



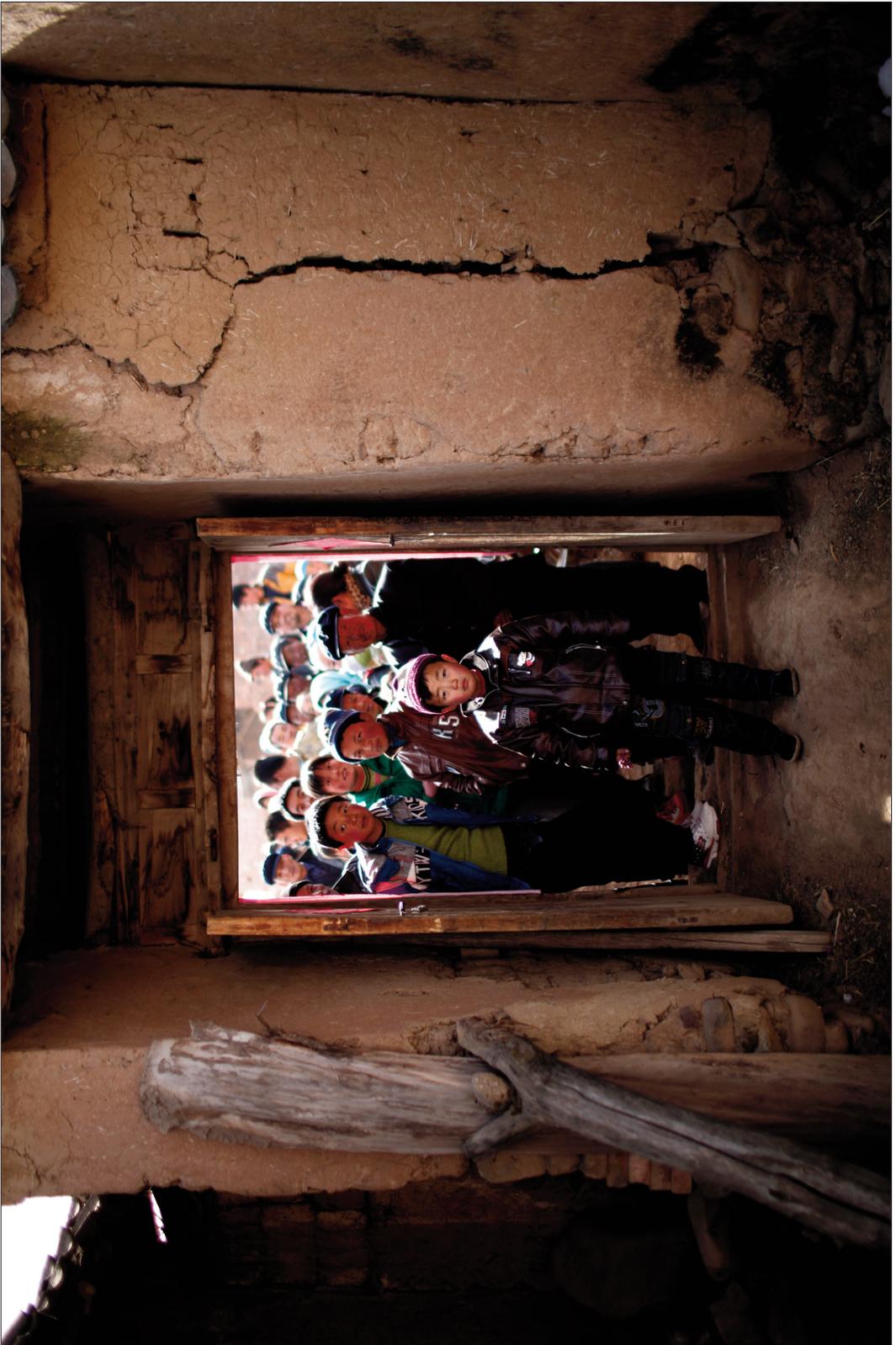
# Dædalus

Journal of the American Academy of Arts & Sciences

Spring 2014

## Growing Pains in a Rising China

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*Inside front cover:* Villagers gather outside a house in Yuangudui, Gansu Province, China. © REUTERS/Carlos Barria.

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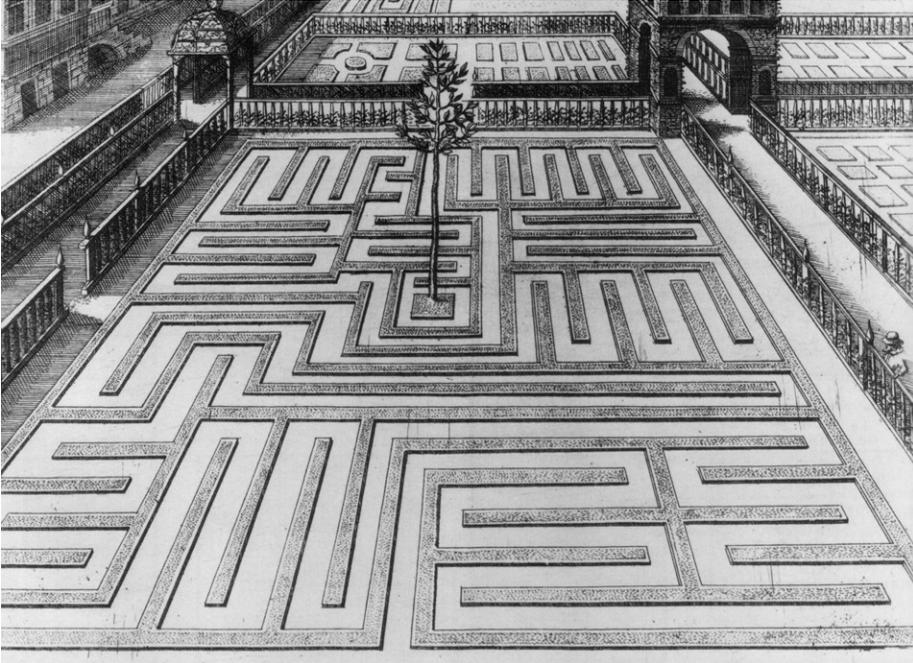
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Journal of the American Academy of Arts & Sciences



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# Growing Pains: Challenges for a Rising China

*Elizabeth J. Perry*

The accumulative achievements of China's ongoing socioeconomic reforms are by most measures little short of astounding. From one of the globe's poorest countries at the time of Mao Zedong's death in 1976, the People's Republic of China (PRC) has become a booming economy – second biggest in the world – thanks to a swift rise that has rescued hundreds of millions of its people from poverty and afforded the government enviable resources for further development. Yet while one may marvel at the speed and success of the so-called China miracle, neither the Chinese people nor their leaders seem at ease with the current situation. Rampant grassroots protest bespeaks intense popular indignation at everything from land grabs to environmental pollution, while top officials themselves rail against the corroding effects of cadre corruption and income inequality.

To evaluate the challenges facing China after thirty-five years of reform is a difficult task, and not only because of the apparent disconnect between objective gains and subjective gripes. For one thing, the head-spinning pace of change threatens to render any academic assessment quickly obsolete. For another, the PRC's post-Mao record of achievement is in fact decidedly uneven across geographic regions, social strata, and policy sectors. While major cities boast gleaming new infrastructure and attendant urban amenities that equal or surpass those of the advanced industrial world, much of the rural interior remains mired in grinding poverty. The affluence of new urban middle and upper classes, flush

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with the proceeds from lucrative real estate deals, is offset by the indigence of the millions of migrants who labor in their midst. And although the Chinese state can take credit, at least through the 1990s, for spearheading a series of bold economic measures that replenished central coffers and enriched many citizens, post-Mao achievements in the area of social welfare – not to mention political and legal reform – have to date been less impressive.

The project of “reform and opening” (*gaige kaifang*), launched by reformist politician Deng Xiaoping in December 1978, only two years after Mao Zedong’s death, brought both unprecedented prosperity and unparalleled problems. The most immediate initial challenge facing Deng and his colleagues was that of preserving Communist Party rule while dismantling the command economy and regimented social order that constituted defining yet debilitating features of classic Communist systems. This was a feat that had eluded most other Communist states. In subsequently characterizing his reform effort as “socialism with Chinese characteristics,” Deng Xiaoping drew attention to the distinctiveness of the Chinese trajectory.

Swift as China’s ascent has been, it has not been seamless. The contradiction between an increasingly open economy and society and a still intact Leninist party-state came to a dramatic head only a decade into the post-Mao reform effort with the Tiananmen uprising of 1989, when millions of citizens joined hands to criticize inflation and corruption and to call for political reform. That was also the year, of course, when Communist regimes collapsed across Eastern Europe, soon to culminate in the breakup of the Soviet Union itself. In China, the state’s brutal suppression of the Tiananmen uprising, followed by its sustained attention to “stability maintenance” (*weiwen*), has de-

tered the resurgence of massive political protests. Yet among ordinary Chinese citizens as well as government officials, not to mention Western social scientists, there is widespread skepticism of the long-term compatibility between a flourishing market economy and a conventional Communist polity.

From the very beginning of the reform era, the apparent incongruity in the basic makeup of the Chinese political economy has prompted persistent predictions of imminent regime change from outside observers. Significantly, however, this same sense of precariousness has helped motivate successive generations of Chinese Communist Party (CCP) leaders to invent and implement an array of policies intended to preempt – or at least postpone – the need for a drastic political overhaul. For the first three decades of reform, as the state dismantled the rudimentary welfare provisions of the Mao era, it looked as though the only thing that could be considered socialist about “socialism with Chinese characteristics” was the continued rule of a ruthless Communist Party. Basking in the glow of stunning and sustained economic growth, party leaders were able to disregard many of the negative externalities that emerged in the wake of rapid marketization.

Much has changed in recent years. Leaders evidence growing awareness of the danger of hitching the legitimacy and longevity of their Communist party-state to an economic engine whose velocity is slowing. The second term of the Hu Jintao – Wen Jiabao administration (2007 – 2012) saw a flurry of government regulations and initiatives intended to redress many of the social ills and grievances that had accrued during the previous thirty years of extremely rapid yet highly unequal growth. New labor laws, medical insurance schemes, pensions, poverty alleviation programs, and

higher-education expansion formed part of an ambitious bid to secure popular support and thereby sustain party rule. The newly installed Xi Jinping – Li Keqiang leadership seems committed to deepening a comprehensive project of social reform, while at the same time declaring war on the rampant cadre corruption that has become a lightning rod for popular discontent. The Xi – Li administration openly acknowledges worrisome economic indicators to underscore the need for further fiscal reform. Moreover, with the fate of the political system believed to hang in the balance, party-state leaders express urgency for making progress on a range of policy challenges that extend well beyond GDP growth rates. The Mass Line Campaign, launched in June 2013, enjoins party cadres to eschew extravagance in order to avoid the loss of popular support believed responsible for the collapse of the Soviet Union.

Progressive social policies and stricter party discipline, buttressed by solid economic reform, are not the only means by which the CCP endeavors to stay in power. What the state euphemistically refers to as “social management” (*shehui guanli*), or the resolution of social tensions through a potent mixture of coercion and accommodation, remains a staple instrument of control that helps account for the absence of large-scale political demonstrations in the twenty-five years since Tiananmen. Press and Internet censorship are an important element of this strategy. Another factor in the CCP’s capacity to defuse political challenge is the leaders’ proven aptitude for “cultural governance,” or the invention and application of resonant symbolic resources designed to enhance the party’s image and endear it to the people.<sup>1</sup> Rather than simply suppress unwelcome media reports or blog postings, for example, the authorities take an active role in planting their own interpretation of

events so as to “guide public sentiment” (*yindao yuqing*) in directions favorable to the party’s agenda. These various techniques have deep roots in the history of the CCP as both a revolutionary and a ruling party, but they have been substantially modified and modernized to suit contemporary conditions.<sup>2</sup>

In light of the demise of Communist party-states across most of the globe, it may be tempting to discount the CCP’s contemporary policy experiments as a desperate ploy by a soon-to-be doomed regime. But the post-Mao state has already survived – and indeed thrived – for far too long not to be taken seriously as a subject for comparative public policy investigation. Moreover, the historical origins of the PRC suggest that its future may not be well predicted by the fates of the former Soviet Union or East European Communist regimes.<sup>3</sup> The PRC – like all other still extant Communist regimes (that is, Cuba, Vietnam, Laos, and North Korea) – ascended to power via an extended rural revolution that endowed the regime and its ruling Communist Party with strong nationalist credentials. This stands in contrast to the Communist Party of the Soviet Union, which gained control through a relatively short and narrowly based urban revolution. The difference with Eastern Europe, where Communist regimes were generally imposed by Soviet military might at the end of World War II, is even sharper. Unlike most of the formerly Communist world, the PRC and its few fellow surviving Communist states attained power in the course of prolonged and pervasive peasant mobilization. That rich revolutionary history bequeathed valuable practical experience in social organization and control, while bestowing important political advantages that have so far withstood the test of time. This is by no means to suggest that such regimes are destined to last forever, but whatever the PRC’s eventual life

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Perry

span turns out to be, its remarkable rise and resilience to date suggest that we are better advised to treat its current challenges and complaints as the growing pains of a body politic still in the process of maturation, not as the death pangs of a Communist dinosaur destined to imminent extinction.

Thus, rather than frame our inquiry in terms of the prospects for regime change, as so much social science work on contemporary China is apt to do, the contributors to this issue of *Daedalus* were invited to explore ways in which the Chinese state is addressing actual policy concerns, from popular protest to public health. Although these policy challenges may be especially pronounced and politically sensitive in China, in light of the country's exceptional size and rapid economic growth under a basically unreformed Communist political system, they are also problems common to all countries. Contributors were encouraged to assess the Chinese state's record in a comparative context, highlighting what is unique or unusual (for better or worse) in the PRC's efforts to resolve these universal dilemmas.

This collective exercise yields a complex portrait of a government and society that are tackling at once, with varying degrees of success, a broad range of issues that bedevil developed and developing countries alike. Some of the thorniest challenges, ironically enough, stem either directly or indirectly from the remarkable results of earlier PRC reform efforts, including the one-child-family program and the rural industrialization boom. From dramatic demographic transition to devastating environmental degradation, the ensuing problems are often intractable and the solutions seldom entirely obvious or easy. In contrast to some other countries, however, the Chinese case is noteworthy for a growing recognition of the seriousness of these questions on the part of both government officials and ordinary citizens.

Somewhat paradoxically, perhaps, China's lack of democratic processes and institutions contributes to the urgency with which such policy challenges are regarded. For example, in a context where massive protests ignited by medical malpractice or environmental pollution are viewed as capable of detonating the entire system, the apparent danger of inaction is intensified and the political dividend for alleviating such problems is amplified. While it is certainly true that the absence of democratic channels for expressing and redressing popular grievances is itself responsible for the severity of a number of these troubles, that same democratic deficit puts immense pressure on the government leadership to arrive at effective solutions. To be sure, the draconian methods employed by the Chinese state to address some of its challenges would be deemed both unfeasible and unpalatable in a more liberal political setting. Even so, the fact that many of the problems with which China is currently grappling are global in compass and consequence renders its public policy record of more than parochial interest and importance.

Without democratic institutions capable of conferring procedural legitimacy, the ability of the PRC to meet its pressing policy challenges will depend to some degree upon continued economic expansion capable of generating adequate employment opportunities and financing critical redistributive and other government-led programs. While the sizzling growth rates of the initial decades of reform are unsustainable over the long run, a steady pace of development is vital to realizing the state's ambitious social policy agenda. As Barry Naughton points out in his essay in this volume, China is already exceptional among large economies in its unusually high level of state investment. Linking this overinvestment (compounded by financial

fragility, local government debt, demographic changes, and other systemic shortcomings) to an inevitable economic slowdown, Naughton argues nonetheless that “serious market-oriented economic reforms are possible in the immediate future.” So long as central leaders act preemptively in promoting a financial restructuring to blunt the power of vested interests (including their own), the Chinese economy can move to a lower but more sustainable growth rate in the context of a richer, more prosperous society. Naughton stresses that “[i]t absolutely has the capacity to do so, but policy-makers must summon the will and determination.” The previous Hu–Wen administration proved unable to meet this politically difficult challenge; whether the Xi–Li leadership will rise to the task remains to be seen.

Even under the most optimistic of economic scenarios, however, it is clear that the state will need to overcome a number of vexing social problems. Among the most serious, as Deborah Davis observes in her essay, is the demographic issue. Decades of low fertility encouraged by the single-child-family policy have contributed to a rapidly aging population. The deleterious consequences are particularly pronounced in the countryside, where massive out-migration has left elderly villagers with no adult children to provide support. While the problem of an aging population is nothing new for many countries in the developed world, Davis points out that “China will become old before it becomes rich.” The dilemma is intensified by the fact that wealth in China is so unevenly distributed. Martin Whyte notes in his contribution that “China has experienced an unusually sharp increase in income inequality since the early 1980s and currently ranks fairly high compared to other societies in terms of the gaps between its rich and poor citizens.” This in-

equality, Whyte explains, conforms closely to spatial lines that were drawn during the Mao era.<sup>4</sup> To overcome such deeply entrenched divisions between city and countryside will demand bold and wide-ranging reform.

Among the most pressing reforms required to blunt the impact of rural poverty are improvements in health care provision. Yet as William Hsiao emphasizes in his essay, the quality and accessibility of medical care in contemporary China also follows the spatial divide: “The disparity in access to quality health care between rural and urban areas has in essence created a two-tiered system. Although the top level is similar to health care available in first-world nations, the lower tier of the Chinese health care system is more typical of that found in the third world.” The solution, Hsiao argues, will require more than simply increased state investment. In fact, he cautions that “more investment in health may not improve health outcomes.” Nothing short of a fundamental reorientation in medical ethics, combined with a major restructuring of public hospital governance, will do the trick. Despite this grim assessment of the problems bedeviling the Chinese health system, Hsiao’s comparison with another large developing country, India, puts the Chinese record in a more favorable light. After a decade of government attention on the part of both countries to providing health care to the rural poor, China has managed to extend medical insurance to 95 percent of its citizens whereas India has succeeded in covering a scant 25 percent of its population.

As Mark Frazier reminds us, how we evaluate China’s relative progress on social policy (including old-age pensions, public education, and affordable housing, in addition to health care) depends on the cross-national comparison set. The most common sets of countries against which

China is typically assessed, the East Asian developmental states and the post-socialist transitional economies, may not be the most appropriate or illuminating for this purpose. According to Frazier, a more useful grouping is what he calls “large uneven developers” (such as India, Brazil, and South Africa) with legacies of severe rural-urban inequality combined with periods of rapid economic growth. Put in this framework, the Chinese policy path emerges as quite distinctive, although the comparative efficacy of its “more categorical and spatial” approach to overcoming the urban-rural divide remains to be seen, especially should the Chinese state be faced with a sudden and sharp economic downturn.

Posing a particular challenge to the PRC’s commitment to poverty alleviation is the dismal plight of hundreds of millions of internal migrants. The continuing structural divide between city and countryside – reinforced by a “household registration” (*hukou*) system that remains officially intact, despite the emergence of a “floating population” (*liudong renkou*) whose actual places of residence (in cities) do not match their official (rural) status – makes this a slippery issue for the state to address. Compounding the state’s difficulties is the growing activism of young migrant workers whose increased mobilization and awareness of their legal rights, Mary Gallagher contends, “stands in sharp contrast to the state of labor movements in other transitional and developing countries.” To deal with the upsurge in large-scale strikes and demonstrations, the state has intervened more directly in the dispute resolution process in a move that Gallagher characterizes as “problematic for the rule of law and the fledgling legal system.”

Gallagher’s conclusion is consistent with that of Benjamin Liebman, who further suggests that the Chinese party-state’s preference for rapid conflict resolution over

adherence to legal procedures may actually be serving to engender even greater social instability. Because the Chinese Communist Party does not derive its own legitimacy from the law, its commitment to the legal process is inherently weak. A rise in popular protest over the past decade has been met by a retreat from legal reform in favor of what Liebman calls a “return to populist legality,” or the reliance on dispute mediation led by local party officials. Ironically, this effort to dampen rampant protest by party mediation seems to have had precisely the opposite of its intended effect, encouraging yet other complainants “to pursue their grievance outside the legal system,” thus promoting even more unrest.

Coping with a high level of protest is certainly nothing new for the Chinese political system. Popular protest has been a staple feature of state-society relations in China for centuries. Imperial China, Republican China, and Mao’s China were all beset by widespread societal contention that severely tested state control.<sup>5</sup> Despite this continuity, the modes and meanings of social protest and state response have fluctuated markedly, reflecting profound changes in both concerns and capacities. Among the most striking recent developments has been the turn to the Internet and other forms of new social media on the part of aggrieved citizen activists and attentive state officials alike. Guobin Yang explains in his essay that the areas and sites of government regulation and control have expanded in tandem with changes in citizen activism: “Today, content and service regulation is all-encompassing, including Internet cafés, bulletin board systems, text messaging, online news, video and audio sharing websites, online games, and blogs and microblogs.” Managing and channeling online contention is but one of a number of adaptive state techniques for coping with new modes of popular pro-

test. Ching Kwan Lee points out in her essay that ever since the run-up to the Beijing Olympics in 2008, the Chinese state has also resorted increasingly to a practice that officials call “buying stability” – bargaining with protesters by offering them cash payments – as a means of deterring or defusing street demonstrations and other disruptive activities. Although the approach has helped depoliticize state-society interactions, Lee argues that this “turn to the market as a mechanism of governance” holds a number of corrosive implications, of which the most serious may be a decline in state authority.

Throughout Chinese history, “heterodox” religions helped inspire and instigate anti-state contestation. That historical heritage, compounded by Marxism-Leninism’s hostility toward religion in general, contributes to the party-state’s suspicion toward all manner of spiritual beliefs and practices – from Falun Gong to Islam. The remarkable religious upsurge now sweeping China thus triggers special political concerns. The state has, unsurprisingly, been slow to bestow official recognition on the myriad of new religious groups that have emerged. As Robert Weller explains, the response of Chinese officials has been to “govern with one eye closed,” or “simply leave religion alone as long as they feel that no lines have been crossed,” rather than to change the official regulatory system to conform to the new reality. Hypocritical though this stance may be, it allows the state to manage the situation without revamping its basic corporatist model.

While state authorities are reluctant to abandon or overhaul the fundamental system of social control, they have not been shy about experimentation in a range of key policy domains. William Kirby’s essay on higher education explores one of the most dynamic policy arenas in contempo-

rary China. The phenomenal explosion in university enrollments and commensurate expansion in campus size and facilities reflect a major state investment in the development of higher education. Yet as Kirby notes, the state’s strategy “has been elitist as well as massive.” Aiming to promote a privileged stable of “world class” universities capable of competing with top-ranked institutions around the globe, the Chinese government has been pouring enormous sums of money into a handful of its leading universities, a strategy that exacerbates preexisting divisions between privileged and disprivileged students and faculty. By Kirby’s account, the jury is still out on a haunting question facing China’s educational ambitions: “can ‘world class’ universities . . . exist in a politically illiberal system?”

China’s policies in the field of higher education are obviously influenced by the pressures and promises of “global rankings,” which raise high hopes of being able to clamber up to the top tier on the basis of certain objective and universally acknowledged benchmarks. But Jeffrey Wasserstrom, citing the insight of British historian C. A. Bayly with respect to an earlier age of globalization, points out that the relentless drive toward international uniformity does not necessarily imply homogenization: “[t]oday, as well, it is useful to see globalization as leading to standardization without the eclipsing of difference.” Drawing on examples as far afield as world exhibitions and world religions, Wasserstrom shows how China’s adoption of common cross-national forms has in turn filled them with distinctive national content.

The two concluding essays point to serious issues of governance that may well stand in the way of China’s aspirations, global and domestic alike. The essay by Joseph Fewsmith and Xiang Gao highlights a “crisis in local governance” that shields

*Elizabeth J. Perry*

grassroots officials from accountability and subverts Beijing's efforts to build a service-oriented government. As central leaders move away from a singular focus on economic growth to a broader array of concerns encompassing corruption control, stability maintenance, social welfare, and environmental protection, the interests and incentives of central and local governments are no longer closely aligned. To date, Beijing's reluctance to tighten the reins on the localities has redounded in its favor by deflecting public grievances from central to local authorities, but the continuation of this decentralized administrative system means that "the people who have borne much of the cost of this rapid development have been those who should have been its beneficiaries: the local residents."

The decentralized governance system also presents major problems for environmental protection, an issue that is of growing concern not only to China's own residents but to the global community at large. Pollutants from China's coal-fired power plants fall as acid rain on Seoul and Tokyo, and even much of the particulate pollution hanging over Los Angeles these days reportedly originates in China.<sup>6</sup> Observing that China's environmental protection record fares badly by almost any comparative measure, Elizabeth Economy places the blame squarely on the system of governance: "At the heart of the Chinese government's inability to protect the environment is the country's own particular mix of political institutions, processes, and incentive structures." While this administrative configuration may have served China surprisingly well during the preceding decades of head-spinning economic growth, it appears less well suited to the more diverse policy agenda that the center is increasingly anxious to pursue. Echoing the conclusion of other essays in this issue of *Daedalus*, Economy detects "an

uneasy, often politically fraught situation defined by official adherence to traditional, often ineffectual modes of government policy-making at the national level and crisis-management at the local level." Yet she also looks more hopefully to a rising urban middle class, armed with Internet access, that "is changing the relative power dynamic between the state and society."

In short, China's ongoing process of "reform and opening" remains fluid and highly unpredictable. While few would deny the stunning strides of the past thirty years, the very successes of earlier programs and policies have generated new and difficult problems that may well demand a more thoroughgoing reconfiguration of political institutions and operations than the top leadership has yet been willing to undertake. But this does not necessarily mean that democratization is on the immediate horizon. Nor does it relieve us of responsibility for taking a serious look at the ways in which China is coping with current dilemmas. However long or short the future of the Chinese Communist system may be, the complex challenges of attaining and balancing goals of economic development, official accountability, environmental protection, poverty reduction, and social equity will surely remain high on both Chinese and global agendas.

Taken as a whole, the PRC's approach to policy challenges is in many ways unique, thanks to the country's unusual size and regional diversity, as well as to its distinctive revolutionary history and current political-economic configuration. Yet as the essays in this volume demonstrate, placing particular policy approaches in comparative perspective is illuminating, not least because different policy domains evoke different parallels. China's rapid economic growth invites comparison to the other developmental states of East Asia, while its difficulties in delivering

social welfare may be better understood in the context of other large and uneven late developers like India and Brazil. The Communist party-state's response to Internet activism and social unrest might seem at first blush comparable only to other authoritarian systems, yet several of the essays draw telling comparisons (and contrasts) with the United States as well.

Thinking comparatively about global dilemmas is of more than academic interest. We live today in a fragile yet interdependent post-Cold War world trou-

bled by serious transnational challenges that range from pandemics and climate change to financial meltdowns and terrorism. Institutions of governance as different as the Chinese Communist Politburo and the U.S. Congress find themselves severely tested both ideologically and operationally in trying to address such issues. We would be foolhardy to disregard or discount China's efforts to resolve global problems simply because we predict that its political system is some day destined to disappear.

#### ENDNOTES

- <sup>1</sup> Elizabeth J. Perry, *Anyuan: Mining China's Revolutionary Tradition* (Berkeley: University of California Press, 2012).
- <sup>2</sup> Elizabeth J. Perry, "Cultural Governance in Contemporary China: 'Re-Orienting' Party Propaganda," *Harvard-Yenching Institute Working Paper Series* (2013).
- <sup>3</sup> Sebastian Heilmann and Elizabeth J. Perry, eds., *Mao's Invisible Hand: The Political Origins of Adaptive Governance in China* (Cambridge, Mass.: Harvard University Press, 2011); and Martin K. Dimitrov, ed., *Why Communism Did Not Collapse: Understanding Authoritarian Regime Resilience in Asia and Europe* (New York: Cambridge University Press, 2013).
- <sup>4</sup> For more on the Mao-era origins of China's urban-rural divide, see Jeremy Brown, *City versus Countryside in Mao's China: Negotiating the Divide* (New York: Cambridge University Press, 2012).
- <sup>5</sup> Elizabeth J. Perry, *Challenging the Mandate of Heaven: Social Protest and State Power in China* (Armonk, N.Y.: M.E. Sharpe, 2002).
- <sup>6</sup> Joseph Kahn and Jim Yardley, "As China Roars, Pollution Reaches Deadly Extremes," *The New York Times*, August 26, 2007.

# China's Economy: Complacency, Crisis & the Challenge of Reform

*Barry Naughton*

*Abstract: China's economic success has bred a new complacency and resistance to change. This in turn has created a credibility crisis, as many Chinese citizens believe the opposition of vested interests makes reform impossible. However, proponents of economic reform argue that the current economic strategy is unsustainable. They point to reform backsliding, overinvestment, and financial fragility as problems that will collide with an inevitable economic slowdown caused by rapid demographic changes, and that will potentially cause economic and political crisis. Renewed economic reform is thus the only prudent and viable choice. The November 2013 Third Plenum shows that China's leaders have tentatively accepted the need for reform.*

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At first look, it seems that China's new leadership assumed power at the pinnacle of economic success. Immediately upon putting their new administration in place, General Secretary Xi Jinping and Premier Li Keqiang made clear their belief that China's new economic clout entitles it to a position of greater respect and global influence than ever before. In fact, China's economy had already become a certifiable "growth miracle" when the previous administration of General Secretary Hu Jintao and Premier Wen Jiabao took power in 2003. At that time, China's economy had already sustained a torrid annual growth rate of 9.6 percent over twenty-four years, a period begun by the major economic reforms of 1978. But in the decade spanning 2003 to 2012, which included the global financial crisis, China's growth actually accelerated, reaching 10.4 percent annually.<sup>1</sup> China overcame the global crisis by pouring resources into investment and accelerating the already eye-watering speed of its infrastructure build-out. Per capita GDP has pushed over the upper-middle income threshold. Not surprisingly, then, an air of triumphalism began to creep into Chinese attitudes and government proclamations. Surpassing

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the Japanese economy in aggregate size, and becoming the second largest economy in the world, was a particular point of pride for China.

Transformation at this pace inevitably creates enormous stresses and strains. Besides the dislocation, the inequities, and the environmental costs, headlong growth also led to another problem: as incomes grew, the impetus for market-oriented economic reforms diminished. As Wu Jinglian, the dean of China's reform-oriented economists, put it, "As life got comfortable, reforms stopped."<sup>2</sup> During the 1990s, driven by profound economic and political crises, the Chinese government had pushed through a procession of fundamental economic reforms. Under Premier Zhu Rongji, China between 1993 and 1999 enacted a series of deep and difficult reforms of the fiscal, financial, and market systems. These reforms culminated in the massive downsizing of the Chinese state enterprises sector from 1996 to 2001, and were sealed by China's entry into the World Trade Organization in 2001, thereby locking in many of the most important reforms. As a result of these reforms, the Hu–Wen administration inherited a highly favorable economic position when it took power in 2003: the previous administration had paid a substantial price to break down the old system and lay the foundation for a new, better-functioning economy, but had only just begun to enjoy the benefits. Hu and Wen were poised, as the Chinese saying puts it, to enjoy the shade of the trees planted by the ancestors.

At first, the Hu–Wen administration seemed ready to follow the reform trajectory of the previous Jiang Zemin–Zhu Rongji administration, retaining many of the same economic technocrats. The administration's initial economic proposals were full of good ideas, and represented a robust program for a continuation of reform.

But nothing much happened, and there was no follow-through. Today, in Beijing, there is a widespread perception that the past ten years have been a "lost decade" insofar as market-oriented economic reform is concerned. This does not mean that Wen Jiabao presided over a do-nothing administration. Rather, on the social front, Wen cut taxes on the rural economy and boosted spending on education and medical care; he created the foundation for rudimentary national systems of health insurance and pensions; and he increased defense outlays, contributing to a stronger military, which most Chinese citizens certainly see as a positive. The Hu–Wen administration was energetic in spending money, which was acceptable simply because they had the money to spend. However, in terms of creating the institutional framework on which future prosperity would depend, the outgoing administration achieved almost nothing.

It is common for Chinese citizens to explain reform stagnation, or the defeat of individual reform initiatives, by referring to the increased strength of "vested interests." Even the current Chinese premier, Li Keqiang, regularly refers to the need to manage and minimize interest group opposition if his current reform proposals are to advance successfully.<sup>3</sup> But who, exactly, are these vested interests? The idea of "vested interests" covers a broad spectrum. At one extreme, the opposition of interest groups to reforms shades into and becomes identical with the problem of corruption. Some vested interests are well-connected families, corrupt officials, and even criminal gangs. But at the other end of the spectrum, the problem of vested interests is created by the stabilization of the entire Communist Party–dominated economic and governmental system. The easiest way to see this is through China's budgetary history

(Figure 1). From the beginning of reform in 1978 until 1995, budgetary revenues as a share of GDP declined nearly every year. Indeed, the productive era of the 1990s reforms was driven by an acute budgetary crisis. Zhu's reforms included a new tax system and new financial discipline that staunched losses in the state enterprise sector. As state firms were chopped back and restructured, the few that survived made a sustained return to profitability, which increased resources available to national leaders both directly and indirectly. Figure 1 also shows that after 1995, the trend turned dramatically, and budgetary revenues as a share of GDP *increased* every year between 1995 and 2012. The result was an enormous increase in the volume of resources available to the system.

A few numbers can give a sense of the magnitude of this transformation. As Figure 1 shows, Chinese budget revenues increased from 10.8 percent of GDP in 1995 to 22.6 percent of GDP in 2012. Doubling the budget's take of GDP in seventeen years is a substantial achievement, but we must also consider the rapid growth of GDP itself: real budgetary revenues (deflated by the Consumer Price Index) were almost exactly *twenty* times in 2012 what they had been in 1995. In 2012-constant USD, the value of Chinese budgetary revenues has increased from \$113 billion in 1995 to \$1.86 trillion in 2012. These numbers look like some kind of spreadsheet error, but they are not.<sup>4</sup> Chinese government revenues (central and local consolidated) are about equal to the U.S. federal government on-budget revenues, excluding social security, which are estimated by the Congressional Budget Office at \$1.97 trillion for 2012.

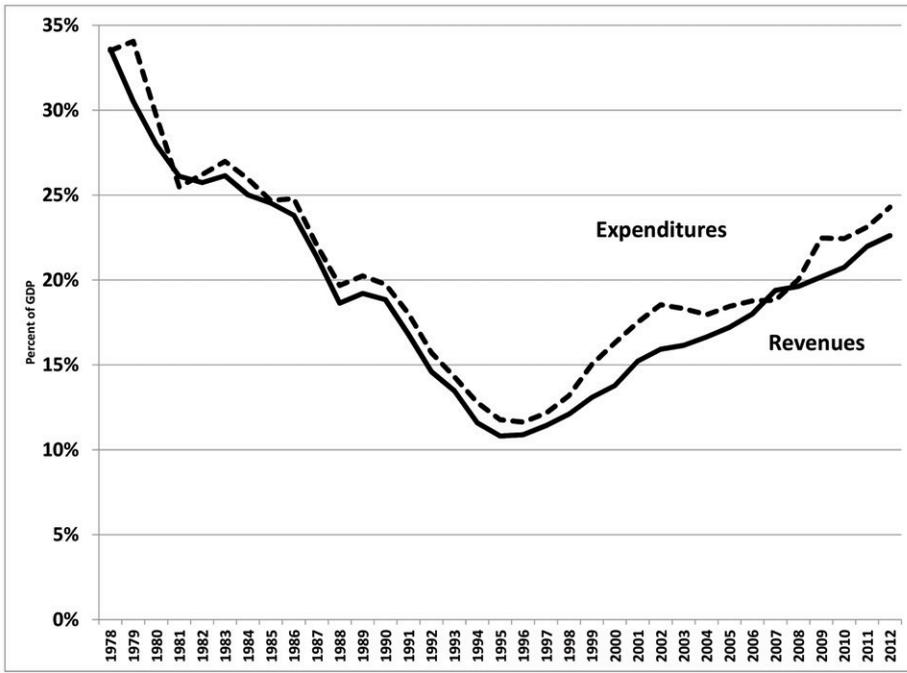
Less than two decades since the country faced a potential crisis of state capacity, the Chinese system is now awash in cash. Money is available not just for the critical necessities, but for elective projects as well.

Technology megaprojects, cultural vanity projects, global propaganda initiatives: if a top leader wants it badly enough, the money can be found. Even the universities have plenty of money. Virtually everyone in a position of authority has a bigger budget, is better off, and has plenty to do. Bitter disputes over resource allocation are less salient, and side payments can be made to buy off dissenters. As the flow of resources through the party- and state-dominated sectors of the economy increased and stabilized, the system naturally became organized around that flow. State-owned enterprises returned to financial health, benefiting from the radical downsizing and restructuring that Zhu Rongji had pushed through at such cost in the late 1990s. With a few entry barriers, and a little manipulation, combined with genuine bottom-up economic growth, the state-owned enterprises were transformed from a burden to an asset. The most extreme example is China Mobile, the state-run company that not only is by far the largest telecom operator in the world, with over 700 million subscribers, but also sits on one of the biggest corporate cash piles in Asia, with \$64 billion in the bank.<sup>5</sup>

At the same time, the reconstruction of the party apparatus and the rationalization of party-state career paths have given the system a new stability and predictability. Trajectories of a career in government have become more knowable, as the requirements for promotion have become increasingly routinized. Steady promotion, in turn, leads to abundant and increasing opportunities to earn outside income. Students in elite universities have increasingly come to see government as the most attractive career option. In other words, the stagnation of reform was not merely short-run complacency and procrastination; rather, it reflected the long-term stabilization of the system. The hierarchical Chinese political system, which had to be

Figure 1  
China's Budget Share in GDP, 1978 – 2012

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Source: Chinese official data, updated most recently with the National Bureau of Statistics, *Zhongguo Tongji Zhaiyao 2013* [*China Statistical Abstract 2013*] (Beijing: Zhongguo Tongji, 2013).

constantly remade in the 1980s and 1990s in order to adapt to new challenges, is today no longer driven by any immediate, internal sense of crisis. Instead, the Chinese system – perhaps like most systems in the world – is engaged primarily in reproducing itself more or less as it is. The biggest vested interest, then, is the interest represented by the Communist Party itself.

The new stability of the system is viewed warily by those outside its embrace. In the first place, there is a widespread perception – both inside and outside China – that it is increasingly difficult to do business in China without political connec-

tions. Of course, at the same time, the private sector has grown tremendously; and while the state sector has stopped shrinking in absolute terms, the growing private sector makes up a steadily larger share of the overall economy. However, private business owners now sense increased competition from state firms, and an increased need for accommodation with savvy power holders – with “vested interests” – who can help extract benefits from the booming economy and from private businesses.

Even more important, an awareness of the stagnation of reform in China over the past decade has gradually seeped into

public consciousness, producing an interesting disconnect. Over the past ten years, the government's propaganda organs have continued to trumpet the indispensability of economic reform. Every few years, major new reforms are discussed, and policies are implemented, but they have little impact. As a result, official pronouncements have lost credibility, and this loss, combined with the stabilization of China's system and the greater influence of interest groups, has led to a crisis of confidence in China's ability to change. This type of credibility crisis is something quite new in China, although it has been commonplace in the United States and other economically developed societies for some time. Such a crisis in confidence is characterized by the belief that problems are peculiarly entrenched and intractable, and nothing really can be done about them, with only the extremely naive believing otherwise. This type of cynicism was, until recently, almost completely absent in China. China had been changing so rapidly that it was apparent to everyone that the future was, if nothing else, full of different possibilities, even if the present was impoverished. That sense of confidence about the future seems to have vanished in China.

Understanding this facet of the public mood is important to understanding the recent pronouncements of China's new leaders, and their reception. Both Xi Jinping and Li Keqiang made rather bold pronouncements in favor of restarting market-oriented reforms in the early stages of power transition in late 2012. Yet the popular response to these proclamations was only mildly positive: "Really? We'll believe it when we see it." A palpable skepticism about reform is thus part of a broader crisis of confidence. Can China change? Has government and policy been captured by interest groups, such that no change is possible? Is China slip-

ping backward? Acutely aware of this public sentiment, both Xi Jinping and Li Keqiang have been critical of the gap between rhetoric and action: Xi spent his first months in power denouncing "empty talk." It is clear that those engaging in empty talk are, in fact, Xi's predecessors, but is it clear that Xi will be any different? More broadly, why would those who benefit so abundantly from the current system act to change it? Why would anybody change a model that seems to have delivered such abundant resources and success?

Remarkably, economic reform is not dead in China and is in fact experiencing a resurgence. Reformers have important positions in the new government and in the country's most influential business media. At their core, these reformers have only one argument, but it is a powerful one: that the current economic situation and policy trajectory are simply not sustainable. Economic conditions are changing rapidly, and the current way of doing business risks serious crisis. The most dangerous course of action is therefore not to reform, in effect remaining on the current course. If policy-makers do not preempt the changes that are coming, then change will be disruptive and potentially devastating. But there is still time to act.

The unsustainability argument has four key components. First, the failure to substantially improve the quality of China's economic institutions will begin to gradually erode the pace of productivity improvement. China's total factor productivity has increased dramatically during the reform era, and grew strongly through most of the first decade of the century. This productivity improvement has been diffuse and attributable to multiple causes, including the learning and adoption of new technologies, as well as improved institutions. A key link has been the will-

ingness to let underperforming entities fail, concentrating production in the most competitive and productive firms. However, the strength of this competitive mechanism seems to have waned in recent years, and without a new wave of reform, productivity growth will continue to slow. Productivity is not simple to measure; there are time lags both in the appearance of productivity effects and in our ability to measure them. So by the time economists have formed an academically rigorous judgment, it is quite late to do anything about it. But in the interim, policymakers will look at growth rates compared to investment rates. There are many reasons why growth should slow, but as long as investment rates stay high, policymakers will take declining growth rates as evidence that something is wrong with their system's productivity, and will be motivated to push harder for reforms.

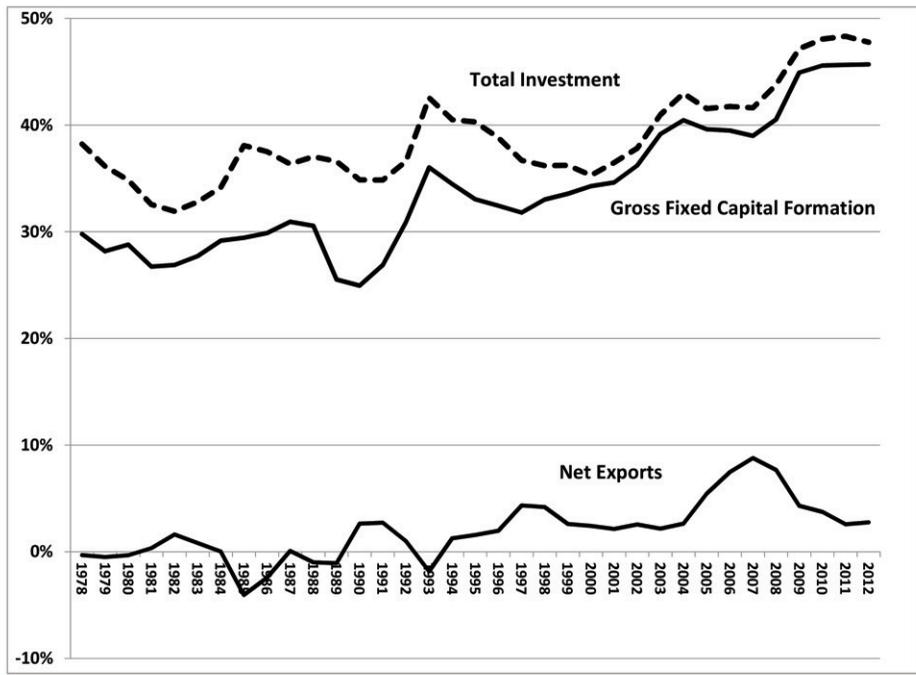
Second, the limits to investment-driven growth are appearing. China was able to sidestep the worst of the global financial crisis by increasing domestic investment. GDP growth scarcely dropped because the increase in domestic investment almost completely offset the drop in net exports. But this success was achieved at substantial cost. Because the stimulus program was so rushed, some unknown proportion of new investment was doubtless wasted on useless projects, although we have no way of knowing how large that proportion is. More fundamental, as Figure 2 shows, the investment surge of 2009 was not a one-off stimulus. Instead, China's investment rate moved more or less permanently to a higher level. Since 2009, China has been investing a remarkable 48 percent of GDP. An investment effort of this magnitude is completely unprecedented for a large economy. Japan, Korea, Malaysia, and Thailand all drove growth with investment, but none of them ran investment rates that exceeded 40 percent

for more than a couple of years. In 2007, Premier Wen Jiabao described China's economy as "unstable, unbalanced, uncoordinated, and unsustainable," and since that time, the unprecedented dependency on state investment has only further unbalanced the economy.

What's wrong with this investment-driven, unbalanced growth? After all, investment-led growth has served the Chinese economy well over the past two decades. One of the great paradoxes of the Chinese economy is that although household consumption is an unusually low share of total GDP (35 percent), household consumption has also grown extremely rapidly over the past decade, only not as fast as overall GDP. And if you can have both more consumption *and* more investment, why not have it all? Well, because it is probably just not possible. Economists do not have any logical limit to how high a country's investment rate can be, or for how long. But all previous high-growth economies have eventually come to a point where investment rates subside, and usually at levels well below the current Chinese level. In the past, with unlimited supplies of labor, investment was the key growth driver. All that was needed to bring that labor out of the countryside was new industrial plant and infrastructure. Moreover, as a follower economy, planners and businesses could focus on transplanting business models, technologies, and infrastructure layouts from developed countries. The system delivered investment, and investment delivered growth. That equation is no longer so simple. Matching the right investment to the evolving needs of the economy is becoming much more difficult. The fundamental infrastructure framework China's planners copied from more advanced economies is nearing completion. Meanwhile, excess capacity has emerged in many industrial sectors as the economy has slowed.

