communist Party literature.

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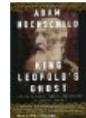
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Since then, the booming Chinese economy has been one of the biggest stories in the world. Wealth and conspicuous consumption are climbing in a country where the average per-capita income has only just jumped to \$145 a month (in Beijing, it's \$209 a month). On the mainland, about 175 million, or 13.5 percent, of consumers have become what many Chinese scholars consider to be middle class, earning as much as \$30,000 a year, the China Association of Branding Strategy reported recently. These consumers have managed to accumulate significant savings, yet often spend an entire month's salary on a single luxury item: a wallet, a watch or jewelry.

That group is expected to grow within 10 years to nearly 260 million, or 20 percent of the population, said Lu Xueyi, a Chinese Academy of Social Sciences professor. By then, China could be the world's biggest luxury market, analysts predict.

Another 320,000 to 500,000 people report enough income -- about \$60,000 a year -- to put them into an upper-middle class. And because most Chinese do not disclose their exact wealth, experts say there are likely to be many more. Many of these Chinese live in gated communities. They pay \$385 covers to entertain clients at karaoke clubs such as Shanghai's L.A. Disco. They spend \$3,650 to mingle on a yacht at a "diamond bachelor" matchmaking party.

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A far smaller, but more visible, group are the super rich. No. 1 on the 2006 Forbes China Rich List is 37-year-old Huang Guangyu, worth \$2.3 billion and the owner of a chain of discount electronics stores. Of the top 40 on the list, more than a quarter are younger than 40. Their combined net worth was \$38 billion, up 46 percent from \$26 billion in 2005. There seems to be no real cutoff, but the minimum asset levels used by a rival rich list, Rupert Hoogewerf's Hurun Report, are telling. In 1999, people on his list had at least 50 million RMB (about \$6.4 million) but this year, the lower cutoff had soared 1,600 percent, to 800 million RMB (about \$100 million).

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Recently, President Hu Jintao has responded to the growing gap between rich and poor by demanding that more attention be paid to a "harmonious society." Authorities have imposed luxury taxes on boats, golf clubs and diamond watches. But this has only encouraged the wealthy to fly to Hong Kong and buy such items there, where the luxury tax is lower. When not shopping, many mainlanders visit a famous 24-karat gold toilet and \$3.5 million bathroom, owned by a local jeweler and displayed in a tourist exhibition hall.

The urge to flaunt economic success competes with the desire to keep a low profile. While many Chinese are flattered by the prestige of landing on various "rich lists," they also fear the publicity and the extra scrutiny from tax collectors, who seem to follow no known assessment standards.

Even so, wealth is beginning to bring other privileges. In Jiangsu province, just north of Shanghai, authorities announced last year that "large taxpayer" entrepreneurs who pay the government more than \$375,000 a year get to help decide whether an official is dismissed or promoted.

Elsewhere, wealthy entrepreneurs have joined rural peasants, ethnic minorities and parents who were only children in exemption from mandatory one-child-only laws. In some cases, the children of wealthy entrepreneurs are given more points on their senior high school exams.

The rich are envied and resented -- and valued by the government. In the early days of "opening and reform," top officials had hoped that the rich would serve as a model to the poor, inspiring and encouraging them. But with high-profile corruption cases each year, leaders are increasingly worried about being caught in a scandal. They are encouraging "clean wealth" through television programs such as "Win in China," the new reality show based on "The Apprentice," even though corruption and the pursuit of money seem to be rife at every level of society.

In theory, a rising entrepreneurial class, which would mostly benefit from clean government and transparency, could act as a force for reform. But it is hard for those who have attained success to push back against official corruption, since many entrepreneurs broke the rules to get rich in the first place. It is what Chan Kin Man, a sociology professor at the Chinese University of Hong Kong who has studied the emerging upper class, calls "original sin." Some bribed bank officials to obtain loans. In other cases, their "original sin" is more serious -- a developer who plotted with officials to take the homes of poor residents, for example, or a food and grain company chief who cheats customers with poor-quality feed to get his business started.

"They feel insecure because of this original sin," Chan says. "They want to draw a line, pardon all the errors committed in the past. They understand it's too costly to ask for any political change."

It is difficult to separate wealth from power in China. A recent report in the Hong Kong-based Sing Tao Daily said research from China's State Council, the Chinese Academy of Social Sciences and the research office of the Central Party School showed that 90 percent of China's RMB billionaires (people with more than \$128.2 million) are the children of senior officials. The rich get nowhere without official connections -- a commodity as valuable as capital and known as *guanxi*. Top officials themselves are wealthy, though some are more discreet about displaying their wealth than others. Nevertheless, their children study abroad, and they make shopping trips to Hong Kong or own expensive real estate.

The need for *guanxi* does not stop with the rich. The broader middle class is also dependent on its personal relationship to power. You need connections when the landlord of your luxury apartment decides to charge you extra maintenance payments, or glues your front door shut after you refuse.

Those who can afford their own planes and yachts or 20 luxury cars probably do not get their doors glued shut, or balk at fines for having too many pedigreed dogs, but Chan, the Hong Kong professor who has surveyed hundreds of entrepreneurs, said the rich told him they were exhausted from all the wining and dining of officials they had to do.

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That is just the beginning of their anxiety. As these Chinese get richer, they ignore their health and struggle to cope with stress and success, according to surveys published in the state-run media. They have told pollsters of their insecurity and inability to find suitable marriage partners. Some complain of the possibility of losing their wealth overnight because of official corruption, while others said they fear criminals and jealous neighbors.

But mostly what they fear is having their new success snatched away. They are anxious about whether they have made the right connections, just in case their position of privilege turns out to be built on boggy ground.

"The only thing they think about is *guanxi*," Shi Xiaoyan says. "They use all their money, all their knowledge. They waste their sleeping time and their family's happy time . . . Rich people in China, they're just rich, but they know nothing."

*News researcher Li Jie contributed to this report. [Maureen Fan](#) is a Beijing correspondent for The Post. She can be reached at [fanm@washpost.com](mailto:fanm@washpost.com).*

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