

Where does China's personal wealth come from?

In the past few years, the Chinese appeared to be wealthy, and its image as a nouveau riche country catches global attention.

With more and more Chinese travelling and investing globally, their spending habits are notably eye-catching.

China's urbanization process is changing day by day; its transportation infrastructures such as high-speed rail and highway have been rapidly developed.

In the meantime, there is also an increase in their foreign investment. China's overall wealth growth is astonishing to many, whether it is the wealth of residents, enterprises or the government.

One might wonder if the Chinese are really that rich, and where does their wealth actually come from.

The rapid development of China's economy has caused the country to accumulate quite a huge sum of wealth, and the

total amount of wealth in Chinese society is indeed stunning.

Many institutions and scholars have studied the total amount of China's wealth, but no consensus has ever been reached. A more comprehensive statement would be the report of China National Balance Sheet for the year 2018 issued by the National Finance and Development Laboratory of the Chinese Academy of Social Sciences.

According to the report, China's total social assets were RMB 1210 trillion and social net wealth was RMB 437 trillion at the end of 2016. From 2000 to 2016, the non-financial assets have increased from RMB 37.5 trillion to RMB 424.5 trillion, an increase of 103.3 times.

Financial assets have also increased from RMB 53.2 trillion to RMB 782.6 trillion, an increase of 13.8 times. At the end of 2016, China's social net wealth was RMB 437 trillion, which includes the domestic non-financial assets worth RMB 424 trillion and external net assets worth up to RMB 13 trillion. 73% of China's social net worth was owned by its residents, and the remaining was held by the government.

Material Wealth

China's actual material net wealth is growing rapidly, and the material wealth of China residents was approximately RMB 319 trillion at the end of 2016. The report has also divided the net wealth growth into two parts, including investment growth that accounted for 68% and value revaluation that accounted for 32%.

Foreign institutions have also made some estimations to the size of wealth among Chinese residents. Based on Credit Suisse's research, the average wealth of Chinese adults has quadrupled from US\$ 5670 to US\$ 22864 between the years 2000 to 2016. The total wealth of China households has increased from US\$ 6.3 trillion to US\$ 23 trillion.

The United States took around 33 years to achieve the same increment. The latest New World Wealth's Global Wealth Migration Assessment Report states that global private wealth has reached US\$ 204 trillion in 2018, which shows 26% of increment if compared to the number 10 years ago.

Among them, China's personal wealth was US\$ 23.6 trillion in 2018, showing a remarkable growth of 130% in just a decade. China is expected to maintain this trend and it has been predicted that its private wealth growth will reach 120% in the next decade.

Chinese-funded institutions such as Haitong's macro team also made some estimations to the composition and total amount of resident's wealth, including financial and non-financial assets. Although there is a huge gap in the estimation with foreign institutions, the evaluation is quite similar to the one by the Academy of Social Sciences.

Haitong's report stated that as of the end of 2018, the total assets of Chinese residents have reached RMB 465 trillion, of which the real estate scale accounted for 70% of the residents' total assets, and the financial assets accounted for about 30%. As of the end of 2018, the deposit size among the financial assets of Chinese residents was about RMB 72.4 trillion, accounting for 52% of the residents' financial

assets and 15.6% of the residents' total assets.

GNP Of US\$13.2 Trillion

Although the estimations vary widely among institutions, they all have concluded that China is the leading country in accumulating wealth. This is the reason why China appears to be wealthier by day.

Besides that, the ability of the Chinese in earning money has also contributed to the rapid growth of their wealth. Statistics have shown that China's GNP has risen 2.2 times, from US\$ 4.1 trillion in 2008 to US\$ 13.2 trillion in 2018. Based on this estimation, the increment will bring an accumulation of around RMB 200 trillion of wealth, which indicates the contribution of China's economic development to the increase in wealth.

Furthermore, the expansion of currency and credit has undeniably attributed to the inflate of asset value in China. There was an increase of 380% in China's currency supply, which was from 47.5 trillion in 2008 to 182 trillion in 2018. Currency issuance has brought up credit expansion and asset bubbles.

In particular, the rapid increase in China's real estate

prices have also magnified the bubble of Chinese's wealth. The price of real estate in China is based on one-time 70 years of land transfer fee. Since the land transfer fee is levied for 70 years, this is equivalent to reforming through fiscal transfer.

Therefore, their current focus is to accumulate wealth on these 70 years, which corresponds to 70 times of wealth expansion. This implementation is conducive for real estate assets expansion as well as wealth accumulation. According to Haitong's estimation, if Chinese residents have 325 trillion real estate wealth, half of them should be from the inflate of real estate bubble.

The capital market in China is also an amplifier of wealth. Compares to China's stock market value of only RMB 3 trillion to RMB 4 trillion in 2000, the total market capitalization in China has gone up to RMB 50 trillion, with more than 3000 A-share listed companies at the end of 2018. In addition, the New Third Board has more than 10000 companies, of which 95% of them are private enterprises.

There are still plenty of Chinese companies being listed overseas, including Tencent and Alibaba, with more than RMB 1.5 trillion worth of market value. The capital market has greatly expanded the wealth of entrepreneurs, corporate executives and the investors.

The large population base in China, including huge number of middle class, has also reflected the wealth of its residents. Many Chinese and foreign scholars observe there is certain divergence with the income and consumption of Chinese residents. According to the statistics of the disposable

income, Chinese should not be able to afford such a large amount of luxury goods, estates and overseas travel.

It is unquestionably true that the increase in Chinese spending power is real, but it is all related to a huge population base in China. In the population base of nearly 1.4 billion, there are more than 270 million people in the high-income group, and that is 20% of the whole population. Meanwhile, China's middle class has around 109 million people and this is the world's largest in terms of absolute value according to Credit Suisse's report.

CONCLUSION

In 2018, China's outbound travel has also exceeded 100 million. Although the ratio of first class and middle class population to the total population base is not high, the scale of the population is enough to give an impression that all Chinese residents are rich.

China's incomes and consumption power are growing rapidly at all levels in terms of comprehensive income growth and asset expansion. With the huge population base of middle class in China, it gives an overall impression that all Chinese are affluent. The revaluation effect of asset value in the capital era has further promoted the illusion that "Chinese are rich".

Who pays for China's new tariffs on \$75 billion in US goods?

Main Picture Credit: Shanghai tower in night time – Photo by Adi Constantin on Unsplash