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Figure 2  
Investment and Net Exports (Share of GDP), 1978 – 2012



Source: Chinese official data, updated most recently with the National Bureau of Statistics, *Zhongguo Tongji Zhaiyao* 2013 [*China Statistical Abstract* 2013] (Beijing: Zhongguo Tongji, 2013).

These suggest that China may be approaching the limits of this development strategy. Moreover, investment has an inherent tendency toward instability, since it is driven by investors' expectations of the future. While consumption is relatively stable, investment is subject to the "animal spirits" of those making decisions. In China, the government's willingness to serve as the reliable investor of last resort has also kept the investment propensity of private businesses high. The two have been in a productive symbiosis that thus far has served the economy well. As the momentum of the economy slows and existing opportunities close off, the danger

rises that investment from the private sector will drop.

Third, past investment excesses have already created financial fragility. The huge quantity of new fixed assets the Chinese economy has created over the past five years is just now coming onstream. Many of these assets are housed in corporate structures that have no good business model. The extreme example is China's gleaming new high-speed rail network. The system has a current debt load equivalent to \$429 billion. Whether or not a massive high-speed rail is worth building is one question – about which opinions differ – but whether there is a revenue

model to service this enormous debt is another question altogether. Outside of a few high-capacity lines like Beijing-Shanghai, most observers doubt it. The challenge is mirrored by literally thousands of local government projects and “funding platforms” around the country. Encouraged to invest following the global financial crisis, these local governments now face debts they cannot service with the income streams they can plausibly generate through user fees and sales revenues. In the aggregate, this debt amounts to more than \$1.6 trillion, by official estimates. Put together, these two debt loads amount to 25 percent of China’s GDP.

Chinese regulators and financial sector officials are well aware of these problems. They have been pushing China’s state banks to increase bad loan provisions and raise capital; they will certainly not be caught by surprise. Nonetheless, the hard work of actually restructuring these corporations has barely begun. Indeed, it can hardly proceed in the current inherited environment: credit is still flowing freely; shambolic state-backed corporations have easy access not just to bank loans but also to nascent bond markets; and governments turn to short-term financial markets to fund long-term debts. Some kind of credit squeeze will be necessary to drive forward financial restructuring, and both the squeeze and the restructuring will be painful. Yet the longer financial restructuring is delayed, the longer resources will flow into low-productivity or no-productivity projects and corporations. The creation of a vast sector of “zombie firms,” neither dead nor alive, would ultimately create a far larger and more dangerous risk of financial panic and collapse. The relevant comparison is with Japan in the 1990s, when the delay of financial restructuring kept numerous zombie firms alive, and kept the economy from recovering for an entire “lost decade.”

Fourth, China is going through profound changes in its labor markets that point to substantially slower growth. For decades, employers had been able to hire at will new workers migrating from the countryside, offering a wage that changed little through the 1990s and early 2000s. But some time after the mid-2000s, competition for workers began to drive up unskilled wages. By 2012, real wages for migrant workers were two and a half times what they had been in 2003, increasing by 10.8 percent annually. This dramatic change in labor market conditions led many observers to proclaim “the end of cheap China.” The sudden change also revived interest in a so-called Lewis turning point, a structural shift that occurs when the reservoir of surplus labor in the countryside is finally depleted, and employers have to pay higher wages to draw people out of agricultural work.<sup>6</sup> In past Asian growth “miracles,” the arrival of a Lewis turning point often signaled the end of the very-high-growth period. Rapid growth of unskilled wages tends to force the end of an early growth phase led by the export of labor-intensive manufactures. Economies start to lose comparative advantage in clothing, shoes, and toys, and export growth becomes a less important demand-side driver of growth. These forces are now operating in China, and since export demand from the European Union, Japan, and the United States is likely to be weak for the immediate future, exports will make a much smaller contribution to China’s future growth than they did during the past decade.

Just as rural labor surpluses were beginning to disappear, China reached another crucial turning point. In 2012, the population at working age began to decline. This is an entirely different type of demographic transition, accelerated by China’s draconian birth control policies. Previously, China had been experiencing

a “demographic dividend” in which the population at working age was growing more rapidly than the overall population. As a result, dependency ratios decreased and the work force became younger and better educated. However, as the essay by Deborah Davis in this issue details, China’s demographic dividend is now exhausted – as it eventually had to be – and China’s population has begun to age and experience a higher (elderly) dependency ratio. The working age population has reached a plateau, and will start to decline rapidly in absolute size by 2020. The fact that the Lewis turning point and the end of the demographic dividend are occurring at the same time means that the shift in labor force conditions will be unusually abrupt. For comparison, Japan’s labor force began to shrink about twenty-five years after the end of its high-growth era – when the country was already quite rich – and Korea’s labor force began to shrink about fifteen years after the end of its high-growth era. In China, these two changes are occurring simultaneously.

The structural changes in China’s labor force mean growth is bound to slow; but this does not have to be a bad thing. After all, higher wages mean that incomes are growing, that people are better off, and that there is an opportunity to shift the pattern of economic development so that it provides a greater share of output for household consumption. Moreover, China is a huge continental economy and does not have to tie its economic growth only to its export strategy. Chinese incomes overall are still relatively low and there is plenty of room for catch-up. So this structural change is a huge challenge, but not necessarily a looming disaster. This is a transition that must be managed carefully, but one that can lead to a much more productive and capable society overall. Here, though, the record of Asia’s earlier “miracle economies” advise caution. When

economies such as Japan, Korea, and Taiwan moved out of their very-high-growth phases, they each faced major challenges to their growth models. Japan’s growth rate dropped sharply in 1973, and then again in the 1990s. Never again did Japan come anywhere close to replicating the high growth rates of the 1950s and 1960s. Similarly, the end of the Korean high-growth phase in 1997 arrived with the Asian financial crisis, massive financial distress and restructuring, and a permanently lower growth rate. The evidence is clear that if China does *not* handle this transition well, it could have a substantial economic price to pay.

At this point, a broader argument about the nature of China’s economy and society comes into play. Typically, as forerunner economies have reached the end of their high-growth phases, they have upgraded into high technology and more sophisticated sectors. China clearly hopes to follow this lead. To prepare, China has invested massively in university education since 2001, and has also begun to pour government money into research and development in promising “emerging” industrial sectors. Last year, China invested just shy of 2 percent of its GDP into research and development, a sum much greater than that of other economies at comparable levels of GDP per capita. But ordinarily, forerunner economies have facilitated this upgrading process by transitioning into more of a “light touch” role for government support for development, and a broader liberalization of economic and social conditions. Thus, the government typically hands off more of the responsibility for development to the private sector, and relies on dispersed entrepreneurship to identify and exploit the promising new sectors. In China, the movement in recent years has *not* been in this direction. Government, flush with money, has stepped

up its own direct role in technology research and innovation. Entry barriers that have long since fallen away for ordinary manufacturing sectors are still in place for high value services such as finance and information (including Internet businesses). There is a very real danger that a top-down, state-directed program of innovation, combined with state control of large swathes of the economy, will end up retarding China's essential graduation toward an innovative, diverse, and resilient economy.

Today's China clearly faces a set of challenges that are different from those in the past. China must upgrade the quality of its human resources; identify the sectors, products, and services where opportunities lie; and transition from a follower economy to a position at the global frontier in numerous sectors. Can it do those things without also further scaling back the power of the state, eliminating visible and invisible barriers to the growth of innovative businesses, and empowering households to make more of the fundamental economic decisions? It seems unlikely, which leads us back to the problem of economic reform.

The reform proponents' arguments about sustainability have a high degree of internal coherence, and also great immediacy. In the first place, the current changes in the external economic environment are obvious for all to see. Slowing labor force growth, soaring wages, and rapidly changing cost structures and competitiveness are part of daily life for all Chinese citizens. But these changes directly imply that the existing economic strategy has reached its limits. In fact, all four of the fundamental challenges described above are reaching a climax at the same time. Investment-led growth is running out of steam just as the productivity dividend from previous reforms risks reversal.

Structural changes in the growth potential are intersecting with financial fragilities linked closely to the post-2009 investment surge. Growth slowdown will force the hand of policy-makers. Otherwise, the danger that unaddressed problems will lead to a broader loss of confidence may grow, and threaten the system's ability to stably reproduce itself. The reformers argue that without further market-oriented reform, there is no way to resolve these challenges. In a sense, Xi and Li have inherited a situation that is the exact opposite of the one inherited by Hu and Wen ten years earlier. The Xi-Li economy looks good, but it comes with a legacy of deferred problems and unresolved issues. Xi and Li still have a chance to address these problems, to move China toward a path of sustainable, but slower, growth, but they have to do so promptly, before a host of bills comes due. The timing of this is not under the control of Chinese policy-makers.

By tradition, one year after the Communist Party Central Committee is first empanelled, each new Chinese administration convenes a Third Plenary Session in order to lay out its economic program. In the past – especially in 1978 and 1993 – this Third Plenum has marked a turning point, the initiation or revitalization of a major reform program. Xi Jinping and Li Keqiang convened their own Third Plenum from November 9 through November 12, 2013, and produced a strong reform document that addressed key economic issues while also expanding well beyond the strictly economic realm. The document that emerged is best characterized as part vision statement and part to-do list. The vision statement is an essential part of a document of this type, which emerges out of a long consensus-building process within the Communist Party leadership. This process tends to generate broad statements of principle, plus (at best) a few compelling slogans. To a certain extent, the 2013 Third

Plenum resolution shares these features, but the content is surprising. It calls for a redefined role for government, with government playing a reduced role in micro-economic decision-making, the market playing a “decisive role” in resource allocation, and the development of new models of social governance. It does not shy away from key areas of financial and fiscal reforms, and it marks a clear effort to revitalize reform in the state-owned enterprise sector. This vision is surprising because it revives a rhetoric and vocabulary not much in evidence in China lately, and it charts a course that is very different from many of today’s policies. The to-do list, meanwhile, is extremely ambitious. Laid out in sixty articles and comprising well over three hundred policy measures, the to-do list commits the regime to an impressively broad array of actions, ranging from relaxing the single-child birth control policy to increasing the share of dividends that state-owned enterprises hand over to the government and its social welfare funds.

The Third Plenum resolution is best understood within the context of achievement, change, and credibility crisis described above. Xi Jinping and Li Keqiang – and their secretaries and advisers – clearly exerted a major effort to make the Third Plenum resolution a credible document that would generate momentum for the reform process. In the first instance, they did so by producing a plenum document that was simply *bigger* than many people expected: it was both broader and more detailed than most previous documents. Moreover, the overall approach of the document has the potential to create a coherent response to the multiple economic challenges that China faces. Financial reforms, fiscal reforms, and state-enterprise reforms are all cued up in the Third Plenum, and pricing reforms and a reduction in administrative barriers round

out the core economic elements of this initial reform package. It is striking that the framers of the document have provided a number of tangible commitments that will serve as benchmarks by which to judge whether or not the reforms are actually implemented. Further, Xi Jinping personally and publicly identified with the resolution in a remarkable account he published the week following the Third Plenum, stressing his chairmanship of the drafting committee and his deep engagement with the entire process. Xi, we would say, took personal ownership of the document. By crafting a document designed to impress, by including concrete and observable contents along with the more abstract goals, and by encouraging personal identification with the resolution, Xi Jinping is clearly signaling his intention to pursue this agenda.<sup>7</sup>

Of course, actually implementing these ambitious goals is far more difficult than merely stating them. This, in turn, leads to our final question: can Chinese policymakers act preemptively, dismantling their own special privileges, *before* the arrival of a serious economic crisis? The question is not only whether reform proponents can overcome the entrenched power of vested interests, but also whether they can overcome such power in the absence of a full-blown crisis. If the chances for renewed market reforms were assessed solely on the basis of short-run economic and political conditions, it would be hard to be optimistic. In that sense, both the complacency and the crisis of confidence would be justified; it is difficult to make an argument for change based on a crisis that has not yet hit.

But at the end of the day, the reformers are right that only major institutional changes that make the economy more open, competitive, and rule-bound can avoid the serious problems looming overhead. Even these reforms will require

adept policy-maneuvering to avoid submerged obstacles. The reformers are right about impending changes and potential crises, and they are right about the type of economy and society that China must become in order to be technologically creative, institutionally flexible, and supportive of a high standard of living for a majority of its citizens. China must make the transition to a lower growth rate, but in the context of a wealthier, better-off society. It absolutely has the capability to do so, but policy-makers must summon the will and determination, craft an effective proposal, and push for a renewed domestic and foreign opening of the economy.

## ENDNOTES

- 1 National income, expenditure, and fiscal data in this paper, including those used in Figures 1 and 2, are Chinese official data, updated most recently with the National Bureau of Statistics, *Zhongguo Tongji Zhaiyao 2013* [*China Statistical Abstract 2013*] (Beijing: Zhongguo Tongji, 2013). GDP from the production and expenditure side, see p. 19, 33–35; fiscal data, see p. 72–73.
- 2 Wu Jinglian, “Toward a Renewal of Reform,” in *Wu Jinglian: Voice of Reform in China*, ed. Barry Naughton (Cambridge, Mass.: MIT Press, 2013), 12. Wu is quoting his close friend Zhang Zhuoyuan.
- 3 Li Keqiang’s remarks reported in Du Yongtao, Fu Yingnan, Wei Xi, and Liu Yang, “Li Keqiang Emphasizes that the Biggest Dividend that China Enjoys is the Reform Dividend” (in Chinese), *People’s Daily Online*, November 22, 2012, <http://finance.people.com.cn/n/2012/1122/c1004-19667962.html>.
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- 5 Daisuke Wakabayashi and Min-jeong Lee, “Samsung’s ‘Good’ Problem: A Growing Cash Pile,” *The Wall Street Journal*, May 8, 2013, <http://online.wsj.com/article/SB10001424127887323798104578454440307100754.html>.
- 6 Migrant wages from Feng Lu, “Consolidation or Stimulation? Remarks on China’s macro-economic situation and policy,” U.S.-China Economics Dialogue, Beijing, June 19, 2013. For a good collection of academic articles on the Lewis turning point, see the 2011 special issue of *China Economic Review*, especially the article by the leading proponents of this view, Cai Fang and Du Yang, “Wage Increases, Wage Convergence, and the Lewis Turning Point in China,” *China Economic Review* 22 (4) (2011): 601–610. The empirical evidence in favor of the Lewis theory in other developing economies is mixed, but China fits many of the Lewis model’s predictions. Moreover, China has unique institutions that make the basic Lewis assumption of surplus rural labor more plausible, including collective land ownership and institutional barriers that retard rural-to-urban migration.
- 7 Chinese Communist Party Central Committee, “Resolution on Several Important Issues on Comprehensively Deepening Reform” (in Chinese), November 12, 2013, [http://news.xinhuanet.com/politics/2013-11/15/c\\_118164235.htm](http://news.xinhuanet.com/politics/2013-11/15/c_118164235.htm). Xi Jinping emphasizes his personal role in Xi Jinping, “An Explanation of the ‘Resolution on Several Important Issues on Comprehensively Deepening Reform’” (in Chinese), November 15, 2013, <http://politics.people.com.cn/n/2013/1115/c1001-23559327.html>. As of mid-December 2013, there is still no official English translation of the Third Plenum resolution.

# Demographic Challenges for a Rising China

*Deborah S. Davis*

*Abstract: Looking into the near future, China faces immense demographic challenges. Prolonged sub-replacement fertility has created irreversible conditions for rapid aging of the population, and massive migration to cities has left many villages populated by elderly farmers with no adult children to support them. Soaring divorce rates and high levels of residential dislocation have eroded family stability. To a large extent, government policies created to accelerate economic growth inadvertently fostered these demographic challenges, and now the country is facing the negative consequences of interventions that previously spurred double-digit growth. Legacies of Confucian familism initially blunted pressures on families. Filial sons and daughters sent back remittances, parents cared for migrants' children and invested in their children's marriages, and families with four grandparents, two parents, and one child (4+2+1) pooled resources to continuously improve a family's material well-being. But now the demographic challenges have further intensified and the question arises: can the state adopt new policies that will allow the prototypical 4+2+1 families created by the one-child policy to thrive through 2030?*

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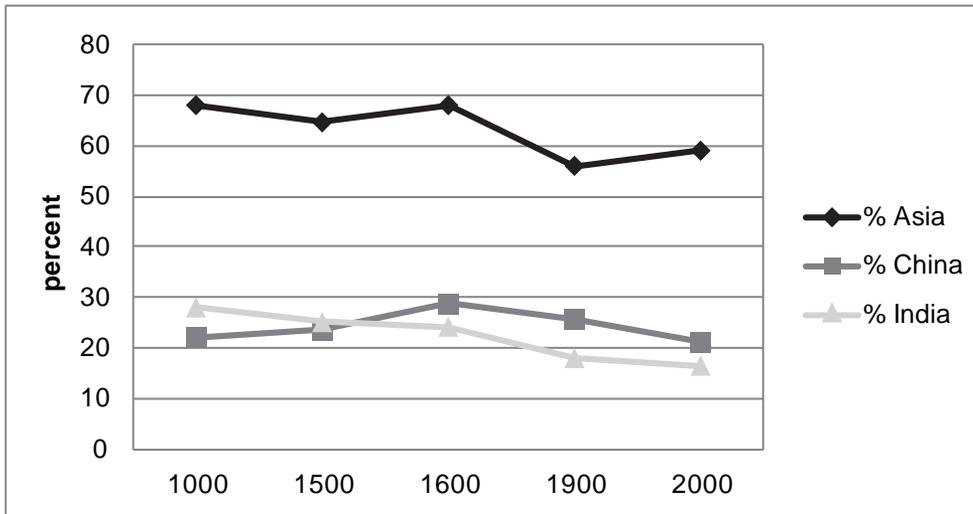
For more than a millennium, Asia has been the demographic center of the world, and since 1500 China has been the global demographic giant (see Figure 1).<sup>1</sup> Sometime in the next fifteen years India will again overtake China as the largest nation, but demographic challenges within China will shape both China's future and that of the world.<sup>2</sup> In part, China's continuing global influence flows from its sheer size, but as I will discuss, underlying demographic dynamics in fertility, urbanization, and family formation have created demographic challenges for which there are no easy answers. Prolonged sub-replacement fertility in particular has created irreversible conditions for rapid aging of the population, and massive migration to cities has left many villages populated by frail elders without adult children to support them. Promulgation of no-fault divorce legislation and a liberalized sexual climate, in the context of this rapid aging of the

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Figure 1  
World Population, 1000 – 2000

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Source: Based on data from Home Maddison, <http://www.ggdc.net/maddison/Maddison.htm>.

population and high levels of residential dislocation, have further eroded the stability of family life. Government policies created to jump-start the economy initially allowed China to reap a demographic dividend. As birth rates plummeted, the ratio of workers to non-workers rose, and savings from child-rearing at both household and community levels spurred investment in education, health, and infrastructure. But after twenty years, the dividend has run out, and China is facing the negative consequences of policies that previously spurred thirty years of double-digit growth. Legacies of Confucian familism initially blunted the pressure on families. Filial sons and daughters sent back remittances, parents cared for migrants' children and invested in their children's marriages, and urban families with four grandparents, two parents, and one child (4+2+1) pooled

resources to continuously improve material well-being; but now the demographic challenges have intensified and the question thus arises: can the state adopt new policies that will allow the emerging prototypical 4+2+1 families created by the one-child policy to thrive through 2030?

When China is compared to other nations, attention immediately focuses on its unique one-child policy. Nowhere else in the world has a central government so systematically imposed such a draconian limit on women's childbearing. One outcome is sub-replacement fertility; a second is a rapid and accelerating aging of the population. In 1980, less than 6 percent of the Chinese population was 65 or older. Like India and Vietnam, China was a country dominated by the young. However, should birth rates continue at their

current sub-replacement level over the next twenty years (as they are predicted to do), by 2030 China will have a slightly higher percentage of elderly than the United States or Russia. By contrast, India's elderly population will have risen to only 8 percent and Vietnam's to 12 percent (see Figure 2).

China's rapid drop in birth rates did not originate with the one-child policy launched in 1980. Rather, birth rates first plunged in the prior decade as a result of a nationwide drive to delay marriage and space births.<sup>3</sup> The rapid decline in birth rates between 1970 and 1979, however, does not mean that the one-child policy has had no significant impact. On the contrary, by enforcing a one-child limit throughout urban China as well as in prosperous peri-urban villages, the policy enforced sub-replacement fertility rates previously found only in wealthy countries with a high percentage of college-educated women. Moreover, if such low birth rates persist in China at the same time as more women enter college, life expectancy increases, and out-migration continues to exceed in-migration, then China's population will age as quickly as did that of Germany, Italy, and Japan. However, in contrast to these countries, China will become old before it becomes rich. In addition, because China lacks the national pension and medical insurance programs provided in these wealthy nations, the next generation of Chinese elderly will face extensive hardships for which there are no easy solutions.

The second demographic trend that poses future challenges is the abrupt switch from a village society of low mobility to an urban society in which many millions change residence every year. In 1980, less than 20 percent of the population lived in cities or towns. By 2010, more than 50 percent had settled in urban

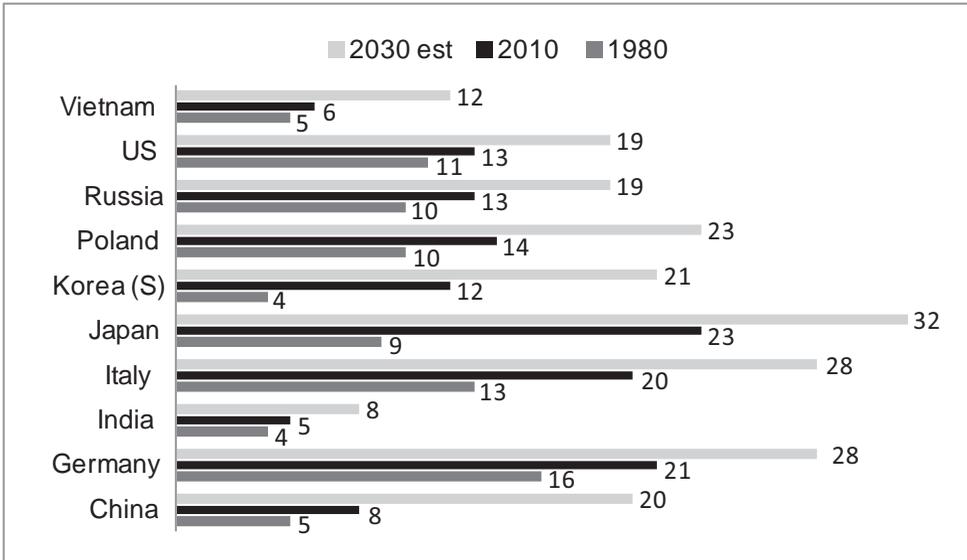
areas. Moreover, the shift is not only due to the fact that more people, particularly those between the ages of 18 and 49, now live and work in cities, but that the number of very large cities has also greatly increased. In 1981, there were only eighteen cities with a population of more than one million; by 2009, there were 129.<sup>4</sup> Finally, because it is primarily the young who leave the countryside in search of work in the cities while those over 50 remain in the villages, rural China is both "hollowing out" and quickly "growing grey."

Government ambition to jump-start economic growth partially drove the rapid urbanization. Breaking with the Maoist mantra of collective ownership and village self-reliance, the Deng leadership dissolved the People's Communes, encouraged rural entrepreneurship, and, for the first time in thirty years, allowed rural residents to freely find work in cities and towns. Massive migration into industrial and service jobs is not unique to China; in fact, both Japan and Korea experienced comparable mobility during their rapid transitions into industrial giants. However, China's larger population and its immediate socialist past have made China's experience somewhat distinctive. First, the number of villagers who have moved to towns and cities is approximately twice the size of the entire Japanese population and five times that of South Korea. One does not want to overemphasize China's exceptional size, but when considering future policy responses and cross-national comparisons, the human scale of China's urbanization cannot be ignored.

A second distinctive element of China's urbanization is the continued reliance on a nationwide household registration system that distinguishes between temporary and permanent urban residents. Designed in 1958 to ration foodstuffs and control population movement, the household registration system maintained through

Figure 2  
Percent of World Population (in select countries) Age 65 or Older

Deborah S. Davis



For proportion of elderly and projections for 1980 and 2010 in all ten countries: World Bank, <http://data.worldbank.org/indicator/SP.POP.65UP.TO.ZS/countries> (accessed April 8, 2013); for the projections for European countries: Marija Mamolo and Sergei Scherbov, "Population Projections for 44 European Countries," [http://www.oew.ac.at/vid/download/edrp\\_2\\_09.pdf](http://www.oew.ac.at/vid/download/edrp_2_09.pdf) (accessed April 9, 2013); for the U.S. projections: Population Division, U.S. Census Bureau, "Population by Age and Sex for the United States: 2010 to 2050" (NP2008-T12), Table 12 (released August 14, 2008), [http://www.aoa.gov/Aging\\_Statistics/future\\_growth/future\\_growth.aspx](http://www.aoa.gov/Aging_Statistics/future_growth/future_growth.aspx) (accessed April 9, 2013); for Japan: Ministry of Internal Affairs, Population Statistics Bureau, <http://www.stat.go.jp/english/data/handbook/co2cont.htm> (accessed April 9, 2013); for China: Feng Wang, "Racing towards the Precipice," *China Economic Quarterly* (June 2012) and Feng Wang, "The Future of a Demographic Overachiever," *Population and Development Review* 37 (s1) (2011): 173–190; for Vietnam: International Futures, [http://www.ifs.du.edu/ifs/frm\\_CountryProfile.aspx?Country=VN](http://www.ifs.du.edu/ifs/frm_CountryProfile.aspx?Country=VN).

the public security bureau served to freeze most rural men in their birth villages and allowed women to move only when they married. Since the early 1980s, the Mao-era restrictions on geographic movement have eroded, but by labeling new arrivals as "temporary" urban residents, the household registration system denies them access to subsidized housing, education, or medical care in the cities where they live. As a result, the household registration system enforces social and economic divisions between migrants

and other city residents—divisions resembling those between undocumented immigrants and native-born residents in the United States. At one time, the government announced it would end this discriminatory system by the start of the Beijing Olympics. But as of December 2013, little has changed, and even those who have lived and worked in the cities for more than a decade do not have the same civil and social rights as permanent urban residents.<sup>5</sup>

In many ways, China's demographic shifts since 1980 resemble those of other fast-growing, industrializing economies. Birth rates fall as more women complete secondary school, contraception becomes cheap and effective, and employers prefer women over men for many new non-agricultural jobs. As industrial jobs pull youth away from the countryside and as infrastructure improves, the urban populations grow and village populations age. As women become more economically self-sufficient and legal reforms tilt to protect individual civil rights, divorce rates rise. Yet China's demographic trajectory and patterns of household formation do not exactly duplicate patterns observed elsewhere. First, when China plateaued at sub-replacement fertility, the sex ratio at birth (SRB) became so distorted in favor of boys that today many millions of girls are "missing." In Europe and the Americas, SRB remained unchanged even as fertility declined. Second, while China's crude divorce rate (CDR)—that is, the number of divorces per 1,000 in the population in any one year—has doubled over the past decade, marriage remains nearly universal, and rates of remarriage are increasing. By contrast, in Europe, the Americas, and even Hong Kong and Taiwan, marriage rates are falling. Third, childbearing outside of marriage in China is not only rare, but illegal.<sup>6</sup> Specific state interventions have been decisive, but so, too, has been the continuing influence of the norms of Confucian familism, which have both exacerbated demographic distortions and ameliorated the initial consequences of rapid urbanization, insecure marriages, and falling fertility.

I turn first to the demographic masculinization created by distorted SRB and the subsequent problem of "missing girls." Concern with distorted sex ratios surfaced immediately after the launch of the one-

child policy. But in fact, girls have been "missing" and the population therefore masculinized throughout China's history. Demographer Cai Yong estimates that in the past hundred years, the sex imbalance at birth peaked between 1936 and 1940.<sup>7</sup> Nevertheless, the imbalance since 1980 reverses a decline that began after 1949. Equally disturbing, the imbalance has widened as a greater percentage of women conform to the one-child quota. Thus, for example, in 1980 the SRB of 108 boys to 100 girls barely exceeded the normal range of 103–106 boys to every 100 girls; but since 1990, the ratio has hovered around 120 boys per 100 girls and in 2008 reached a high of 123.2 before falling to 120 in 2010.<sup>8</sup> Complete compliance with the one-child policy would mean that half of all families would have no son, an outcome that is unacceptable in a society where tradition requires all men to have a son to continue his family line. More practically, given the absence of a national system of social security or pensions for elderly in the countryside or those working in the urban private sector, the one-child limit promises high levels of financial insecurity in old age. And for those whose first born is a daughter, who by "tradition" will marry out to another family, a one-child policy immediately raises the specter of severe impoverishment. Thus, it is hardly surprising that many Chinese couples have resorted to sex-selective abortion to guarantee that they will have at least one son.

Again, it is important to compare China to its Asian neighbors. According to a 2012 United Nations Population Fund (UNFPA) report, SRBs have recently tilted strongly to boys in several parts of Asia, beginning in China, India, and South Korea in the 1980s and since then spreading to Azerbaijan, Armenia, Georgia, Montenegro, Albania, and Vietnam. Population experts estimate the global impact is 117 million "missing girls" as of 2010, most of them

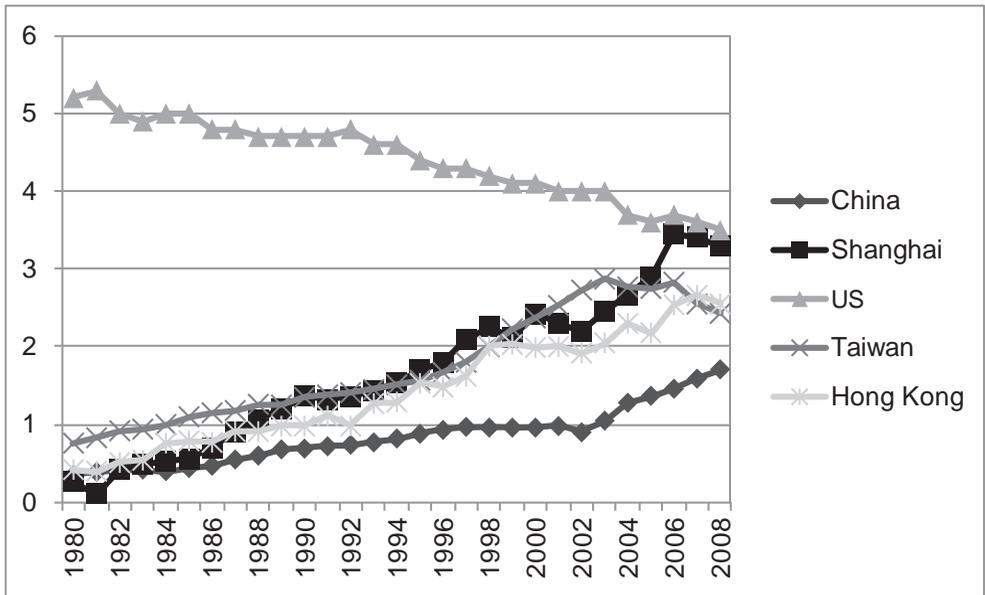
in China and India.<sup>9</sup> On the other hand, as seen recently in South Korea, Singapore, and Taiwan, as well as in China during the first decades after 1949, policy interventions can reverse population masculinization. The question is whether China, particularly within the context of the one-child policy, can succeed. Since the early 1980s, the Chinese government has adopted several policies to reverse the masculinization of the population. In 1986 they banned sex-selective abortion, in 1993 they “forbade” it, and in 2002 the prohibition was included in the 2002 Population and Family Planning Law. In addition to broad policy initiatives, the government directly intervened in counties where the SRB was exceptionally high to enforce the ban on the use of ultrasound for sex-selective abortion and to provide benefits to families with a single daughter. They also did extensive propaganda work to support gender equality and punished officials in villages where SRB did not decline. After the SRB in twenty-four experimental counties targeted in the “Care for Girls” program fell from 133.8 to 119.6, the program went national.<sup>10</sup> Nevertheless, the nationwide SRB peaked in 2008, and between 2000 and 2010 the ratio rose even among college-educated women. Thus, the key challenge is not the one-child limit per se, but rather the larger economic, social, and political conditions that make a one-daughter family unacceptable. For some families, the key issue is the necessity to continue the patriline and traditions of ancestor veneration. For others, it is primarily fear of economic insecurity. The poorest families feel this pressure most acutely, but even for those with steady current income, there is no assurance that they can accumulate adequate savings to provide basic economic survival in old age. For these reasons, the demographic challenges facing the Chinese government differ significantly both from those of rich

societies with similar fertility but less distorted sex ratios and from poorer countries with higher fertility but comparable masculinization of the population.

A second way in which China looks demographically distinct not only from Europe and the Americas but also from several Asian neighbors is the recent shift in rates of divorce and marriage. During the Mao era, highly restrictive legal and regulatory procedures made divorce rare except in cases of extreme abuse or political stigma. However, as part of Deng’s commitment to reduce state supervision and politicization of everyday life, the National People’s Congress promulgated a new Marriage Law in 1980, permitting couples to dissolve their marriages outside the courts whenever both parties agreed that mutual affection had completely disappeared. In 2001 the Marriage Law was further liberalized, and in 2003 the Ministry of Civil Affairs removed the requirement that couples seeking either to marry or to divorce must secure written approval from their village head or employer. Not surprisingly, divorce rates spiked upward after 2003. In 1980 there were fewer than 350,000 divorces, by 1990 there were more than 800,000, in 1995 more than a million, and in 2011 2.8 million.<sup>11</sup> In cities like Shanghai the rates were higher than in Taiwan or Hong Kong, and had begun to approach divorce rates in the United States (see Figure 3).

However, even though the CDR rose 600 percent between 1980 and 2011, and by more than a factor of ten in the city of Shanghai,<sup>12</sup> marriage remains popular. For example, the crude marriage rate (CMR: the number of marriages per 1,000 in the population in any one year) has risen over the past decade in China while falling or holding steady elsewhere in East Asia, Europe, and North America (see Figure 4). In addition, the absolute number of indi-

Figure 3  
Crude Divorce Rates, 1980–2008



Sources: For China, 1980–2008: *Zhongguo Tongji Nian Jian 2012*, <http://www.infobank.cn> (accessed February 16, 2013); for Shanghai: *Shanghai Tongji Nian Jian 2011*; for Taiwan: Department of Statistics, Ministry of Interior, <http://sowf.moi.gov.tw/stat/month/m1-02.xls>; for United States: <http://www.census.gov/prod/2011pubs/12statab/vitstat.pdf>; for Hong Kong: Census and Statistics Department HK (1973–2009).

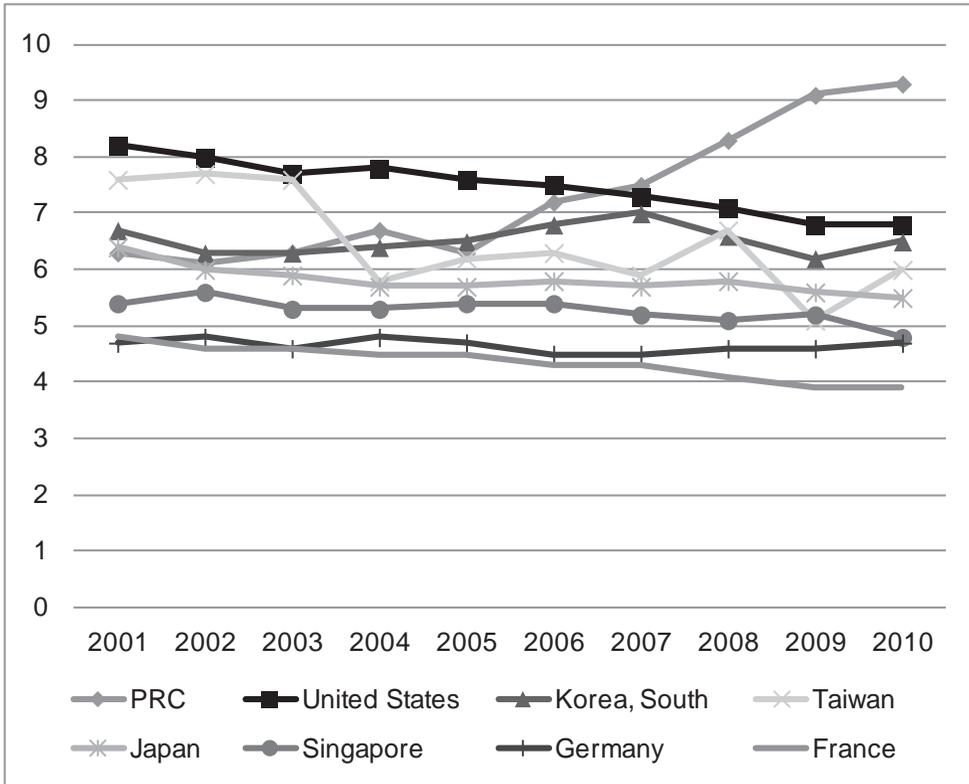
viduals marrying has recently spiked upward. In 2011, twenty-six million people married, a total that was eleven million greater than in 2000, 2001, or 2002, and a difference that cannot easily be attributed to a radical increase in the number of men and women of marriageable age in less than a decade.<sup>13</sup> Rather, it is more likely that the CMR rose after 2003 as a result of three factors: slightly larger cohort size, catch-up among those who had postponed marriage, and rising rates of remarriage after divorce.<sup>14</sup>

Given that divorce rates have risen over the same period, it is not unexpected that remarriage rates would increase in tandem. But on the other hand, it is theoret-

ically possible that in years when many marriages fail, those who divorce will prefer not to risk another failure. In China, though, the story is on the side of willingness to try again. Nationwide between 1985 and 2010, the percentage of those marrying in any one year who had previously been married rose from 3 percent to 11 percent.<sup>15</sup> Moreover, when one compares the absolute number of remarried persons by gender, age, and rural/urban residence, we find that the data contradict a common perception that women are unlikely to remarry after divorce. Surveys from 2009 instead indicate that in villages, among those under age 60, women are far more likely to have remarried than men, and in

Figure 4  
Crude Marriage Rate, 2001 – 2010

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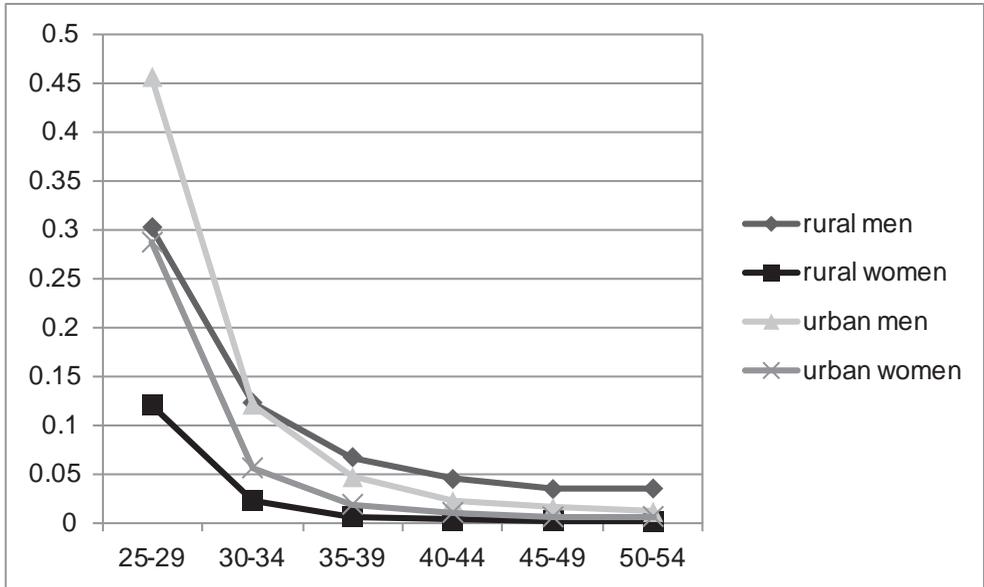
Source: Taiwan Ministry of Information, <http://sowf.moi.gov.tw/stat/english/enational/j23.xls>.

cities remarried men outnumber remarried women only among those over age 50.<sup>16</sup> In sum, while marriages in China have indeed become increasingly fragile, the institution of marriage remains normatively robust.

Another demographic indicator that speaks to the continued desirability of marriage is the low percent of never-married persons across different age cohorts. Thus when we compare 2009 rates of never-marrying, for example, we observe a pattern of nearly universal marriage except

among those born after 1980 (see Figure 5). It is of course too soon to know what percentage from this youngest cohort will eventually marry, but the upturn in CMR, the recent surge in the absolute number of marriages, and the rising rate of remarriage document strong commitment to the institution of marriage and suggest that a large majority of those born after 1980 will marry at least once. The one demographic group in which rates of marriage may fall will be among rural men born after 1980, with the proximate cause

Figure 5  
Percentage Never Married (in 2009), by Age, Gender, and Residence



Source: *Zhongguo renkou he jiuye tongji nianjian 2010* (Chinese Population and Employment Statistical Yearbook 2010), <http://www.infobank.cn/IrisBin/Text.dll?db=TJ&no=479213&cs=13957592&str=%BB%E9> (accessed May 14, 2011).

of decline owing to the gender imbalance created by the one-child policy, not a reduced desire to marry.

Finally, I turn to the persistent and strong linkage between marriage and childbearing. As in other Asian societies, childbearing in China occurs almost exclusively within and after marriage.<sup>17</sup> Thus, in stark contrast to recent trends in Europe and the Americas, there are very few extramarital births in China, and we observe no significant increase in such births even as young women achieve educational parity with men and society becomes noticeably more accepting of nonmarital sexual relationships.<sup>18</sup> While it is true that People's Republic of China law prohibits

births outside of marriage, by far the more important barrier to births outside marriage is adherence to the norms of patrilineal familism.

As in other Asian societies, marriages are conflated with parenthood and family continuation. Therefore, while second marriages or those among the elderly may be legitimately configured around caretaking or shared livelihood, for young adults in a first marriage, marriage is the necessary first step in a sequence that will lead to pregnancy and the birth of a child to a married couple. Historically, because wealthy men were permitted, even encouraged, to have multiple consorts, siblings in wealthy households often had different mothers. At the same time, high

mortality of women in childbirth and the ravages of war and famine meant that children of the poor also often had half- and step-siblings. However, overall, few children were born to an unmarried woman, and never-married women could not openly raise a biological child as their own. During the high socialist years, this conflation and sequencing of marriage and parenting became even tighter. The Marriage Law of 1950 prohibited concubinage, and the Chinese Communist Party proclaimed the nuclear family of parents and their children as the cell of society, while the politicization of private life threatened punishment to those who violated the orthodox sequence of marriage followed by parenthood.

To date, the conflation and sequencing of marriage and parenthood continue. Moreover, the one-child policy has heightened the value of parenthood for men as well as women, as the single child becomes a parent's "only hope" for a secure old age. In contrast to the sub-replacement fertility and the skewed sex ratios, however, this by-product of the one-child policy has not as negatively affected family life. On the contrary, it has increased social and financial supports for children throughout the country, including new forms of activism among men and women mobilizing as parents in support of better treatment or protection of their children. The cases of parents filing suits in order to receive compensation for tainted milk powder is one well-known example; more recent and less well known is the successful mobilization of migrant parents to allow their children to take the university entrance exams in the cities where they live rather than having to return to the parents' rural county. The group, Citizens United Action for Equal Rights of Education, formed in Beijing in 2010. Later the group expanded beyond Beijing and drafted proposals calling for reform. Several lawyers

joined the group, and in August 2012 the Ministry of Education mandated that every province release plans to expand the opportunities for children of rural migrants to sit for high school and university exams.<sup>19</sup>

Demography is not destiny. Yet unless a society permits substantial, permanent migration of adults, the number of births in any one year forever determines the maximum size of each birth cohort. Similarly, unless there is prolonged war with high male fatalities and/or high maternal mortality, the ratio of males to females established at birth will forever shape the life chances of that generation and leave an indelible imprint on a nation's demographic profile. Consequently, given three decades of low birth rates, high levels of sex-selective abortion, rising life expectancy and falling maternal mortality, no wars, and no international in-migration, it is not difficult to identify the key demographic challenges and their impact on family life over the next ten or twenty years. The Chinese population will age very rapidly, an increasing percentage of young men will never marry, and a majority of people entering retirement after 2020 will face an economically insecure old age with only one adult child as a source of support.

None of these trends will surprise the Chinese leadership. In fact, the government has already responded to them. Recently, the central government mandated an improved rural medical insurance system and reduced fees for village schools in the hope that the quality and security of rural life will improve. In 2011 they instituted a pilot pension program for urban residents. As noted, they have launched a nationwide campaign to "care for girls," and at the Third Plenum in November 2013, the leadership announced that henceforth couples in which only

one spouse had no siblings could have a second child. Yet, at best, these shifts ameliorate negative outcomes. If life expectancies for those who reach age 50 continue to improve as expected, the elderly population will grow faster than it has in the past two decades, and without massive international migration of single women under the age of 30, millions of men now in their twenties will never find a bride. Changes in pension and medical safety nets can increase quality of life, but they cannot create a new demographic profile among those born before 2012.

During the previous three decades, when birth rates fell below replacement, China reaped a demographic dividend from the rising ratio of working-age to non-working-age people in the overall population. As public health policy scholars David Bloom and David Canning explain in their comparison of China's and India's demographic challenges, if a society uses the demographic dividend to increase investment in education, health, and infrastructure, they can translate the demographic shift into rapid economic growth and higher standards of living.<sup>20</sup> Between 1980 and 2000, China benefited from such a virtuous exchange. With India now entering this demographic position, the question is whether it can repeat China's experience. The jury is still out.

For China, however, the question now is how to respond after the demographic dividend has been spent. Population aging need not halt macroeconomic growth if managed well by such public policies that would allow those over 60 to remain economically active, encourage transnational migration of working-age adults, improve medical safety nets, or devise new forms of mandated saving. However, as Bloom and Canning explain, such initiatives assume a level of wealth and institutions of financial accountability that we do not yet find in contemporary China. More-

over, although the November 2013 Plenum gave a small subset of young couples the option to have a second child, the one-child policy remains in place, and the current leadership appears unwilling to reject a policy with known negative consequences for the nation and individual families. At the same time, they continue to champion relocation of millions of villagers to cities and towns without eliminating the discriminatory policies that deny rural migrants equitable access to urban social welfare and housing.<sup>21</sup> In a recent essay, Asia health policy expert Karen Eggleston and her colleagues ask, "Will Demographic Change Slow China's Rise?"<sup>22</sup> Relying on a "standard growth accounting model," they conclude that demographic trends will slow macrolevel growth over the next five years, but that the most destabilizing impact of population aging and distorted sex ratios will arise only after economic growth stalls. In contrast, by expanding the analytic lens beyond economic accounting models to factor in dynamics of family life, one can already observe deleterious impacts on Chinese society and local communities.

The national leadership is aware of these negative consequences, but focused on GDP growth rates and immediate threats to the political status quo, they have yet to acknowledge either the root causes or long-term consequences of their migration and population policies that created current demographic challenges. Over the next decade, the number of 4+2+1 families will increase, and the ability of the leadership to respond to their insecurities will decisively affect the quality of life as well as rates of economic growth.

## ENDNOTES

- 1 These estimates by historical demographer Angus Maddison; “Asia” includes not only all countries in Northeast, Southeast, and South Asia but also what is now considered the Middle East.
- 2 United Nations Department of Economic and Social Affairs, Population Division, 2013, <http://esa.un.org/wpp/unpp/p2kodata.asp>.
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- 4 Xuefei Ren, *Urban China* (Cambridge: Polity Press, 2013), 11.
- 5 Kam Wing Chan, “China Internal Migration,” in *The Encyclopedia of Global Migration*, ed. Immanuel Ness and Peter Bellwood (Oxford: Blackwell, 2012), 1–17.
- 6 Immigration and Refugee Board of Canada, “China: Treatment of pregnant, unmarried women by state authorities, particularly in Guangdong and Fujian; whether unmarried women are obliged to undergo pregnancy tests by family planning officials (2005–April 2009),” CHN103135.E, June 23, 2009, <http://www.unhcr.org/refworld/docid/4a7040b626.html> (accessed March 29, 2013); and Carl Haub, “Births Outside of Marriage Now Common in Many Countries of Europe,” Population Reference Bureau, November 2010, <http://www.prb.org/Articles/2010/birthsoutsidemarriage.aspx>.
- 7 Yong Cai, “China’s Demographic Challenges: Gender Imbalance,” paper presented at China’s Challenges, a conference at the University of Pennsylvania, April 25, 2013.
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- 9 United Nations Population Fund, Asia Pacific Region Office, *Sex Imbalances at Birth: Current Trends, Consequences and Policy Implications*, August 2012, <http://www.unfpa.org/public/home/publications/pid/12405>.
- 10 Zijuan Shang, Shuzhao Li, and Marcus Feldman, “Policy Responses of Gender Imbalance in China,” Working Paper No. 123 (Morrison Institute for Population and Resource Studies, Stanford University, 2012), <http://hsblogs.stanford.edu/morrison/files/2012/11/125-noilb4.pdf>.
- 11 See *Zhongguo Tongji Nianjian 2012* [*Chinese Statistical Yearbook 2012*], online version, <http://www.infobank.cn>.
- 12 In 1980, the CDR in China was 0.35; in 2011, it was 2.07. For Shanghai, the shift in the same period was from 0.27 to 3.39.
- 13 In 2000, 16.9 million people married; in 2001, 15.9; in 2002, 15.5; and in 2011, more than 26 million. See *Zhongguo Tongji Nianjian 2012*. According to the 2010 census, the size of cohorts born between 1972 and 1991 is extremely uneven: the youngest cohort (born in 1986–1990) is much larger than those born in 1981–1985 and 1976–1980, but about the same size as those born in 1971–1975. See Carl Haub, “China Releases First 2010 Census,” Population Reference Bureau, 2011, <http://www.prb.org/articles/2011/china-census-results.aspx> (accessed February 26, 2013).
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# Soaring Income Gaps: China in Comparative Perspective

*Martin King Whyte*

*Abstract: Despite repeated pledges by China's leaders to reduce the gap between rich and poor, income inequality has continued to rise. China's Gini coefficient, a standard measure of income inequality, was higher in 2007 than in the United States, Russia, or most other societies. Why have China's income gaps increased so fast and so far, despite programs designed to promote greater equality? Standard explanations, such as income gaps inevitably rising with rapid economic development or in a post-socialist transition, cannot explain the Chinese case. Paradoxically, the sharp rise in inequality is driven more by the legacy of China's socialist system than by market forces or the global economy. It will not be possible to bring China's soaring income gaps under control unless the new leaders who took power in 2012 – 2013 are able to make much more fundamental reforms than have been attempted to date.*

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During the more than three decades since China's market reforms were launched in 1978, income gaps between rich and poor citizens have increased sharply. When Mao Zedong died (in 1976), no Chinese citizen owned substantial property or could live on inherited wealth. The maximum monthly salary was about 800 yuan, while beginning factory workers earned around 30 yuan (and most rural commune members much less). Substantial as these income gaps were, they are nothing like the gaps visible in China today. A minority of Chinese (close to 100 million) remain mired in poverty, while China has more than a million millionaires (in USD) and more than two hundred billionaires.<sup>1</sup> Rich entrepreneurs and real estate tycoons often live in palatial mansions, some designed as exact copies of European palaces, and their children may drive Ferraris, Maseratis, or Lamborghinis; play polo in their spare time; and frequent nightclubs where they spend more in one night than the average urban family earns in a month. Although China's top political leaders do not display such lavish lifestyles or

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have personal fortunes on this scale, recent reports indicate that those connected by family ties to top Chinese Communist Party (CCP) officials, such as Wen Jiabao (China's outgoing premier) and Xi Jinping (the top CCP leader since November 2012), control businesses and assets ranging well into the millions, if not billions.<sup>2</sup> The children of top officials live privileged lives as well, although more in the form of attending prestigious foreign universities and being groomed to join the business and political elite and less in playing polo.

Despite their potential to benefit from rising inequality, for more than a decade CCP leaders have voiced alarm at the steadily rising gaps between rich and poor that characterize the society they lead, and they have launched a series of programs designed to create a more equitable society. Recognizing that the market reforms launched under the leadership of Deng Xiaoping tended to favor coastal regions and their cities, in 2000 Jiang Zemin (CCP leader between 1989 and 2002) launched a campaign to "develop the West" by steering state funding and foreign investment incentives toward China's inland provinces. Jiang's successor, Hu Jintao (CCP leader from 2002 to 2012), promoted the goal of making China a more "harmonious society" and instituted a wide range of policies – including the New Socialist Countryside Construction and the Cooperative Medical Insurance Scheme – designed to better the lot of the poorest Chinese, particularly in rural areas. More recently, during the transition to Hu's successor, Xi Jinping, the government on February 4, 2013, announced major new initiatives designed to narrow China's sharp income gaps.<sup>3</sup>

This recent history leads to several questions that will be addressed briefly in the coming pages:

1. What has been the trend in national income inequality in China during the reform period?
2. How does the Chinese trend look in comparative perspective?
3. What has caused the sharp rise in the gap between rich and poor in China over the last three or more decades?
4. Why have past efforts to reverse these trends and promote greater equality not been very successful, and can anything better be expected from the new initiatives?

Before attempting to answer these questions, some clarifying comments are in order. The focus throughout is on the national distribution of household incomes in China. However, in all societies, and particularly in China, there are many other types of inequality (for example, in political power, social status, access to education, and basic citizenship rights), and some may be more consequential than income in terms of their impact on a family's well-being. For instance, even though China's income gaps in 1978 were quite modest compared with other societies, many of life's necessities were bureaucratically allocated rather than available for purchase. So having more income didn't get you very much, while Mao Zedong didn't have to pay out of his top, but still modest, monthly salary for the use of the many resorts that were maintained around the country for his occasional personal use. Urban state employees were provided with subsidized housing and a package of benefits and subsidies that was worth more than their meager monthly salaries, while rural commune members (then 80 percent of the population) received none of these benefits and were bound to the soil as virtual "socialist serfs," unable to migrate and gain access to the official favoritism enjoyed by urbanites. Although

market reforms since 1978 have sharply reduced the role of direct bureaucratic allocation and increased the salience of family income (while making migration possible once again), Chinese society remains a hybrid mix of bureaucratic and market distribution, with the role of administrative rank and connections (rather than income) still very important.

What have been the trends in income inequality nationally in China over the past three decades, and how do they compare with other nations? I rely here on existing national data on the distribution of net household income, with the extent of income inequality measured by the summary Gini statistic, ranging from 0, total equality, to 1, total inequality. The trend for China over the time period of interest is displayed in Figure 1, along with the trends for selected other countries.

In the initial year shown in the figure (1981), China's Gini is estimated at 0.28. In the years since 1981, the curve for China moves fairly steadily and steeply upward, although for a time (from 1995 to 2002) this trend appeared to be leveling off (at about Gini = 0.46). However, by the last year shown in the chart, 2007, income inequality had resumed its climb, reaching an estimated Gini of 0.49 in that year.<sup>4</sup> This is a relatively high degree of income inequality, a level above that reached in the United States, Russia, and the other countries in the chart according to this metric. However, a Gini of 0.49 is still below the levels reached in a number of other countries not shown in the chart (countries in sub-Saharan Africa and Latin America, in particular), where Gini levels over 0.50 and even above 0.60 have been observed.<sup>5</sup>

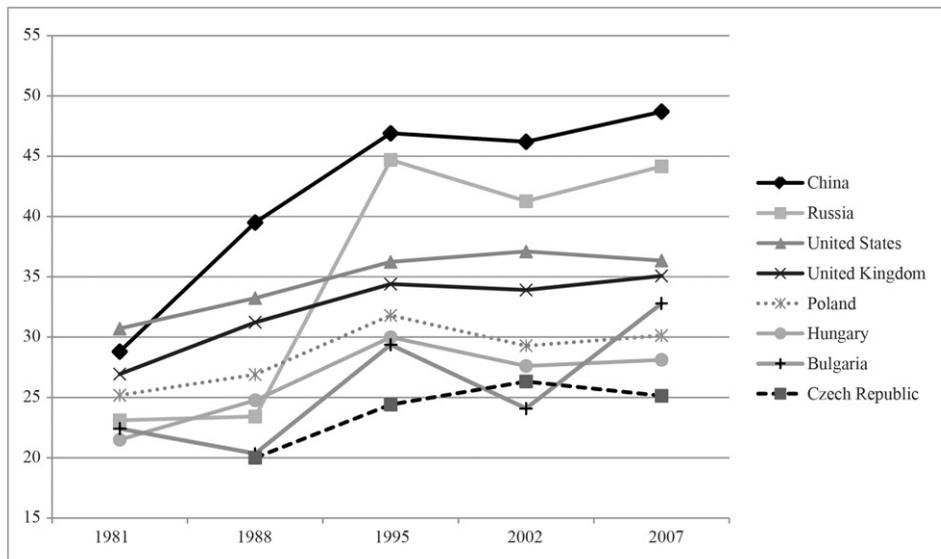
China's income distribution trends since 2007 are unclear and under debate. According to a 2013 report by Ma Jiantang, head of China's National Bureau of Sta-

tistics, China's Gini plateaued at around 0.49 between 2005 and 2009 but has since declined slightly but steadily, to an estimated 0.47 in 2012.<sup>6</sup> However, in 2012 another group of researchers released a survey report suggesting that in 2010 China's Gini had reached 0.61, which would put China at or near the top of the world league tables.<sup>7</sup> Regardless of how these debates are resolved, the dominant picture is clear: China has experienced an unusually sharp increase in income inequality since the early 1980s and currently ranks fairly high compared to other societies in terms of the size of the gaps between its rich and poor citizens.

How can this dramatic increase in China's overall income inequality be explained? A number of explanations are commonly given. First, some analysts contend that when an agrarian country industrializes, there is a predictable and inevitable tendency for income gaps to increase initially before subsequently declining. They cite a 1955 study by economist Simon Kuznets in support of this "inverted U-curve" trajectory, which is based on the notion that as modest numbers of agriculturalists leave farming for more productive and lucrative industrial work, income inequality will initially increase; but eventually, when large numbers of agriculturalists have left, the urban middle class has grown, and the rural population has shrunk, rural wages start to rise and overall income inequality will decline.

However, explaining China's increased income gaps as following the upward arc of an inevitable inverted U-curve is not credible. Newer cross-national research shows that there is no such consistent inverted U-curve trend of income inequality with economic development.<sup>8</sup> The experience of other East Asian countries, in particular, contradicts the Kuznets hypothesis. Japan, Taiwan, and South Korea became noted for experiencing

Soaring Figure 1  
Income Net Household Income Inequality Trends: China Compared with the West, 1981 – 2007  
Gaps



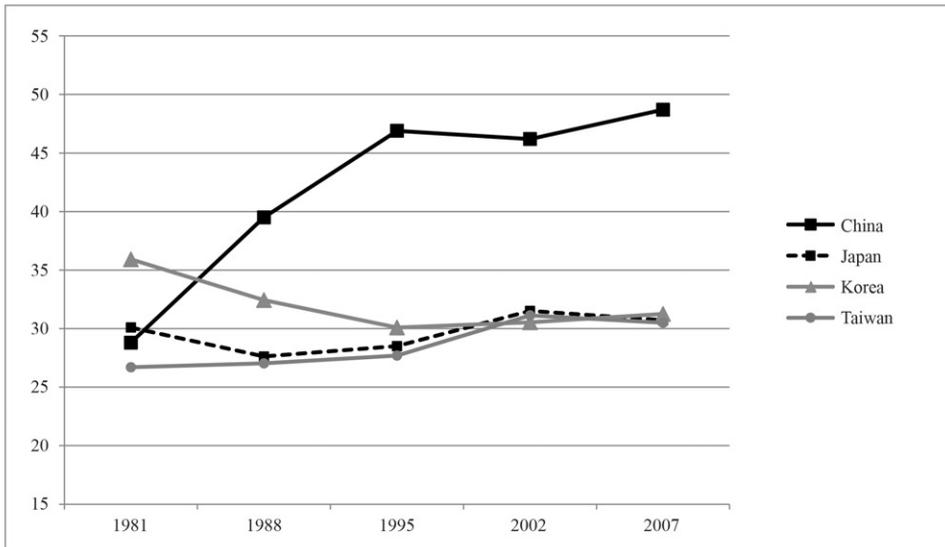
Y-axis = National Net Household Income Distribution Gini Coefficients x 100. Sources: For China: The 2002 and 2007 figures are from Li Shi, Luo Chuliang, and Terry Sicular, “Overview: Income Inequality and Poverty in China, 2002 – 2007,” in *Rising Inequality in China: Challenges to a Harmonious Society*, ed. Li Shi, Hiroshi Sato, and Terry Sicular (New York: Cambridge University Press, 2013), 44 – 84. The 1988 and 1995 figures are from Björn Gustafsson, Li Shi, Terry Sicular, and Yue Ximing, “Income Inequality and Spatial Differences in China, 1988, 1995, and 2002,” in *Inequality and Public Policy in China*, ed. Björn Gustafsson, Li Shi, and Terry Sicular (New York: Cambridge University Press, 2008), 35 – 60. The 1981 figure is from World Bank, *Sharing Rising Incomes: Disparities in China* (Washington, D.C.: World Bank, 1997). For other countries: Frederick Solt, “Standardizing the World Income Inequality Database,” *Social Science Quarterly* 90 (2) (June 2009): 231 – 242, using the latest available update: SWIID Version 3.1, December 2011.

“growth with equity.” The gaps between rich and poor did not widen with initial industrialization, and in some periods actually declined, although in more recent times income inequalities have generally been modestly on the rise in Japan, Taiwan, and South Korea (see the Gini trends for these countries in Figure 2). The trends in these Asian cases resemble a U-curve more than an inverted U-curve.<sup>9</sup> So rapid economic development can be combined with relatively stable or even improving income equality, not the wider gaps China has experienced.

Another common explanation for China’s rising inequality is that it is driven by that society’s transformation from centrally planned socialism to an increasingly capitalistic economy. Under socialism, so this argument goes, private property, inherited wealth, capitalist profits, and foreign exploitation play no role, while the state and central planners manage production and incomes to meet the needs of their citizens – in Lenin’s phrase (from *State and Revolution*), with “everyone employed for workingmen’s wages.” With central planning abandoned, and

Figure 2  
 Net Household Income Inequality Trends: China Compared with East Asia, 1981 – 2007

Martin  
 King Whyte



Y-axis = National Net Household Income Distribution Gini Coefficients x 100. Sources: For China: The 2002 and 2007 figures are from Li Shi, Luo Chuliang, and Terry Sicular, “Overview: Income Inequality and Poverty in China, 2002 – 2007,” in *Rising Inequality in China: Challenges to a Harmonious Society*, ed. Li Shi, Hiroshi Sato, and Terry Sicular (New York: Cambridge University Press, 2013), 44 – 84. The 1988 and 1995 figures are from Björn Gustafsson, Li Shi, Terry Sicular, and Yue Ximing, “Income Inequality and Spatial Differences in China, 1988, 1995, and 2002,” in *Inequality and Public Policy in China*, ed. Björn Gustafsson, Li Shi, and Terry Sicular (New York: Cambridge University Press, 2008), 35 – 60. The 1981 figure is from World Bank, *Sharing Rising Incomes: Disparities in China* (Washington, D.C.: World Bank, 1997). For other countries: Frederick Solt, “Standardizing the World Income Inequality Database,” *Social Science Quarterly* 90 (2) (June 2009): 231 – 242, using the latest available update: SWIID Version 3.1, December 2011. Note that the 2007 entry for Taiwan is actually from 2005 in the SWIID database, as a 2007 estimate is not available.

with private property, capitalist and foreign enterprises, and the pursuit of profits returning with a vengeance, the gaps between rich and poor inevitably grow.

Yet the idea that abandoning socialism for capitalism is the driver of rising inequality in China is also not that persuasive. First, as noted at the outset of this paper and as explained in the literature on post-socialist transitions, centrally planned socialist systems do not systematically promote egalitarian distribution, but instead bureaucratic allocation, and

in practice, socialist bureaucrats tend to produce societies that are quite unequal, although unequal in ways that are somewhat distinct from capitalism.<sup>10</sup> So whether a post-socialist transition will produce higher income gaps – or if it does so, how much higher – is an empirical question, not an outcome determined simply by the switch from socialism to capitalism. The second reason to reject this explanation comes from the experience of other post-socialist countries. There are many countries that emerged

from the Soviet bloc that have been undergoing post-socialist transitions. Several are included in Figure 1. While some increase in income inequality has been experienced in most, with the possible (but very important) exception of Russia, the East European post-socialist countries have not experienced as sharp of an increase in inequality, nor have they reached such high Gini levels as China.<sup>11</sup> In other words, while it appears that the switch from socialism to capitalism in an economy leads to some increase in income inequality, this transition cannot explain why China's Gini levels have risen so sharply and to such high levels as are visible today.

If China's recent rise in income inequality cannot be explained either as the inevitable consequence of development or of the transition from central planning to market distribution, what other explanations are more credible? The key to answering this question is to recognize crucial ways in which China is different from the other societies in these comparisons and how those differences affect inequality patterns. In advanced capitalist societies, inequality patterns are often shaped by the competition among social classes and the political parties and lobbying groups allied with them, with democratic governments pressured either to increase redistribution from the rich to the poor or, under some circumstances, to enact policies that favor the wealthy. This is not a narrative that can be applied to China, which remains a Leninist political system where the CCP actively works to prevent the wealthy and business interests, or for that matter the poor, from openly organizing to press their interests. China since 1978 has operated instead as an authoritarian developmental state, pursuing policies designed by CCP elites primarily to generate rapid economic growth and na-

tional power (and generating rising inequality in the process).

It might be assumed that the experiences of East Asian countries are more relevant to China, since they launched their industrialization drives as authoritarian regimes or, in the case of Japan, as a single-party dominated developmental state. During their periods of developmental "takeoff," their governments did relatively little to promote redistribution to the poor and the working class. But if their authoritarian nature meant that Japan, Taiwan, and South Korea were relatively immune to peasant- and working-class pressures, how did they achieve "growth with equity?"

Much earlier than its role in pioneering export promotion from the 1950s onward, Japan under the Meiji reformers after 1868 introduced institutional changes to dismantle feudal social barriers in order to promote general citizenship, emphasized enhanced human capital formation through universalized modern education, and invested heavily in electrification, transportation, public health, and other measures designed to increasingly link the fates of dispersed villagers into the national economy while giving them the human capital needed to contribute to that economy's growth. However nasty Japanese colonial rulers were in both Korea and in Taiwan during the first half of the twentieth century, they promoted similar efforts to improve human capital and health and integrate colonial subjects into the economic order of their colonies, and ultimately of Japan.

When Japan became the pioneer in East Asian development in the 1950s, the structural preconditions just described were in place to ensure that the economic successes of Japanese manufacturing firms spread rapidly to other sectors of the economy and the population.<sup>12</sup> This historical context meant that Japan mini-

mized the economic dualism that characterizes many developing countries, where a small and isolated modern economy linked to global markets tends to be surrounded by a large and relatively unaffected agricultural economy. The economic successes of pioneering industrial firms generated broad linkages, with business demand spreading to subcontractors, with laborers moving to meet growing markets for their services, and with wages eventually rising while opportunities to leave assembly lines to start small businesses proliferated.

In other words, a development strategy based upon labor-intensive manufacturing primarily for export, when combined with a well-integrated national society and markets and relatively high human capital, translated into effective economic linkages that facilitated the “trickle down” of higher living standards even in the face of governmental favoritism toward business interests. When Taiwan and South Korea successfully followed their versions of the Japanese development strategy, the benefits of business success similarly spread rapidly through their well-integrated and relatively well-educated populations.

If China after 1978 basically followed the same economic development strategy as Japan, Taiwan, and South Korea earlier,<sup>13</sup> of export-promotion of labor-intensive consumer goods manufacturing, why then did income distribution trends turn out so differently? Part of the answer is that China is a much larger and more diverse country in terms of territory, terrain, and population than the other East Asian countries, making it difficult to achieve the national integration and backward linkages visible in these other countries. However, that is only part of the answer. Even more important was the legacy of China’s system of centrally planned socialism between 1955 and the early 1980s.

Paradoxically, given the relatively modest income inequalities that characterized China’s socialist era, a series of institutions and policies were put in place that would later obstruct the kinds of linkages and spreading of benefits of firm success seen in the other East Asian countries.

To explain how this occurred, a brief review of earlier debates about the Mao-era economy is helpful. Economist Audrey Donnithorne characterized China in the 1960s and 1970s as a “cellular economy.” She meant that as a reaction to the greater difficulty of implementing central planning in agrarian China than in the Soviet Union, in combination with administrative decentralizations carried out after 1957 and the disruptions of the Cultural Revolution (launched in 1966), provinces, cities, counties, and even communes were required to emphasize self-reliance, and most economic exchanges took place within local administrative boundaries rather than across them. In other words, to a greater extent than in the USSR or in market societies, national economic integration became relatively weak, and the central government had limited resources or ability to overcome these cellular divisions.<sup>14</sup>

Donnithorne’s views and evidence were strongly challenged by economist Nicholas Lardy. Using evidence on patterns of industrial investment and development, Lardy was able to show that China’s central authorities retained a powerful ability to redirect financial resources, and that they used this authority to redirect funding and industrial development away from existing coastal cities, and particularly from Shanghai, to promote newer industrial cities in China’s interior.<sup>15</sup> In the views of most observers, Lardy was perceived as having “won the debate” with Donnithorne.

However, in retrospect, perhaps that victory was declared too soon. Lardy’s

claim was not that tendencies toward local autarky were lacking in China's administrative and economic system, but that a powerful and committed central state could and did override those tendencies to redirect resources across administrative boundaries. And during the Mao period, this state action more often than not promoted redistribution from richer to poorer and less developed locales – what another economist, John Gurley, called “building on the worst.”<sup>16</sup> However, this redistribution from advanced to less developed locales was almost entirely confined to the favored urban industrial sector. There was no comparable effort or mechanism for redistribution by the central authorities from richer to poorer regions within the agricultural sector. Nor was there redistribution of resources from the urban industrial sector to the countryside, but rather the reverse. In fact, Mao and his colleagues used a combination of household registration (the *hukou* system), migration restrictions, and rationing to keep the rural and urban portions of Chinese society from having much in the way of market exchanges with each other for the two decades after 1960, and to prevent rural residents from migrating into urban settlements of any size – producing “cities with invisible walls.” So hostility to market exchanges and the promotion of self-reliance, when combined with other institutionalized tendencies (such as heavily favoring urban industry) weakened the human and economic linkages that had existed across locales and between rural and urban China down through the centuries.<sup>17</sup> China under Mao developed a much higher level of political integration than before the revolution, but in terms of the movement of people, goods, and services, China in 1978 was a less integrated economy than in 1949.<sup>18</sup>

In other words, China's socialist era left a legacy of local economies that each tried

to self-sufficiently produce a fairly full range of goods – grain, cement, trucks, even local beers – but with the bureaucratic administrative structure of the CCP providing the integration that market exchanges across territorial boundaries failed to promote, and in the process often redirecting resources from advanced to more backward cities. Inequality was much more structured by location and place in the administrative hierarchy and CCP priorities than by social classes, interest groups, and the other collectivities that are the drivers of stratification in advanced capitalist societies.

What changed after China's market reforms were launched in 1978? Two contradictory tendencies were set in motion. On the one hand, many of the institutionalized barriers that had blocked the flow of people and goods and services began to weaken. Villagers were allowed for the first time in a generation to leave farming for local non-agricultural employment or to seek work in the cities. Entrepreneurial villagers and urbanites alike responded to the poverty, shortages, and consumer frustrations of Chinese socialism by growing mushrooms or rabbits to sell elsewhere, starting up family restaurants, or even launching companies to manufacture toys or athletic shoes to sell not just to urban consumers, but overseas. Energetic traders roamed the face of China, seeking clothing, housewares, or jewelry that could be bought cheaply in one locale and sold for profit elsewhere. When migrating Chinese were successful, invariably they sent a portion of their earnings to their families back home. In other words, the horizontal economic and human linkages that socialism had so effectively obstructed began to revive, and markets and geographic mobility began to once again make China a more integrated society and economy.

However, there was another dynamic that the reforms unleashed, and this second tendency was even more powerful. As market reforms were launched, the CCP's developmental state threw all of the relatively "cellular" geographic subunits of the Chinese economy into hectic competition to generate growth, employment, and rising living standards, with very substantial career and material rewards awaiting those who excelled in this competition. Local officials competed with one another to launch ambitious development plans, gain large shares of state investment and bank funding, and attract foreign investors. Localities still wanted to have their own successful agriculture, cement factories, auto plants, and beer companies, but now they also wanted to attract foreign investors, build shiny new airports, and construct hotels and amusement parks to cater to the tourist trade. Some localities have been much better positioned and successful than others in this competition, leading to sharply diverging economic fates from place to place. It is in China's boomtowns that personal fortunes can be made most readily, and where millionaires who hope to become billionaires relocate. It is also in these locales that an almost incestuous collusion among officials, managers of reformed state-owned enterprises, private business and real estate tycoons, state banks, and other large entities produces sweetheart deals, heavily subsidized investments, shady land seizures, and even blatant corruption, rather than the intense competition and risk-taking that classic models of capitalism presuppose. An important consequence of this unequal competition at the level of ordinary citizens is that even today in urban China your income is determined less by your education, occupation, and work experience, and more by your location and organizational affiliation, than is the case in advanced capitalist economies.<sup>19</sup>

One of the key ingredients of success is the ability to attract cheap migrant labor, and most of the workers who assemble manufactured goods for export, not to mention build the new skyscrapers, highways, and airports and also sell clothing to, and clean apartments and perform domestic services for, urban families are rural-to-urban migrants. There are more than 200 million Chinese migrants currently, and they often constitute 30 percent or more of the de facto population of large cities. However, they remain a subordinate caste within China today, denied equal treatment compared to those with urban *hukou* in terms of employment opportunities, compensation, access to housing, education of their children, and much else – simply because they were born in a village. They constitute a modern variant of Marx's "reserve army of the unemployed," powering economic growth while keeping labor costs low.<sup>20</sup>

What role has the central government played in this heightened competition? Although there are exceptions, for the most part Deng Xiaoping and his successors have pursued a course opposite to that described by Lardy for the Mao era. The policies and resources of the central government have primarily involved "building on the best" in order to maximize economic growth, not redistributing to locales and sectors that are lagging. The special economic zones (SEZ) established along China's coast starting in 1979 as a means to attract foreign investment are perhaps the best known example of following Deng's stipulation that "some people . . . should be allowed to get rich before others." The maintenance of systematic discrimination up to the present against Chinese rural citizens and migrants represents another form of state-sanctioned inequality to serve the growth engine. As in the late Mao era, the rural-urban gap remains China's sharpest social cleavage,

with the ratio of urban to rural family incomes already more than 3 to 1 in 2002 and rising to close to 4 to 1 in 2007, a figure that may not be equaled in any other nation. The rural-urban income gap alone contributed 45 percent of total national income inequality in 2002, rising to 51 percent in 2007.<sup>21</sup>

As noted at the outset, since 2000, and particularly under Hu Jintao's leadership of the CCP after 2002, the central government has launched major initiatives designed to make growth more equitable. That effort has produced some notable achievements, including eliminating the grain tax and rebuilding a rudimentary medical insurance system for Chinese farmers.<sup>22</sup> However, the problem is that what the central government gives with its left hand, it more than takes away with its right. In other words, during the same time period, state policy has operated in even more powerful ways that raise, rather than lower, income gaps, even if this outcome may not be intended.

Two instances of the regressive policies of China's developmental state in recent years involve access to basic human resources: housing and education. On the housing front, CCP leaders launched a drive to privatize urban housing after 1995. Prior to that time, less than 10 percent of residents of large cities owned the housing they occupied, with most renting housing through their work organizations at nominal rents. Reforms obligated work organizations and cities to heavily subsidize the purchase of apartments by their occupants. Once they had obtained ownership of their flats, urban citizens were free to rent them out, sell them, purchase additional housing, or even start real estate development companies. The demand for such housing, either as improved residences or as investments, soared in China generally, but particularly in the

largest and most desirable cities. The housing price boom (or bubble?) took off, without effective measures in place to tax the capital gains made when selling investment housing. As a result of these reforms, about 89 percent of urban citizens were homeowners by 2007 (but less than 4 percent of urban migrants). Family property in the form of housing is now a significant contributor to the incomes of many urban families, with it becoming possible for the first time since the 1950s to live on property earnings rather than wages. But urbanites in work units and cities favorably endowed with housing were launched into this market with more assets than others, and housing prices rose more rapidly in some neighborhoods and cities than others. So access to housing income is highly unequally distributed both within and across Chinese cities.<sup>23</sup> Urban housing reform, driven by state directives rather than market pressures in the first instance, has aggravated income gaps, both among urbanites and between urbanites and villagers (and migrants), who were left out of the deal entirely.<sup>24</sup>

The second illustrative example involves access to higher education, a topic further developed in William Kirby's essay for this issue. Starting in 1998, China's leaders launched an unprecedented expansion of university enrollments, and within a decade there were six times as many students in college as there had been before this drive began (a figure that rose by 2013 to about ten times as many). The state also poured large amounts of new funding into an effort to create world-class comprehensive universities, with a disproportionate share of the funding going to only a few dozen elite national universities, all of them located in large cities, with a heavy concentration in Beijing and Shanghai.<sup>25</sup> These changes have had several consequences relevant to our

theme. The main beneficiaries of massive university expansion are urban youths, who are favored in gaining entrance both in terms of the quality of their secondary schooling and test preparation and in terms of how the university entrance exam system works (and favored much more if they live in Beijing than in, say, Guiyang or Nanning). Increasingly the modal educational attainment of a young person with an urban *hukou* is university graduation, whereas for a rural or migrant youth the modal expectation is only graduation from lower middle school (that is, junior high school). However, even for those who succeed in gaining college entrance, quite different life outcomes loom. The higher education funding variation between advantaged and disadvantaged provinces and their universities has widened sharply as a result of the state quest for world-class universities. Graduates of top universities command high salaries, while those who graduate from lower-tier colleges often face unemployment or have to compete for jobs with urban migrants. One might have hoped that China's dramatic university expansion would increase the equality of opportunity for Chinese youths, but instead it has done the opposite, transmitting diverging life chances to the next generation.

What are the lessons we can draw from China's experience of soaring income inequality? Several conclusions can be drawn from these trends:

- Social inequality in China today, as in the Mao era, continues to be primarily structured by locational factors, and it is misleading to see it simply as an outcome of market competition or interest group struggles between rich and poor.
- The sharp rise and high level of China's income inequality are rooted in features embedded more in that society's social-

ist past than in market forces, or for that matter in influences from the global economy. Specifically, a society that in 1978 was characterized by relatively poorly integrated local economic units with weak horizontal linkages developed even wider local disparities as a consequence of local competition plus central policies and resources that rewarded the winners in this competition more than the losers.

- Although the growth of migration, widening of trade networks in goods and services, and other responses to market reforms, as well as central programs designed to promote more equitable development, have had positive effects, their impact has been dwarfed by the momentum unleashed by CCP policies and interventions that work in favor of localities and sectors of the population that already enjoy advantages.
- This analysis suggests that only if China's leadership enacts strong and comprehensive reforms (of taxation policy, investment patterns, state bank lending, educational access, the *hukou* system, and much else) to swing the balance back might it be possible to bring China's soaring income inequality under control. New programs and funding directed at the disadvantaged will not suffice. The CCP leadership that took over in 2012 declared its desire to introduce systematic and equalizing reforms, but given the vested interests and momentum built into China's more than three decades of growth, this will be a tall order.

Author's Note: Research assistance was provided by Dong-Kyun Im.

- <sup>1</sup> However, income inequalities in China today are not the result of the rich getting rich and the poor getting poorer. China's booming economy for more than three decades has brought improved living standards to the overwhelming majority of Chinese, and the proportion living below the internationally recognized poverty line (\$1.25 per day, per person in constant dollars) has fallen from something like 60 percent at the end of the Mao era to under 10 percent today. But the incomes of China's poor have not increased as rapidly as the incomes of the rich.
- <sup>2</sup> On the Wen Jiabao family fortune, see David Barboza, "Billions in Hidden Riches for Family of Chinese Leader," *The New York Times*, October 25, 2012. On the Xi Jinping family financial empire, see "Xi Jinping Millionaire Relations Reveal Hidden Fortunes of Elite," Bloomberg News, June 29, 2012. On the connections and wealth of the children and grandchildren of the CCP's founding "eight immortal" leaders, see "Heirs of Mao's Comrades Rise as New Capitalist Nobility," Bloomberg News, December 26, 2012.
- <sup>3</sup> Chris Buckley, "China Issues Proposal to Narrow Income Gap," *The New York Times*, February 5, 2013.
- <sup>4</sup> The highest quality income surveys for China were conducted in 1988, 1995, 2002, and 2007 by an international collaborative team, the China Household Income Project Surveys (CHIPS). The renewed increases in income inequality that those surveys documented are discussed in detail in Li Shi, Hiroshi Sato, and Terry Sicular, eds., *Rising Inequality in China: Challenges to a Harmonious Society* (New York: Cambridge University Press, 2013).
- <sup>5</sup> In the same time period in other populous Asian societies, such as India, Pakistan, Bangladesh, and Indonesia (as well as post-socialist Vietnam), Gini estimates (reported in the same data sources) generally have been in the 0.30 to 0.39 range, and without the sharp rise visible for China.
- <sup>6</sup> See [http://www.china.com.cn/zhibo/2013-01/18/content\\_27692231.htm?show=t](http://www.china.com.cn/zhibo/2013-01/18/content_27692231.htm?show=t). Specifically, the Gini figures given by Ma were as follows: 2003, 0.479; 2004, 0.473; 2005, 0.485; 2006, 0.487; 2007, 0.484; 2008, 0.491; 2009, 0.490; 2010, 0.481; 2011, 0.477; 2012, 0.474. He attributed the modest improvement in income distribution largely to rural incomes rising more rapidly than urban incomes in the period since 2007.
- <sup>7</sup> See Ernest Kao, "China Wealth Gap Continues to Widen," *South China Morning Post*, December 10, 2012.
- <sup>8</sup> Roberto Korzeniewicz and Timothy Moran, "Theorizing the Relationship between Inequality and Economic Growth," *Theory and Society* 34 (3) (June 2005): 277–316. The study by Simon Kuznets that they debunk is "Economic Growth and Income Inequality," *American Economic Review* 45 (1) (March 1955): 1–28. Obviously, more recent trends in highly industrialized countries depart from the Kuznets scenario as well. The return to rising levels of income inequality in advanced countries since the 1970s has produced trends over time that might better be described as a "supine S."
- <sup>9</sup> United Nations, *Growth with Equity: Policy Lessons from Selected Asian Countries* (New York: United Nations, 1999); Wang Feng, "The End of 'Growth with Equity'? Economic Growth and Income Inequality in East Asia," *AsiaPacific Issues* no. 101 (July 2011): 1–8; and Eunju Chi and Hyeok Yong Kwon, "Unequal New Democracies in East Asia: Rising Inequality and Government Responses in South Korea and Taiwan," *Asian Survey* 52 (5) (October 2012): 900–923.
- <sup>10</sup> See the discussion in Ivan Szelenyi, *Urban Inequalities under State Socialism* (New York: Oxford University Press, 1983); and Martin King Whyte, *Myth of the Social Volcano: Perceptions of Inequality and Distributive Injustice in Contemporary China* (Stanford, Calif.: Stanford University Press, 2010).
- <sup>11</sup> Branko Milanovic and Lire Ersado, "Reform and Inequality during the Transition: An Analysis Using Panel Household Survey Data, 1990–2005," United Nations University-World Institute for Development Economics Research Working Paper No. 2010/62 (May 2010).

- <sup>12</sup> Nationwide land reform programs in the late 1940s and 1950s also made an important contribution to growth with equity in these countries.
- <sup>13</sup> One difference is that Chinese socialism had eliminated private businesses familiar with operating in overseas markets, so that after 1978 China had to rely much more on foreign direct investment and Hong Kong commercial expertise in order to develop its export manufacturing sector.
- <sup>14</sup> Audrey Donnithorne, "China's Cellular Economy: Some Economic Trends since the Cultural Revolution," *The China Quarterly* 52 (October 1972): 605–619.
- <sup>15</sup> Nicholas Lardy, *Economic Growth and Distribution in China* (New York: Cambridge University Press, 1978).
- <sup>16</sup> John G. Gurley, "Capitalist and Maoist Economic Development," *Bulletin of Concerned Asian Scholars* 2 (3) (April–July 1970): 34–50.
- <sup>17</sup> See Kam Wing Chan, *Cities with Invisible Walls* (New York: Oxford University Press, 1994); Fei-ling Wang, *Organizing through Division and Exclusion: China's "Hukou" System* (Stanford, Calif.: Stanford University Press, 2005); and Martin King Whyte, ed., *One Country, Two Societies: Rural-Urban Inequality in Contemporary China* (Cambridge, Mass.: Harvard University Press, 2010).
- <sup>18</sup> To give one simple example, in the late-Mao era, unlike in other societies (including the USSR), farmers were forbidden to bring produce or handicrafts into cities to sell to urban consumers.
- <sup>19</sup> See the discussion in Wang Feng, *Boundaries and Categories: Rising Inequality in Post-Socialist Urban China* (Stanford, Calif.: Stanford University Press, 2008).
- <sup>20</sup> In the last decade or so, migrant wages have begun to increase, after remaining relatively stagnant during the 1980s and 1990s. However, migrants still are disadvantaged compared to comparable laborers with urban *hukou* not only in wages, but also in access to most other benefits and services.
- <sup>21</sup> Li, Sato, and Sicular, *Rising Inequality in China*, 32.
- <sup>22</sup> There is a comprehensive discussion of multiple "harmonious society" programs in *ibid.*, chap. 1. According to national surveys the author directed in China, the rural coverage rate by public medical insurance increased from only 15.4 percent in 2004 to 89.6 percent in 2009.
- <sup>23</sup> See the discussion of the increasing role of wealth, particularly in the form of housing assets, between 2002 and 2007, as well as the homeowner statistics, in *ibid.*, chap. 3. One observer contends that the result of China's urban housing privatization and subsequent price increases is arguably the largest accumulation of real estate wealth in history, worth over US \$17 trillion in 2010; see Leta Hong Fincher, "Women's Rights at Risk," *Dissent* 60 (2) (Spring 2010): 37. In contrast to China, in 2007 only about 65 percent of American urbanites were homeowners.
- <sup>24</sup> Villagers generally live in privately owned ancestral housing, and when they build new housing they pay for it themselves, with no subsidized mortgages. Migrants usually live in factory dormitories or have to rent, often from suburban villagers.
- <sup>25</sup> China's "211 Project," initiated in 1995, aimed to identify one hundred universities with the potential of becoming "world class" and initially invested 11 billion yuan in their development; the "985 Project," launched in 1998, focused on a smaller set of elite universities (eventually thirty-nine) and invested more than 12 billion yuan in them in the first two years; and the "111 Project," launched in 2006, aimed to bring large numbers of foreign scientists to China to enhance the research capabilities of the same elite universities favored by the 985 Project. For the regressive impact across provinces of these reforms on university funding and enrollments, see Hannah Waight, "Ordered Inequality: The Role of Reform in Structuring Disparities in Chinese Higher Education," Sociology 237 seminar paper, Harvard University, December 2012. For the role of university enrollment expansion in widening the

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rural-urban disparity in college access, see Maocan Guo, "School Expansion and Education Stratification in China, 1981 – 2006," Sociology Doctoral Program qualifying paper, Harvard University, 2009.

# Correcting Past Health Policy Mistakes

*William C. Hsiao*

*Abstract: China's health policy in the 1980s followed its economic policy of marketization. China shifted health financing from public to private and commercialized the country's public health services. Unwittingly, the Chinese government did not grasp the serious market failures in health care, which resulted in a profit-driven public health service in which patients pay directly for services. China's health policy created three major unintended consequences: disparity between rural and urban residents, poor quality of health care, and rapid inflation in health expenditures. Since 2003, China has tried to correct its policy mistakes through public financing and by establishing social health insurance. However, strong profit motives have become embedded within the culture of medical professionals and have eroded the professional ethics that prioritize medical practices for patients' benefits. Restoring medical ethics is a formidable challenge. This paper analyzes the transformation of the Chinese health system and its ongoing challenges.*

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Alongside the shiny marble-walled shopping centers, lined with Gucci, Louis Vuitton, and Prada stores, and nestled among soaring glass skyscrapers, glittering modern hospitals now dot all major Chinese cities. These state-of-the-art facilities, full of expensive high-technology chromatic machines and white-coated staff, stand in stark contrast to the mud-brick, single-room health stations found in the Chinese countryside. Although more and more of China's 1.3 billion people are moving to metropolises, the majority of its rural population, which still numbers some seven hundred million, remains in desperate need of well-trained village doctors and basic essential drugs. The disparity in access to quality health care between rural and urban areas has in essence created a two-tiered system. Although the top level is similar to health care available in first-world nations, the lower tier of the Chinese health care system is more typical of that found in the third world.

After a century of being derided as the "sick man of Asia," China has now become the second largest economy in the world. As explained in Barry Naughton's essay in this volume, the economic

reforms that began in 1978 have transformed the economic and social landscape.<sup>1</sup> As a result, per capita average GDP rose from \$300 to \$5,450, and six hundred million Chinese were lifted out of extreme poverty.<sup>2</sup> Compared to the historical economic development of England, China collapsed about two hundred years of development into a thirty-year period.<sup>3</sup>

Until a decade ago, China's leaders favored the cities in terms of policy and investment, leaving the rural areas to languish. Meanwhile, the Chinese *hukou* system (household registration) has restricted the migration of people from one area to another, particularly rural residents wanting to move to urban areas on a permanent basis. The economic boom did transform some rural areas to cities, converting about four hundred million rural residents to urban; but that number includes three hundred million so-called migrant workers who work in big industrial centers in Shanghai, Shenzhen, and Guangzhou.<sup>4</sup> And when rural residents become migrant workers in cities, they are often prohibited from bringing their families, and they have no rights to urban social services such as education, housing, health insurance, and social welfare support. The result of these changes has been huge and growing disparities in the well-being of urban and rural residents, including migrant workers. The average disposable income per person for urban residents is 3.5 times that of rural residents,<sup>5</sup> and the Gini coefficient, which measures the inequality of income distribution, has doubled from 0.21 in the 1980s to 0.47 in 2012.<sup>6</sup> As Martin Whyte discusses in his essay in this issue, China now seems to consist of two separate societies: urban and rural.<sup>7</sup> And the disparity between the two has caused increasing social strife.<sup>8</sup>

Beyond economic growth, one of the most startling aspects of China's rapid development over the past thirty years

has been the transformation of its health care system. The country's previous socialistic health care system largely imploded, in part because China adopted a market strategy, relying on private sources to finance health care and commercialize the provision of health services. Ironically, bastions of free-market capitalism such as the United States and Singapore long ago learned that the marketization of health care – with its severe market failures – would create havoc and yield profound inequities in health. Nonetheless, in 1980, China adopted a market approach to health care, following the general policy of the economic sector.

The reliance on private sources to finance health care and commercialize health care delivery has left behind three deep and enduring wounds for current and future Chinese leaders to address. First, private financing resulted in disparities in access to quality health care, leading to health status differences between urban and rural residents. China has worked to address this issue during the past decade by increasing public financing for the poor, establishing universal health insurance, and investing in health facilities in poor areas. However, China has not been able to close the gap to any significant degree. More important, effective health care relies on well-trained, qualified practitioners, and China has not been able to close the gap in human resources between cities and the countryside, nor between poor and rich provinces.

Second, the free market strategy encouraged hospitals and physicians to pursue profits with distorted prices. Profit-driven medicine has become the norm, resulting in poor quality of health care, incorrect diagnoses, inappropriate treatments, and perhaps even the delivery of harmful health care. As a result, patients have lost respect for and trust in physicians and other health professionals; there

have even been cases of patients and their families resorting to violence, physically assaulting physicians when they did not recover from their illnesses.<sup>9</sup>

Lastly, profit-driven medicine has created deeply embedded waste and corruption in Chinese medical practices, leading to high inflation in health expenditures. While China's economy grew at a phenomenal rate, health expenditures grew even faster, due in part to the profit-seeking behavior of hospitals and physicians. This rapid increase raises the critical question of whether China's current health care system is sustainable when a rapidly growing share of government and household budgets is being diverted to health without commensurate benefits to patients.

The Chinese government has conducted in-depth investigations (including by engaging international organizations and scholars), gathered extensive evidence, and analyzed the major health problems outlined above. Top officials, as well as the general public, have a comprehensive and accurate understanding of the issues, and the causes have been largely identified. However, some of these causes are rooted in the unethical behavior of health professionals, as well as in government structure, both of which are difficult to correct.

After the Chinese Communist Party (CCP) took control of China in 1949, it created a health care system typical of Communist countries. The government owned, funded, and ran all hospitals: from large specialized hospitals in urban areas to small township hospitals in the countryside. The private practice of medicine and the private ownership of health facilities disappeared; physicians became employees of the state. In rural areas, the cornerstone of the health care system was the commune, the critical institution in rural life. Communes oversaw economic

production and provided social services, including health care, which was provided through the Cooperative Medical System (CMS). The CMS operated health posts in villages and township health centers that were staffed mostly by so-called barefoot doctors.

From 1952 to 1982, the Chinese health care system made enormous improvements in health and health care by emphasizing prevention and primary care provided by modestly trained practitioners. Infant mortality fell from 200 to 34 per 1,000 live births, and life expectancy increased from about 35 to 68 years. The Chinese public health apparatus also achieved major gains in controlling infectious disease through immunization, improved sanitation, and the control of disease vectors, such as mosquitoes for malaria and snails for schistosomiasis.<sup>10</sup>

When China embarked on its economic reform in 1978, it overhauled four major health policies: it shifted public financing to private sources; it turned public hospitals and clinics into commercial enterprises; it decentralized its health system; and it altered the price structure for public facilities, thereby enabling them to earn profits.

As China's centrally planned socialist economy was transformed to a market economy centered on private enterprise, the Chinese government experienced a drastic reduction in revenue and had to completely rebuild its fiscal system. Consequently, the government lacked the revenue to fund social programs such as health care. Like other transition economies, the Chinese government's revenue as a percentage of GDP fell from 30 percent to 10 percent, and subsidies for public health facilities fell from 50 to 60 percent to a mere 10 percent of the facilities' total revenues by the early 1990s.<sup>11</sup> The government therefore decided to replace public financing with private sources: public health facilities would charge patients

directly for services and patients would pay out of pocket. On the one hand, the existing health insurance program for employed workers was reformed and maintained, largely protecting health care for urban workers in the formal economy. On the other hand, in its efforts to privatize the agricultural economy, the government completely dismantled the communes, thereby destroying the health care safety net for most rural Chinese. Without the CMS, Chinese peasants had no way to pool risks for health care expenses, and nine hundred million rural, mostly poor citizens became, in effect, uninsured overnight. Consequently, the once-vaunted barefoot doctors were forced to become private health practitioners.

The second policy change was for public health clinics and hospitals to rely on payments from patients as their main source of income. Virtually unregulated, this policy basically turned public facilities into free commercial enterprises. As public funding declined, public facilities relied more and more on the sale of services in private markets to cover their expenses. De facto public hospitals and clinics came to function much like for-profit commercial entities, focusing primarily on their bottom lines, with Chinese policy informally sanctioning their actions.<sup>12</sup> Clinics and hospitals quickly found that selling drugs and conducting tests were the most lucrative ways to stay afloat, pay bonuses to staff, and generate funds for expansion. Thus, the number of drug sales and test orders exploded.

The third policy change decentralized the public health system in order to reduce central governmental expenditures. While rich provinces had adequate financial resources to cover the costs of the public health services, the poor provinces did not, resulting in significant disparities between provinces and counties. Furthermore, the central government granted

local public health agencies the authority to charge for certain services, such as inspections of hotels and restaurants for sanitary conditions and industrial enterprises for environmental compliance. Health agencies could also establish fee-for-service health centers and hospitals for delivering curative services. Predictably, local public health authorities concentrated on these revenue-generating activities, neglecting preventive programs such as health education, maternal and child health, and epidemic control.

The last major change was the introduction of a new pricing policy for health services, stemming from the Chinese government's desire for prices to be affordable to patients, yet sufficiently high for public facilities to survive and flourish. But the newly established pricing policy was at its core irrational and reflected a lack of adequate understanding of economic theory and international best practices. That unsound pricing policy set in motion significant changes in the organizational culture, motivation, and behavior of hospital leaders and practitioners. The government set prices below costs for personal services such as a physician visit or hospital daily bed charges, but set prices above costs for new and high-tech diagnostic services. It also allowed a 15 percent profit margin on drugs. This system created perverse incentives for providers, who had to cover 90 percent of their budgets with revenue-generating activities.<sup>13</sup> Over time, public hospitals, clinics, and village doctors gradually became profit-seeking entities, while the healing of ill patients took a back seat. Equally important, the government's pricing policy created a leveraging effect whereby a provider had to dispense \$7 in drugs to earn \$1 in profit. Subsequently, providers overprescribed drugs and tests, and hospitals raced to introduce high-tech services and expensive imported drugs that

returned higher profit margins. These medical practices not only caused rapid health expenditure inflation, but also harmed patients with unnecessary surgeries and hospitalizations, adverse reactions from the overuse of drugs, drug toxicity from the use of multiple drugs, and false-positives from poorly executed tests.

The unfortunate consequences of this combination of policy changes are best understood from three perspectives: disparities between rural and urban areas, deficient quality of health care, and burgeoning health expenditure inflation. Urban/rural disparities in financial and physical access to medical care, and public health expenditures are reflected in the available health statistics.

In China's privatized, market-based health care system, the wealth of consumers is a critical determinant of both their access to services and the quality of services they receive. With urban incomes triple those in rural areas, urban residents have fared far better than rural residents in terms of health services. In 1999, infant mortality was 38 per 1,000 live births in rural areas, compared to 12 per 1,000 in urban areas. In 2002, mortality among children under age 5 was 39.6 per 1,000 in rural areas, but only 14.6 per 1,000 in urban locales. Maternal mortality figures in 2002 were 58.2 and 22.3 per 100,000, respectively.<sup>14</sup>

One indicator of the reduced quality of health care in China is the inappropriate use of prescription drugs, a problem closely linked with medical practitioners and hospitals having become profit-driven entities. In China, 75 percent of patients suffering from a common cold are prescribed antibiotics – more than twice the international average of 30 percent.<sup>15</sup> Unfortunately, no authority has been held accountable for these practices. Compounding the problem is collusion between providers and the pharmaceutical

sector: hospitals and physicians receive kickbacks from drug companies for prescribing their products, and doctors' bonuses are often tied to these kickbacks. In rural areas, village doctors buy expired and counterfeit drugs at low cost and sell them as valid products at higher prices. Some investigators estimate that until two years ago, one-third of drugs dispensed in rural areas were actually counterfeit, earning huge profits for their vendors.

China's rapidly rising health expenditure inflation rate is one broad consequence of the country's health policies. Chinese health expenditures have burgeoned over the past thirty years, albeit from a low base. From 1978 to 2011, personal health spending per capita in China increased by a multiple of 164, from 11 RMB to 1,801 RMB (roughly \$6 to \$280). At the same time, the Consumer Price Index increased nearly sixfold. National health care spending rose from 3 percent to 5.15 percent of GDP. A huge portion of this expenditure was for unnecessary drugs and high-tech tests; half of Chinese health care spending is devoted to drugs, compared to only 10 percent in the United States.<sup>16</sup>

By the mid-1990s, the Chinese central government was well aware of the widespread problems created by its health policies, although top officials were reluctant to address them. In some rural districts, deficiencies in health care became a cause of growing anger toward the Chinese government and contributed to local riots and disturbances.<sup>17</sup> In a country where threats to established political authority have historically sprung from the grievances of an impoverished peasantry, the consequences of rural/urban health care differentials carry profound political significance for the Chinese leadership.

China finally took action in 2003, when its rapidly growing economy yielded large

tax revenues that gave the capacity for the central and some local governments to make substantial health care investments. The central government created the New Cooperative Medical Scheme (NCMS), a health insurance program for rural citizens. All provinces were compelled to establish NCMS by pooling risk at the county level. The provinces and counties must cofinance the majority of NCMS, though the central government does provide fiscal transfers to poor and middle-income provinces to fund a significant portion of the costs. NCMS began in 2003 with a total public subsidy of 20 RMB for each resident's health insurance premium; the subsidy has since grown to 300 RMB per resident. In 2007, the government created a similar insurance program for the 250 million urban residents who were not insured under the Employee Insurance Plan.<sup>18</sup> These new insurance programs lowered financial barriers to medical care, and rural residents have since increased their use of health services.

But it was not until 2008 that the Chinese government publicly acknowledged and began to address the other huge health care problems it had created. In designing its reform, China carefully examined solutions pioneered in other countries and organized a wide consultation with domestic and international experts, as well as with the public. A systemic reform was launched in 2009 with the goal of providing affordable and equitable basic health care for all citizens by 2020. With this ambitious program, the Chinese government is affirming its role as the primary financing source for health care, while also giving priority to preventive and primary care. The reforms were anchored by five related measures: providing insurance coverage for more than 90 percent of the population, establishing a national essential drug system, establishing and funding effective prevention,

investing and upgrading primary care facilities and human resources, and piloting public hospital reforms.

As of the end of 2012, the Chinese government had invested an impressive additional \$125 billion in public health. Coverage is now remarkably broad, albeit still far from egalitarian. China currently has more than 95 percent of its population covered under its three social insurance programs. Although employed workers currently have a much richer benefits package, the goal is to equalize benefits within a decade.<sup>19</sup> Preventive and primary care are better funded, supplied, and used, and many new public facilities have been built or renovated. Public health facilities are equipped with reasonable medical equipment, and essential drugs are available almost everywhere at a reasonable price.

Despite these significant advances, three major problems remain unsolved. The first is the need for reform of public hospitals, particularly high-level urban hospitals that absorb the majority of financial and human resources. These are the cradle of overtesting and overprescribing drugs, of waste, and of corruptive practices, such as demanding red envelopes (bribes) from patients and receiving kickbacks from pharmaceutical and medical device companies. The shortage of qualified human resources to serve the rural population and the resultant poor quality of health care in these regions constitute the remaining unsolved challenges.

China's recent health policy changes are intended to address the deep wounds that resulted from the country's earlier interrelated policies of privatization and commercialization of health care, as well as its irrational pricing policy. As noted, these earlier policies contributed to stark urban/rural health disparities, poor quality of health care, and health expenditure

inflation. One of the most critical issues surrounding Chinese health policy is its differential effect on the health status of various social and economic groups. China collects voluminous data, but much of it is not accessible for public use. Essentially, China only publishes national data related to distributional impact between urban and rural residents, as well as some information about variation among provinces. Data by income, education, and ethnicity are scarce. There are individual studies conducted by researchers for a given community or a city, but they are not representative of the nation as a whole.

The most common measures of health are infant mortality rate (IMR), maternal mortality rate (MMR), and life expectancy. Table 1 shows that IMR for rural residents is 260 percent that of urban residents; MMR for rural residents is 38 percent greater than that of urban residents; while urban life expectancy is 7 percent greater than that of rural residents. Children born into rural households suffer a much higher death rate than urban children, indicating the lack of basic health care in rural areas. The lower MMR in urban areas seems to indicate that urban China has a higher quality child delivery system. The smaller difference in life expectancy may reflect the less contaminated food supply and lower air pollution in rural areas, and the possibility that rural people lead a healthier lifestyle with more exercise than city dwellers.

Differences in health outcomes are caused by many factors: varied financial and human resources invested in preventive and health services; different income, education, environmental living conditions; varied occupational hazards and lifestyles; and different ethnic backgrounds and social classes. While we cannot find reliable national data on differences in health status by socioeconomic group, China does publish reliable aggregate

data on health differences between urban and rural residents.

The previous section discussed how the decentralization of China's fiscal system occurred in conjunction with its economic liberalization, resulting in provincial and county governments being made responsible for funding health care. However, most of the poor provinces in China's rural western region did not have the financial resources to fund even basic health care for their residents. Meanwhile, the people – mostly farmers – lacked the income to pay for health care services themselves. China does not publish reliable data on health spending over time by province. It does, however, publish data on total public and private per capita spending on health for urban and rural residents. This crude information does not adjust for differences in age/sex and varying disease patterns. Nevertheless, this is the only reliable and up-to-date national information we have to shed some light on the urban-rural disparity. Figure 1 shows the difference in per capita spending on health for urban and rural residents from 1990 to 2011. The latest data available show that in 2011, spending on health care for the average urban resident was more than three times the average amount spent on care for rural residents. Despite the 2008 NCMS initiative, the difference in health expenditure has hardly narrowed.

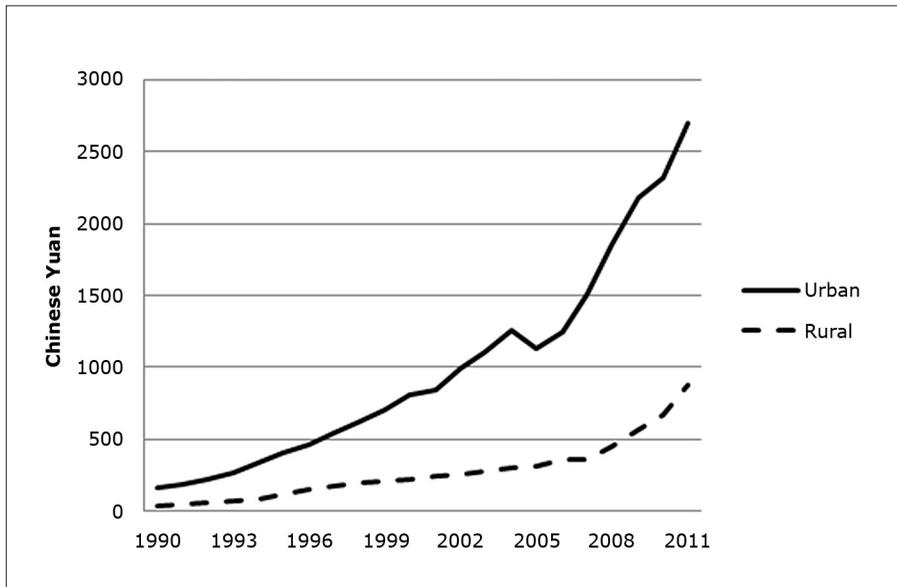
More substantial health insurance coverage for workers employed in the formal sector is a major reason why spending is so different between urban and rural residents. Table 2 shows the estimated average premium paid per covered person in 2011. The premium was estimated at 1,960 RMB under employee insurance, which covers civil servants and formal sector workers. More than 90 percent of these workers are urban residents. Meanwhile, the health insurance plan for rural resi-

Table 1  
Comparison of Health Status between Rural and Urban Residents, 2006 – 2010

	National	Urban	Rural	Ratio (urban to rural)
IMR (per 1,000 live births)	14.86	6.84	17.96	1:2.62
MMR (per 10,000 births)	34.76	27.1	37.4	1:1.38
Life Expectancy	74.83	77.33	72.29	1.07:1

Source: IMR and MMR are calculated by averaging the five-year period; data are from National Bureau of Statistics of People’s Republic of China, *China Statistical Yearbook 2012* (Beijing: China Statistics Press, 2012). The national life expectancy is from the 2010 Census, and the rural and urban life expectancy are extrapolated using the existing data before the 2010 Census. See Ying Hu, “The Average Life Expectancy Analysis on China’s Current Population in Urban and Rural,” *Population & Development* 16 (2) (2010): 41 – 47.

Figure 1  
Health Care Expenditure Per Capita, 1990 – 2011



Source: National Bureau of Statistics of People’s Republic of China, *China Statistical Yearbook 2012* (Beijing: China Statistics Press, 2012).

Table 2  
 Estimated Premium Per Capita in 2011

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	New Cooperative Medical Schemes (NCMS)	Employee Medical Insurance, including civil servants
Average Premium (RMB)	246	1,960

Source: National Bureau of Statistics of People’s Republic of China, *China Statistical Yearbook 2012* (Beijing: China Statistics Press, 2012); average premium estimated by author.

dents, the NCMS, had an estimated average premium of 246 RMB per person, only one-eighth of the average premium for the employed workers. This vast difference reflects several factors, including the more generous benefits of employee insurance (most migrant workers are not eligible), the higher cost of health care in cities, and the higher average age of people covered under the employee insurance as compared to the NCMS. And when more generous benefits are available to employees, they demand more services and more expensive facilities, drugs, and tests.

Along with unequal financial inputs for urban and rural residents, human resource inputs also differ. Most comparisons using aggregate numbers of practitioners and hospital beds for each urban and rural resident lead to erroneous conclusions. The aggregate numbers show that urban and rural areas have similar numbers of beds and practitioners per resident. However, the competency of the practitioners varies wildly, as does the quality of the hospitals, both in terms of their medical capabilities and sophistication. In rural areas, basic preventive and routine health care is provided by village doctors, who become qualified by gradu-

ating from junior high school followed by an additional three years of education in a health school. At best, they have the knowledge, training, and competency of a nurse’s assistant in a modern hospital. The older village doctors do not even have this level of formal training; they learned on the job.

Providing the next level of care are the physicians, mostly three-year medical school graduates, who staff the township health centers that serve between ten thousand and twenty-five thousand residents. The physicians who would be considered reasonably qualified by Western standards, with training comparable to five or more years of college-level medical education, practice mostly in cities. China certifies its hospitals into levels 1, 2, 2A, 3, and 3A. The beds in township health centers are classified as level 1, which means that they are mostly for observation or convalescence. Rural county hospitals serving populations of approximately three hundred thousand are designated as level 2. They typically offer five or more basic medical specialty services such as internal medicine, general surgery, obstetrics, pediatrics, and ear/nose/throat. County hospitals offer very few subspe-

cialties. In contrast, urban residents are mostly served by level 3 and 3A hospitals, which offer every known subspecialty and the highest level of care.

The clearest way to illustrate the difference in the capability and competency of health services in urban and rural regions is to compare the number of registered physicians (three or more years of medical school education) serving rural and urban residents. Figure 2 shows that urban areas, on average, have 2.2 times the number of registered physicians per one thousand residents as rural areas. This gap has widened over the past two decades.

It is perhaps understandable that highly educated physicians would not want to work in rural areas, due to less desirable socioeconomic conditions and reduced educational opportunities for their children. Many nations try to rely on trained nurses to substitute for physicians in rural areas, but nurses are also unequally distributed in China. Figure 3 compares the number of nurses per one thousand residents in urban and rural areas. In 2011, the most recent year of data, there were 3.4 times the number of nurses per one thousand residents in urban than in rural areas, also a gap that has widened over the past two decades. As a result, prevention and health services in rural China have deteriorated, triggering the central government's effort to mount a comprehensive reform ten years ago.

The quality of health care itself is closely related to health care accessibility and expenditure, and is a critical outcome of the policy reforms. Numerous studies prior to the 2008 reform documented the overprescription of drugs and overuse of intravenous (IV) therapy, both effects of the introduction of distorted prices and the commercialization of public hospitals and clinics in the mid-1980s. For example, one study estimated that approximately half of all antibiotic prescriptions in China

were medically unnecessary, and many of these prescriptions were implicated in more than one million children becoming deaf or suffering neurological disorders.<sup>20</sup> Such patterns also contribute to the global problem of antimicrobial resistance.

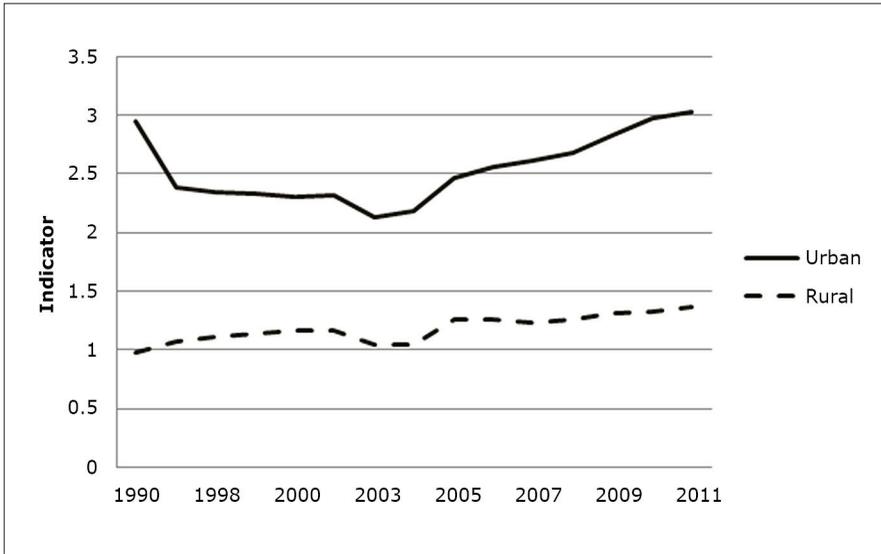
In a large study of urban health centers and stations, the authors randomly examined 203,080 outpatients' records retrospectively from the years 2007 to 2009.<sup>21</sup> They found that prescriptions of antibiotics, simultaneous use of two or more antibiotics, administration of IV injections, and prescription of steroid hormones far exceeded the World Health Organization's (WHO) reference standards during this period. Prescriptions of multiple antibiotics and use of IV injections were at least twice the WHO standards. Overuse of steroid hormones can harm patients, and patients can suffer from side effects of antibiotics as well as toxicity resulting from the use of multiple drugs. Overuse of drugs can also cause patients long-term harm in the form of drug resistance. These findings are summarized in Table 3.

How does the quality of health care in rural communities compare to that found in cities? One study in the rural counties of Ningxia, a low-income province, found that 60 to 70 percent of drug prescriptions for the common cold and upper respiratory infections were inappropriate.<sup>22</sup> Another study in the rural areas of Shandong province found similar results.<sup>23</sup> These studies suggest that rural areas suffer from more widespread inappropriate drug prescriptions than urban areas.

Another harmful effect of government policies on health care is illustrated by the discretionary surgery rate. Child delivery by Caesarean section (CS) is a profitable procedure in many countries, and thus can be used as a measure of overuse and quality of health care. China experienced a rapid increase in CS when insurance was expanded to cover this procedure at a price

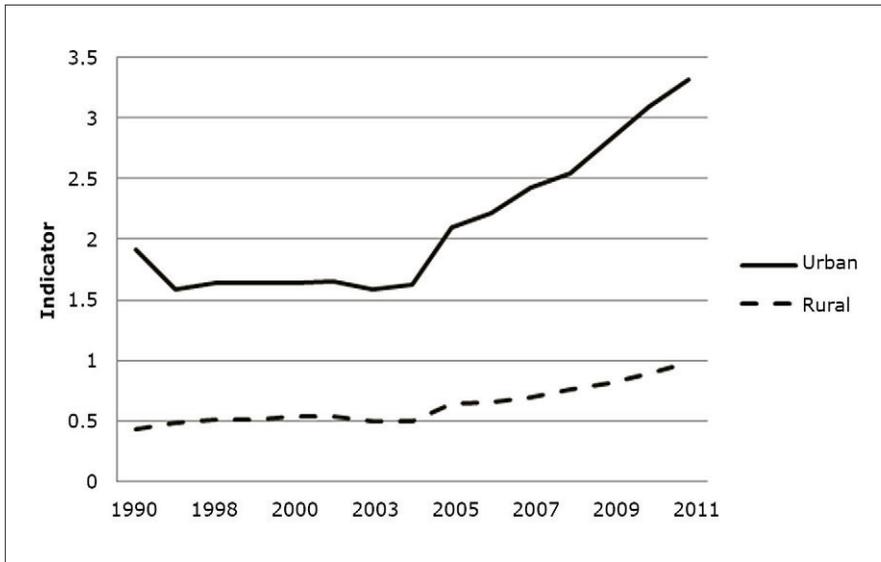
Figure 2  
 Number of Registered Physicians per 1,000 Chinese Citizens, 1990 – 2011

William C.  
 Hsiao



Source: Ministry of Health of People’s Republic of China, *China’s Health Statistics Yearbook 2012* (Beijing: Peking Union Medical College Press, 2012).

Figure 3  
 Number of Nurses per 1,000 Chinese Citizens, 1990 – 2011



Source: Ministry of Health of People’s Republic of China, *China’s Health Statistics Yearbook 2012* (Beijing: Peking Union Medical College Press, 2012).

Indicators	China's Health Centers	WHO Standard
Drugs prescribed per encounter	2.55 – 2.6	1.6 – 1.8
Percent of encounters with an antibiotic prescribed	40.1 – 45.1	20.0 – 26.8
Percent of encounters with an IV injection prescribed	32.4 – 35.4	13.4 – 24.1

Source: Yongbin Li, Jing Xu, Fang Wang, Bin Wang, et al., “Overprescribing in China, Driven by Financial Incentives, Results in Very High Use of Antibiotics, Injections, and Corticosteroids,” *Health Affairs* 31 (5) (2012): 1075 – 1082.

above the surgery’s actual cost. Studies found that China has a national average of 46 percent of births by CS, while the WHO standard is only 10 to 15 percent. In some areas of China, this figure exceeded 80 percent, and a few even reached 90 percent.<sup>24</sup>

The 2008 Chinese health system reform does not seem to have improved the quality of health care because it did not alter the fee-for-service payment system, nor the distorted pricing. A large study of eighty-three counties and cities nationwide found only variable and small changes in the use of antibiotics, IV injections, and steroid hormones between 2007 and 2010.<sup>25</sup>

More broadly, a health care system is not sustainable if increasingly larger shares of government and household budgets are being diverted to health care without commensurate benefits to patients. The annual health expenditure per person has been increasing at average rates of 10.85 percent (after adjusting for inflation) from 1990 through 2011: a figure that has outpaced the GDP average growth rate of 9.5

percent by 1.35 percent annually. The rate of increase has accelerated since 2007. During the period of 1990 to 2007, health expenditure was growing faster annually than GDP by 0.6 percent, but this gap jumped to 4.6 percent for the years between 2007 and 2011. This means that an ever-larger share of government and household expenditures has been going to health costs.

These rising inflation rates are chiefly caused by the previously discussed incentives given to commercialized public hospitals and clinics: fee-for-service payments and distorted prices. Facilities can increase their revenues and profits by inducing demand for services, in part by advising patients that they need unnecessary or excessive hospitalizations, surgeries, tests, and drugs. As profit motives took hold and gradually overwhelmed professional medical ethics, physicians and hospitals started exploiting patients as cash cows. Kickbacks from pharmaceutical and medical device companies created perverse incentives, further compounding the problem. When

China achieved nearly universal health insurance coverage in 2008, hospitals and practitioners faced a moral dilemma of whether to prescribe unnecessary but profitable drugs, tests, and services, given that insurance would pay a significant share of the bill. Based on the available evidence, we can conclude that China currently has an inefficient health care system, characterized by tremendous waste and generally poor quality.

While China has experienced remarkable growth in per capita GDP, growth in health expenditure per person has outpaced it: national health expenditure as a percent of GDP rose from 4 percent in 1990 to 5.2 percent in 2011. While this is a relatively high percentage compared to India's 3.9 percent, it is a relatively low percentage compared to upper-middle income nations such as Mexico (6.2 percent in 2011) and Brazil (8.9 percent). Chinese spending will continue to grow at a fast pace as its population ages.<sup>26</sup>

With its 2008 health system reform, China affirmed that the government assumes primary responsibility for financing health care. This commitment, along with other new declarations, promises to reduce the serious disparities between health care in urban and rural communities. However, it may take more than a decade to effectively address the maldistribution of health professionals between the two demographics.

The challenge that China faces now is how to address the two fundamental drivers of poor quality health care and rapid health expenditure inflation rates. The causes are interrelated and reinforcing. The first is the disappearance of professional ethics in medical practices. Practicing medicine under a profit-driven, commercialized medical system for nearly three decades has eroded professional ethical constraint in clinical decision-

making. Unless China can reestablish the ethical practice of medicine that characterized a previous generation of medical practitioners, the quality of health care will remain seriously deficient and health expenditure inflation will not be curbed. But how can China reestablish ethical behavior for millions of medical practitioners, and how long would that take?

Today, most senior physicians in China receive handsome incomes from bonuses, red envelopes (bribes), and kickbacks, and they expect that their future income be at the same level or higher. If the government formalized this high level of compensation in the hope of disincentivizing corrupt practices, junior doctors, nurses, and other professional staff would demand comparable compensation. Government-subsidized social insurance plans and individual households could not afford to finance this increase in compensation. Moreover, higher salaries alone may not end the unprofessional practices of senior physicians or village doctors.

Establishing ethical guidelines that may go against the self-interest of medical practitioners is particularly difficult in present-day China, where the pursuit of personal material wealth is viewed as a widely accepted, if not glorious, social value. China's unfettered free market, with its crony capitalism and widespread corruption, is simply not conducive to the ethical practice of medicine, which may call upon physicians to sacrifice personal gains for patients' welfare.

China is also confronted by the challenge of governing the public hospitals that deliver 90 percent of hospital inpatient and outpatient services and absorb 60 percent of national health expenditures.<sup>27</sup> Under the current system, Chinese public hospitals do not transform money into efficacious services; and more investment in health may not improve health outcomes. Moreover, because oversight of

China's public hospitals is divided between multiple governmental agencies, the actual governance of the hospitals is characterized by contradictory policies of various ministries. In total, at least eight ministries control some important part of a public hospital's operations. Each ministry has its own policies, which are not necessarily consistent or coordinated with those of other ministries. As a result, one agency may demand that physicians prioritize healing the patient, while another agency may provide a perverse incentive to do exactly the opposite. The Ministry of Health is responsible for the population's health, but does not control the essential inputs: financial resources, human resources, or capital investments. Four different ministries control financial inputs: the National Development and Reform Commission sets prices for health services and drugs and controls capital investments, the Commission on Personnel sets the number of staff that hospitals can employ, the CCP Organization Department appoints the director and other leaders of the hospital, and the Ministry of Personnel sets work and compensation regulations and controls staff appointments. Under these circumstances, public hospitals are uncertain of their functions and social responsibilities, and they are held accountable not for quality and appropriateness of services provided to patients, but only for profits or losses.

Reforming the governance structure of public hospitals will require a major restructuring of the power, function, authority, and accountability of many ministries. Such reform demands agreement among numerous bureaucratic stakeholders and powerful political leaders – a major challenge under the best of circumstances.

**B**oth China and India have achieved enviable economic growth during the past decade, and a simple comparative analysis

of the two growing states can shed some light on Chinese accomplishments and pains in health care. About a decade ago, both governments turned their attention to health care with a focus on the poor, spending an additional 1 percent of their country's GDP on health services. A decade later, 95 percent of children in China and 43.5 percent of children in India are fully vaccinated; infant mortality rate is 17 per 1,000 live births in China, compared with 50 per 1,000 births in India; 98.7 percent of births in China and 40.8 percent in India are delivered in institutions; life expectancy at birth is 73.5 years in China and 65.5 years in India.<sup>28</sup> Both nations have been trying to provide universal health insurance with shallow benefits since 2003. Currently, about 95 percent of Chinese and 25 percent of Indian citizens have health insurance coverage.<sup>29</sup> Only one-half of the Indian poor eligible for free hospital insurance are actually covered today.<sup>30</sup>

The difference in outcomes can partly be explained by the attention China gave to public health since the mid-1960s, as well as the different strategies adopted to improve health. The Chinese Communist government began prioritizing the provision of basic health care to peasants in the mid-1960s, long before the Indian government did. China also emphasized prevention and primary care delivered by modestly trained health workers. The Indian strategy (except in a few states such as Kerala) relied on public health services staffed by fully trained physicians and nurses, but due to inadequate public financing and poor governance, these public facilities could not meet the population's basic health needs. Lastly, China has an autocratic but effective government that can implement its policies efficaciously, while India's democratic government struggles to reach consensus and implement its policies.

Indian economist Amartya Sen has argued that economic growth and increased

GDP per capita may not necessarily reduce social inequalities.<sup>31</sup> This is clearly evident in both China and India. Between their urban and rural residents, both nations are confronted by huge disparities in health status, health spending per capita, supply of facilities, qualified medical staff, and access to quality health services. The policies that China implements to narrow these disparities will tell us about the social values that undergird the government's actions, as well as the Chinese political economy on social policy.

ENDNOTES

Author's Note: I would like to thank Mingqiang Li for his superb contribution to this paper. He diligently and thoroughly gathered the data and assisted in the analysis.

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# State Schemes or Safety Nets? China's Push for Universal Coverage

Mark W. Frazier

*Abstract: After rapid changes in social policy and increases in social expenditures over the past five years, many of the uniformly negative assessments of China's record on health care, retirement pensions, and other forms of social security have to be reconsidered. This article examines the rapid expansion in social policy coverage and spending, and considers the possible significance of these changes for Chinese politics. The administrative and territorial categories that have defined access to social welfare provision over the history of the People's Republic of China have not yet receded, but their significance has diminished with programs that create uniform eligibility across rural and urban categories of citizenship. Large gaps in benefits remain, and are likely to generate political demands in the future as urbanization continues to erode the administrative distinctions between urban and rural.*

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For much of the past decade, assessments of social policy in China – that is, state-financed protections against such risks as illness, poverty, unemployment, and old age – have ranged from pessimistic to dismal. In a widely cited report, the World Health Organization in 2000 ranked China as 144 out of 152 countries for health system performance.<sup>1</sup> Numerous studies, including those from China's own Ministry of Health, acknowledged that only 10 to 15 percent of rural households had any form of medical insurance. Between roughly 1995 and 2010, an estimated 30 to 40 million peasants lost their land, and about the same number of factory workers lost their jobs. For the latter, job loss also meant the sudden termination of a full range of factory-distributed benefits. Income inequality, a related metric of overall social welfare, rose rapidly to levels approaching those found in countries known for highly uneven distributions of wealth, such as Brazil and South Africa. If one includes in the scope of social policy the broader issues of environmental and resource degradation, pollution, and food safety scandals, the picture grows even bleaker.

This article considers recent, in some ways sweeping changes in China's social policies (sometimes referred to in Chinese as "social security" [*shehui baozhang*] or "social construction" [*shehui jianshe*]), including their effects thus far in addressing the rural/urban divide. During the same decade that bleak assessments of China's social welfare profile and the predictions arising from them have drawn so much attention, a rapid expansion of social policies has been under way. A central government that had positioned itself at a comfortable distance from the costly commitments of social policy throughout the 1980s and 1990s reversed course in the early 2000s, with numerous policy measures introduced, including the campaign to build the "New Socialist Countryside." Central ministries and officials were less willing to allow market forces and local governments to provide (or, more often, not to provide) crucial public goods related to health care, retirement pensions, poverty relief, basic education, and so forth.

In all these categories, China's leadership, in a fashion that has come to typify the Chinese government of the twenty-first century, has decided to allocate colossal amounts of funding. With an estimated 700 billion RMB in central government subsidies, local officials were mobilized in 2006 to register every village resident (and urban residents without full-time employment) in a "voluntary," rudimentary rural cooperative health insurance scheme. By 2011, Ministry of Health officials claimed to have enlisted 1.28 billion participants, a rate approaching the goal of universal health insurance coverage. In the 2013 Government Work Report to the National People's Congress, outgoing Premier Wen Jiabao stated that spending on education over the previous five years totaled 7.8 trillion RMB (US\$1.26 trillion), and by growing at 21.6 percent each year, had achieved the government's goal to

raise education expenditures to 4 percent of GDP.<sup>2</sup> Pension expenditures for 68.2 million urban retirees in 2011 reached 1.3 trillion RMB (US\$208.7 billion).<sup>3</sup>

These massive increases in social spending, and the rapid enrollment of hundreds of millions of uninsured in various social insurance programs, should not be taken as a sign that China's social policy woes, let alone its widening income gaps, are now a thing of the past. Still, the reorientation of China's social policy is worth careful consideration, for why it came about and for what it can reveal about state capacity and the goals of the leadership. As one example, Wu Bangguo, chair of the Standing Committee of the National People's Congress and the number-three ranked Chinese Communist Party (CCP) official in the outgoing Politburo Standing Committee, declared in his March 2013 work report that "[e]radicating poverty and bringing prosperity to all is an essential requirement of socialism."<sup>4</sup>

How one assesses China's social policy shortcomings and recent measures to address them reflects the choice, explicitly or implicitly, of other countries that one places in comparison with China. The East Asian developmental states and the post-socialist transitional economies are most commonly selected as comparison groups for China. Yet as the discussion that follows will reveal, China does not fit well into either group. The East Asian cases for the most part enjoyed what is now labeled as "inclusive growth," and their rapid expansions in social policy were long delayed, often accelerating after political transitions. The post-socialist cases were, unlike China, heavily urbanized and provided universal coverage under their planned economies. With the dismantling of socialism, liberalization and austerity measures placed great pressure on these governments to scale back social expenditures. A more useful grouping for com-

paring China's social policies can be found outside these usual peer groups. Several other large economies, like China, have both legacies of large rural/urban inequality and periods of rapid growth. I have used the term "large uneven developers"<sup>5</sup> to refer to cases such as Brazil, South Africa, India, and others that encounter almost built-in structural inequalities because of history and geography. (Twentieth-century Mexico, late-nineteenth-century Russia, and the United States from the mid-nineteenth to mid-twentieth century could also fit this category.) When such countries experience economic growth, the transformations of their rural and urban sectors inevitably generate high levels of income inequality as well as politics over how to reduce the inequality. While political outcomes and policies are in no way predetermined, one does seem to find in each of these cases pressures for redistribution of wealth across regions.

The discussion that follows addresses China's enduring sources of inequality and inequity in past patterns of welfare provision, during the Maoist and reform eras. One of the key themes is the salience of the spatial – not simply in geographic terms, but in administrative categories that locate individuals and households in distinct zones of access to social policy. As urbanization and other structural changes ensue, the lines that demarcate and stipulate access to social policies are eroding. A concluding comparative discussion addresses further the politics of social policies in China and other large uneven developers.

The social policies and welfare provision of the Mao era (1949–1976) evoke in the minds of many older Chinese citizens a time when access to primary health care and education was assured by the state regardless of one's income. Public health campaigns in the 1950s and barefoot doc-

tors in the 1960s and 1970s remain central in the narratives and recollections of this period. For urban residents, social welfare could be summed up by the term "iron rice bowl," which guaranteed employment and gave extensive cradle-to-grave welfare benefits delivered through one's place of work. Most of the improvements in national-level measures such as life expectancy and literacy took place at this time, admittedly from a very low baseline in the late 1940s.

The positive assessment of the Mao period in terms of health care and education outcomes should not lead to the conclusion that the Chinese state at this time distributed access to social welfare in an egalitarian fashion. As Martin Whyte explains in his essay in this issue, the CCP established the rigid spatial boundaries that define differential access to social welfare to this day. It is worth noting that Mao's successors in the late 1970s were quick to abolish the class labels that fostered bitter divisions and conflict, but they left in place many of the designations that created wide gaps within the population in terms of access to social welfare. The most well-known of these is the household registration system (*hukou*), which was introduced in the late 1950s amidst the mass migrations of the Great Leap Forward (1958–1960) and ensuing famine. Even before this time, rural populations in the 1950s sought out the far superior living conditions found in cities. It was clear even then that the benefits extended by the rural collectives were far below those of the "iron rice bowl" found in the city. The household registration policy made it impossible to transfer residency, by limiting access to urban jobs and social services to only residents who held local registration documents within a given city.

In today's China (and among foreign audiences), the household registration sys-

tem is the most often discussed and the most visible legacy of the Maoist era's unequal delivery of welfare provision. But there are many other, less noted forms of inequality in access to social welfare. During the Mao era, one could find considerable differentiation in welfare benefits within individual units such as a factory or hospital. Full-time permanent workers in state enterprises enjoyed, in comparison with temporary workers and apprentices, superior benefits for medical care, pensions, and housing, among other things. Such divisions and unequal access to benefits became the source of bitter and violent disputes within many factories during the Cultural Revolution. Full-time state enterprise employees also enjoyed lavish benefits and housing conditions relative to workers in the collective sector. Finally, the Maoist state also granted privileged access to the very best housing, services, schools, and much more for party and government officials.

From the perspective of rural development, the Maoist state certainly achieved significant milestones in the formation of rural health cooperatives and primary education. Yet from the metric of equity and progressiveness in social policy (based on the assumption that the poor should have access to more programs and more generous levels of support than the non-poor), the Maoist state was no more progressive than any other government that steers public welfare support toward those at the upper rungs of the social hierarchy: civil servants, military officials, and employees in strategic sectors. Moreover, inequality measures that report low levels of income inequality as a baseline for the start of the reforms can thus be quite misleading. Expressing income inequality in an economy that has state-determined wages, and no individual capital ownership or property income, is simply to repeat what state policy has determined

wage differences to be. The Maoist state ensured that these differences in pay would be low, even between a factory director and a temporary worker. But the distinctions in status and in access to non-wage benefits were vast.

In sum, by the end of the Maoist era, rural areas had seen marked improvements in basic living conditions through the delivery of primary health care and education from rural collectives, but these public goods varied widely and fell far below the benefits that urban residents received. Mobility restrictions and administrative hierarchies created at least three tiers of citizenship and access to social polices: rural, urban, and officialdom. (Many more tiers could be found within each.) The fact that these vastly different tiers of welfare provision have essentially remained in place over the course of three decades of market reforms may seem remarkable at first glance. But considering the trajectory that China's reforms have taken, these extended patterns of welfare exclusion and distribution are more easily understood.

The legacies of the Maoist era, when combined with the introduction of market reforms and a fiscal policy that relied heavily on localities to raise their own funds, placed China on the path of rapid but highly uneven development. This well-known story of inequalities among eastern, central, and western regions; the lingering income gaps between urban and rural areas; and the wealth accumulated by corrupt local officials need not be recounted here. The main point is that rigid distinctions in citizenship status and welfare access that were in place in the decades before the reforms were only amplified when the government introduced market forces to various sectors. Higher returns to education via higher wages in the labor market naturally went

to those who lived in cities. Profits from marketing agricultural goods went to those who administered the distribution system: township and county officials. In the rural sector, the reduction in the absolute number of households below the poverty line took place alongside the collapse of collective rural health care services and, in some counties, a decline in primary school enrollments.

During the 1990s, as central officials designed vague outlines of social policies to provide support to overtaxed peasants and laid-off workers, they did so on the baseline of existing administrative divisions and residency status. Social policy designs reflected the category of citizenship that one had been given by birth and by state job allocation: rural or urban *hukou*, enterprise employee or administrative personnel in a public agency, and many others. Gender and ethnicity, tellingly, were never salient categories in social policies that were so heavily influenced by the legacies of the planned socialist economy (with the notable exception of population planning). The reform era's heavy assignment of spending responsibilities to local governments further contributed to the deepening of spatially based administrative categories. Rural townships with more abundant factor endowments and experience with administering rural enterprises had a greater likelihood of providing public goods, including social welfare schemes. But more important, the obsession with self-financed governance meant that any mechanism to transfer public finances from well-off townships to poor townships was lacking. In short, spatially derived inequalities that existed in the Mao era were locked in, and amplified, under market reforms.

But something important occurred around the late 1990s to check this widening divergence in social policy and its ten-

dency to reinforce and widen inequalities. As urbanization and migration accelerated, social policy designs finally began to recognize the impracticality, and indeed the folly, of stipulating spatially and administratively defined categories. What did it mean to have separate policies for rural and urban, state and non-state, officials and civilians, when these categories and the policies that they were based on were made irrelevant by urban migration, state-sector transformation, and the blurring of public and non-public entities? Pension regulations in 1997, for example, were titled "Pension Regulations for Urban Enterprise Employees," which still reflected the urban/rural distinction, but ignored past distinctions in ownership type, among collective, state-owned, private, and foreign-invested enterprises. (The 1995 Labor Law had also dismantled the practice of treating separately employees in each category of enterprise ownership.) Regulations for health insurance also made no distinctions in ownership, while retaining the category of "urban enterprise employees." The policy-designated category of "urban enterprises" obviously excluded the urban self-employed, or anyone who was not working, voluntarily or otherwise. It also excluded those who worked outside of the borders of an urban district, even if they were engaged in manufacturing, as were many township and village enterprises. The broad category of some 30 million personnel in public administrative units (*shiye danwei*) and civil servants continued to receive separate treatment in policy.

Still, these new social policy regulations laid out an important principle – which would take at least ten years to be fulfilled in any practical manner – that migrant workers and urban residents employed in the same "urban enterprise" had access to the same benefits and provisions in social policy programs. And in

recent years, cities such as Hefei and Chengdu have announced measures to provide the same pension coverage to their rural populations (living outside the cities but administered by the city government) as urban residents receive. One such rural hukou holder who had just received pension eligibility told Xinhua, "Only when I'm covered with pension insurance do I feel like an urban citizen."<sup>6</sup> In Chengdu, Chongqing, and a few cities in Guangdong province, local experiments have granted pension rights to residents of rural counties surrounding urban areas in exchange for land use rights.<sup>7</sup>

While the three tiers of the past remain in place, with rural, urban, and officials receiving different treatment under separate programs, urbanization and migration continue to erode the rural and urban distinction. The 2010 Social Insurance Law further eroded these spatial and administrative distinctions by simply referring to "employing units" (*yongren danwei*) and "employees" (*zhigong*) in its various clauses. Meanwhile, the 30 million civil servants and employees in administrative units are under increasing pressure to finance some of the heretofore entirely free access to health insurance and pensions. Civil servant pensions and free health care insurance have come under heated criticism on Internet forums and even in the official press.

At the same time that the seeds were planted to equalize access to social insurance provisions, mass protests by unpaid pensioners and other "mass incidents" in urban areas exposed the fundamental incapacity of urban governments to provide promised compensation to the victims of state-enterprise restructuring and privatization. The central government stepped in to subsidize cities and regions that were unable to support large populations of retired and laid-off workers. A separate means-tested social assistance pro-

gram (*dibao*) for the urban poor was also introduced at this time. Urban protests by retired and laid-off workers, once common occurrences, are now rare in most cities. In part, the explanation lies with the central government's commitments. Over the past decade, a cumulative total of 500 billion RMB in subsidies for pensions alone has been distributed from the central government to local government.<sup>8</sup> Also keeping protests under wraps has been the deployment of a vast "social management" apparatus, described in the essay by Ching Kwan Lee in this volume, that includes "stability maintenance offices" (*weiwenban*) to disburse protestors with cash payments negotiated on the spot with protest leaders.

The number of migrant workers receiving coverage for health insurance is now 46.4 million, up from essentially none (save for a few local experiments) in the 1990s. Workplace injury, a chronic problem in export processing zones, mines, and other areas with high concentrations of migrant workers, is addressed through compensation under another social insurance program. (Legal claims for an employer's negligence are another matter.) A reported 68.3 million migrant workers now have accident insurance. The government also claims that 41.4 million migrant workers are now covered under pension insurance, which because of its locally administered nature is controversial among migrants.

But the most impressive achievement in recent years has been the rapid expansion of social insurance for health care and pensions in rural areas. As part of the push for the creation of a "New Socialist Countryside," the government's effort to expand rural health care was in effect a way of reviving the old cooperative medical care of rural areas that existed before decollectivization. The New Rural Cooperative Medical Scheme (CMS) was launched

on an experimental basis in 2002 and now claims to have 812 million participants, meaning that rural health care coverage rose from 10 to 15 percent in the late 1990s to over 95 percent of the target population.<sup>9</sup> By one calculation, the central government between 2009 and 2011 contributed about one-third of the 1.4 trillion RMB in public expenditures on health care. (Local governments accounted for the other two-thirds.) About half of the 1.4 trillion RMB in spending went toward subsidies for the uninsured to enroll in health care schemes (largely for the rural CMS and a program for urban residents not yet covered by enterprise-based health care).<sup>10</sup>

These impressive increases in coverage must be regarded at best as a first step in resolving a complex rural health crisis, described in detail in William Hsiao's essay for this volume. The insurance programs are quite rudimentary, with people still facing unaffordable out-of-pocket expenses, at 50 to 60 percent of inpatient medical costs. Given the rising costs of medical care and medication, these programs are insufficient to reduce the threat of catastrophic financial expenses. A household survey that found 12.9 percent of respondents (rural and urban) facing catastrophic health expenses concluded that this converted to about 173 million people living in households with such financial burdens.<sup>11</sup> For rural and urban residents alike, a visit to the hospital for any major medical procedure requires, with few exceptions, that patients pay all charges up front and in full. It is then up to the patient to pursue the laborious process of seeking health care reimbursements from the local social insurance agency. Reimbursements for urban residents are capped at low levels – about four times the local per capita annual income. For the rural CMS, maximum reimbursements are much lower.<sup>12</sup>

Other rapid increases in state spending also need to be put in proper context. Spending on education, which has reached the government's goal of 4 percent of GDP, belies many serious problems. Public spending on education in rural China remains minimal. Internet forums regularly discuss inequities in education, with debates triggered whenever a particularly glaring example comes to light, as was the case in 2012, when it was reported that children in two villages in Hubei province had to bring their own desks to school.<sup>13</sup> Anecdotal accounts suggest that the increases in spending have gone more so to showcase school buildings and less to teacher salaries and improvements in educational outcomes. With consolidation of rural schools and migration from villages, the number of primary schools in China continues a decline that started in the late 1970s.

Housing and land-use policies are not usually regarded in a strict sense as part of social welfare policy in most countries, but they are closely linked to welfare provision in China. During the dismantling of most state-owned enterprises and the mass layoffs that ensued in the 1990s, local governments took the highly significant step of selling state factories' worker housing stock to individual households at minimal prices (affordable even for most low-income workers). This constituted what later turned out to be a massive transfer of wealth to working class families, as urban real estate prices soared. Housing prices and possession became the source of great tension and social unrest as urban governments subsequently sought to remove households from their newly acquired dwellings at prices far below what real estate developers would pay to city planning agencies and their land corporations. In rural areas, land possession through the collective had been offered as a rationale in the 1990s for gov-

ernments to exclude rural households from the social insurance programs given to urban residents. But as increasing numbers of villagers were dispossessed of their land, this excuse could no longer serve as a means of exclusion. It is no accident that the rapid increase in social insurance coverage to rural residents took place during the peak of rural land requisitions. As villagers lost their only asset that could be used for income support in old age, they received pension and health care insurance in return.

Experiments with the construction and financing of public and affordable housing have also been on the central government's agenda, with Chongqing serving as a showcase since 2007. That happened to be the year that Bo Xilai was appointed party secretary, but the social housing pilots in Chongqing were under way before then, led by Huang Qifan and with generous central government support. Bo's removal from office by the top CCP leaders came in part because his populist stances and political ambitions threatened a smooth leadership transition, but the social policies under way in Chongqing will likely continue without the charismatic party secretary to take credit for them. Huang was reappointed mayor of Chongqing in early 2013, and the constraint on the ambitious expansion of public housing – a proposed addition of 40 million square meters between 2010 and 2020 – appeared to have more to do with shaky public finances than with political legacies of the Bo years. The municipality of Chongqing is in fact more rural than urban, by population at least, with 20 million rural *hukou* holders among the city's 33 million total residents. As such, it is an ideal location for experiments in granting rural *hukou* holders benefits equal to those of urban *hukou* holders. A program in 2010–2011 provided 3.4 million rural *hukou* holders with an urban *hukou*, at a cost of 208 bil-

lion RMB for the additional expenses to subsidize the higher rates of social insurance payments for urban residents.<sup>14</sup>

As the Chinese government is well aware, at least from statements made in the Twelfth Five-Year Plan document and other broad policy outlines, China now is at a crucial turning point in its social welfare system. Local officials who run China's social insurance system on the ground are approaching, and in some cases have reached, the limits of what is possible in terms of financing under the current model, by getting new citizens registered for social insurance. They have also acquired almost all of the available rural land, and they have converted most of the urban housing to commercial uses in urban core areas. And as many have noted, local governments at the same time have gone deeply in debt to state banks and other financial entities. Leaving aside whether officials can continue to collect social insurance premiums from employers and their workers, China's changing demographics (see Deborah Davis's essay in this volume) make the current model of employer-based social insurance run through thousands of local governments increasingly unviable. Population aging will make it impossible not to alter the status quo, because under current arrangements a locality's pension and health care benefits are essentially funded out of that locality's workers. The shrinking workforce-to-elderly ratios will generate immense pressures on the decentralized provision of welfare.

It is too early to gauge the effect of these recent measures on inequality. One early assessment of rural health insurance expansion, based on official surveys by People's Republic of China Ministry of Health scholars and published in *The Lancet*, reached the optimistic conclusion that "[t]he expansion of the insurance program seems to have been instrumental in nar-

rowing the inequalities in access between rural and urban areas, between western and central areas in comparison with the east, and between poorer and wealthier income groups.”<sup>15</sup> But one could just as easily point to the underlying design of social insurance as an obstacle in reducing inequalities. Just as in the American Social Security or Medicare system (social insurance programs that politicians continue to label as “entitlements”), one gets back in pensions and elderly medical care reimbursements roughly what one has paid in over the course of employment. To introduce social insurance in a country like China, with its vast income gaps between urban and rural residents, therefore does little to reduce income inequalities. To note just one example, the average monthly pension for an urban retiree was 1,511 RMB in 2011.<sup>16</sup> For the new rural pension program, the nationwide minimum monthly flat benefit was 55 RMB, which was below the national average for rural minimum income support of 82 RMB.<sup>17</sup> While the adjusted benefit in many rural counties is higher than this base level, the gap between urban and rural pensions remains vast.

What all the above tells us is that a combination of equalized access to social policies, along with escalating spending, has at the very least put the Chinese state in the position of making substantial commitments to future spending – and from the top less so than strictly from local coffers. The significance of this is worth considering for what it implies for future engagements between state and society in China.

If we know anything about politics in the aftermath of states that have initiated comprehensive undertakings in welfare expansion and expenditure, as China has over the past decade, it is that the policies tend to generate fierce defenders, in both

the beneficiaries and the bureaucracies that operate the programs. This prevents politicians from easily reversing policies and spending commitments. Moreover, once such policies are in place, the pressures for expansion grow, and benefits increase. China has seen a rapid expansion in social insurance coverage over the past five years, and it faces pressures to increase the patently unfair levels of benefits for rural areas. Continued urbanization, even if the *hukou* system is retained, will heighten the necessity of providing rural populations with benefits approaching those of urban residents. If China were to face a fiscal crisis and pressure for austerity, as some observers now predict, it will be very difficult to retract state commitments toward social policies that were extended to hundreds of millions of citizens in the past ten years.

Whether the Chinese state at central and local levels will have the fiscal capacity to cope with these pressures is contingent on many other factors, including future rates of economic growth. The point here is that regardless of the economic scenario one chooses, a politics of inclusion and access to social policy is well under way. Politics in China will obviously differ from those in countries with partisan and electoral political competition over the expansion or retrenchment of welfare benefits. But one can see in the performances of politicians such as Bo Xilai and Wang Yang, in the years prior to the leadership change in 2012, a conscious positioning of themselves as populist figures, or at least playing a populist card within the narrow constraints of today’s Chinese Communist Party. It is surely no coincidence that both men had served as party chiefs in Chongqing, the metropolitan focal point for centrally supervised experiments to incorporate rural populations into the urban social security system. The Bo Xilai affair has no doubt reined in those with ambi-

tions to serve at the top from going public as contenders for Politburo seats. But the incentives for local officials to take credit for expanded social insurance, for public housing, and for increases in medical and pension benefits are clearly here to stay.

China's substantial expansion in social policy also invites comparisons that might illuminate how and whether a large growing economy can translate the fruits of growth into social policy outcomes that promote greater equity, or at least reduce inequality. The categories or comparisons one chooses suggest different trajectories for China's social policy in the future. If we place China's story within the old framework of modernization theory, then urbanization and other structural changes, including the growth of an urban middle class, could be predicted to reduce inequalities by simply reducing the ranks of the rural poor. By contrast, accounts that see China and its political economy as a post-socialist narrative may lead to much less optimistic assessments, given the fate of public health, education, and social policy more generally in some of the formerly state socialist economies, particularly those of the former Soviet Union, including Russia. Those who see China's growth trajectory as most similar to those of the East Asian developmental states are likely to take the recent transformations in social policy as another instance of successful "growth first" policies in which social spending and consumption are first repressed and then gradually introduced after decades of rapid growth. (This overlooks the fact that the East Asian cases, unlike China, enjoyed growth with relatively low levels of inequality.)

I prefer a framework that reads China's welfare expansion as a more contingent event and not the inevitable outcome of social structure or economic transitions. It is true that the current expansionary

mode in social policy would not have been possible without the benefits of rapid growth and urbanization. Yet if there are any comparisons to be made with China, the most useful in terms of social policy would be, as I suggested at the outset, with countries that possess large economies with legacies of inequalities. Size is by no means a sufficient condition for economic growth, but when it does occur, it can exacerbate the existing pattern of inequalities. In large uneven developers, the designs and details of social policy can lead to differing outcomes: one is to reinforce existing distinctions in socioeconomic status, creating a situation in which the poor remain marginalized yet potentially mobilized on the basis of their exclusion from national social policy. Another possible outcome in social policy is to level such distinctions, through policies and laws that have the potential to create equal access to social policies and, with it, a possible expansion in conceptions of citizenship.

At least two other large uneven developers fall into the first category. Brazil and South Africa launched direct transfer payments to the poor ("social pensions") decades ago, after high growth brought accelerating income inequalities. In both cases, governments (Brazil in the late 1970s and South Africa in the 1940s) also faced great pressures from rural migration into cities. Their new social policies did little to reduce entrenched social inequalities, let alone the closely related measures of income inequality. India would be an example of the second outcome, in which social policies and laws generate a pattern of rights movements and legal mobilization.

Thus far, China seems to have taken neither the path of "expansion and exclusion" (Brazil and South Africa) nor that of social legislation and mobilization (India). The Chinese government has enacted a host of administrative measures

and has increased spending on many areas of social policy. But the transformations in China's social policies are more categorical and spatial rather than substantive. Rural residents and migrants who lack coverage are being brought into health care and pension programs that still possess numerous, serious flaws. This movement of spatially designated groups into social policies will neither enhance nor erode the prospects for continued CCP rule in China. But this transformation does have the potential to create a form of politics in which these groups, defined in policy, pursue concrete demands on the state for greater benefits or protection from benefits cuts. The "harmonious society" envisioned by the CCP over the past decade of social policy expansion is more likely to become (or remain) a contentious society of groups making claims for expanded access to social spending – and all the more contentious if the Chinese state faces fiscal constraints in the future.

#### ENDNOTES

- <sup>1</sup> World Health Organization, *The World Health Report 2000* (Geneva: World Health Organization, 2000), 152. China was ranked so low overall largely for the assessment on the "Fairness in Financial Contribution" component, where China placed 188th out of 191 countries (see p. 191). This component is based on household contributions to the overall financing of the health care system – meaning that households in China bore most of the costs of health care expenditures (p. 148).
- <sup>2</sup> Wen Jiabao, "Report on the Work of the Government," March 5, 2013.
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- <sup>8</sup> Wang Fayuan and Li Yu, "2010nian Zhongguo shehui baoxian zhidu jianshe xin jinzhan" ["New Developments in the Establishment of China's Social Insurance System in 2010"], in *2011nian Zhongguo shehui xingshi fenxi yu yuce* [*Chinese Society Analysis and Forecast, 2011*], ed. Ru Xin, Lu Xueyi, and Li Peilin (Beijing: Shehui kexue wenxian chubanshe, 2011), 51.
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- <sup>10</sup> Winnie Chi-Man, William C. Hsiao, Wen Chen, Shanlian Hu, Jin Ma, and Alan Maynard, "Early Appraisal of China's Huge and Complex Health Care Reforms," *The Lancet* 379 (March 3, 2012): 836.
- <sup>11</sup> Qun Meng et al., "Trends in Access to Health Services and Financial Protection in China between 2003 and 2011: A Cross Sectional Study," *The Lancet* 379 (March 3, 2012): 812.

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- <sup>12</sup> Lan Fang, "Death and Dying in the Provinces," *Caixin* online, May 18, 2012, <http://english.caixin.com/2012-05-18/100391842.html>.
- <sup>13</sup> "Hubei sanqian nongcun xuesheng zidai kezhuo shangxue youren ban chaji dang zhuozi" ["In Hubei, 3,000 Village Students Bring Their Own Desks to School; Some Use Tea Tables as Desks"], *People's Daily* online, September 3, 2012, <http://politics.people.com.cn/n/2012/0903/c70731-18907172-1.htm>.
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- <sup>16</sup> "2011 nian quanguo shehui baoxian qingkuang" ["Nationwide Social Insurance Conditions"], Ministry of Human Resources and Social Security, August 2, 2012, [http://www.mohrss.gov.cn/SYrlzyhshbzb/zwgk/szrs/qttjcl/201208/t20120802\\_66206.htm](http://www.mohrss.gov.cn/SYrlzyhshbzb/zwgk/szrs/qttjcl/201208/t20120802_66206.htm).
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# China's Workers Movement & the End of the Rapid-Growth Era

Mary E. Gallagher

*Abstract: China's rapid economic growth period was predicated on a development model that exploited the stark divide between its urban and rural citizens. As the workshop of the world, Chinese factories tapped the vast surplus labor of the countryside. Rural workers' expectations were low, but their desire for new employment opportunities was boundless and their numbers seemed limitless. Three decades later, these conditions have changed: workers' expectations are higher and their numbers are diminishing as the population ages. Labor disputes and strikes are endemic as the expectations and aspirations of workers outpace the nation's slowing growth rate. Compared to the anemic labor movements in the West, China's workers are emboldened, though they are still hampered by a repressive political environment and strict constraints on freedom of association. Conflict is spontaneous and settlement is ad-hoc. Like many authoritarian regimes, the Chinese Communist Party has difficulty committing to the institutionalization of labor conflict as it heightens the possibility of social empowerment. The state remains in charge, which also means that labor-capital conflict almost invariably metastasizes into a confrontation between workers and the state.*

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China's export powerhouse, its monopoly on production of many vital and common household goods, is built on the backs of its rural migrant workers: residents of rural China who have left their countryside homes to participate in industrial labor and the growing urban service economy.<sup>1</sup> No other reforming socialist economy had such ideal conditions for capitalist transformation. In most other cases, even before the political revolutions of 1989, economic reform and transition required attacking the socialist core of the economy: the state and collective sectors and the large portion of the workforce employed therein. China's reform trajectory has been different. Dynamic new sectors, including both domestic private and foreign-invested industry, were created prior to the restructuring of the public sectors that had employed the vast majority of the urban workforce. China's economy "grew out of the plan," with the state sector facing restructuring and downsizing only after

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China's economy had found new sources of growth.<sup>2</sup> But these new sources of growth were predicated on a development model that exploited the stark divide between urban and rural citizens in China. As the workshop of the world, Chinese factories tapped the vast surplus labor of the countryside, those Chinese citizens unincorporated into socialist welfare and largely emerging out of rural subsistence agriculture.<sup>3</sup> Their expectations were low, but their desire for new employment opportunities was boundless. For the two decades after reform leader Deng Xiaoping's 1992 "southern tour," this process would continue, extending geographically and across sectors. Migrant labor would also become essential to China's construction boom and the boom in the urban service economy, the latter fueled by the growing class of urban citizens with time and money to spend on leisure and in their private lives.

By the close of these two decades of massive rural migration, the Chinese economy – and with it, the entire world of work – had been transformed. In the spring of 2010, a group of workers in a Honda supplier factory in southern Guangdong Province went on strike for higher wages, better conditions, and effective representation.<sup>4</sup> The strike shut down Honda's entire China production and led to copycat strikes in other factories and across other regions. These events drew domestic and international media attention.<sup>5</sup> Some deemed 2010 a turning point in the Chinese labor movement, the point when individualized, mostly spontaneous, mostly atomized action began to crystallize and congeal into a collective movement. Young migrant workers began to focus on structural and systemic issues such as wage gaps between different classes of workers and the lack of effective representation by the All-China Federation of Trade Unions (ACFTU), the only legal trade union operating in the

country.<sup>6</sup> The China Labour Bulletin (CLB) entitled its 2011 report on Chinese labor *Unity is Strength*, a direct quotation from the slogans of the striking Honda workers, who despite their relatively young age and disparate backgrounds, emphasized growing solidarity among workers.<sup>7</sup>

The events of 2010 came on the heels of the turbulent passage of China's Labor Contract Law in 2007 and its implementation in 2008, right when the impact of the global financial crisis was beginning to be felt in China's export sector.<sup>8</sup> In 2008, labor disputes doubled in number, and courts were inundated with labor cases; by early 2009, in the aftermath of the economic upheaval taking place in the United States and other developed economies, nearly thirty million migrant workers were laid off. The 2010 strikes, while following this trend of increased labor conflict, were also a reflection of improvement in the Chinese economy brought on by the government's stimulus package and large increases in government investment. While workers in other countries struggled with declining living standards, growing unemployment, and political assaults on the right to organize collectively, the Chinese labor movement emerged from the crisis with increased confidence and more space to make its claims and demands.

The relative vigor of Chinese workers' activism stands in sharp contrast to the state of labor movements in other transitional and developing countries. Though China's workers are politically constrained by the party-state's ban on independent unions, the relative weakness of the ACFTU in controlling workers and the local state's fear of the impact of protests on social stability (coupled with tight labor markets) also translate into significant space for spontaneous and loosely organized worker mobilization. In many recently democratized states, newly powerful unions are constrained by their new links

to political competition and political parties.<sup>9</sup> The political incorporation of labor in new democracies can lead to improvements in working conditions and wages, but the process of incorporation can also moderate workers' demands or supersede their specific demands for broader political agendas. Moreover, democratic regimes seem to do a better job at institutionalizing labor grievances.<sup>10</sup> China, like other authoritarian regimes, has difficulty committing to the institutionalization of social conflict because it heightens the possibility of social empowerment. The state remains in charge, which also means that labor-capital conflict almost invariably metastasizes into a confrontation between workers and the state.

The increased mobilization and activism of Chinese workers, the growing awareness of their legal rights, and their solidified confidence in pressing for those rights are all positive trends. They reflect the winding down of China's development model that began with the unleashing of rural migrant labor twenty years earlier. These trends also reflect the government's success in transitioning its labor system from the planned economy "iron rice bowl" to a mostly capitalistic labor market that rewards high skills and education but provides much less in employment security or benefits to those lower down the labor market ladder. Despite the formidable political challenge of stripping urban socialist workers of their entitlements, the state managed to break its social contract with workers and reframe workplace rights around individualized labor relations structured by a labor contract system and a growing body of labor and employment law.

However, the growing activism and energy of the Chinese labor movement should be fundamentally worrying to the Chinese government. The system that is currently in place is an unstable mixture

of half-hearted adoption of "legality" – bottom-up legal mobilization by aggrieved workers disappointed in the gap between law on the books and law in action – and reactive party and state intervention and settlement of labor conflict. While ultimately unstable and dysfunctional, there is a logical connection among these phenomena. China's labor law regime, defined by "high standards, low enforcement," is symptomatic of the state's ambivalent embrace of law as an instrument of governance (an issue explored in greater detail in Benjamin Liebman's essay in this volume). The gap between law and reality becomes a space utilized by workers for social mobilization and by the state for selective enforcement and discretionary settlement of labor grievances. Workers' mobilization functions as a "fire alarm" regulatory system in which labor grievances and activism substitute for state-initiated enforcement.<sup>11</sup>

Since 2008, the year of both a more protective Chinese labor law and a global economic crisis, workers' mobilization has outpaced the legal system's ability to manage it. At the point of resolution, power returns to the state through a system that enlarges its discretion and expands its role in private disputes at the expense of formal legal institutions. While weakening legal institutions, the system also creates strong incentives for extreme behavior on the part of disgruntled workers. Once the state's discretionary power becomes central to resolution, workers direct their pressure onto the state for a favorable solution. Media attention and public opinion are critical; extreme behavior, including other-directed and self-inflicted violence, is key.

These factors in the labor realm are a microcosm of a more general dilemma of the Chinese state: how to raise standards and expectations so as to improve governance and quality of life without losing

control. The state's fear of social autonomy, for either labor or capital, requires that it stay involved. While a major cause of social instability in Chinese society is labor-capital conflict, the manifestation of the conflict continues to place the state front and center. As social scientist Cai Yongshun recently remarked, "With monopoly of power, comes monopoly of responsibility."<sup>12</sup>

China's current system, which relies on both labor legality and state discretion, has its roots in the 1990s transition from a dominant public sector employment model to a more diversified economy, with the state sector having shrunk and the private sector becoming more important in terms of employment. The turn to labor law addressed two separate challenges of the early reform period: 1) how to (gradually) disenfranchise permanent urban workers by eliminating the socialist system of employment; and 2) how to protect and empower new workers in the new capitalistic sectors then growing in development zones and coastal cities. These new sectors eventually expanded to include not only foreign-invested enterprises, but also domestic private enterprises and privatized collective and state firms.

China's trajectory of reform differed in fundamental ways from other reforming socialist and post-socialist states. The critical difference after 1989 was, of course, the absence of political transition in China. While other post-socialist states addressed political and economic reforms at the same time, Chinese economic reforms after 1989 proceeded while political reforms stagnated. In addition to this difference, China's sequencing of reforms allowed an initial period of opening and expanding the new foreign and private sectors, while only gradually instituting difficult reforms in the much more politically important state and collective sectors.<sup>13</sup> Labor law

and legal institutions were at first more important in regulating the non-state sectors, while administrative regulation and policy held sway over the public sectors. But over time, as the Chinese market grew more integrated and state-owned enterprise (SOE) reform became more pressing, the institutions of the new non-state sectors were extended into the old sectors. From 1998 to 2001, when the public sectors were restructured and many small and medium public firms privatized, over thirty million public sector workers lost their jobs. The "iron rice bowl" institutions of the previous system were dissolved. Lifetime employment ended, many social benefits of employment were reduced or phased out, and rural migration increased, creating new competition at the lower levels of the labor market. Labor mobility also increased and benefited those with the skills, education, or connections to find better employment.<sup>14</sup>

While strikes and demonstrations among laid-off workers and pensioners did occur during this period,<sup>15</sup> the backlash against restructuring was managed by the state through policies that gradually increased the competition with and pressure from the non-state sectors while also shielding older SOE workers from the full assault of marketization. Many informal and formal policies were developed to "treat old workers the old way, and new workers the new way."<sup>16</sup> The gradual introduction of labor contracts and labor law and its application to different types of workers at different times lessened resistance. The relatively quiescent reaction to economic reform among socialist workers in the 1990s was not unique to China, but was apparent in post-socialist regimes as well.<sup>17</sup> While the explanations for labor quiescence vary by country and over time, one factor is the ability of the "legacy union" of the socialist era to remake itself in the post-socialist period, re-

taining members and political influence.<sup>18</sup> While the Chinese Communist Party (CCP) does not aspire to devolve more political power to the ACFTU or to allow the existence of independent unions, the experiences of other post-socialist regimes indicate that legacy unions can survive political transitions intact. Even “opposition” unions that were part of the movements that swept away Communist governments in 1989 moved to embrace market reforms in the 1990s that were unfavorable to workers.<sup>19</sup>

The 1994 Labor Law, the first labor law in the history of the People’s Republic of China, was passed hurriedly after several years of discussion following a spate of wildcat strikes in development zones in China’s coastal cities. The law extended many of the provisions of labor regulations that had originally been crafted to fit the new non-state sectors. The foundation of the Labor Law is the labor contract system, which defines legal employment in China as the establishment of a labor relationship via a written labor contract.<sup>20</sup> The significance of this transition to labor contracts cannot be overemphasized, especially if contrasted to the previous system of lifetime employment. However, the repercussions of the labor contract system were not immediate. Labor contracts were gradually adopted by firms in the public sector, usually as the firm was restructuring or being privatized. Only younger workers were immediately subject to the strictures of the contract system.

The 1994 Labor Law was a law of aspiration. It set out many policy goals that were at the time, and in some areas remain, unreachable. Most important of these is the establishment of a system of social insurance that includes five social insurance programs: pensions, medical insurance, occupational injury, unemployment, and maternity. In addition, the

law set up standards for working hours, overtime, holiday pay, and other employee benefits. Minimum wage regulations were also put into effect. The law set up the procedures for labor disputes, which included voluntary mediation, compulsory arbitration via the Ministry of Labor’s labor arbitration committees, and litigation in Chinese courts if either side disagreed with the arbitration ruling.

The Labor Law had another important aspiration: to cover the broad spectrum of Chinese “workers” outside of agriculture and select services who were previously not covered by law (for example, domestic workers). The Labor Law does not distinguish between workers based on place of residence or urban/rural citizenship (*hukou*), nor does it distinguish by firm ownership. In this way, the law proclaimed that its protections should be extended to China’s large and growing population of rural migrants who lived and worked in Chinese cities and coastal development zones though did not enjoy full permanent residency in those areas. These aspirations, while important, were still far from being realized.

The decade spanning 1994 to 2004 was a period of massive transformation for Chinese labor. The non-state sector developed rapidly while the state sector shrank. Employment in state and collective sectors fell by fifty-nine million between 1996 and 2002, the height of the SOE restructuring period.<sup>21</sup> China’s accession to the World Trade Organization in 2001 further solidified its burgeoning role as the workshop of the world. Exports as a proportion of GDP grew from 21 percent in 1994 to 34 percent by 2004.<sup>22</sup> For China’s workers, this period was also transformative: the framework of the 1994 Labor Law began to structure the aspirations of the rising new working classes in China’s export zones, while also giving form to the post-socialist employment

world of urban workers when SOEs began to restructure and privatize aggressively in the late 1990s and early 2000s. However, it is also important to recognize that segmentation between the urban and rural working classes (one migratory and the other not) insulated the two groups from direct competition and conflict.

By 2002, state and collective employment in China had declined by 42.5 percent from its mid-1990s numbers. Rural to urban migration increased rapidly, from nearly twenty-two million migrants to seventy-nine million by 2000. By the end of that decade, the rural migrant population had grown to over 220 million people.<sup>23</sup> Wages also began to rise significantly for rural migrants after a long period of relatively slow increases. China's entry into the World Trade Organization in 2001 had a significant positive influence on investment, exports, and general growth. These trends were reflected in rising incomes among workers and the first sustained evidence for labor shortages in coastal regions' manufacturing sectors.

In addition to these positive trends, however, there were many problems with workplace conditions, with labor law implementation and enforcement, and in the rapid decline in employment security for urban workers following the restructuring of the SOE sector. While wages increased, abysmal workplace conditions and excessive overtime were typical in many export sectors, such as apparel, toys, electronics, and household items. Workplace accidents and occupational disease were prevalent. Rising wages coexisted with rampant wage arrears, especially in the construction sector. Stark gaps in social insurance coverage for migrant workers also meant that most workers did not have any safety net if illness or disease interrupted their ability to work. Finally, as the non-state sector developed, many employers disregarded the laws, failing

to sign labor contracts with employees. An increasing proportion of the urban workforce was employed informally, without the protection of labor contracts and without participation in social insurance. In 2005, 35 percent of urban workers were employed informally, while 90 percent of migrant workers worked without a labor contract.<sup>24</sup> In addition to the expansion of the informal labor market, labor subcontracting also became a common way for employers to hire workers short term, with less pay and social insurance than regular employees. By 2012, the ACFTU estimated that sixty million workers in China were employed via labor subcontracting agencies.<sup>25</sup>

Combined with a more general concern about rising inequality – between urban and rural residents, within urban areas, and among regions – the Chinese state began to adopt policies that sought to reverse these negative trends, build more inclusive and protective social welfare institutions, and bridge the gap between urban and rural workers. Many new laws offered greater employment protections, including the Labor Contract Law of 2008, which restricted use of short-term contracts, clarified the punitive clauses for violations, and extended economic compensation for terminated workers;<sup>26</sup> and the Labor Dispute Mediation and Arbitration Law of 2008, which simplified some of the procedures for labor dispute settlement, extended the statute of limitations for labor violations, and reduced fees. In 2003, Premier Wen Jiabao personally initiated a campaign to combat wage arrears among migrant workers, and the government signaled its intention to support migrant workers' grievances by officially recognizing migrants as members of the working class.<sup>27</sup> This increase in government support was seen in laws, campaigns, and extended and more sympathetic media coverage of labor issues.<sup>28</sup>

In 2004, China's labor legislation moved from increasing labor flexibility and reducing worker protections to increasing employment security and increasing protections. This shift was motivated by a fear of rising social instability that came not only from concrete problems, such as wage arrears, but also from a new sense of confidence and rising expectations among China's workers, especially rural migrants who finally began to benefit from labor shortages in manufacturing. Rising expectations and increased confidence in claims against employers can be seen in the continued increase in labor disputes, which have risen steadily since the 1990s and increased even more dramatically after the 2008 Labor Contract Law went into effect (see Figure 1). It can also be seen in strike activity since 2011 (see Figure 2). While strike data is not systematically available, CLB figures show that in 2011, an average of sixteen strikes per month occurred. That number increased to thirty-two strikes per month in 2012. In the first four months of 2013, CLB reports fifty strikes per month on average.

In the context of weak local enforcement of laws, the government has built a system that uses mass mobilization from below and direct state management from above in an attempt to regulate and control local officials and firms, both powerful new actors. This combination of mass mobilization and state power is a substitute for other types of reform that are too dangerous politically, such as liberalization of the restrictions on freedom of association, or greater freedom and political space for civil society actors (like labor NGOs). The Chinese state is not interested in delegating power to other groups or social actors; however, it has encouraged the mobilization of (mostly) individualized workers in its bid to improve compliance with labor laws and reduce labor conflict. As workers' solidarity and capacity for collective

action have increased, the state has struggled to maintain its labor system through more direct management of social disputes and less reliance on formal legal institutions.<sup>29</sup>

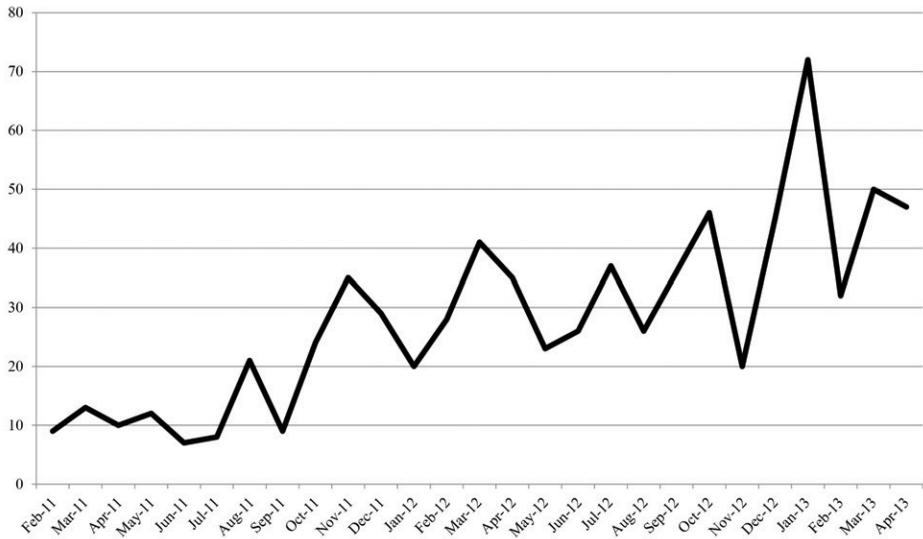
From the 1994 Labor Law to the more protective 2008 Labor Contract Law, China's embrace of labor legality was an instrumental move with multiple goals. Despite the difficulty in implementing the 1994 standards, the government moved to raise standards even further in 2008, solidifying the "high standards, low enforcement" model of Chinese labor law. According to an Organisation for Economic Co-operation and Development (OECD) report on employment protection, China in 2008 ranked second in employment protection across ten major developing economies (only Indonesia ranked higher) and exceeded the OECD average substantially.<sup>30</sup> In protection against collective and individual dismissal, China outranked all other countries in the OECD report, which includes all members of the OECD and several major developing economies, including Brazil, Russia, India, and South Africa. In terms of labor protection, few countries have moved as aggressively as China in recent years.

The labor legislation of the last two decades not only developed high, aspirational standards for Chinese workplaces, but also put into place a new system for the resolution of labor disputes that moved from more informal voluntary mediation, to arbitration via the local labor bureau, and finally to litigation via the civil courts. While the previous system tended to internalize the dispute within the enterprise and the SOE system, the new system empowered workers and invited the state into the private dispute as a third-party actor.

In creating this system of labor dispute resolution, the Chinese state provided an

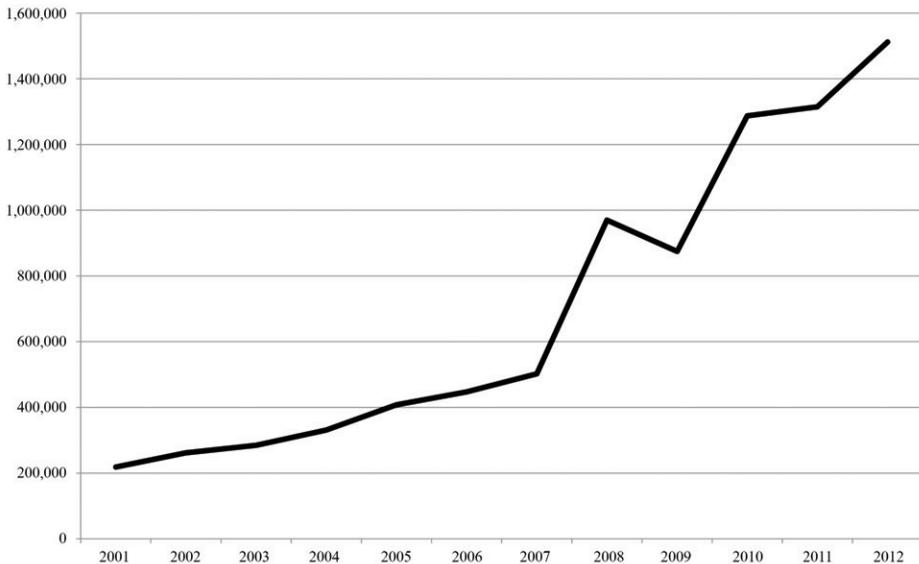
China's  
Workers  
Movement  
& the  
End of  
the Rapid-  
Growth Era

Figure 1  
Number of Strikes in China, February 2011 – April 2013



Source: China Labour Bulletin, 2013, <http://www.clb.org.hk/en/>.

Figure 2  
Total Labor Disputes Handled in China, 2001 – 2012



Source: Department of Population and Employment Statistics of the State Statistics Bureau and the Department of Planning and Finance Ministry of Human Resources and Social Security, *China Labor Statistical Yearbook 2012* (Beijing: China Statistics Press, 2012); see also labor statistical yearbooks of past years; and China Labour Net, *2012 Statistical Analysis of the National Labor Dispute Resolution Situation* [2012 niandu quanguo laodongrenshizhengyi chuliqingkuang tongjishujufenxi], <http://www.labournet.com.cn/ldzh/ckzl/t24.htm>.

opportunity for non-state actors to play a role in the private enforcement of labor law. While the state developed both “police patrols” and “fire alarm” mechanisms for labor regulation,<sup>31</sup> the fire-alarm mechanisms have been far more important in practice (just as Robert Weller, in his essay for this issue, finds to be the case for the state’s handling of religious dissent). Political scientists Mathew McCubbins and Thomas Schwartz define police patrol oversight mechanisms as “centralized, direct, and active.” They involve direct government surveillance of firms to detect violations of labor law compliance – the threat of which helps reduce such violations. Fire-alarm mechanisms, on the other hand, are less centralized, active, and direct. They involve the creation of channels and mechanisms to mobilize individual and group actors in society to alert the government of violations by seeking redress of their specific grievances. In China’s regulatory framework for labor, even inspections by government agencies and the trade union are often the result of worker complaints. While partly a consequence of weak local government capacity to manage centralized and direct regulation, there are also important reasons for governments to prefer such methods. First, fire-alarm oversight is particularistic. It tends to mobilize social actors with more efficacy, better resources, or more motivation for resolution. Second, it is more effective in exposing egregious violators than a police patrol system, which is less targeted and more sweeping. For a large, fragmented authoritarian system, these characteristics are especially important.

This mode of popular mobilization should be seen as part of a continuum of Chinese Communist policy-making that activates individuals (“the masses”) while maintaining strict control of collective action and organization outside the CCP.

China’s reliance on individualized legal mobilization fulfills the state’s goal to mitigate some of the ill effects of the reform era on employment security and working conditions. Informal and formal barriers to collective mobilization remain, enhancing the regime’s stability and reducing the likelihood of a political challenge from aggrieved workers. As Benjamin Liebman points out, the state’s emphasis on populist legality has connections to China’s revolutionary past.<sup>32</sup> While mass mobilization of the Maoist era is no longer possible or desirable, individualized legal mobilization does play a critical role in bottom-up implementation of laws and regulations. As political scientists Elizabeth Perry and Sebastian Heilmann argue, mass mobilization has been much reduced in the reform era, but the CCP retains many of its governing practices from that era.<sup>33</sup> While the legalistic aspect of workers’ mobilization is new and a product of the reform era’s emphasis on law, the campaign of “legal dissemination” and the unleashing of populist grievances against powerful actors like firms and local governments do have precedents in the Maoist period.<sup>34</sup> This type of mobilization may be effective in increasing the law’s responsiveness while limiting political challenges from organized interests. Moreover, in the resolution stage, the state has been careful to retain a significant degree of discretion and flexibility. This has particularly been the case since 2008, when the dual force of the Labor Contract Law and the global financial crisis hit Chinese labor relations.

In the period after the passage of the 1994 Labor Law, labor dispute resolution moved toward greater formalization and adversarial settlement in the courts through channels ranging from more informal mediation to court litigation. Arbitration, the middle stage, is compulsory

before litigation. Mediation is, by central law, voluntary but encouraged. Litigation is possible whenever one side of an arbitration suit does not agree with the arbitrated judgment.<sup>35</sup> This system was first put into place in 1993, and initially the number of people using it was very low. But as China's labor legislation became more complex and comprehensive, labor disputes through these channels increased. Campaigns to increase labor law knowledge and general legal awareness and to expand legal aid opportunities have also contributed to widened use of these institutions. It is perhaps not completely surprising, then, that with the passage of the 2008 Labor Contract Law and the 2008 Labor Dispute Mediation and Arbitration Law, the number of labor disputes doubled in a single year. Civil courts were inundated with labor cases and local governments scrambled to keep pace.

Even before the burst of disputes after the 2008 Labor Contract Law, the Chinese government under General Secretary Hu Jintao and Premier Wen Jiabao began to show signs of ambivalence toward the adversarial, legalistic resolution of labor disputes.<sup>36</sup> With the immense increase in labor conflict after 2008 and the increasing propensity for migrant workers to mobilize collectively, the government pursued a dramatic increase in the number of disputes to be settled via informal settlement, often through mediation.<sup>37</sup> The government's strategy was designed to reduce pressures on the courts and labor arbitration committees, as well as to dampen down labor conflict during a period of global economic instability.

While individual disputes were increasingly processed through mediation at various levels, the government took a more interventionist stance to handle collective disputes, which were far more problematic for local stability and were potentially threatening to the promotion chances of

local cadres. This hands-on approach to labor conflict resolution involved intra-government coordination to manage the two sides, encourage compromise, threaten extremists or leaders with repression, and buy off disputants whenever possible in the hopes of an early, peaceful resolution. Sociologist Yang Su and legal scholar Xin He label this "street as courtroom": a mode of government and judicial settlement of the dispute that prioritizes quick settlement and can often lead to compensation and resolution in favor of workers.<sup>38</sup>

For both individual disputants and large collective disputes, the state since 2008 has moved to intervene more directly to make up for the weak legal system's inability to enforce judgments, and for the lengthy time needed to resolve disputes via the multi-tiered process. Mediated cases now outnumber disputes going through formal arbitration and litigation, covering 58 percent of all disputes in 2012. Mediation is also decentralized and can be practiced at a number of different institutional levels and units. For the large-scale strikes and demonstrations that have rocked Chinese development zones over the past few years, the state's central role has been even more apparent. "Stability committees" have stepped into the fray, shifting the dispute between workers and employers by putting the state front and center as the target of workers' hopes and demands.

The move to informal settlement and state-directed settlement may be problematic for the rule of law and the fledgling legal system since more and more disputes now bypass the recently created formal system in favor of direct management by state officials. The formal and informal restrictions on collective organization outside the official trade union, and the sporadic repression of civil society actors – including labor NGOs, legal aid centers, and law firms – prevent workers' individual

and spontaneous collective action from gelling into anything long-term, programmatic, or institutional.<sup>39</sup> As Ching Kwan Lee, in her essay for this issue, shows of contemporary Chinese protest in general, activists respond to the state's involvement with repertoires that emphasize morality and use extreme behavior to better their chances of an advantageous settlement. Violence, other-directed and self-inflicted, and other forms of extreme behavior are critical both for heightening pressure on the state to respond and for attracting media attention that will increase social support and sway public opinion.<sup>40</sup> With the state's overarching desire to maintain social stability, the potential for instability becomes critical to the mobilization and resolution process. China looks unstable from the outside because instability is built into the system.

Some observers of the current labor situation in China see a vicious circle of state intervention and worker reaction.<sup>41</sup> Given the government's reluctance to create institutions to manage the rising collective demands and expectations of workers that are increasingly not bound by the legal minimums of the labor laws, China may be caught in an instability trap.<sup>42</sup> Reforms to the official trade union, the ACFTU, have also failed to solve these problems.<sup>43</sup> During strikes and protests, the trade union is either marginalized or ridiculed. In the case of the 2010 Honda strikes, the local district trade union not only failed to assist workers to negotiate collectively, but union cadres took pictures of striking workers and got into a scuffle with offended workers. The dilemma of collective representation has not been solved.

China's labor dilemma in part reflects the broader global trend of labor's decline. Weakened labor movements and declining union density are not only commonplace in the developed world, but can also

be seen in many post-socialist and developing economies. The ACFTU's limited role reflects the weakening of collective labor power against the state and against employers who are united in their desire to minimize the bargaining power of workers. But unlike its counterparts in many other countries, the ACFTU enjoys a monopoly on representation and an important, albeit subordinate, role in the Chinese state's handling of labor issues. After declining in the 1990s, its membership has grown while union density has declined globally. While the ACFTU remains mostly ineffective at the workplace, its pursuit of enhanced legislative protection of workers has contributed to the empowerment of workers, serving as a symbol of the state's legitimization of workers' mobilization.

The institutionalization of labor conflict and its inherent risks to authoritarian regimes pose a second dilemma for China. As political scientists Graeme Robertson and Emmanuel Teitelbaum have found, democratic regimes often do better in insulating labor conflict via institutional channels.<sup>44</sup> Other researchers have found that democratization tames labor by enveloping unions and activists into party politics and their crosscutting cleavages. Authoritarian regimes, fearful of the potential externalities of autonomous labor, seem to prefer ad hoc and reactive responses to spontaneous forms of worker action, such as wildcat strikes, traffic blockades, and episodic violence. Like an old general in a new war, the CCP fights the specter of the Polish example: Solidarity, repressed in 1981, but politically victorious in 1989. While post-revolutionary Solidarity proceeded to pursue market reforms and undermine the power of labor, the political lesson of 1989 remains critical.<sup>45</sup> This is particularly the case for the CCP, which managed to do what others could not: that is, adopt liberalizing reforms and maintain political power.

The true test of the state's ability to manage discontent directly, with limited reliance on institutionalization and no tolerance for autonomous organization, will be in the next period of Chinese development. As the new Chinese leadership has already acknowledged, growth in the next period will be slower while the government attempts to deal with the hangover symptoms of rapid growth: inequality; air, land, and water pollution; and the public's lack of confidence in the regulatory system. With slower growth and potential important reforms to speed up urbanization, management of labor conflict

will be more complex. Migrant workers should benefit from reforms that allow them to reside legally and permanently in cities. These reforms, however, could also reduce segmentation in Chinese labor markets, intensifying competition between migrants and protected urban workers and reducing employment discrimination of rural migrants. In the next period of China's development, we will continue to see conflict between aggrieved workers and an activist state, but we are also likely to see new types of conflict between different classes of workers, fighting for a piece of a smaller pie.

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# Legal Reform: China's Law-Stability Paradox

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*Abstract: In the 1980s and 1990s, China devoted extensive resources to constructing a legal system, in part in the belief that legal institutions would enhance both stability and regime legitimacy. Why, then, did China's leadership retreat from using law when faced with perceived increases in protests, citizen complaints, and social discontent in the 2000s? This law-stability paradox suggests that party-state leaders do not trust legal institutions to play primary roles in addressing many of the most complex issues resulting from China's rapid social transformation. This signifies a retreat not only from legal reform, but also from the rule-based model of authoritarian governance that has contributed much to the resilience of the Chinese system. The law-stability paradox also highlights the difficulties facing efforts by China's new leadership to reinvigorate legal reform.*

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Do robust legal institutions support or subvert efforts to maintain social stability in an authoritarian state? Over the past decade, this question has become central to discussions concerning legal reform in China. In the 1980s and 1990s, China devoted extensive resources to constructing a legal system, including training legal professionals, encouraging greater use of the courts, and adopting new laws designed to regulate and constrain state conduct. In the 2000s, in contrast, the Chinese party-state's focus shifted toward emphasizing resolution of disputes outside the formal legal system, negotiated outcomes in the formal legal system, flexible application of rules and procedures, and greater oversight of judges and other legal professionals.<sup>1</sup>

This essay focuses on what I refer to as China's law-stability paradox. Having devoted extensive resources to constructing a legal system in the 1980s and 1990s, why did China's leadership retreat from using law when faced with perceived increases in protests, citizen complaints, and social discontent in the 2000s? China's legal reforms have been designed in part to further stability. Yet party-state

leaders appear not to trust legal institutions to play primary roles in addressing many of the most complex issues resulting from China's rapid social transformation. The party-state has prioritized rapid resolution of conflict over adherence to legal procedures.

In China, the term *social instability* is often understood to refer specifically to incidents of protest or social conflict. Yet the phrase has evolved to cover a much broader swath of activity and discourse, including online discussions of high-profile issues and any conduct that the party-state views as a potential threat to its authority or legitimacy, including corruption, group litigation, and virtually any publicly discussed controversial topic. Social instability in China thus refers narrowly to acts of protest and broadly to conduct that party-state officials view as having the potential to create unrest or to challenge the party-state's power.

Evidence from China suggests that top leadership has in recent years perceived adherence to legal rules as a constraint on efforts to maintain social stability.<sup>2</sup> This approach may be due to concerns that stronger legal institutions could threaten Communist Party control. But recent attitudes toward law also reflect party-state efforts to maintain legitimacy by being responsive to the public, as well as uncertainty about the utility of law in managing a period of rapid change. Law has become an important governance tool in China, but adherence to legal procedures is not a source of party-state legitimacy. Recognizing China's law-stability paradox challenges Western arguments regarding the role legal reforms have played in the construction of China's form of authoritarianism,<sup>3</sup> suggesting a retreat not only from legal reform but also from the rule-based model of authoritarian governance that has contributed much to the resilience of the Chinese system.

The law-stability paradox also highlights the difficulties facing efforts to reinvigorate legal reform. Under the slogan "rule of law China," newly appointed Communist Party General Secretary and President Xi Jinping has signaled a desire to enhance legal reform and force official actors to obey legal norms. The Communist Party Central Committee's "Resolution on Several Important Issues on Comprehensively Deepening Reform" (or simply, the Third Plenum resolution), issued in November 2013, outlines some potentially important reforms to the legal system. Xi's comments and the resolution have brought cautious optimism to many people working within the Chinese legal system who have viewed policies of the past decade as an assault on legal norms and the idea of rule-based governance. Yet other recent developments, including renewed emphasis on stability and detentions of legal activists, suggest that fundamental changes to official attitudes about the role law plays in China are unlikely. The law-stability paradox suggests that reform requires not only renewed commitment to the use of legal procedures and institutions, but also breaking the cycle of distrust that undermines the authority of legal institutions and rethinking how the party-state conceives of its own legitimacy.

Xi Jinping's comments endorsing the concept of "rule of law China" and the reforms announced following the Third Plenum in November 2013 have been widely viewed as efforts by Xi to mark a clean break from his predecessors, especially following the fall of Bo Xilai, the former Communist Party Secretary of Chongqing whose populist approach was seen by many as a direct assault on rule-based governance. Xi is not the first Chinese leader to use the rhetoric of law to distinguish himself from his predecessors. Deng Xiaoping's embrace of legal reforms in the late 1970s

and 1980s was in significant part a reaction to the chaos and violence of the Cultural Revolution.

China's legal reforms initially focused on creating a legal framework for economic development.<sup>4</sup> By the 1990s, the focus of new laws expanded to include a range of other issues, from environmental protection and women's rights to administrative laws that facilitate challenges to state action and regulate state conduct. The number of trained legal personnel also expanded rapidly in the 1980s and 1990s, with the total number of lawyers increasing from 3,000 in 1978 to more than 160,000 by the early 2000s. Professionalization was explicitly encouraged: hundreds of law schools and law departments opened; legal expertise developed within the National People's Congress and other law-drafting bodies; and beginning in 2002, all new judges, procurators, and lawyers were required to hold university degrees and pass a unified national bar exam.<sup>5</sup> Significant attention was devoted to making the legal system accessible to ordinary people. In the late 1990s and early 2000s, China devoted resources to constructing a state-run legal aid system, and for the first time permitted the development of quasi-independent public interest law organizations. Debate about legal issues also became common in the media in the 1990s, advancing popular knowledge of law.

Although reforms to the legal system in the 1980s and 1990s were impressive, abuses continued to be widespread. Many rights set forth in the large volume of new laws went unenforced. The Chinese party-state continued to rely on political campaigns to address the most significant problems – including threats of instability – and to enforce new legal norms. Courts and procurators remained under direct Communist Party oversight. Party political-legal committees and individual party and gov-

ernment officials played significant roles in influencing outcomes in court and in resolving disputes outside the formal legal system, reflecting a continuation of revolutionary-era distrust of autonomous institutions.<sup>6</sup> Populism remained an important factor in shaping legal outcomes. Legal rules were designed primarily to facilitate, not constrain, party-state policy, in particular economic development. Law was not a mechanism for oversight over the party-state itself.

General Secretary Hu Jintao and Premier Wen Jiabao took power in 2003 against a backdrop of rising concerns about social unrest and inequality. They initially appeared to use law to signal a break from the past. Legal scholars and lawyers seized on a perceived new commitment to reform to call for greater enforcement of the constitution and a deepening of legal reform.<sup>7</sup> There were some modest successes for advocates of reform, most notably the 2003 abolishment of the custody and repatriation detention system for migrant workers following an outcry from the media and legal academics concerning abuses in the system. The SARS outbreak the same year led to widespread calls for, and apparent new state commitment to, increased government transparency. China also amended its constitution in 2004 to add provisions protecting human rights and private property.

Despite this initial optimism, the 2003 – 2013 Hu–Wen era became known for its deemphasis on legal reform. In the first two decades of legal reform, embrace of law and rule-based governance was largely understood as enhancing the party-state's authority and legitimacy. In the Hu–Wen period, in contrast, the Chinese leadership appeared to develop a more skeptical approach to law. The result was a decade of slowing legal reform and greater party oversight over the legal system, what legal scholar Carl Minzner has called China's

“turn against law,” and what I have elsewhere described as China’s “return to populist legality.”<sup>8</sup>

New official attitudes toward law in the Hu–Wen era were manifest most clearly in the emphasis on maintaining social stability and constructing a “harmonious society.” Stability has been a key concern throughout the reform era. In the 2000s, however, stability attracted renewed attention as reports of protest and unrest mounted. In the 1980s and 1990s, legal reforms were largely thought to promote stability: it was better to have disgruntled citizens suing in court than protesting or burning down government offices. In the 2000s, in contrast, official sensitivity to unrest resulted in deemphasis on legal procedures and the creation of incentives for local officials to maintain stability, often at the expense of following legal norms.

In the 2000s, courts came under pressure to mediate the majority of civil cases. Courts received explicit targets for mediating percentages of cases; mediation rates in some jurisdictions exceeded 80 percent.<sup>9</sup> This trend marked a shift from the 1990s, when adjudicated outcomes had become the norm in most cases decided by China’s courts. Official encouragement of mediation reflected the belief that mediated cases are less likely than adjudicated cases to result in escalation and unrest. Mediation also fit well into official policy of re-embracing revolutionary-era concepts of “justice for the people” and the “Ma Xiwu adjudication method,” which emphasized resolving disputes immediately, on the spot, and in line with popular views.<sup>10</sup>

High mediation rates lead to concerns that litigants are being coerced into agreeing to mediated outcomes and denied the opportunity to resolve cases in accordance with the law. In many contentious disputes, mediation is handled through

“grand mediation,” led by local party leaders, with courts being one of many actors at the table. Officials and judges serving as mediators often act as fact finders, pressuring parties and their families to agree to settlements.

Many judges view mediation as subverting their proper role and adding to their workload. Yet mediation also protects the courts. Mediated outcomes insulate courts from appellate review and prevent cases from being made public, reducing the possibility that judges will be held accountable for incorrectly decided rulings. In some substantive areas, most notably labor, heavy reliance on mediation outside the courts also reflects the courts’ lack of capacity to handle a surge in disputes.<sup>11</sup>

Mediation in the 2000s extended to administrative cases (where it had previously been banned by the 1989 Administrative Litigation Law) and criminal cases. Equity concerns are particularly apparent in criminal cases. Many defendants in minor criminal cases who agree to compensate their victims receive suspended sentences. Those who do not pay compensation, or are unable to do so, generally receive prison terms.<sup>12</sup> In more serious cases, compensation payments by defendants or their families to victims can determine whether defendants receive suspended death sentences or life terms rather than the death penalty. The emphasis on compensation and negotiated outcomes in criminal cases reflects resource concerns and official policy of treating minor cases leniently.<sup>13</sup> Yet the encouragement of settlement and compensation in criminal cases also mirrors state apprehension about escalation and protest. Ensuring victims are compensated reduces the possibility of escalation or protest by victims; reducing sentences minimizes the risk of discontent from defendants’ families. But whether negotiated outcomes actually produce stability is

unclear: criminal cases continue to be a primary source of complaints concerning the courts, in particular from victims' families suspicious that defendants will avoid punishment through backroom deals.

Concerns about stability also affect how judges interpret and apply the law in cases that are resolved through adjudication. In tort cases, most notably medical disputes, it is routine for judges to adjust outcomes to ensure that aggrieved litigants receive compensation, even when there is no formal legal basis for doing so. Judges adopt flexible interpretations of law in order to ensure that aggrieved persons receive compensation in a range of potentially contentious cases, most notably labor disputes and those involving corporate dissolution and bankruptcy (where layoffs are a risk).<sup>14</sup> Courts in China are innovative, but innovation often serves to insulate courts and judges from criticism, not increase court authority.

Courts in the Hu–Wen era came under extreme pressure to respond to and prevent protest. The volume of “litigation related” petitions and protests surged in the late 1990s and early 2000s.<sup>15</sup> “Letters and visits offices” exist at all levels of the Chinese state to receive and process complaints from citizens. Many other party and state entities, including the courts, the media, and procuratorates, also have their own letters and visits offices to handle complaints. Thus “litigation related” petitions may be filed with letters and visits offices, with courts, or with letters and visits offices at other party-state organizations. Judges and courts are evaluated and ranked based on the number of complaints filed. Complaints or protests about courts are viewed as evidence that judges have not handled the case correctly regardless of the merits of the complaint.

Petitions about the courts reflect problems in the courts, including corruption and lack of competence. But such com-

plaints are also a sign of disconnect between popular use of law and the capacity of the legal system to respond. One common source of complaints, for example, is unenforced decisions. In some cases, however, lack of enforcement results from the inability of a defendant to pay, not from inaction by the courts. Likewise, in contentious cases, most notably land disputes, petitions and protests often result from the fact that courts lack sufficient authority to act.

Courts take extreme steps to eliminate complaints. One response has been greater use of mediation, reflecting the view that mediated cases are less likely to result in protest. But courts also maintain dedicated funds that they use to persuade petitioners to stop petitioning, agree to reopen and rehear previously decided cases in response to complaints, and deploy staff to Beijing to intercept and forcibly return home those who seek to file complaints to authorities in the capital. Compensation and mediation agreements frequently include promises by litigants not to petition. Adherence to legal rules is of secondary importance to eliminating the potential for unrest, with courts adjusting outcomes or pressuring defendants to pay additional sums to plaintiffs in already decided cases.<sup>16</sup> Although official statistics reported a dramatic drop in the volume of litigation-related petitions filed in the latter half of the 2000s, judges report that the pressure they face from petitioners has not declined.

Protest likewise influences cases that never make it to court. Concern about unrest is a key factor influencing settlement decisions in areas such as medical malpractice litigation and labor disputes, where defendants often agree to pay significantly more than legally required in order to head off possible protest and violence.<sup>17</sup> The threat of violence is real: reports of aggrieved patients or their fami-

lies attacking doctors have become common, as has the practice of family members leaving the body of the deceased at the hospital (sometimes in the lobby) in protest while negotiations over compensation proceed. Specialized intermediaries now exist in many locations to assist people seeking compensation outside the formal legal system, with professional protestors congregating outside hospitals and specialized debt collectors working in many areas.<sup>18</sup> Officials have acted quickly to ensure that some of the most sensitive disputes, such as those arising out of the Wenchuan earthquake, the Wenzhou high-speed rail accident, and the melamine-contaminated milk scandal, never make it to court. In all three cases, potential plaintiffs were encouraged or compelled to agree to quick settlements. Courts have also refused to accept cases on a wide range of issues linked to social unrest, such as land disputes. Courts lack authority to accept many sensitive cases and refuse to accept such cases even when they do have the authority.

Scholarship on protest in China, as Ching Kwan Lee notes in her essay in this issue, has identified threats of escalation and group action as key determinants of a protest's success. However, evidence from the legal system shows that courts are at times responsive to individuals who pose little threat of collective action.<sup>19</sup> The incentives for local officials to stop even individual petitioners suggest that existence of such grievances is perceived as a threat to the party-state's legitimacy.

State concerns about stability and legitimacy are also manifest in official embrace of populism in the legal system and in calls for greater party supervision, in part the result of the perception that courts are an important source of public discontent. The term *populism* in the Chinese legal system includes a broad range of external factors that affect legal insti-

tutions, including traditional and online media as well as collective protests. Appeals to populism often mix with party efforts to assert oversight over the courts. The blending of populism and party oversight was captured most clearly in the promotion of the "three supremes" by former Supreme People's Court President Wang Shengjun in 2008: the supremacy of the party's business, the supremacy of popular interests, and the supremacy of the constitution and law. Courts in recent years have welcomed greater oversight by people's congresses, have increased roles for laypeople in hearing cases, and have emphasized public opinion in court decisions. Such steps contrast with the modest efforts in the direction of greater professionalism in the legal system in the 1990s. Courts have been encouraged to work together with other party and government entities to mitigate risks of instability.<sup>20</sup> Judges and procurators are increasingly well trained, but such training does not equip them to resist populist pressure. Nor are they supposed to do so: judges are explicitly incentivized to take account of public opinion.

Official embrace of populism and renewed emphasis on Communist Party oversight of the courts is at times explicitly linked to rejection of foreign models of legal development. Legal education has likewise become increasingly ideological in recent years.<sup>21</sup> Yet not all recent efforts to emphasize links between the courts and the public are efforts to assert greater party-state oversight. Courts have also taken steps to educate ordinary people about law. Some recent developments, such as court efforts to put opinions online and to make courts more accessible to litigants in rural areas, also suggest that courts may be seeking to use appeals to public opinion and populism to boost their own legitimacy.

Outside the courts, a range of other party-state institutions assumed active roles in resolving contentious issues and ordinary disputes in the early 2000s. Stability maintenance work has been coordinated by the Central Commission on Comprehensive Social Management, a joint party and government body that is equal in rank to, but formally exists as a separate entity from, the party's Central Political Legal Committee (PLC). The Stability Maintenance Leadership Small Group also exists at the national level directly under the Standing Committee of the Politburo; it appears to be focused on responding to specific incidents of unrest. Both entities have their work offices within the PLC. This structure of multiple organizations working to address threats to stability is replicated at the provincial and municipal levels, although at the local level stability maintenance offices are often combined with petitioning offices into "stability maintenance centers."<sup>22</sup> The party-state has devoted extensive resources to stability maintenance organizations. Local stability maintenance officials often have extensive roles, including the power to intercept and detain petitioners, pay petitioners to settle grievances, and mediate disputes.<sup>23</sup> These roles reflect efforts to maintain stability at all costs, as well as unease with allowing the legal system to take on the primary role in resolving threats to stability.

Legal reform did not stop in the Hu–Wen era; important reforms continued throughout the period. Most involved the development of China's legal hardware: new laws and regulations designed to regulate an increasingly complex society. Important examples include the passage of new Property and Tort Laws and major revisions to China's Criminal Law, Criminal Procedure Law, and juvenile justice system. Changes to the Criminal Law and to court review procedures for capi-

tal cases resulted in significant decreases in the frequency of death sentences. If fully implemented, revisions to the Criminal Procedure Law have the potential to make the criminal justice process significantly more fair for criminal defendants. The volume of civil cases in the courts also rose, from 4.8 million in 2003 to 7.2 million in 2011, with most of the increase coming in the latter portion of the Hu–Wen decade.<sup>24</sup> China now hosts the largest volume of copyright litigation of any country in the world. Expanded public space for legal debate has also meant that most of the issues discussed above are widely debated in China, especially online.

Legal developments in the 2000s nevertheless suggested that party-state leaders were uncertain about the utility of legal procedures and institutions as mechanisms for addressing perceived threats to stability. Having devoted impressive resources to constructing a legal system in the 1980s and 1990s, the Chinese party-state retreated from using the system in the face of new social problems in the 2000s. Many within China have pointed out that such policies have produced a vicious circle. Incentives for officials encourage responsiveness to threats of unrest. Responsiveness, in turn, encourages others to pursue their grievance outside the legal system, or to *nao ting*, or cause chaos, in the courtroom. The emphasis on stability has also encouraged new forms of abuses, including the creation of "black jails," privately run detention centers hired by local authorities to intercept and detain those who travel to Beijing to petition or protest.<sup>25</sup>

What are the sources of China's law-stability paradox? Four primary factors have had particular influence. First, the color revolutions in Eastern Europe and Central Asia in the early 2000s and the

Arab Spring of 2011 appeared to raise concerns at the top of the party-state that legal reforms threatened its authority. The emergence of a dedicated group of “rights lawyers” willing to take on cases that the party-state viewed as sensitive, including representing Falun Gong adherents, political dissidents, and the victims of mass disasters, may have heightened such concerns. The arguments of rights lawyers almost always consist of demands that officials follow the law, not explicit calls for political change. Such arguments were viewed by at least some in the political-legal system as threats to party authority. Yet such trends have limited explanatory power. Legal institutions in China remain under direct party-state oversight and have shown little evidence of developing into “sites of resistance” to authoritarian rule.<sup>26</sup> Little in the way of credible threats to the party-state emerged from the courts or legal profession. Arguments that legal reform and calls for judicial independence represented foreign attempts to subvert the Chinese system appear largely to have been strategic efforts by conservatives seeking to slow the pace of reform and reassert party-state oversight.

Second, the most controversial trends in the legal system in the 2000s all had roots in China’s revolutionary and prerevolutionary past. Recent literature has noted the ways in which China’s revolutionary traditions have contributed to regime resilience.<sup>27</sup> The law-stability paradox is in part the consequence of revolutionary traditions and shows that they may be both a resource and a constraint. Populism, lack of differentiation among legal and nonlegal actors, the importance of petitioning, reliance on political campaigns, and the embrace of flexible interpretations of law all reflect a continuation of traditional Communist Party approaches to governance and law.<sup>28</sup> Such trends

may have been less apparent in the 1990s when the system embraced professionalization, but they have always been present. Faced with a perception of increased instability in the 2000s, China’s leaders reverted to using approaches to law and governance with which they were familiar. A short-term focus on reducing instability amplified the importance of such approaches.

Third, China’s law-stability paradox reflects the party-state’s conception of its own legitimacy. The central party-state has linked its legitimacy to outcomes and has perpetuated the idea of central officials being “father and mother officials” who are responsive to the grievances of ordinary people. In so doing, the party-state has created a dynamic in which it believes it must respond to complaints that threaten to escalate into unrest, even when the response violates legal norms. The Chinese party-state is at times over-responsive to individual or group protest. Official intervention transforms private law disputes such as tort or labor cases into negotiations with the state. Official intervention encourages others likewise to seek redress outside the legal system. Law in China operates in the shadow of protest, with legal issues transformed into political questions – the opposite of de Tocqueville’s observation about the United States that “[s]carcely any political question arises . . . that is not resolved, sooner or later, into a judicial question.”<sup>29</sup> Strengthening the role law plays in regulating Chinese society and citizen-state interactions may require not only boosting legal institutions but altering the ways in which the party-state conceives of its own legitimacy, shifting from a focus on results, responsiveness to individual grievances, and populism to legitimacy based on adherence to legal procedures and norms.

Fourth, official reluctance to commit to greater use of law reflects ambiguity about

whether law is the best tool for managing a society undergoing rapid and unprecedented social transformation. This is evident both in the failure to follow laws on the books in complex or sensitive cases and in reliance on nonlegal institutions in a wide range of routine cases. Recent literature on the Western financial crisis has noted the ways in which excessive reliance on formal rules can constrain actors in ways that deepen the crisis.<sup>30</sup> China's leadership may not have explicitly embraced such reasoning; but elements of China's approach to managing instability, in particular the continued desire to be able to move rapidly and flexibly, have parallels to those in the West who argue that excessive reliance on legal rules can at times worsen unstable situations.

Steps taken by China's new leaders in 2013 suggest recognition of the need to refocus the party-state on adherence to legal rules. Most notable among announced reforms have been plans to abolish the widely condemned reeducation through labor detention system and renewed efforts to rein in corruption. The Third Plenum's resolution in November 2013 emphasized the importance of human rights, the constitution, and judicial independence, suggesting a desire to reduce external influence on the courts. The resolution also called for reexamination of the role of court adjudication committees,<sup>31</sup> expansion of legal aid, greater emphasis on transparency in the courts, elimination of the use of torture, addressing and avoiding wrongful convictions, and reducing the number of crimes subject to the death penalty. The resolution provides only a general framework for reform; nevertheless, it has been interpreted by some within China as signaling renewed commitment to legal reform. There are also serious efforts underway to implement the revised Criminal Procedure Law, which went into effect on January 1, 2013.

There are indications that the state is concerned about curbing some of the worst abuses, in particular when they are committed against ordinary people, not activists. In early 2013, numerous Chinese media accounts highlighted abusive illegal conduct by local officials or those employed by them, including cases of forced abortion, violent conduct by those enforcing relocation and demolition orders on expropriated property, and horrific conditions in reeducation through labor detention facilities. More recently, in late 2013 and early 2014, reports circulated that party officials were investigating former Politburo Standing Committee member Zhou Yongkang, the person most closely associated with the stability-at-all-costs approach of the 2000s. Some view such developments as a sign that party-state leaders are serious about reducing abuses committed in the name of stability, and are committed to greater use of formal legal institutions to address social conflict.

Yet proposed reforms have come alongside renewed focus on stability, reflected most clearly in the announced creation of a new National Security Commission under the direct leadership of Xi Jinping. The exact structure and role of the commission and its relationship to existing institutions remain unclear. It is clear, however, that the new commission reflects continued and deepening commitment to addressing perceived external and internal threats to security and stability.

Proposed legal reforms are not likely to have much significance for individuals the state views as threats.<sup>32</sup> This has been made apparent by the reemergence of party-state concerns that legal reforms could be used to challenge its authority. Reports have noted bans issued by party officials on the discussion of topics such as "judicial independence" and "constitutionalism" in the media and in universities.<sup>33</sup> A number of prominent legal

activists were detained in the second half of 2013, most notably legal scholar Xu Zhiyong, who was subsequently sentenced to four years in prison. This crackdown on legal activists suggests that the boundaries of politically permissible activities are shrinking even as party-state leaders call for renewed focus on law. Xi Jinping has also reemphasized the role of Mass Line ideology, suggesting that fundamental changes to the political-legal system are not likely. There are signs that some individuals who formerly would have been sentenced to reeducation through labor are being detained through other forms of arbitrary detention. Although some of the announced reforms have the potential to make the legal system more effective and fair in a range of cases, the party-state's emphasis on "rule of law China" is unlikely to bring fundamental changes to the ways the party-state views and uses law. "Rule of law China" will likely continue to include the explicit embrace of populism, rejection of Western models, and the reliance on a range of legal and nonlegal actors to address social conflict.

China's law-stability paradox also highlights the challenges facing any renewed efforts at legal reform. The challenge for any serious efforts to strengthen the role of law in addressing social conflict is not only to realign incentives so that local officials follow legal rules; it is also to convince those most likely to engage in acts of unrest or resistance that the legal system can protect their interests. A growing body of literature provides empirical support for the popular perception that the legal system increasingly serves the interests of the elite.<sup>34</sup> Greater emphasis on populism alone is unlikely to change this perception.

Tensions also remain between new legal rules and popular conceptions of justice. Efforts to adjust law to align with popular views risk creating new inequali-

ties and undermining the authority of legal institutions. Recognizing that legal outcomes sometimes do not align with popular conceptions of justice may be necessary to strengthening the authority of legal institutions and to reducing instability. Yet bridging the divide between new legal norms and popular views may be hard, as evidenced by difficulties in enforcing new provisions in the Criminal Procedure Law. Initial evidence suggests that significant progress is being made in implementing provisions that make it easier for counsel to see their clients and access evidence.<sup>35</sup> Such changes are relatively easy to implement because they require only changing state conduct. Yet it appears that little progress has been made in encouraging or compelling witnesses to appear at trial, which is also required by the new law.<sup>36</sup> Enforcing such provisions requires not only changing state behavior but also addressing traditional reluctance to become involved in legal disputes, in particular those in which witnesses do not have a stake.

Deepening legal reform also requires breaking the cycles of public distrust that undermine the authority of legal institutions. The party-state continues to rely on party institutions, not the courts, to handle the most pressing problems. Recent efforts to combat corruption, for example, have continued to rely primarily on the Communist Party's Discipline Inspection Commission (DIC), a body that is not subject to any legal oversight and that has extensive powers to investigate and detain suspects. Reliance on such party institutions may reflect doubts about whether the courts have the capacity to address such problems. Such reliance reinforces the secondary role played by legal actors.

Courts are trapped in a similar cycle of popular distrust. Legal institutions often appear weak, lacking the authority to decide contentious cases and unable to

enforce decisions in disputes they do adjudicate. As a result, individuals frequently seek recourse outside the legal system. Their success in doing so further undermines confidence in legal institutions. The lack of trust from party officials and the public also means that legal institutions are not given the authority to act in ways that might allow them to increase public confidence.

China's new leaders face an environment in which legal reform is both easier and more difficult than in the past. Investment in legal infrastructure over the past three decades has created the institutional capacity to resolve a widening range of disputes through the formal legal process, fostered constituencies pushing for reform from within the legal system, and legitimized debate about legal issues. The Chinese system remains capable of rapid change, in particular in the face of perceived crisis. At the same time, populism has reemerged as an important factor in the legal system, the legal system is increasingly viewed as protecting the interests of the elite, party-state leaders appear unable or unwilling to let the legal system handle the most contentious issues, and there appears to be significant uncertainty about the utility of autonomous legal institutions. Academic literature has long noted a question inherent in efforts to construct authoritarian legality: how far can the legal system develop without challenging authoritarian rule? China has largely avoided this question, in part due to the extensive state oversight of the legal system. Any significant efforts to restart legal reform will make the question central to discussions about the future of law in China.

In contrast to other fields surveyed in this volume such as environmental policy or social policies, few working in the Chinese legal system compare China's system to that of other developing, authoritarian,

or post-Communist countries. Chinese legal academics and legal professionals assess China's legal development not with reference to that of post-Communist Russia or even Singapore, but to the legal systems of the United States or Western Europe – albeit often an over-idealized form of Western legality. In some respects, China's legal reforms appear to have been relatively successful when compared to other middle-income countries or to post-Communist countries not tethered to the European Union. China has hundreds of thousands of legal professionals and a system that was almost unimaginable at the beginning of the reform era in 1978. Yet metrics for evaluating legal development are often elusive and misleading.<sup>37</sup> The number of laws, legal personnel, or cases tells very little about the overall fairness or effectiveness of the Chinese legal system. Assessing China's legal system is also difficult because such evaluations vary depending on whose interests are prioritized: those of the state or those of ordinary people. Different legal systems serve different functions, and such functions may change over time within the same country. Placing China's legal development in comparative context highlights the fact that there is no single form of or path to legal development and that nonconvergence with Western models of legality may be as likely as convergence. China's recent experiences also highlight difficulties inherent in using law both to legitimize the state and to constrain state action in an authoritarian state undergoing rapid social transformation.

China's law-stability paradox reflects uncertainty about how best to respond to instability and the difficulty of adapting legal rules to a rapidly changing society. The paradox also reflects the challenge of creating new legal rules and institutions in a political system where legitimacy continues to be based on populist respon-

siveness and delivery of economic growth. Shifting to a system in which legitimacy is based on adherence to legal rules, not just rhetorical commitment to such rules, may be necessary for resolving the law-stability paradox. Doing so may require changing not only how the Chinese party-state conceives of the relationship between law and stability, but also how it conceives of its own role in managing China's social transformation.

## ENDNOTES

- Author's Note: I explore many of the issues discussed in this essay in more detail in Benjamin L. Liebman, "China's Law and Stability Paradox," in *China's Challenges: The Road Ahead*, ed. Jacques deLisle and Avery Goldstein (forthcoming 2014).
- <sup>1</sup> Carl Minzner, "China's Turn Against Law," *American Journal of Comparative Law* 59 (2011): 935–984; Donald Clarke, "Jiang Ping: China's Rule of Law is in Full Retreat," China Law Prof Blog, March 2, 2010, [http://lawprofessors.typepad.com/china\\_law\\_prof\\_blog/2010/03/jiang-ping-chinas-rule-of-law-is-in-full-retreat.html](http://lawprofessors.typepad.com/china_law_prof_blog/2010/03/jiang-ping-chinas-rule-of-law-is-in-full-retreat.html); and Benjamin L. Liebman, "A Return to Populist Legality? Historical Legacies and Legal Reform," in *Mao's Invisible Hand*, ed. Sebastian Heilmann and Elizabeth J. Perry (Cambridge, Mass.: Harvard University Press, 2011), 269–313.
  - <sup>2</sup> Whether China has actually become less stable is contested. It is clear, however, that China's leadership during the 2000s became increasingly concerned with a perceived rise in instability.
  - <sup>3</sup> Andrew J. Nathan, "Authoritarian Resilience," *Journal of Democracy* 14 (2003): 6–17.
  - <sup>4</sup> See my overview of this era in Liebman, "A Return to Populist Legality?"
  - <sup>5</sup> For additional discussion, see Benjamin L. Liebman, "China's Courts: Restricted Reforms," *The China Quarterly* 191 (September 2007): 620–638.
  - <sup>6</sup> Chen Xi, "China at the Tipping Point? The Rising Cost of Stability," *Journal of Democracy* 24 (2013): 57–64.
  - <sup>7</sup> Keith Hand, "Resolving Constitutional Disputes in Contemporary China," *University of Pennsylvania East Asian Law Review* 7 (2011): 50–159.
  - <sup>8</sup> Minzner, "China's Turn Against Law"; and Liebman, "A Return to Populist Legality?"
  - <sup>9</sup> *Ibid.*
  - <sup>10</sup> Liebman, "A Return to Populist Legality?"
  - <sup>11</sup> Mary Gallagher, "Changes in the World's Workshop: The Demographic, Social, and Political Factors Behind China's Labor Movement," in *Dragon vs. Eagle: The Chinese Economy and U.S.-China Relations*, ed. Wei-Chiao Chung and Huizhong Zhou (Kalamazoo, Mich.: W.E. Upjohn Institute for Employment Research, 2012), 99–112.
  - <sup>12</sup> Benjamin L. Liebman, "Leniency in Chinese Criminal Law? Everyday Justice in Henan," *Berkeley Journal of International Law* (forthcoming 2014).
  - <sup>13</sup> Susan Trevaskes, "The Shifting Sands of Punishment in China in the Era of 'Harmonious Society,'" *Law & Policy* 32 (3) (2010): 332–361.
  - <sup>14</sup> For more on compensation in labor disputes, see Yang Su and He Xin, "Street as Courtroom: State Accommodation of Labor Protests in South China," *Law & Society Review* 44 (1) (2010): 157–184.
  - <sup>15</sup> Wang Ying, "Zhuanxingqi de zhongguo fayuan yu xinfang: shesu xinfang wenti shizheng yanjiu" ["Chinese Courts and Petitioning in a Time of Transition: Empirical Research into the Question of Litigation-related Petitioning"], Ph.D. dissertation, Qinghua University

- (2010); and Benjamin L. Liebman, "A Populist Threat to China's Courts?" in *Chinese Justice: Civil Dispute Resolution in Contemporary China*, ed. Margaret Y. K. Woo and Mary E. Gallagher (Cambridge: Cambridge University Press, 2011), 269–313.
- <sup>16</sup> Liebman, "A Populist Threat to China's Courts?"; and Benjamin L. Liebman, "Malpractice Mobs: Medical Dispute Resolution in China," *Columbia Law Review* 113 (2013): 181–264.
- <sup>17</sup> Liebman, "Malpractice Mobs."
- <sup>18</sup> Ibid.; and Xu Xin, "Falü shifou zhongyao – Laizi Hua'nan de yige minjian shouzhai anli" ["Is Law Important – A Case Study on Informal Debt Collection in Southern China"], *Sociological Studies* 1 (2004): 53–63.
- <sup>19</sup> One detailed study found that nearly half of all those who went to Beijing to complain about the courts in one northeast municipality received direct benefits from doing so, generally cash or in-kind payments from the local court. See Wang, "Zhuanxingqi de zhongguo fayuan yu xinfang."
- <sup>20</sup> Xu Kai and Li Weiao, "The Machinery of Stability Preservation," *Caixin*, June 6, 2011, translated to English in *Duihua*, June 8, 2011, <http://www.duihuahrjournal.org/2011/06/translation-machinery-of-stability.html>; see also Benjamin L. Liebman, "China's Law and Stability Paradox," in *China's Challenges: The Road Ahead*, ed. Jacques deLisle and Avery Goldstein (forthcoming 2014).
- <sup>21</sup> Carl Minzner, "The Rise and Fall of Chinese Legal Education," *Fordham International Law Journal* 36 (2) (2012): 335–396.
- <sup>22</sup> For more detail on such organizations, see Liebman, "China's Law and Stability Paradox."
- <sup>23</sup> Ibid.; and Xu and Li, "The Machinery of Stability Preservation."
- <sup>24</sup> China Law Society, *Law Yearbook of China* (Beijing: China Law Yearbook Press, 2004–2012).
- <sup>25</sup> "Black Jail Industries," *Global Times*, March 3, 2013, <http://www.globaltimes.cn/content/765426.shtml>.
- <sup>26</sup> Tamir Moustafa and Tom Ginsburg, *Introduction to Rule by Law: The Politics of Courts in Authoritarian Regimes* (Cambridge: Cambridge University Press, 2008), 1–2.
- <sup>27</sup> Heilmann and Perry, eds., *Mao's Invisible Hand*.
- <sup>28</sup> Liebman, "A Return to Populist Legality."
- <sup>29</sup> Alexis de Tocqueville, *Democracy in America*, vol. 1, ed. Phillips Bradley, trans. Henry Reeve (New York: Alfred A. Knopf, 1946), 280.
- <sup>30</sup> Katharina Pistor, "Towards a Legal Theory of Finance," manuscript draft, 2012.
- <sup>31</sup> Court adjudication committees generally consist of senior judges and decide sensitive or difficult cases. The practice has been criticized due to the fact that it results in cases being decided by judges who did not participate in the trial.
- <sup>32</sup> Nor are reforms designed to reduce the role of populism in the legal system: the decision also calls for broadening channels for the "masses" to participate in the judiciary, although it does also say that such participation shall be "in an orderly manner," suggesting perhaps that specific procedures should be created for such popular participation.
- <sup>33</sup> Raymond Li, "Seven Subjects Off Limits for Teaching, Chinese Universities Told," *South China Morning Post*, May 11, 2013, <http://www.scmp.com/news/china/article/1234453/dont-teach-freedom-press-or-communist-party-mistakes-chinese-academics>; and Li Qi and William Wan, "China's Constitution Debate Hits a Sensitive Nerve," *The Washington Post*, June 3, 2013, <http://www.washingtonpost.com/blogs/worldviews/wp/2013/06/03/chinas-constitution-debate-hits-a-sensitive-nerve/>.
- <sup>34</sup> Mary E. Gallagher, "Mobilizing the Law in China: Informed Disenchantment and the Development of Legal Consciousness," *Law & Society Review* 40 (4) (2006): 783–816; He Xin and

Yang Su, "Do the 'Haves' Come Out Ahead in Shanghai Courts?" *Journal of Empirical Legal Studies* 10 (1) (2013): 120 – 145; and Yuen Yuen Ang and Nan Jia, "Perverse Complementarity: Political Connections & Use of Courts among Private Firms in China," *The Journal of Politics* (posted online May 2013), <http://ssrn.com/abstract=2033230>. Benjamin L. Liebman

- <sup>35</sup> Li Tao, "Xin xingsufa shishi: lüshi huijian zeng 35%" ["Lawyer Visits Increased 35% after Implementation of the New Criminal Procedure Law"], *Beijing Youth Net*, March 18, 2013, <http://bjyouth.y.net.com/3.1/1303/18/7892125.html>; and Liang Shuang, "Xin xingsufa 'song-bang' lüshi huijian dangshiren mengzeng siwu bei" ["Lawyers See Visits Soar by Quadruple or Quintuple with New 'Relaxed' Criminal Procedure Law"], *Wuhan Evening*, March 13, 2013, [http://www.hb.xinhuanet.com/2013-03/13/c\\_115004008.htm](http://www.hb.xinhuanet.com/2013-03/13/c_115004008.htm).
- <sup>36</sup> "Xin xingsufa shishi liangge yue: xin tiaozhan xin bianhua" ["Two Months After Implementation of New Criminal Procedure Law: New Challenges, New Changes"], *Renmin Gong'an bao*, March 11, 2013, <http://shzfz.eastday.com/node2/zzb/shzfz/jrgz/node1745/u1ai284475.html>; and Wang Jianjiao, "Tonghai fayuan fanying xin xingsufa shishizhong zai zhengren chuting zuozheng fangmian bubian caozuo" ["Inconveniences in the Implementation of the New Criminal Procedure Law Reflected in the Experiences of Witnesses Testifying in Tonghai Courts"], March 25, 2013, <http://www.thfy.gov.cn/show.asp?id=1166>.
- <sup>37</sup> Kevin E. Davis, "What Can the Rule of Law Variable Tell Us about Rule of Law Reforms?" *Michigan Journal of International Law* 26 (2004): 142 – 161.

# Internet Activism & the Party-State in China

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*Abstract: The history of Internet activism and Internet control in China is one of mutual adaptation between citizen activists and party authorities. The party-state initially reacted to Internet activism with alarm, but has since built a comprehensive approach combining repressive policing with gentler methods of social management. This approach has evolved in response to the diverse forms of and participants in Internet activism. But the adaptability of the Chinese Internet control regime does not mean that it will root out Internet activism. On the contrary, Internet activism will continue to grow and will itself adapt to the changing forms of control. Comparisons with Russia and the United States highlight how political economy, history, and everyday practice shape the forms of Internet activism and control.*

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Internet activism is one of the most important forms of citizen activism in China. It refers broadly to claims-making contentious activities associated with the use of the Internet; and its vitality in China derives from its diverse forms, ranging from oppositional dissidence to cooperative community action. First appearing in the mid-1990s, when Internet penetration was still low, Internet activism has since gathered great momentum and currency. The Chinese party-state initially reacted to it with alarm; but over the years, the party-state has cultivated an approach that combines repressive policing with gentler methods of social management. And far from being static or monolithic, the Chinese Internet control system has evolved in response to changing forms of Internet activism. Meanwhile, Internet activism has itself evolved in response to the new forms of state control. The resilience and adaptability of Internet activism have ensured that the movement will continue to grow despite state efforts to disrupt it.

This story of mutual adaptation is rooted in deep structural and institutional conditions. Internet ac-

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tivism emerged as part of the “polyphony of conflict and contention” in reform-era China.<sup>1</sup> Its underlying causes are the conditions of social dislocation and polarization, social injustices, and the rampant abuse of power among government officials. New communication technologies provide a vehicle for Internet activism, but the root causes of contention are structural and institutional more than technological. For this reason, the Chinese leadership must contain Internet activism in order to prevent it from aggrandizing the structural problems. But for the same reason, government efforts to suppress Internet activism – aimed as they are at only expressions of discontent – would be futile without resolving the deeper causes. This is the double bind facing the Chinese regime, and it is in the hopes of resolving this dilemma that the regime has in recent years modified its methods of managing dissent.<sup>2</sup>

In Chinese official discourse, *Internet mass incidents* (*wangluo quntixing shijian*) refer to large-scale protest activities that take place online. Also called *Internet incidents* in academic discourse, these contentious events take place when large numbers of postings and responses on a social issue begin to appear and circulate in major online communities, blogs, and microblogs. The messages typically mix text with digital photography and sometimes video. The online expressions are often highly emotional, with people showing either great anger or playfulness depending on the tragic or comic nature of the events. Mass media and international media cover some of the events, thereby magnifying their impact.

Although hundreds of Internet protests occur every year, the main issues focus on corruption, social injustices against vulnerable persons, and abuse of power by government officials.<sup>3</sup> Often, people pro-

test because they do not trust official accounts of events, or because government authorities withhold information. Thus in a crucial sense, Internet protests are about politics of transparency and accountability.

The sites of Internet incidents change with the development of new technologies. In the 1990s and early 2000s, incidents took place in bulletin board systems (BBS); they next expanded to blogs; and finally moved to microblogs such as Twitter, the equivalent of which is known in China as *Weibo*. The most popular Twitter-like service in China is Sina Weibo. Since its launch in August 2009, Sina Weibo has become a favorite venue for both protest and chitchat. Its clipped 140-character format and enormous social networks make it especially hospitable to a kind of muckraking citizen journalism that is as entertaining to the consumer public as it is nettling to censorship-prone propaganda officials.

Chinese netizens have developed a rich culture of using humor, puns, and coded language to express protest and evade filtering software. *Harmonizing* an online posting means censoring it. To be *invited to tea* by the police means trouble. *Grass-mud horse* is not an animal, but the homophone of a curse word. Furthermore, seemingly apolitical issues – such as the sex diaries of a female blogger, a spoof video mocking a big-budget but unpopular film, or service blackout in online gaming communities – could also trigger Internet incidents. Although these issues attract attention more for their entertaining contents than politics, netizens invariably turn them into political discussion. In 2009, an online community of the popular computer game *World of Warcraft* agitated when its gaming service experienced a temporary blackout. A cryptic and apparently innocuous phrase – “Jia Junpeng, your mother wants you to go home to eat” – went viral in the gaming commu-

nity, only subsequently to be appropriated by activists as a political slogan. When an activist-blogger was later detained by the police, his sympathizers sent postcards with the phrase to the police station, petitioning for his release.

There is a growing tendency for online protests to move offline and into the street. The environmental protests in Xiamen, Dalian, Shanghai, and Ningbo in the past five years all involved intense interactions between online mobilization and offline protests. And the *Southern Weekly* protest in January 2013 is one example of how an online protest incident can spill out into the street.<sup>4</sup> In these ways, Internet activism both retains its own distinct features and merges into the larger trend of popular contention in contemporary China.

Digital dissidents are among the most subversive and radical activists in China. While Internet incidents typically concern issues that are permissible to the party-state for some degree of discussion, dissidents express direct political opposition and call for outright regime change. Dissident blogs and microblogs are shut down by authorities, while individual dissidents are closely watched by the state and may be subject to detention and prosecution.

Dissidents were some of the earliest adopters and remain among the most savvy users of the Internet. In 1997, on the eve of the eighth anniversary of the 1989 student protest movement, democracy activists launched what they claimed to be the first “free magazine” to be edited in mainland China and distributed by email. Its inaugural statement encouraged readers to forward the e-magazine to others, stressing the importance of the new technology for disseminating ideas: “Free and shining ideas have always existed. It is a matter of whether they can be disseminated. The reason why autocrats could seal our ears and eyes and fix our

thoughts is that they monopolize the technology of disseminating information. Computer networks have changed this equation.”<sup>5</sup>

China’s best-known dissidents and human rights activists are all digitally savvy. Liu Di, known for her online ID name *Stainless Steel Mouse*, published online essays critical of the regime, for which she was imprisoned for over a year. Upon release from prison, she wrote an essay stressing the importance of dispersed online networks to the dissident community. The dissident qua Nobel Peace Laureate Liu Xiaobo launched many online petitions focusing on human rights and democracy before he was arrested and sentenced in 2009. He described the Internet as a “super-engine” that enabled him to communicate with the outside world even while under house arrest.<sup>6</sup> Ai Weiwei, the ultimate media savvy artist-activist, maintains a highly visible dissident stance on Twitter, where he conducts his own campaigns and reports others’ with a style cultivated to provoke authorities and arouse his followers.

Because of the Internet, political dissent has become more transnational and radical. With little space for political opposition inside China, dissidents reach overseas to plead their cause and seek support and visibility. Such visibility provides a measure of protection, which may then embolden dissidents to take more radical stances inside China.<sup>7</sup> The food safety activist Zhao Lianhai is a case in point. In September 2008, two days after his three-year-old son was diagnosed with kidney stones due to the consumption of melamine-tainted milk powder, Zhao wrote a blog calling on families to organize and fight for justice. He soon thereafter launched a campaign website; and after the site was closed down, he took his protest to Twitter. His Twitter account attracted many followers, including domes-

tic human rights activists, exiled democracy activists, and journalists from around the world. Partly in reaction to the repressive state responses he encountered, and partly because of the moral support he received on Twitter, Zhao resorted to more radical language and action, becoming engaged in more subversive issues such as petitioning for the release of Liu Xiaobo. The transnationalization of his campaign contributed to his radicalization and hastened its repression. Zhao was arrested and, in November 2010, sentenced to two-and-a-half years in prison for “disturbing social order.”

Like digital dissidents, Chinese NGOs and grassroots civic groups were early adopters of the Internet. But unlike them, NGOs avoid oppositional politics in favor of a non-confrontational approach to advocacy and civic engagement. For them, the Internet is a platform for organizing activities, networking, and publicity.

A survey of 129 NGOs that I conducted in 2003 found that 106 of them were connected to the Internet and 69 had websites. Because of their lack of resources, small grassroots groups use the Internet more actively than resource-rich organizations.<sup>8</sup> This earlier, rudimentarily wired NGO community became more thickly networked in the age of social media. A 2009 survey found wide adoption of Web2.0 technologies among the 327 civil society organizations studied: over 84 percent of them use instant messaging; 70 percent have uploaded video, audio, or images online; 56 percent use online forums and bulletin boards; and 44 percent use blogs.<sup>9</sup>

Microblogging is the new favorite platform for NGO advocacy. Among the dozens of NGOs and NGO activists I follow on Sina Weibo, environmental and charity NGOs are the most active, using Weibo to push aggressively for environmental infor-

mation disclosure. Beijing environmental activist Chen Liwen’s dogged efforts, combining legal action with online publicity to push for information disclosure about a solid waste incinerator project in Guangzhou, is one such successful case.<sup>10</sup>

Another popular activity on Weibo is *public interest (gongyi)* activism, such as social support and charity activities sponsored by NGOs or individual activists. In April 2011, the well-known journalist Deng Fei launched a “Free Lunch for Children” program by mobilizing his 1.4 million followers on Sina Weibo. The program gained widespread support and raised \$4 million in eight months.<sup>11</sup>

Contributing to this wave of online public interest activism is citizens’ growing distrust of official charity organizations like the Chinese Red Cross Society, which was thrown into a serious credibility crisis in 2011 because of its lack of transparency.<sup>12</sup> On his Sina blog, Feng Yongfeng, director of the environmental NGO Nature University, argues that transparency is all important to NGOs. He believes that microblogging is a perfect tool for transparency and thus indispensable to NGO activism. In his own words, “If an NGO is transparent enough, its work must be microblogged and its microblog must be a way of doing its work.”<sup>13</sup>

Online communities are a common feature of contemporary Internet culture worldwide. They exist in all types of network services, from Twitter to Facebook to Chinese Weibo. Not all online communities are civic, but those that do engage in civic activism may be called online civic communities. Examples of such include reading groups and film and music fan clubs on douban.com, and the websites of LGBT activists, hepatitis-B carriers, migrant workers, and other marginalized groups. Unlike NGOs, which are organized groups with a mission and a leadership

structure, these communities are loose networks of people with shared interests and identities. Activism within these communities is random and incidental, typically emerging from member interactions. Like NGO advocacy, community activism is moderate and non-confrontational. Though most of these communities remain strictly online, they do sometimes sprout out into the physical world as non-profit organizations or business entities.

Take, for example, the online community aibai.com. In 1999, two gay men started the website gaychinese.net, which quickly attracted users. The site later switched to its current name of aibai.com, an acronym referring to an original open letter published online, "White Paper on Our Love." The website is today the most popular LGBT portal in the Chinese-language world, and in 2006, it established a non-profit organization in Beijing called Aibai Culture and Education Center, which remains active.

*Gandan Xiangzhao* (GDXZ), an online community of hepatitis-B carriers, is another online activist community that spawned an affiliated NGO. Launched in 2001 as a BBS forum, GDXZ served as an alternative social space for a marginalized group. In 2003, forum members launched public campaigns and lawsuits concerning cases of job discrimination. The support of forum members was instrumental in a prominent case in Anhui, where a young man with hepatitis-B won a lawsuit against the local government. This eventually led to new government policies prohibiting discrimination against hepatitis-B carriers in job recruitment.<sup>14</sup> The community's websites have repeatedly been shut down, yet each time GDXZ has managed to reopen the site, which continues to thrive today. In 2006, a key member of the community started a nonprofit organization to sustain the community's anti-discrimination movement.

How does the Chinese party-state respond to the diverse forms of and participants in Internet activism? Censorship in China is not a static and monolithic system aimed at complete control of the Internet. On the contrary, the Chinese Internet censorship regime changes in response to the evolving forms of Internet activism. This process is characterized by the expansion of management institutions, the differentiation of targets of control, and the innovation of management methods.

The official institutions of the censorship regime consist of party propaganda departments and government agencies, as well as laws and regulations. The highest-level party agency charged to manage media is the Department of Propaganda. Various ministries under the State Council regulate contents and services through administrative regulations and licensing. Lower-level governments, meanwhile, may issue local regulations targeting their own constituencies. For example, in 2011, several departments in the Beijing municipal government jointly issued a regulation requiring microblog service providers in Beijing to verify personal identification when a user attempts to register an account.

The strategy of mobilizing NGOs and Internet content providers (ICPs) to curtail the online information flow is one example of adaptability in the regime's Internet control efforts. This strategy is also consistent with the regime's tradition of relying on "mass organizations" for policy implementation.<sup>15</sup> The main NGO in this area is the Internet Society of China (ISC). A national-level industrial association founded in May 2001 by leading network access carriers, Internet service providers (ISPs), and research institutions, ISC has thousands of subsidiary associations and societies at the provincial, municipal, and county levels. These organizations concentrate their work on promoting self-regulation.

The meaning of self-regulation differs by regulatory context.<sup>16</sup> In China, the emphasis has been on self-regulation by the industries, and on Internet firms' responsibility to monitor and remove harmful information from their websites. Chinese ICPs have long engaged in censorship; in the 1990s and early 2000s, when BBS were the most popular forms of online communities, most BBS forum managers were volunteers selected from regular Internet users. Today, major web portals hire large teams of full-time editors who use both filtering software and manual labor to monitor their websites. In 2010, when I interviewed the manager of a popular online community in Beijing, she told me that the firm had a team of thirty editors monitoring the contents on its website. Sina Weibo censors its postings routinely<sup>17</sup> – although, according to its own chief editor, “controlling content on Sina Weibo is a big headache,”<sup>18</sup> which explains the need to differentiate targets and innovate methods.

Government authorities view Internet protest as a threat to domestic social stability, national security, and the credibility of law enforcement authorities and government. Describing Internet mass incidents, one deputy chief of a provincial police department stressed their dramatically increasing numbers, complicated and multiple types, enormous mobilizing power, penetration by domestic and foreign hostile forces, and serious damage to stability.<sup>19</sup>

It is not surprising, then, that the areas and sites of regulation and control have expanded. Initially, the main targets of regulation were electronic BBS and Internet cafes, with regulations for the administration of each promulgated in 2000 and 2001, respectively. Today, content and service regulation is all-encompassing, covering Internet cafés, BBS, text messaging,

online news, video and audio sharing websites, online games, and blogs and micro-blogs.

At the same time, the authorities try to differentiate targets and issues. One study has found that censorship is likely to target Internet postings that call for collective action, but not postings that merely criticize the government.<sup>20</sup> The growing frequency of Internet incidents concerning corrupt officials, vulnerable individuals, and environmental protection indicates an increase in the number of incidents, as well as more government toleration of public discussion of these issues. To some extent, the Chinese leadership has acknowledged the legitimacy of online public opinion. Since July 2009, the Media Opinion Monitoring Office of *People's Daily Online* has published quarterly reports on local governments' capacity to respond to Internet mass incidents. The website of the Xinhua News Agency has an active section on public opinion with daily and weekly news releases of viral Internet postings on various types of social issues.<sup>21</sup>

Chinese authorities can be more or less tolerant of Internet protests depending on the particular issues brought into focus. In contrast, digital dissidents are key targets of censorship and repression. Such was the case in early 2011 when, following anonymous Internet calls for a Chinese “jasmine revolution,” police detained or arrested notable bloggers and human rights lawyers in an effort to preempt mobilization.<sup>22</sup>

Compared with dissident communities, NGOs and online civic communities enjoy considerable leeway. While hoping to gain more public recognition, many online communities (such as in the LGBT community) remain largely alternative spaces of social support and solidarity. NGOs use social media to advocate public causes passionately, but rarely, if ever, do they

challenge the regime in the process. They seek social change by working with, rather than against, the government.<sup>23</sup>

Early government responses to Internet activism were reactive, panicked, and often heavy-handed; forced closure of well-known websites and detention of digital activists were not uncommon. Yitahutu, a popular BBS forum based in Peking University, was closed down in 2004, while another well-known website, Yan-nan Web, was closed in 2005. A 2004 Amnesty International report lists the names of fifty-four people who were detained or imprisoned for using the Internet in China.<sup>24</sup>

But in recent years, the emphasis has shifted to methods of “administration” and soft control. The 2010 white paper “The Internet in China” spells out the key elements of the new model, which is comprised of “laws and regulations, administrative supervision, self-regulation, technical protection, public supervision and social education.”<sup>25</sup> These methods aim both to censor and to channel content. In 2010, a local public security department in Fujian province published a study about how it had innovated methods for social management. The report states:

The management of virtual society combines damming with channeling, with more emphasis on channeling. . . . The municipal public security bureau of Jian’ou set up an [I]nternet opinion and monitoring leadership group and office. . . . Instead of simply blocking, filtering and deleting postings involving police, they find the people who post the messages and explain to them the harms and benefits, so they will voluntarily delete or modify their postings.<sup>26</sup>

The new model also aims to reduce the threat of Internet activism by enhancing the online influence of official media institutions, and by promoting corporate

social responsibility among Internet firms and ethical conduct among Internet users. To achieve these goals, hidden methods are combined with public campaigns. Government-hired Internet commentators, with the pejorative nickname of *wumao* (“50-cent party” – named for the supposed state payout per successful post), are a hidden form of control. These commentators are employees or volunteers recruited by government agencies to participate anonymously in online discussion and publish views that either support state agendas or help defuse anti-party sentiment. Since its introduction in 2005, this practice has been adopted widely by local governments.<sup>27</sup>

In addition to covert means of shaping online public opinion, state and local governments employ many overt practices. Public campaigns, a distinct feature of Chinese politics in the Maoist era, continue to be used in modified forms.<sup>28</sup> The anti-vulgarity “special action” launched in January 2009 was a coordinated national campaign “to contain the wide spreading of vulgar contents online, further purify the cultural environment on the Internet, protect the healthy growth of the under-aged, and promote the healthy and orderly development of the Internet.”<sup>29</sup> On the day of its launch, the China Internet Illegal Information Reporting Center (CIIRC) – established in 2004 under the sponsorship of the Internet Society of China – publicized the names of nineteen websites allegedly containing “vulgar contents.” These websites included practically all the leading commercial sites: Google, Baidu, Sina, Sohu, Tencent, Netease, Mop, and Tianya. The CIIRC requested that these websites remove the offending contents, and in response, by February 24, 2009, a total of 2,962 websites had been closed.<sup>30</sup>

Opening government accounts on popular microblog platforms has been another overt method of activism management.

In September 2011, the Ministry of Public Security held a national conference to promote the use of microblogs by public security agencies. There were at that time more than four thousand official microblog accounts and five thousand individual police officer accounts.<sup>31</sup> One officer's microblog account, registered as "A Legendary Cyber-Policewoman" on Sina Weibo, had 2.1 million followers as of January 27, 2014. Employed by the Department of Public Security in Beijing, this cyber-policewoman posts regularly on all sorts of topics, from daily chitchat to advice on network security to reports of weather and traffic conditions. A photograph of her in police uniform smiling at the viewer conveys the image of a friendly police officer keeping watch, ready to offer help. Reminiscent of, yet somewhat different from, the soldier role model Lei Feng in the Maoist era, the legendary cyber-policewoman on Weibo represents the digital extension and creative reinvention of what Elizabeth Perry has called "a tradition of cultural governance." This tradition reaches deep into Chinese political culture, from imperial Confucian rituals to the Chinese Communist Party.<sup>32</sup>

Since Xi Jinping became China's Communist Party leader in November 2012, the tradition of cultural governance has enjoyed a resurgence. Called "more Maoist than reformer" by the *Los Angeles Times*,<sup>33</sup> Xi has reportedly encouraged adopting self-criticism as a means of curbing corruption.<sup>34</sup> Similarly, Maoist practices have been extended to the management of the Internet. For example, during the crackdown on "Internet rumors" in the summer of 2013, the popular blogger Xue Manzi was detained on charges of soliciting prostitution. He was then shown on national television networks confessing his wrongdoing of spreading irresponsible information on his Sina Weibo account. Such Cultural Revolution-style public shaming

sent a clear warning to Chinese Internet users about the limits of online speech.

Internet activism is not unique to China, nor are government efforts to monitor and contain it. Wherever the Internet has developed, citizens embrace it for protest and resistance while state powers attempt to control it. Yet in different countries and regions of the world, the specific forms of Internet activism and control vary. In the United States, purely or primarily online protests have taken place before and remain a component of contemporary social movements. Examples include varieties of electronic civic disobedience first articulated by the Critical Art Ensemble, the various Indymedia projects that were born with the Seattle WTO protests in 1999, and online signature petitions and campaign websites such as the influential MoveOn.org.

A distinct feature of online activism in the United States, however, is institutionalization. Since the radical protests of the 1960s, social movements in Western industrial nations have become institutionalized, characterized by the bureaucratization of social movement organizations and the routinization, rather than the radicalization, of claims-making activities.<sup>35</sup> Money, membership, and other resources have become crucial to the survival of bureaucratized organizations. The Internet developed in the United States alongside a firmly established civil society, and use of new media technologies by online activist organizations is therefore embedded in a rich tradition of the operations of large membership-based non-profit organizations. And so we see that like other social movement organizations or interest groups in the United States, even an online organization like MoveOn.org is membership-based.

Thus, more often than not, the Internet is treated merely as a new tool for carrying

out routine activities (such as fundraising) for preexisting civic associations. Spontaneous and unorganized forms of online action of the kind known as Internet mass incidents in China are not only uncommon, but may be viewed with suspicion. For example, the unorganized but collective efforts in 4Chan and Reddit online communities to search for the Boston bombing suspects after April 15, 2013 – a kind of online collective action not unlike the online exposure of corrupt government officials in China – was met with public criticism and cries of vigilantism.

Russia, on the other hand, does have its share of Internet mass incidents,<sup>36</sup> ranging from Internal Affairs Directorate Major Aleksei Dymovsky's 2009 YouTube whistleblowing on corrupt Russian law enforcement officials and practices<sup>37</sup> to the 2012 music videos of the political protest group Pussy Riot. The pattern of information dissemination in the Dymovsky case is remarkably similar to events in China, starting with the posting of a video, followed by a large number of online viewers responding, before finally receiving coverage from the mass media.

But otherwise, Internet activism in Russia is more organized than in China, and thus more closely resembles the U.S. model. To protest against the allegedly "unfair" parliamentary and presidential elections of 2011 and 2012, activists and leaders of oppositional parties organized an alternative online election to create a representative body to push for fundamental changes to the political system.<sup>38</sup> In a SOPA (Stop Online Piracy Act)-style protest on August 1, 2013, one thousand seven hundred websites in Russia went dark to protest a new anti-piracy law that enabled the Russian government to blacklist Internet resources without issuing a court order.<sup>39</sup> China had its own SOPA moment in 2009, when the Ministry of Industry and Information Technology was

on the verge of requiring all personal computers sold in mainland China to have installed a filtering software called Green Dam-Youth Escort. Yet the protest was not the coordinated blackening of websites, but took the form of spontaneous verbal protests in online communities in the typical style of an Internet mass incident.

As my discussion of Chinese NGO advocacy shows, civic organizing is on the rise in China; but there are clear political limits, and NGOs tend to avoid radical, confrontational methods. The more organized nature of Internet activism in Russia is due partly to a more open political environment. In Russia, as in the United States, there are "opposition parties" that can regularly organize activism and protest, whereas the formation of independent political parties in China is out of the question.

Another difference between Internet activism in China and that in Russia and the United States centers on Internet platforms. Videos and animations are used for protest in China, but they are posted on local Chinese platforms rather than on YouTube, which like Twitter and Facebook, is blocked within China. The most popular platforms for protest in China have always been large online communities run by commercial websites. Integrating news, blogs, microblogs, BBS forums, as well as video sites, gaming, music, and literature, these communities are highly interactive spaces. In this respect, Chinese online platforms resemble the Russian blogosphere more than the American. Interactive functions, such as the "friends list" on LiveJournal, are just as common on Chinese blog sites. And China's microblogging websites allow users to post videos, images, and long messages when they retweet or comment on other users' postings – functions not currently available on Twitter.

Internet censorship as practiced in China, including filtering keywords, block-

ing websites, and requiring online forums to monitor and censor postings, is not known in the United States or Russia. But this does not suggest the total absence of surveillance or policing of protest activities in these countries. Sociologists have long studied the policing of protest in Western democracies. In the United States, activists' reports and scholarly research have revealed aggressive and sophisticated surveillance of, for example, Occupy Wall Street (OWS) activists by the NYPD, and there were also instances of Twitter censoring the OWS hashtag.<sup>40</sup> While websites in Russia are generally not filtered or censored, Russian authorities do use law to restrict illegal content, and they resort to extralegal or covert practices to limit information flow.<sup>41</sup>

Beyond these crucial differences among the three nations, there are some intriguing converging trends in state surveillance. Sociologist Patrick Gillham has found that compared with protest policing in earlier periods, the policing during OWS emphasized the control of public spaces, high-tech surveillance, the management of information and intelligence about activists, and the proactive shaping of the production of public information. These new features signal the emergence of a new mode of protest policing that centers on the use of surveillance and intelligence to manage risks and incapacitate potential offenders. Signs of this approach also appeared in the Chinese police crackdown on the abortive jasmine revolution in February 2011, when the censorship and surveillance of the Internet tightened, and surveillance vehicles and police officers, armed with digital cameras and communication technologies, showed up at the planned venues in Beijing and Shanghai to forestall street protests. Analysts have also found the revival of the use of Mao-style grassroots informants for collecting information about dissidents and potential protest activities.<sup>42</sup>

Like its Chinese counterpart, the Russian regime uses proactive methods to control information and boost its own political messages. Russia reportedly started using paid pro-government bloggers to guide online information in 2005.<sup>43</sup> This practice is reminiscent of the use of anonymous Internet commentators (the 50-cent party) to guide online public opinion in China, a practice that also began in 2005.

To a considerable extent, with respect to Internet activism and control, the differences among China, the United States, and Russia can be explained by their different political economies. Russia is often considered a hybrid regime with a nominally democratic system.<sup>44</sup> It is therefore not surprising that Russia falls somewhere between China and the United States, with significantly more political spaces for activism than China. Although China is an authoritarian state, its economy is capitalistic, a peculiar combination often designated as state capitalism. For Internet activism and control, this means that although the government seeks to suppress undesirable content, it cannot afford to destroy its Internet economy by forbidding people to talk online. For their part, Internet firms, caught between government censorship regulations and business aspirations, promote their businesses by creating mechanisms for encouraging user interaction while gingerly walking the censorship line. Some of the peculiar, interactive features of Chinese blog and microblog websites result from these negotiations.

Yet political economy cannot fully explain the specific features of Internet politics. Equally important are the nations' political cultures and histories, and the everyday practices of regular Internet users. Thus, the institutionalization of Internet activism in the United States reflects the organized nature of American

social movements in general. And however much Russia and China may differ in their approaches to containing Internet dissent and activism, they share one crucial similarity: a political tradition of media control and a government “bent on centralization and rife with controlling impulses.”<sup>45</sup> The method of using the Internet to promote government messages in Russia and China derives from a shared history of state propaganda.

The ways in which a new technology is used or contested depend on preexisting conventions and current practices. The formation of a Chinese-style Internet activism, including Internet mass incidents and the penchant for using coded language, is shaped by both China’s political context and users’ practices and habits in their daily production, circulation, and consumption of online content. These practices combine elements of existing forms with creative adaptations of old

forms or new inventions. Thus, when websites began to offer electronic BBS, they naturally became a forum for users to air grievances and to protest. For many Internet users, these postings were like electronic versions of big-character wall posters, a time-tested form of public expression in modern Chinese history.

The Chinese party-state continually modifies its policies and methods of containing Internet activism. No longer trying to eradicate online protest, it has shifted to managing and co-opting it, in the hopes of channeling it to its own advantage. As scholars of Chinese politics have shown, this regime adaptability is not new, but is part of a long history of political flexibility.<sup>46</sup> Of course, China’s history of popular protest is equally rich. And now this entangled history of mutual adaptation, of continuity and change, is unfolding in the digital realm.

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# State & Social Protest

*Ching Kwan Lee*

*Abstract: This essay sketches an array of cultural, political, and bureaucratic mechanisms that mediate the Chinese Communist state's relationship with the major types of social protests, in the process exploring how governance and contention have transformed each other in the past six decades. In particular, it spotlights a noteworthy development in recent years: the increasingly salient market nexus between state and protest. While the regime response of making economic concessions to protesters is hardly unique in the context of China's own past, the transition from top-down mandated concession to pervasive bargaining between the state and protesters is a significant break with past patterns. The negotiability of cash and material rewards insinuates a market logic of governance that is made all the more poignant by the singularly formidable fiscal and infrastructural capacities of the current Chinese regime among its authoritarian counterparts worldwide.*

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The history of Chinese protest registers a spectrum of popular grievances and protesters that is as wide and diverse as that of any society. The period of the People's Republic of China (PRC) inherits and continues China's millennia-long legacy of social unrest, featuring tax rebellions, anti-corruption and exaction-relief petitions by peasants, market strikes by merchants, industrial strikes by workers, patriotic demonstrations by students and urban citizens, religious and sectarian movements, and ethnic strife and rebellion. On top of these "traditional" modes of social unrest, the current era of one-party rule under the Chinese Communist Party has introduced contemporary varieties of protest stemming from the contour of its political and economic development. These include cycles of political campaigns and mass mobilizations under Mao, pro-democracy movements at the beginning of urban economic reform, and the more recent "not in my backyard" environmental protests and cyber protests in the age of globalization.

The blurred boundary between Chinese state and society is a common point of departure for understanding the Chinese government's management of

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social protest. Rather than emphasizing autonomy and antinomy, China scholars have long underscored the dynamic interaction and mutual constitution of state and society relations from at least the late Imperial era through the Republican and Communist eras. Scholars have deployed lively metaphors to capture this state-society imbrication: a “cultural nexus of power,” a “gray zone,” a “third realm,” and the fluid “amalgam of wet and dry, colorless and colorific as in the art of calligraphy.”<sup>1</sup> These conceptions apply as much to routine governance as to moments of unrest. Scholarship on the Chinese state and on social protest consistently points to a durable duality of state authoritarianism and social contention. The insight, in a nutshell, is that state domination and social protest is not a zero-sum game in which both sides are locked in a starkly antagonistic mode of “dominance versus resistance.”

This essay sketches an array of cultural, political, and bureaucratic mechanisms that mediate the Chinese Communist state’s relationship with the major types of social protests, in the process exploring how governance and contention have transformed each other in the past six decades. It is a story of how the state manages protest, but also a story of how it inadvertently or sometimes intentionally creates protest. This study also spotlights a noteworthy development in recent years: the increasingly salient *market nexus* between state and protest. Market nexus refers to the systematic and preponderant reliance on the state bargaining with protesters using cash and material rewards, eclipsing without replacing other mechanisms of state-society engagement in moments of unrest. While the regime response of making economic concessions to protesters is hardly unique in the context of China’s own past, the transition from top-town mandated concession to pervasive bar-

gaining between the state and protesters is a significant break with past patterns. The negotiability of cash and material rewards insinuates a market logic of governance that is made all the more poignant by the singularly formidable fiscal and infrastructural capacities of the current Chinese regime among authoritarian counterparts worldwide. An incipient commodification or monetization of state power and citizen rights will have important implications for the durability of authoritarianism in twenty-first-century China.

The distinctiveness of the Chinese experience of social protest resides less in its form than in its dynamics. Rather than simply reacting to and managing protest arising from social conflict, the Chinese state has consistently played a proactive role in endorsing – and even encouraging and engineering – some types of protest. Prominent China scholars have attributed this Chinese peculiarity to the lasting influence of Confucian political ideology. For instance, a central argument running through Elizabeth Perry’s seminal work *Challenging the Mandate of Heaven* is that Chinese political cultural precepts – from Mencius’s Mandate of Heaven to Sun Yat-sen’s Three Principles of the People to Mao’s Mass Line – lend as much legitimacy to paternalistic state authoritarianism as to bottom-up rebellion reacting to state failure to deliver benevolence.<sup>2</sup> The Chinese conception of “rights” distinctly privileges socioeconomic security and collective livelihood, in contrast to the Anglo-American tradition that emphasizes political liberty and individual freedom.<sup>3</sup> Therefore, throughout Chinese history, moral economy protests – in which the aggrieved populace makes economic and welfare claims and postures as filial-loyal subjects to the government – have mostly been met with accommodation and sym-

pathy rather than repression and hostility. Protest is not necessarily a subversive force against the state, but an integral element in the Chinese political imagination for both the rulers and the ruled. Inherent in the logic and schema of Chinese authoritarian governance are the seeds for contention and challenge against it.

Chinese Communism under Mao continued to profess an ideological commitment to guaranteeing the security of people's livelihood in exchange for subservience and loyalty to the state. Aside from making uncanny references to Confucian political values in Red Guard slogans and in the training manuals for Communist Party members, the Chinese Communist regime also institutionalized state provision of material security and life chances to state industrial workers and urban residents through the work unit system. Thanks to its unprecedented administrative capacity to penetrate society, the Communist state, far more than its Imperial or Republican predecessors, was able to put into practice and formalize in concrete institution what sociologist Andrew Walder has termed the "neo-traditional" pattern of state-society authority relations. It is predicated on a command economy that allows the state to centralize and redistribute resources. The Communist Party's vast and deep networks of cells and activists also functioned to cultivate patron-clientelist loyalties and deference, and preempt autonomously organized political dissent.<sup>4</sup>

But Communist neo-traditionalism, just like the Confucian Mandate of Heaven, was a double-edged sword. Socialism created its own structure of inequality, and its ideology of state paternalism and equalitarianism inspired significant protests in Mao's time. Contract and temporary workers, young apprentices, and non-state sector workers – all deprived of the economic security others enjoyed – were the

driving force behind the strike waves in 1956 and 1957, the so-called wind of economic worker rebellion during the Cultural Revolution, and the strikes in 1974 and 1975. Another impetus for state-sponsored social contention has come from the Maoist Mass Line doctrine, which stipulated the involvement of the masses in governance. Examples abound: from the state orchestrating peasants' "speaking bitterness" against former landlords in struggle meetings during the land reform; to Mao's invitation of intellectual criticisms against the Party during the Hundred Flowers Campaign; to his famous injunction "to rebel is justified," aimed at fueling Red Guard activism; to his endorsement of the January 1967 seizure of power by workers in Shanghai. Of course, leveraging this cultural logic of power and protest did not stop Mao from flexing the state's repressive muscles and ruthlessly crushing unrest when protests culminated in regime-threatening chaos.

The Confucian cultural logic of contention also finds contemporary echoes in the post-Mao period. Rural and urban protesters often appeal to central government edicts as justification for protest against local corruption and the failure to implement central policies. In the *longue durée* of Chinese political culture, post-Mao "rightful resistance" by farmers against tax burden or fraudulent village elections, and by workers against pension arrears, wage default, managerial and cadre corruption, are only the latest manifestations of a core dynamic of state power and social protest. Commenting on the parallels between social protests in mid-Qing Dynasty and today, sociologist Ho-fung Hung has observed that "the Confucianist-familial conception of political power motivated protesting subjects to appeal to higher authorities against local officials in mid-Qing times. The salience of similar appeals among today's protesting citizens

suggests that this conception of power continues to prevail.”<sup>5</sup> Moreover, in mid-Qing, as in Mao’s China, the state was by and large tolerant of protest and willing to alleviate the subjects’ economic hardships, reprimanding wayward officials or siding with weaker social groups in civil disputes. But beyond certain limits, repression, arrest, and punishment against protesters were equally prevalent.

Newer elements in Chinese cultural schema emerged in the era of “reform and opening,” when the reform leadership let in international flows of goods, information, ideas, and practices, and as a result came under increasing pressure to adopt and comply with international norms of governance. As the pace of lawmaking picked up and the state began to speak the language of legal rights and citizenship, protesters lost no time in invoking and appropriating similar vocabulary in their “rights activism.” But does discursive transformation and expansion portend deeper reconfiguration of political beliefs, imaginations, and demands, moving away from state paternalism and hierarchical obedience and toward political rights and democratic governance? Existing ethnographic evidence seems to suggest that a new discursive repertoire can coexist with traditional cultural logic: workers’ “rights talk” is compatible with a persistent emphasis on socioeconomic livelihood rights (over the liberal rights to free association), and farmers continue to see rights as emanating from the state, rather than as self-evident and naturally endowed.

Notwithstanding its longevity and tenacity, Confucian cultural hegemony does not exhaust the mechanisms connecting state and social protest. To deliver material and moral benevolence, the state must have substantial fiscal capacity and a penetrating administrative presence in society. Even in the Qing dynasty, the propensity

of protesters to appeal to either local or central governments, and to use either peaceful or violent strategies, varied with the ebbs and flows of both the emperor’s moral legitimacy and the state’s fiscal and administrative capacity to dispense relief and justice. Compared to its Imperial predecessors, the Communist state’s impressive increase in “infrastructural power” (to use sociologist Michael Mann’s memorable term) sheds particular light on how the Communist political economy has generated its own peculiar dynamics, at times conducive to unusually large protests, but also proving exceptionally effective in containing them. Several institutional features of the Communist polity have shaped the volume, direction, and capacity of social protests. First, contemporary protesters have continued to appeal to central authorities for protection against local malfeasance because the political economy of Communist China retained the hierarchy and tensions among various levels of the polity, or what political scientists have termed “fragmented authoritarianism” and “decentralized authoritarianism.”<sup>6</sup> Second, the centralization of economic and political resources in the Communist state made it the perennial target of social contention. Even in the reform era, the visible hand of the state as the creator and regulator of, and a player in, the market invites state-engaging protests triggered by conflicts in the market economy. Third, when the central government imposes national policies throughout the country, it inadvertently creates large numbers of similar grievances, or it creates unorganized interests whose uncoordinated mobilization may still generate aggregate political pressure.<sup>7</sup> Fourth, the party-state’s organizational penetration into society is normally a powerful tool of domination, but in moments of crisis, as during the 1989 Tiananmen demonstrations, official unions and official

student organizations could turn subversive from within.<sup>8</sup>

Finally, although Communist political economy can be conducive to social protests, it is equally effective at containing them. Bereft of democratic oversight and political competition, repression of protesters by the Communist state has been particularly ruthless, though selective. Yet besides repression, there are other less direct (but equally insidious) ways of containing protest. Government policies create heterogeneous interests and internal tensions within society. Through policies that arbitrarily accord different rights and entitlements to different groups of workers or farmers, for instance, the state has very effectively erected social boundaries and cleavages, fragmenting inter- and intra-class or inter-regional solidarity and creating winners and losers within a particular social group. Over and over again, studies of micro-mobilization show how state policies have produced cellular protests that have difficulty transcending local or class boundaries.<sup>9</sup>

One obvious difference between the politicized Maoist period and the economically focused post-Mao leadership has been the current state's reluctance to endorse, much less encourage, popular protests. Whereas Mao used mass protest and the rhetoric of class struggle as tools to advance his party's agenda, the post-Mao regime has refrained from proactively instigating mass movements. Especially after the bloody debacle of the 1989 uprisings in Beijing and other major cities, both state and society have become weary of mass movements. The only exception may be the recurrent waves of nationalistic protests against Japan over territorial disputes and over textbook accounts of Japanese wartime atrocities. Even there, the Chinese government is ambivalent, finding itself at pains to navigate a fine line between restraining and encouraging such in-

tensely emotional bottom-up mobilization.

Seemingly incongruous with its authoritarian outlook, the PRC government has relied on a variety of legal and bureaucratic institutions to absorb and manage protests. Functioning as the state's frontline tentacles and providing a structure of engagement, these institutions, running the gamut from mediation and arbitration to petition and litigation, incorporate citizens into its machinery of rule. For officials, channeling conflicts into these procedural games buys them time and order, removing the physical and public display of disharmony that can spark escalation or contagion. For protesters, playing by government-sponsored legal-bureaucratic rules offers one of the few institutional protections and leverages for their activism in an authoritarian context, in addition to the chance of winning material and symbolic rewards.

Among these institutions, the petition administration – or *xinfang*, literally letters and visits – is perhaps the preeminent embodiment of the Chinese state's simultaneous endorsement and containment of popular contention. With origins in Imperial times and analogues in other Communist countries, the petition system has always been an essential component of the PRC government, excepting a brief rupture in the initial years of the Cultural Revolution. Proclaiming the basic guiding principle “to satisfy the proper or legitimate demands of the people,”<sup>10</sup> petition bureaus accept complaints about misimplementation of policies, official corruption and malfeasance, problems with economic livelihood, and public service provision. Even though fewer than 0.2 percent of petitions succeed in having their complaints addressed, ordinary citizens continue to file an annual average of 11.5 million petitions, in the forms of in-

dividual letters but also organized demonstrations, large-scale marches, and public speeches.<sup>11</sup> For the Communist state, just as it did for the Ming and Qing emperors, the petition apparatus performs multiple governance functions: to provide a flow of information about local officials and social problems; to leverage popular pressure to monitor and discipline officials; and to display the symbolic presence of central authorities as guarantors of righteousness. For the aggrieved populace, not only is petitioning free of charge, it is also a politically safe means of soliciting intervention and assistance from higher-level governments. Petitioning is again a double-edged sword, and recent state efforts to strengthen administrative capacity while at the same time prohibiting mass petitions and capital appeals attest to the fine line the state must patrol.<sup>12</sup>

Besides revamping and reinforcing the petition bureaucracy, the reform decades have also ushered in an impressive strengthening and professionalization of the judiciary, mediation, and arbitration systems. Absorbing protests by channeling them into the legal system has been aided by an energetic and rapidly expanding legal profession keenly interested in creating a market for its services. In ordinary circumstances, the protracted and arduous processes of arbitration and litigation demobilize collective action by consuming aggrieved citizens' time, emotion, energy, and solidarity through endless rounds of red tape, paper chases, near-interminable waiting, and appeals. In recent years, when these legal and paralegal bureaucracies have also been required to contribute to stability preservation, officials have pursued a strategy of cross-departmental "joint action," arbitrarily invoking rules across different bureaucratic arenas to fight what they call "an integrated battle." In response, aggrieved citizens

have come up with their own strategy, also couched in military metaphors, of "fighting a simultaneous sea, land and air battle," meaning a mix of legal and extralegal mobilization. State and protesters' engagement with the law as gamesmanship does not necessarily produce a rule-of-law political culture, but instead nurtures a cynical and instrumental view of the law.<sup>13</sup>

Repression remains a central element in the Chinese state's manual for dealing with protests that challenge or criticize its political and ideological monopoly. Human rights lawyers, intellectual dissidents, leaders of ethnic strife, and religious activists are still subjected to constant harassment, house arrest, abuse, and imprisonment in "black" or official jails.<sup>14</sup> Massive crackdowns on cross-class and multicity mobilizations, such as the 1989 pro-democracy demonstrations and the Falun Gong quasi-religious movement in 1999, stand out as exceptions to the more recent rule of "using force judiciously." As the numbers of mass incidents motivated by socioeconomic grievances grew over the reform period, the state came to recognize that moderate levels of protest are inevitable and that repression may provoke more violence, as shown in the 2008 Weng'an incident in Guizhou. There are now clear stipulations limiting the use of arrest and coercive force against situations of mob violence, assault on government buildings and property, and disruption of public order. At least in the big cities, police work emphasizes preempting protest through intensive surveillance and human intelligence gathering. These techniques include partitioning jurisdictions into grids whose overall security is assigned to officials as personal responsibility; recruiting a network of paid informants embedded in local communities; and using closed circuit television cam-

eras, biometric technology, and satellite location tracking on problematic individuals, assisted by quasi-police forces hired by city governments or security companies employed by local businesses. The explosion in the number of “mass online incidents” also requires heavy investment in Internet policing, media and cyber censorship, and propaganda – virtual rather than physical repression.

Since the early 2000s – in the wake of a rising tide of social protest related to labor plight, land seizures, property rights violations, and environmental degradation – the Chinese state has openly announced its concern about social instability. From the slogan of “constructing a harmonious society” to instituting a new “social management system,” stability preservation, or *weiwen*, now ranks with economic development as a top priority of the Chinese state. While the tried and true methods of bureaucratic absorption, patron-clientelism, and selective repression are still deployed, there has also been a new emphasis on pacifying protesters by bargaining with cash. This practice, which officials have called “buying peace with money,” was initially adopted around 2008. Beginning as an expedient way to ensure stability on the eve of the Beijing Olympics, when aggrieved citizens seized that sensitive moment to stage a large number of social protests and petitions, buying stability has since become a standard practice in the governance tool kit of the Communist regime. Local governments around the country, especially at the lowest levels of township and street, have set up “Integrated Security, Petition and Stability Maintenance Centers” with the explicit mandate to handle conflicts and disputes. “Stability maintenance funds” at every local government level now have budgets whose aggregate size has, in recent years, reportedly exceeded the bud-

get for national defense.<sup>15</sup> Besides cash payment to people who stage public acts of defiance, buying stability takes the form of grassroots officials finding jobs for protest leaders, or paying for urgent services and utilities (such as water supply, electricity, garbage collection, or the construction of a new school) when these become the subject of disputes.<sup>16</sup>

Conceding to moral economy protesters is of course nothing new. But concession and toleration from above is quite different from bargaining on the ground with protesters about conditions for acquiescence. And instead of the state making ad hoc and arbitrary concessions, dishing out cash payment or other material benefits in exchange for compliance has become a patterned and routinized response to popular unrest, summed up in a widely circulated popular maxim: “Big disturbance big resolution, small disturbance small resolution, no disturbance no resolution.” The grassroots state has turned into a marketplace where gamesmanship (or *boyi*, meaning strategic game playing) between officials and citizens determines the price tag of stability.

Routine stability maintenance work by grassroots officials who are dedicated to the task has been codified in handbooks and detailed flow charts that categorize types of protests and specify a triage system linking them to the personal responsibility of particular officials in a particular locality. Jurisdictions with good records in stability maintenance develop best practice models that are then presented and shared with other jurisdictions in cadre training classes. Stability maintenance officials have developed effective skills to manage the process of protest bargaining, including emotion control, co-opting protest leaders and fragmenting protesters’ solidarity, tactfully using arrests to turn protest leaders into government collaborators, and transforming protesters’

“rights consciousness” based on the law into pragmatic, realizable rights in line with the government’s policies and regulations. Last but not least, like protesters leveraging the specter of instability, grassroots officials also capitalize on instability to augment their departmental and personal career interests. The existence of instability justifies demands for increased budgets for the departments and personnel working in stability maintenance.

On the part of citizens who use road blockages, sit-ins, and marches with banners as bargaining chips, the process of negotiation transforms their subjective experience with state authoritarianism. Grassroots officials bring a human and flexible face to an otherwise impersonal and inflexible bureaucratic juggernaut. And upon discovering the extent and limits of state power at various levels, protesters also turn to negotiation as a process to adjust demands in pursuit of greater benefits. Some come to realize that if their grievance is caused by higher-level governments, there is little wiggle room for bargaining, while others learn how to exert just the right amount of pressure on the right departments to maximize results. Citizens’ “rights consciousness” is very much shaped by the transformative and malleable process of engagement with officials. It is not, as is often assumed in the current China literature, a static state of mind that is fully formed prior to protests and to which protesters are committed from beginning to end.<sup>17</sup>

A similar market logic of absorbing potential social challengers is applied to the rapidly growing numbers of non-governmental organizations. In Guangdong and Shanghai, the city governments buy social services, essentially outsourcing to and establishing a commercial contract with grassroots NGOs. Repression and harassment are still routinely inflicted on

NGOs and other informal groups with sensitive advocacy agendas (such as labor rights, human rights, political reform, or religious freedom groups). Yet for many others with a service orientation – including neighborhood civic groups, HIV-AIDS health services, and those providing elderly care or migrant education and recreation – government contracts for their services afford them much-needed financial resources to run and stabilize their organizations, develop a professional staff, and facilitate longer-term planning. From the perspective of the Chinese state, incorporating NGOs with a cash nexus achieves the twin objectives of commercializing and co-opting the rapidly growing civil society, channeling their agendas and practices into state-endorsed directions.<sup>18</sup>

In post-socialist China – when state paternalism in the form of welfare and employment security has been drastically reduced, the use of force has become politically undesirable, and ideological indoctrination has ceased being effective – the Chinese government’s repertoire for the quotidian management of popular unrest now pivots on bargaining and buying stability. This market-oriented strategy has so far preserved stability by depoliticizing state-society confrontation, and by granting aggrieved citizens a certain degree of political leverage, in addition to the relatively expansive opportunities to obtain material concessions and symbolic rewards from the state. Thanks to the pervasive practices of bargaining, state domination is experienced as non-zero-sum, totalizing and transparent yet permissive of room for maneuvering. Material gain has become the linchpin of subordination. If patron-clientelism in Mao’s era was at least partially buttressed by activists’ ideological subscription to Chinese Communism, today it is unabashedly materialistic.

However, the turn to the market as a mechanism of governance has uncertain consequences. For all the short-term effectiveness of commodifying governance, state authority and citizen rights are “fictitious commodities,” to use economist Karl Polanyi’s term, because turning them into commodities necessarily destroys their essence and purpose.<sup>19</sup> When state-society bonds depend so heavily on the market-like exchange of compliance for benefits, there is no authority in authoritarianism, no noncontractual elements of contract, and arguably no durability beneath the façade of stability. A fiscal crisis, a recalcitrant and principled protest leadership, or any unexpected derailment of the bargaining process can provoke the state’s repressive machinery, politicizing state-society interaction.

Even as they manage to defuse imminent instability, officials lament that their authority often depends on making payment. Grassroots officials are the first to understand the pitfalls of what they call “passive stability maintenance,” managing unrest but leaving intact its root causes (such as weak enforcement of the law or the lack of institutional representation and resolution of class interests). The constant shuffling of leading cadres across localities as they move up the bureaucratic ladder means that the superiors of these grassroots officials are interested only in short-term pacification. Using market logic to maintain stability likely spawns persistent unrest, both because of its avoidance of underlying problems and because of the opportunity it creates for joint capitalization by protestors and basic-level officials. Protest bargaining does little to mitigate citizens’ sense of injustice and violation. Even after obtaining compensation, protesters are often embittered by and indignant at the unequal playing field on which bargaining takes place, and that is always backed by the possible inflic-

tion of state violence. No matter how expedient and effective protest bargaining may be in particular instances, a significant number of officials and citizens come out of the process feeling disappointed or resentful.

Beyond China, other authoritarian states have pursued similar strategies of fragmenting opposition forces, making concessions and targeting transfers to disgruntled communities, and strategically alternating between carrots and sticks in managing dissent. In Egypt, despite differences in overall economic strategy, state authoritarianism under Nasser, Sadat, and Mubarak nurtured reciprocal, moral-economic relations with labor, and pursued a combination of repression and concession aimed at curbing incidents of labor protests – with the apparent goal of preserving the impression of regime legitimacy.<sup>20</sup> Indonesia’s Suharto regime was notoriously deft in selectively tolerating but fragmenting opposition forces, whereas Russia under Yeltsin’s and Putin’s competitive authoritarianism fostered regime-supporting crowds and street demonstrations.<sup>21</sup> Yet China stands out among these autocratic regimes in its unrivaled administrative penetration into society, its deep fiscal reserves, as well as its disciplinary capacity over its own agents (party members and state officials). In recent years, civil service reforms in the direction of professionalization, rationalization of cadre assessment, and enhancement of its monitoring and incentive systems promise to make the party and the state even more powerful. These uncommon capacities mean that the Chinese party-state can preserve stability with its multipronged repertoire of protest bargaining, bureaucratic absorption, and patron-clientelism more effectively and systematically than its counterparts elsewhere. Yet these strategies also have a tendency to reproduce protests without resolving the underlying

causes of popular discontents. A creeping erosion of state authority may quietly develop beneath the visible surface of authoritarian stability, subjecting the regime to a deep-seated vulnerability that is revealed only when a fiscal crisis hits or when aggrieved citizens are no longer willing to bargain away their rights.

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# The Politics of Increasing Religious Diversity in China

Robert P. Weller

*Abstract: China has seen a remarkable growth and pluralization of religious activity over the past thirty years, a development that has rapidly overtaken the incremental and sluggish changes in the relevant regulatory structures. In much of the country, the government has managed the mismatch between religious practice and official rules by governing with “one eye open and one eye closed,” that is, by pretending not to notice violations of the regulations as long as people pretend that they are following the rules. Comparative evidence suggests that such a mode of governance can be long-lasting and effective by encouraging groups to self-censor, by allowing space for contextual experimentation, and by stressing the acceptance of nominal convention over the control of behavior. This situation is likely to continue unless China adopts a new vision of the desired relation between state and society.*

Over the past two decades, religious practice of all sorts has remarkably come back to life in China. Temples to local gods have popped up like mushrooms over broad sections of the rural countryside, with some of them attracting crowds of a hundred thousand visitors for major annual festivals. Islam is increasingly visible as Muslims from China’s far west migrate to the heavily populated east side of the country, and foreign Muslims arrive in large numbers to trade in China’s coastal cities. This has further encouraged a religious rediscovery among some of the local Muslims who had long lived in those areas, and has encouraged the conversion of some non-Muslims to the faith. Christianity has grown almost everywhere, and even the “underground” church is increasingly public in its practice. Daoist and especially Buddhist temples are reviving quickly as well, sometimes in surprising ways, as with some of the majority Han Chinese who now devote themselves to Tibetan branches of Buddhism.

One of the most serious problems these rapid changes pose for the Chinese government is how to handle the new kinds of diversity that have resulted.

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In areas where local temple religion once again provides a significant source of social capital, what happens when a new Christian minority rejects existing ritual mechanisms of local unity? How do local dynamics change as thousands of internal migrants move into villages and millions more move into cities, bringing their own separate religious traditions? Religions sometimes build bridges to each other, but they also sometimes build impassable and uncivil walls.

The new diversities also pose an even more fundamental problem for the Chinese government: how much room can a Communist state leave for social networks and imaginative worlds that do not share the state's core values? For most of its history, the People's Republic of China has responded to religion with varying degrees of hostility: from impatient tolerance of what the state considered a superstitious remnant, during the first part of the Maoist period, to nearly complete intolerance of what party leaders began to see as unacceptable departures from Revolutionary cultural norms, especially during the decade beginning with the Socialist Education Movement in the mid-1960s. But with religious practice now rapidly increasing, the state has struggled to find an appropriate response.

Changes in the legal position of religion have been incremental at best since China's religion policy first loosened up over two decades ago. The government still recognizes only five religions – Buddhism, Daoism, Islam, Protestantism, and Catholicism – with each organized into a single corporatist body to represent its interests in close collaboration with state goals. Many world religions – including Eastern Orthodoxy, Judaism, and Baha'i – thus have no legal space in China, nor do indigenous Chinese redemptive societies. Confucianism has no place in the official religious world, and neither do the thousands of village tem-

ples that are not certified by the Buddhist or Daoist associations. Any religious activity outside the auspices of one of the five religious associations – the practice of Christianity in house churches being the most noted example – lies outside the law. Religious practice can be and sometimes is repressed; nevertheless, religiosity of all kinds has grown, both legal and extra-legal, and most of it has done so very much in the public view.

Thus, there is a wide gulf between the very limited religious diversity imagined by the state regulatory framework and the vast growth in actual religious life. In recent years, the state has been willing to tolerate much more than the letter of the law permits, often by simply ignoring religious behavior that does not fit the regulatory model. By governing with “one eye open and one eye closed,” as the Chinese metaphor goes, the state has created an open space where religion has fermented and expanded, even without a stable legal environment to support it. Closing one eye has allowed officials to maintain the nominal status quo for religion – in fact, for civil associations of all kinds – even while allowing new kinds of religious experiments to crop up around the country.

Religion shapes fundamental concepts of identity and society, and its growth has thus fostered and reflected major changes in China. The current system of state control forms a kind of governance by hypocrisy: much of the newly elastic religious sector lies outside the law yet is tolerated because officials act as if they cannot see. Such a system contains many inherent tensions, including the constant potential for, and occasional realization of, repression. Nevertheless, comparative evidence suggests that this kind of one-eyed governance can provide a medium for the growth of pluralism and diversity over relatively long periods of time.

The growth of religion in China is obvious to anyone who visits the country, but is difficult to pin down statistically. One of the problems is that official government statistics have counted only those people formally registered as “believers” within one of the five official religions. But not even the government believes that count is accurate; and we have recently begun to get independent survey data to supplement the unofficial guesses about absolute numbers that had previously come primarily from the underground church. For instance, a 2007 survey by scholars at East China Normal University estimated that 31 percent of the adult population – roughly three hundred million people – described themselves as religious. This is about three times higher than the official figure, but its reporting in the *China Daily*, an official organ of the state, indicates that the government took it seriously.<sup>1</sup> Even these more independent estimates are almost certainly low, since respondents know that claiming no religious affiliation is the more officially sanctioned answer.

But the problem of counting is far greater than these numbers would imply. This point was driven home to me many years ago by an old rural woman who insisted that she had no religion; she just “burned incense.” What she meant was that her practice had little in common with official state definitions of religion, that is, something based on sacred texts, mediated by clergy, and joined through a conscious act of faith. For her, worship was the act of showing respect to spirits by burning incense, and occasionally asking for their concrete intervention in the world. Texts played only a minor role, clergy were experts to be hired when needed (rather like plumbers), and faith was no more than a secondary concern. Hundreds of millions of Chinese citizens share these attitudes toward their spiritual life, and they often tell poll takers, in all good faith, that they

have no religious beliefs.<sup>2</sup> The survey questions that more effectively identify this population do not ask about belief at all, but instead ask about practice. A 2007 survey of 7,021 people from around the country illustrated the gap neatly. When asked for an opinion on whether such things as God, gods, spirits, ghosts, or Buddha exist in this world, 75.2 percent said that they did not exist. Yet when asked whether they had worshipped God or gods/spirits in the past year, 63.2 percent said they had worshipped in an institutionalized setting, at home, or at a graveside; only 35.2 percent said they never worshipped.<sup>3</sup> Reporting of religious *practice* thus leads to much higher numbers than reporting of religious *belief*.

No matter whom we count and how we count them, there is consensus among observers that religion is far more visible than it had been before the reform period began in 1979. In some parts of China, active temples are again visible everywhere, often with more than one temple per village, and almost all of them extralegal. Meanwhile, other areas predominantly feature mosques or churches, and it is quite common to see a mix of the two. Even the most conservative numbers available – based on the registration lists of the five officially sanctioned religions – show markedly rapid increases for Buddhism and Protestantism, with slower growth for the three others.

This rapid blossoming of religion poses new problems of diversity for China. In rural Han communities, which accounted for the great majority of the total Chinese population until the very recent explosion in urban migration, it was standard practice for all residents to contribute at least token financial support and make offerings for the performance of important community rituals. The details varied, but larger temples might request a small fee from each household, while smaller temples might rotate the responsibility for

burning incense among all the households. People were free to worship all kinds of spirits, including those with no local temples, but nearly everyone took part in larger public ritual life.

This became a problem only when some rural Han residents converted to religions that forbade the polytheistic openness of the older traditions. The resulting tensions have been expressed in a variety of ways, including, in recent years, some members of Protestant churches not only refusing to take part in “idolatrous” rituals conducted by the rest of the village, but also actively protesting when non-Christians parade their deities through the streets or set off firecrackers. On a national scale, similar tensions erupted at the end of 2010, when a village a few miles from Qufu – Confucius’s hometown and the site of a temple complex in his honor – proposed building a Protestant church with a 136-foot tower that would have dwarfed the main Confucian temple. The result was a national outcry opposing the church, branding it an offense to the dignity of Chinese tradition.

Of course, diversity does not necessarily lead to conflict, and China is also full of examples of various religious traditions living amicably side by side. For example, a small mountainous township in Yunnan is home to seven ethnic groups and four religious traditions (Catholic, Protestant, local animist, and Tibetan Buddhist), but the community as a whole has found ways to share their ritual practices. Sometimes this means making special adjustments at ritual events, such as preparing soda for the Protestants because they refuse alcohol. Still, everyone joins together, especially for major happenings. In her work on this Yunnan township, anthropologist Wu Keping describes a funeral for a local teacher conducted in such a way that followers of each of the town’s religions could take part. They even fostered a de-

spiritualized context that allowed the local cadres to carry out a brief memorial service before the minister took over. That is, ritual practice opened up the event so deeply that there was even space for official atheism to be recognized alongside each of the local religions.<sup>4</sup> In general, however, we still have very few studies of how the new religious diversities are playing out on the ground, or of whether the growth of religion is dividing groups of people from each other or encouraging them to get along together.

While the new diversities only sometimes create significant local tension, they all pose a challenge to the socialist state’s image of itself. China’s Communist Party had a split attitude toward religion almost from the beginning. On the one hand, Marx’s brief writings on religion seemed to imply that it was an unfortunate side effect of capitalist exploitation that would simply fade out on its own under Communism. His references to religion as the “opiate of the people” or the “heart in a heartless world” showed a kind of patronizing sympathy toward people for whom religion was the only escape. On the other hand, when Mao wrote his important early analysis of the peasant movement in Hunan as a potential model for revolution, he branded religion as one of the “great ropes binding the Chinese people,” putting temples in the same category as landlords: features of old China that would have to be chopped through in order to free its people. The tremendous social capital and alternative sense of identity in religion – its potential threat – was never far from the minds of party leaders. They knew how religious power had been mobilized throughout the preceding dynasty in the White Lotus, Taiping, Muslim, and Boxer rebellions, to mention only some of the largest.

Actual religious policy since the founding of the People’s Republic has wavered

between these two poles. In the 1950s, there were few attempts to do away with religion directly, even as religious groups were consolidated into five large organizations under the direct control of the central state. Religious belief, but not necessarily practice, was legally guaranteed within the confines of those five recognized associations. We have evidence of continuing religious activity, clearly known to local officials, through the early 1960s.

The United Front Work Department of the Communist Party, the department responsible for all the forms of diversity that the party was willing to tolerate, was a crucial carrier of this policy. Groups tolerated by the United Front included ethnic minorities, overseas Chinese, entrepreneurs (although not in all periods), and followers of religion. In each of these areas, the party was willing to work with people who had characteristics that prevented them from being proper Communists, such as religious belief or ownership of a private business, or that made them somehow different from the majority population, like ethnic minorities. The United Front strategy involved mechanisms to coordinate the interests of these groups with those of the state, including People's Political Consultative Congresses, which pulled representatives of these various groups into a forum where the government could propagate its views and where, in principle, these diverse interests could be articulated to the state.

By the middle of the 1960s, however, and especially with the Cultural Revolution, the Chinese party-state insisted that China be unified around "proletarian culture." Many mass organizations became less important since the diversities they represented lost their legitimacy. For the same reasons, the United Front Work Department also became largely irrelevant.

Yet after the economic reforms began to take effect in 1979, China moved away

from the more totalizing policies of the Cultural Revolution, creating far more open economic, social, and personal spaces. The political mechanisms for handling diversity returned to something like the model of the 1950s, with corporate organizations in place to represent each recognized interest group (as with the five religious associations), a newly invigorated United Front Work Department trying to coordinate all the new religious activity, and the rise of market entrepreneurs and other social groups that had briefly seemed extinct.

United Front work has in recent years combined with the party's campaign to construct China as a "harmonious society." This term was closely associated with then-General Secretary Hu Jintao, and since at least 2006, the idea has explicitly included religion. "Harmony" is a tricky concept. Some Chinese uses simply conflate it with stability, and it is no coincidence that during this same period, "maintaining stability" became a prominent slogan, accompanied by a massive investment in policing. On the other hand, musicians use the idea of harmony to indicate the coordination of tensions created by different pitches being played simultaneously. This more complex idea of harmony echoes its original Confucian uses, which also frequently refer to music or to the need to avoid monotony in food by combining different flavors. According to the Confucian *Analects*, "The petty person unites without harmonizing while the great person harmonizes without uniting" – a saying that expresses the potential of a harmonious society to incorporate multiple diversities.

In practice, these changes have left religion in a complex political position. On paper, the regulatory world for religion looks roughly like it did in the 1950s, with large and tame organizations representing

each of the five sanctioned religions. This system recognizes limited religious diversity, but only as coordinated and channeled through a corporatist system, and only within the broader unity as socialist subjects. In reality, however, everything is different. The political vise was clearly tightening during the 1950s, progressively limiting the action of religious groups and often pushing harder than the laws and regulations seemed to demand. But now, the government in much of China has bent in the opposite direction, simply turning its gaze away from constant religious scoff-laws – from unregistered (but no longer underground) churches to the thousands of village temples – all thriving outside the five legal associations.

Such policies of lax implementation are necessarily informal: if they were formalized, they would be visible in the regulatory system and thus subject to its rules. Informality, however, also brings the possibility of uneven enforcement, which certainly is the case across China. The classic distinction between fire alarms and police patrols, conceived by political scientists Mathew McCubbins and Thomas Schwartz in a study of congressional oversight in the United States, is a useful lens through which to view the question of policy enforcement in China.<sup>5</sup> In the police-patrol model, the state constantly monitors its subjects, actively looking for potential trouble. Fire alarms, on the other hand, wait passively, becoming active only in an emergency.

Religious policy implementation in most areas of China has now moved from police patrols toward fire alarms. The exceptions tend to be in areas with a confluence of religious and ethnic diversity working also in combination with strong tensions between state and local interests. Above all, this dynamic exists in Tibetan regions and in some of the Muslim areas of the northwest, where the government

monitors religion very closely and often tries to override religious meanings (for instance, by demanding that national flags be hung inside monasteries). The unintended result has often been the sharpening of tensions. In much of the rest of the country, however, fire alarms tend to be the rule. Local officials increasingly leave religion alone so long as they feel that no lines have been crossed.

As McCubbins and Schwartz explain, “[F]ire-alarm oversight tends to be particularistic . . . it arguably emphasizes the interests of individuals and interest groups more than those of the public at large . . . [E]ven if fire-alarm oversight deemphasizes some public-interest concerns, it gives special emphasis to a concern for the interests and rights of individual citizens and small groups.”<sup>6</sup> Their observation captures a critical dynamic in the fire-alarm oversight of most Han Chinese religion, which relies heavily on informal understandings between officials and practitioners. It is as if government officials agree to pretend that they cannot see, so long as followers agree to pretend that they are not breaking the rules. That mechanism explains why we can have tens or (if we include those who occasionally burn incense) hundreds of millions of people openly practicing religion outside the legal framework. This is governance by mutually accepted hypocrisy.

The winks and nudges that allow this to work have built a fragile scaffolding on which to hang such a rapid religious expansion. The unspoken and informal line defining what is permissible encourages some groups to push against the limits of political possibility. A few urban churches have done this consistently, creating constant tension with local authorities as they strive for an end to hypocrisies and to their extralegal standing. Many other unregistered churches, however, have opposed this strategy, arguing

that it undermines a status quo that they can live with, and that it encourages the government to treat them more harshly.

Governing with one eye closed can also make policy seem capricious. It can be quite difficult to understand why one group suddenly loses its place of worship, or why one temple is awarded legal registration while another is refused. In most cases, such situations encourage active self-censorship – unpredictable risk encourages people to be cautious – which is one of the reasons the policy continues. But on the other hand, unclear rules can sometimes encourage aggrieved or demanding groups to push the boundaries. Thus, occasional acts of repression become necessary to remind people that there is a line that cannot be crossed, even if it is invisible. Some repression seems obvious, as occurred after the large social protests of Falun Gong in 1999 or the uncivil actions of extreme Christian offshoots like Eastern Lightning; but in other cases, it is simply unpredictable. The fire-alarm dynamic has created far more social space in the eastern regions of the country than did the constant pressure of police-patrol styles of religious control, but it carries its own modes of repression as well.

**W**hy govern through hypocrisy? Why not simply rationalize the rules to fit the desired situation on the ground? Religious policy is certainly not the only area in which China governs by closing one eye, and sometimes in the past the state has indeed changed the legal framework to match a new reality. Perhaps the most important such case in recent history concerned the rise and decline of “township and village enterprises” in the 1980s. Early in the reform period, very few entrepreneurs dared to create private enterprises on anything greater than a tiny scale. They feared both the punitive tax situation for private companies and the dan-

gerous accusation of being a capitalist. The answer for many was to register with township and village governments as collective enterprises. Such registrations were often purely nominal, however, and typically involved the private entrepreneur simply paying a fee to local officials in exchange for the registration status. So in an important sense, much of the most vibrant sector of the economy consisted entirely of scofflaws. In that case, however, the central government decided after a few years to change the situation by revising tax laws and creating much more legitimate space for large private business. In the case of township and village enterprises, governing through hypocrisy appears to have fostered a few years of experimentation, and to have allowed the central government to make its peace with a more market-based economy. After that, they changed the rules, creating more incentives to register as an independent company, in turn allowing officials to open both eyes.

A somewhat different dynamic now appears to be at play for religious policy, in part because fundamental political reform has been much harder to achieve than economic change. Governing religion with one eye closed offers China the advantage of creating a significant space for diversifying identities and for people to contribute to the general welfare by creating independent social ties. This form of management does not require China to move away from the fundamentally corporatist and authoritarian model of state/society relations that it has adopted for three decades now. Perhaps unsurprisingly, non-governmental organizations – which also address newly diverse identities (from migrant workers to sports car enthusiasts) and serve important social functions – have rates of non-registration or false and misleading registrations roughly comparable to what we see with religious groups.

*Robert P. Weller*

To some extent, every country has areas governed with one eye closed. Prostitution in the United States provides a small example, with no systematic state attempt to stamp it out, but also no attempt to change the law to match the situation on the ground. What lawmaker would dare propose it? In that case, the need to publicly proclaim a certain morality overrides any desire to make the rules realistic. The result is a mode of occasional repression, creating a dynamic not too different from China. The “don’t ask don’t tell” policy toward homosexuality in the American military was an attempt to do something similar, though it was ultimately less sustainable.

Historically, the case most similar to contemporary China’s religion dilemma may be the clandestine churches that popped up around Europe, and especially in Holland, between the seventeenth and nineteenth centuries. From the outside, these churches appeared to be ordinary residential buildings, and typically their ground floor fit this description. But the second floors of these buildings opened up into large extralegal houses of worship, most often Catholic, but also in smaller numbers Mennonite, Lutheran, and Jewish. The Netherlands had been one of the most disastrous battlefields in the Thirty Years’ War, which pitted Catholics against Protestants in vastly destructive combat. The formulas of the treaties of Westphalia, which finally ended the war, demanded that each nation’s ruler would henceforth determine the religion of his people (*cuius regio, eius religio*). This recipe for the religious cleansing of each country gave minority religions the right to leave, and allowed them no other public existence.

Yet those treaties did leave a small space for completely privatized religion, where minority religious groups could occasionally meet outside the public sphere. The result, before very long, was several

dozen clandestine churches in Amsterdam alone. But of course, there was nothing really clandestine about them. Surviving records show that state officials clearly knew about them, and dealt with them largely by closing their eyes in ways not so different from what we see today in China. The historian Benjamin Kaplan has referred to this as the “fiction of privacy,” because such religions were truly “private” only in fiction – in the eyes of the law and of the officials who looked the other way.<sup>7</sup>

Kaplan has suggested that these hypocrisies lasted so long in Holland because they granted the country a certain amount of diversity, even as it claimed a complete Calvinist moral hegemony. Sometimes the point of a law is to state a moral ideal rather than to regulate actual practice. That seems to be the main reason why it took centuries before the Dutch began to think of their policy toward clandestine churches as problematic (ultimately recognizing multiple legitimate religions within the country), why prostitution policy seems unlikely to change in the United States, and why China still shuts one eye to the realities of religious behavior on the ground.

The regimes that controlled Taiwan during the twentieth century – the Japanese colonial government, the Nationalist Party authoritarian state, and the democratic government after 1987 – also tended to govern religion through similar pretenses. For example, early in the twentieth century, the Japanese repressed part of an annual ritual for the dead in which young men climbed long bamboo poles to retrieve flags and food offerings from the top (called *qiang gu*, “stealing from the lonely ghosts”). The state feared the large crowds, rowdy atmosphere, and apparently frequent injuries at the event. In the town of Sanhsia, the local people, as good subjects of the empire, agreed to end the custom. In its place, they said, they were sponsoring a pole-climbing contest for

village teams in order to meet the Japanese Emperor's desire for healthy subjects. Half a century later, when the newly arrived Nationalist regime tried to discourage the practice of offering specially fattened whole pigs at birthday celebrations for deities, Sanhsia's people again agreed, and promised instead to hold a contest to encourage better agriculture: the farmers who could raise the fattest pigs would have them displayed in front of the temple on the god's birthday. In both cases the rituals continued fundamentally unchanged, but were simply covered with a fig leaf of adherence to the new policy.

The town hall in Sanhsia is just down the road from the main temple, and almost all of the officials were locals, even under Japanese rule. That is to say, there is no chance that the local state was actually being fooled. Instead, just as in Holland historically or China today, officials agreed not to notice what was really happening in exchange for townspeople's hypocritical claims to be following policy. While these particular rituals are again officially tolerated in contemporary Taiwan, one governmental eye continues to close, especially in regard to the requirement that temples register. Although there are no longer political obstacles to registration, the process does require a certain amount of financial transparency that many temples prefer to avoid. In one town I visited, officials told me they had done a detailed history of every local temple, but could not make it public because doing so would mean admitting that they knew about the unregistered temples' existence, in turn mandating that the officials enforce the law. One eye stayed firmly closed.

Like the Dutch case, these Taiwanese examples remind us that nominal acceptance of the conventions of the law may be more important to officials than substantive obedience to the law. This may be particularly true when the perceived costs

of repression are higher than the apparent risks of allowing the behavior to continue. At the same time, nominal adherence to the conventions of the law must be valuable enough that the state chooses not to change the law itself. While deeper study of comparative cases might help us draw broader conclusions about when one-eyed governance becomes important, even these few examples suggest that there is nothing uniquely Communist or uniquely Chinese about this political strategy.

What does China gain from insisting on the artifice that there are only five religions, and that each adherent is carefully registered in one of the five corporatist religious institutions? Officials I have spoken with understand perfectly well how broad the gap is between their fictive corporatist religion (in contrast to the Dutch fictive privatized religion) and real religion as practiced by the Chinese people. They, too, are frustrated by the hypocrisies that the current system forces on them, and by the state's apparent inability to change the system.

Changes to a more transparent system are not impossible, as China's earlier experience with township and village enterprises showed. Why has China not done so? There are probably two primary reasons. First, governing with one eye closed is much more effective and is potentially much longer-lasting than most standard political theory would allow. As the Dutch case shows, such a system can work for centuries to maintain religious diversity in difficult circumstances, in spite of the injustice and necessary informality that goes along with it. And as in Taiwan, this mode of governing religion helps to maintain a vibrant local social world, without any major threat to the political order. A simple comparison of the fire-alarm system of one-eyed religious governance in most of China to the police-patrol system

of two-eyed governance in Tibetan and Uyghur areas shows how much easier it can be to tolerate religious diversity through the informal mechanisms of looking the other way than through the strict enforcement of the law.

The second reason the status quo has lasted so long is that changes in religious governance in China would have repercussions that reach far beyond religion itself. The apparently straightforward step of allowing any apolitical religious

group to register would consequently begin to dismantle the corporatist system of control. Such a change could not be limited to religion, but would require a fundamental reimagining of the state/society relationship in China. This step would be nearly as radical for social relations as the reforms that began in 1979 were for the economy. And it will require bolder social and political leadership than we have seen so far.

#### ENDNOTES

- <sup>1</sup> Jiao Wu, "Religious Believers Thrice the Estimate," *China Daily*, February 7, 2007, [http://www.chinadaily.com.cn/china/2007-02/07/content\\_802994.htm](http://www.chinadaily.com.cn/china/2007-02/07/content_802994.htm).
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- <sup>5</sup> Mathew D. McCubbins and Thomas Schwartz, "Congressional Oversight Overlooked: Police Patrols Versus Fire Alarms," *American Journal of Political Science* 28 (1) (February 1, 1984): 165 – 179.
- <sup>6</sup> *Ibid.*, 172.
- <sup>7</sup> Benjamin J. Kaplan, "Fictions of Privacy: House Chapels and the Spatial Accommodation of Religious Dissent in Early Modern Europe," *American Historical Review* 107 (4) (2002): 1031 – 1064.

# The Chinese Century? The Challenges of Higher Education

William C. Kirby

*Abstract: One can find in any airport kiosk books that proclaim ours to be “the Chinese century.” We have titles such as “The Dragon Awakes,” “China’s Rise,” “The Rise of China,” and “China’s Ascent,” to name but a few. But to rise is not necessarily to lead. What constitutes leadership? In higher education, China is building the fastest growing system – in quality as well as in quantity – in the world. The foremost global powers of the past four centuries all offered models in the realms of culture, ideas, and education. This may be said of seventeenth-century France under Louis XIV; of the Qing during the Qianlong reign of the eighteenth century; of Britain and Germany in the nineteenth century; and of the United States in the twentieth. China now aspires to educate global elites. For the twenty-first century, then, are Chinese universities poised for global leadership?*

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On Sunday, April 21, 2013, a crowd gathered at the Great Hall of the People in central Beijing to inaugurate a new college at Tsinghua University. Letters from Chinese President Xi Jinping and U.S. President Barack Obama were read aloud, followed by video testimonials from past and present American secretaries of state: Henry Kissinger, Colin Powell, and John Kerry. Together with Vice Premier Liu Yandong, who hosted the meeting, all identified the founding of Schwarzman College at Tsinghua as a landmark in the history of U.S.-China relations and in the ascent of Chinese universities. The vision of Tsinghua and of the new college’s benefactor, American businessman and philanthropist Stephen A. Schwarzman, was to build a residential college that would house and educate, in China, the global leaders of the twenty-first century. Schwarzman College and its resident Schwarzman Scholars program would match in ambition and endowment the Rhodes Scholarships at Oxford University, which for more than a century have been committed to educating those with “potential for leadership.”<sup>1</sup>

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The dynamic new president of Tsinghua University, Chen Jining, noted that the new college and program were part of Tsinghua's long history of internationalization. But whereas the university once prepared Chinese citizens to study in the United States, Tsinghua was now to be the educational destination of top postgraduate students from America, Europe, Asia, and beyond.

Today, Tsinghua University is one of China's two leading universities and one of the world's elite schools in terms of admission. China and the world of Chinese higher education have come a long way since Tsinghua was founded in 1911, the *xinhai* year of the Xuanton Emperor (that is, the last year of the last emperor of the last imperial dynasty). The history of Tsinghua mirrors the story of higher education in modern China.

Founded by the Qing court as *Tsinghua xuetaang* (Tsinghua Academy) near the site of the *Tsinghua yuan*, an imperial garden of the eighteenth century, Tsinghua began as a preparatory school for students selected to study in the United States. At the urging of then-president of the University of Illinois, Edmund J. James, the U.S. government remitted a portion of Boxer Indemnity funds for the education of Chinese in the United States and the establishment of Tsinghua. China, James argued, was on the edge of revolution. "The nation which succeeds in educating the young Chinese of the present generation," he wrote, "will reap the largest possible returns in moral, intellectual, and commercial influence."<sup>2</sup> In its first decade, Tsinghua built up an American-style campus – its Jeffersonian grand auditorium inspired by the auditorium at Urbana-Champaign – to prepare its students for study in America.

By 1925, Tsinghua was itself a college of liberal arts and sciences and home to China's leading Institute of Chinese

Studies, the *Guoxueyuan*. Its famous "four tutors" – Liang Qichao, Wang Guowei, Chen Yinque, and Zhao Yuanren – added international and scientific dimensions to the study of Chinese language, literature, linguistics, and archaeology. Tsinghua's history department, founded in 1926, was chaired for its first decade by Jiang Tingfu (T. F. Tsiang), who revolutionized the study of China's modern international relations. John K. Fairbank, a pioneer in modern Chinese studies in the United States, learned his Chinese history from T. F. Tsiang at Tsinghua.

With the establishment of the National Government in 1928, Tsinghua became National Tsing Hua University and the following year inaugurated its graduate school. By 1935, Tsinghua's ten graduate departments counted for one-third of the graduate departments across China. It was a comprehensive university by 1937 and a leading player in a vibrant mix of institutions (public and private, Chinese and foreign) that included Peking University, Jiao Tong University, National Central University, and the Academia Sinica, accompanied by private colleges of high quality such as St. John's University, Yenching University, and Peking Union Medical College. All this made Chinese higher education one of the most dynamic systems in the world in the first half of the twentieth century.<sup>3</sup>

This period of development ended in 1937, when the Tsinghua campus was occupied by Japanese troops. In 1938, many of its faculty and students marched with the National Government to the interior, where Tsinghua became part of National Southwest Associated University (*Lianda*) for the duration of the war. The university's return to its campus in 1946 would offer only a short respite before the onset of civil war and the Communist conquest of China. In December 1948, Tsinghua's longtime president, Mei Yiqi, left Beijing.

In 1956, he became president of a renewed and distinguished National Tsing Hua University in Taiwan, leading part of a divided Tsinghua in a divided China.

After the establishment of the People's Republic on the mainland, Tsinghua, like most institutions of higher learning, was Sovietized. It became a polytechnic university to train engineers. The schools of sciences and humanities, agriculture, and law were all abolished, and their faculty members were dispersed to other institutions. This reorganization positioned Tsinghua for leadership during the First Five-Year Plan (1953–1958), when it trained many of China's subsequent elite, but the relentless politicization of universities under Mao Zedong first weakened, and then nearly destroyed, Tsinghua. During the early years of the Cultural Revolution (1966–1976), Tsinghua became a prominent battleground for factional and ideological strife at the national level. It reopened fully only in 1978.<sup>4</sup>

Over the subsequent decades, Tsinghua's agenda was tied closely with that of the era of "opening and reform." The university received bountiful government investment and rose to lead China in engineering and science. It established a series of professional schools, one of which, the School of Economics and Management, has become the most selective school in the world for undergraduate admissions. Tsinghua's graduates have come to dominate the Chinese leadership elite, counting among them Presidents Hu Jintao and Xi Jinping.<sup>5</sup>

Today, Tsinghua has reestablished itself as a comprehensive university. A School of Humanities and Social Sciences was established in 1993, and in 2012 it was divided into separate schools. Tsinghua's Law School was reestablished in 1995. In 1999, the former Central Academy of Arts and Design became part of Tsinghua, as did Peking Union Medical College in 2006.

In November 2009, Tsinghua reopened its famous Institute of Chinese Studies. The Tsinghua School of Economics and Management began to lead the university in reforming its general education curriculum. And at the university's one hundredth anniversary in 2011, a magnificent New Tsinghua Academy (*Xin Tsinghua xuetang*) was dedicated not to the fields of engineering, science, and technology, for which Tsinghua has been best known in recent decades, but to the performing arts.

President James of the University of Illinois was convinced, in 1907, that "[e]very great nation in the world will inevitably be drawn into more or less intimate relations" with a rapidly changing China.<sup>6</sup> He imagined a world where China learned from others, not the other way around. But he also conceived of a China that would rise because of its international educational alliances. During his time there was a robust market for books concerned with the "rise of China." They had familiar titles: *The Dragon Awakes*; *China Awakened*; *Sun Yat Sen and the Awakening of China*; *Rising China*; and an unusual entrant, published in 1904, *New Forces in Old China: An Unwelcome but Inevitable Awakening*.<sup>7</sup>

In the second decade of the twenty-first century, one can find in any airport kiosk books that now proclaim ours to be "the Chinese century." We again have titles such as *The Dragon Awakes*; *China's Rise*; *The Rise of China*; *China's Ascent*; *As China Goes, So Goes the World*; and, most forcefully, *When China Rules the World*.<sup>8</sup> A cynic might note that this is why being a foreign China specialist is so easy: all the books being written today were composed a century ago. A more forgiving observer might look at the history of Tsinghua and conclude: China is in ascendance today, and it has been rising for a century.

To rise is not necessarily to lead. What constitutes leadership? The foremost political and military powers of the past four

centuries all set standards or offered models – regionally or globally – in many dimensions, including in the realms of culture, ideas, and education. This may be said of seventeenth-century France under Louis XIV; of the Qing during the Qianlong reign of the eighteenth century; of Britain and Germany in the nineteenth century; and of the United States in the twentieth. Tsinghua now aspires to educate global elites. For the twenty-first century, then, are Chinese universities poised for global leadership?

Without question, China today is leading simply in the scope and ambition of higher education. In 1978, after a decade of mostly closed universities, Chinese universities enrolled approximately 860,000 students. This number increased gradually until 1990, with enrollment of about two million at that time. In the 1990s, the government accelerated the pace of expansion, and by the year 2000 as many as six million students were enrolled in Chinese universities.

Since then, the overall official numbers – counting all types of institutions – have risen dramatically. There are at present more than thirty million students in Chinese institutions of higher learning. In 1998, Chinese colleges and universities graduated 830,000 students annually; by 2010 the number was six million. Today China graduates more university students than the United States and India combined. In 2000, China had approximately half the number of university students as the United States; now it has more than twice the number. According to China's National Plan for Medium and Long-Term Education Reform and Development (2010), 20 percent of China's working-age population (ages 20 – 59) will have a higher education degree by 2020. (In the 2010 census, 28 percent of the U.S. population reported a higher education degree.)

In 2000, there were 1,041 colleges and universities in China. A decade later there were more than twice as many: 2,358. From 1999 to 2009, Chinese institutions of higher education hired nearly 900,000 new, full-time faculty members.

For most of the history of the People's Republic, higher education was an opportunity afforded to the very few. Now China is moving toward mass higher education. The gross enrollment ratio (college participation rate) of 18- to 22-year-olds was 3 percent in 1999; it was 24 percent in 2009. By 2020, China aims to have 40 percent of young adults in this age cohort enrolled in colleges or universities.<sup>9</sup>

For all this expansion, land and capital have been made available by a variety of means. The result has been a quadrupling in the square acreage of Chinese universities since 2000. Old universities have built stunning new campuses. Zhejiang University, which was founded in 1897, houses its now-nearly sixty thousand students across three large campuses. Chongqing University, established in 1929, has opened beautifully landscaped new university grounds as part of an eight-university *daxuecheng*, or “university city.” Until recently, higher education institutions had been concentrated in but a few areas, Beijing and the lower Yangzi region chief among them. Today, cities and provinces never known for higher education compete to found, build, and expand colleges and universities – often within new science and technology zones – as part of their competitive strategies for growth, development, and prestige.

This surge has been accompanied by a diversification of institutions. Private colleges and universities (*minban xueyuan*) have grown much more rapidly in number than public institutions and now account for between 15 and 20 percent of enrollments and nearly 30 percent of all higher education institutions. In Xian, entrepre-

neurs worked with local officials to make Xian China's capital of private higher education. Xian International University (*Xi'an waishi xueyuan*), founded in 1992 as an examination prep center, is now one of China's largest private universities, with a student body of 34,000. Its graduates enjoy better job placement rates than those of Peking or Tsinghua Universities. Unlike university presidents the world over, Xian's president, Huang Teng, does not worry about his tenure: he owns 55 percent of the university. President Huang is looking to establish branch campuses elsewhere in China and in North America.<sup>10</sup>

Large companies are also getting into the higher education sector. Alibaba's Taobao unit has plans for a "Taobao University," first to train e-business owners, managers, salesmen, and professionals, and in time to extend business education to more than one million online students seeking the skills to start and sustain small- and medium-sized businesses. Taobao University also expects to enroll some twenty thousand students "offline," that is, in person.

Sino-foreign universities, such as the University of Nottingham Ningbo China, have brought higher education and research centers to cities outside the plans of the Ministry of Education. At the same time, many public universities have established "independent" universities that operate as full-time extension schools and generate significant revenue. In short, this is a time of expansion, outreach, and experimentation in Chinese higher education. These developments in China have promoted cooperation and competition across the realm of "Greater China": Hong Kong, Taiwan, and Singapore all compete with Beijing and Shanghai to be the educational center of the Chinese-speaking world.

Unlike the growth of American universities in the 1950s and the extraordinary expansion of European institutions that began in the 1970s, the development of

higher education in China has been elitist as well as massive. In 1995, the Ministry of Education launched the "211 Project" to enhance the quality of about one hundred universities. It was followed in 1998 by a "985 Project" to support thirty-nine elite universities, of which nine – China's so-called Ivy League – would be developed as "world class" institutions (*guoji yiliu daxue*), defined as cradles of high-level, creative researchers; frontiers of scientific research; forces of transformative research and innovation; and bridges for international exchange. To that end, Chinese central, provincial, and local governments, supplemented by university foundations and private philanthropy, have provided enormous revenues to the leading institutions, well outspending the (very significant) rewards given in recent European competitions, such as the *Exzellenzinitiative* in Germany. One national effort focuses on the recruitment of overseas talent. The "Thousand Talent Program" began in 2008 to recruit leading overseas Chinese faculty and researchers; by 2012 it had "brought home" more than two thousand. The program was supplemented in 2011 by a "Thousand Foreign Experts" initiative that offers globally competitive incentives and research support for international scholars being recruited by Chinese universities.

With this significant national investment and international recruitment, Chinese universities have risen steadily in international rankings. In the 2012 – 2013 QS World University Rankings of more than eight hundred institutions, Peking University and Tsinghua University were numbers 44 and 48, respectively. In the 2012 – 2013 *Times Higher Education* World University Rankings of the top four hundred universities worldwide, they ranked 46 and 52, respectively. As I have written in an essay published in an earlier issue of *Dædalus*,<sup>11</sup> there is much stupidity to the rankings

game. Rankings rank only what can be measured. They emphasize research publication in select international journals, and they studiously ignore teaching, education, and curriculum. One criterion, citation indexes, may be important in economics but unhelpful in the humanities. International rankings focus on major research prizes, and universities glory in having on their faculty Nobel laureates, taking credit for work often done decades earlier at another university. (At the University of California, Berkeley, Nobel laureates receive the ultimate prize: a dedicated parking space marked “NL.”)

Yet the rankings do show, however imperfectly, the shifting tectonic plates of global leadership in higher education. Had rankings such as those issued by Shanghai Jiaotong University, read today by deans and presidents around the world, existed a century ago, perhaps eight of the world’s top ten universities would have been German. Harvard University, which ranks very well at the present, would not have been in the top ten, perhaps not in the top twenty; it became a research university worthy of the name only in the late nineteenth century by emulating the practices of the University of Berlin. Today, at least according to the QS rankings, Peking University and Tsinghua University outperform *every* German university. Times change.

China, then, is home to the world’s fastest growing sector – in quality as well as quantity – of higher education in the world. This explains the rush of foreign universities to establish, or reestablish, a presence in China; and it helps us understand why Chinese universities are exploring international models of “general education” as they seek to educate and graduate future leaders.

As we have seen in the case of Tsinghua, the important role of foreign universities in China is not a new phenomenon. Rather,

it is a permanent feature of modern China’s educational landscape. China’s oldest modern university, Wuhan University, was founded in 1893 as a “Self-Strengthening Institute” with European advice. Before 1949, China’s state universities were created largely on German models, while many of the leading private colleges were supported and advised by American institutions. Every major university from the Republican era bears architectural witness to that vibrant period of educational partnership. In the 1950s, all Chinese universities were reorganized on Soviet patterns during a decade of vigorous Sino-Soviet exchange. Since 1978, and especially since 1998, there has been widespread experimentation in Chinese higher education, much of it in the context of new international partnerships.

Nearly every leading American university today believes that it needs to have a “China strategy” and to be somehow involved in the rapid growth of higher education in China. This has given rise to a healthy set of experiments and alternative models of engagement. Columbia University and the University of Chicago have opened an office and a center, respectively, in Beijing. Stanford University has built a courtyard center within the campus of Peking University. New York University has established NYU-Shanghai as a vertical university (that is, in a high-rise) as part of its global network and in partnership with one of China’s most creative universities, East China Normal University. The Harvard Center Shanghai – the only university-wide center for Harvard outside the United States – promotes research, student internships, conferences, and executive education in China. Duke University’s two-hundred-acre residential campus in Kunshan, China’s richest and most entrepreneurial town, located just west of Shanghai, will open its doors in late 2014 as Duke Kunshan University.<sup>12</sup> It is without

question the most ambitious international educational enterprise in China since the days of Yenching University (the present-day site of Peking University). In these ventures, the Americans are joining other Sino-foreign institutions, such as the University of Nottingham Ningbo China, Xi'an Jiaotong-Liverpool University in Suzhou, and the hugely successful China Europe International School of Business, a joint venture with the European Union that ranks regularly as the top business school in China and among the top twenty-five worldwide.

Opportunities for foreign universities in contemporary China exist everywhere, but perhaps especially in three realms. First, the over-centralization of Chinese research universities in Beijing and the greater Shanghai region has led other cities to be highly entrepreneurial in recruiting international partners. Second, the Chinese government has committed to stunning levels of investment in the STEM fields (science, technology, engineering, and medicine) and to international partnerships in these realms. Third, leading Chinese universities are developing American-style programs of general education and in the process have sought international advice, support, and models.

Chinese universities have long had general education (*tongshi jiaoyu*) programs of a certain sort: for example, required classes (*bixu ke*) in Marxism-Leninism-Mao Zedong Thought. And like required courses everywhere, students loathe and endure them. Over the past decade, however, mainland universities, together with those in Hong Kong and Taiwan, have competed to introduce general and liberal education programs that open opportunities for learning across the humanities and social sciences.

The idea of a “liberal education” is a concept of German origin that has now established its deepest roots in North America.

It means the education of the whole person, not just training the specialist, with the aim to ensure that graduates are curious, reflective, and skeptical learners – people with the capacity for innovation and lifelong learning. Just as many American educators believe (not wrongly) that young Chinese students are better educated in math and science than their American counterparts, many Chinese educators believe that it is the West, and particularly the Americans, who are “innovative” and “creative thinkers” while the Chinese people (somehow despite all their ancient inventions and modern revolutions) remain “traditional,” “rule bound,” and “rote learners.” For this some blame the tortured path to university admission through the *gaokao*, or “higher examination,” with its modernized version of what the Japanese scholar Ichisada Miyazaka once called “China’s examination hell.”<sup>13</sup> How can students so completely focused on test scores in order to enter university possibly be innovators when they get there?

Famous American colleges and universities pride themselves on their “core,” or general education, programs, which they contend produce “leaders” who are broadly educated to take on the world. None seems content to pursue the presumably larger market of followers. Presidents of Chinese universities have taken their American counterparts at their word and have devoted enormous effort to craft curricula for general and liberal education in a Chinese context. When Harvard College replaced its Core Program with a new General Education Program in 2006, its many curricular reports and recommendations were read at least as carefully in Beijing as they were in Cambridge, Massachusetts.

Leading American institutions believe that for a truly liberal education, a study of the humanities is essential. Despite –

or because of – a century-long obsession with engineering, this view is shared increasingly today in China’s premier universities. The expansion of general education in Chinese university curricula may take place in new institutions (for example, Fudan College as the liberal arts college within Fudan University) or it may be embedded in distribution requirements. Either way, it is a sign that pacesetting Chinese universities believe that China’s next generation of leaders should be broadly educated in the humanities and social sciences as well as in the sciences. In 2001, Peking University inaugurated the Yuanpei Program (now Yuanpei College), named for Peking University’s famous German-educated chancellor of the early twentieth century, the philosopher Cai Yuanpei. This was part of a broad reform of undergraduate education to foster “a new generation of talented individuals with higher creativity as well as international competence so as to meet the needs of our present age.” Tsinghua University’s School of Economics and Management, under the leadership of Dean Qian Yingyi, who received his doctorate at Harvard and holds a professorship at UC Berkeley, has implemented one of the most imaginative programs in liberal arts and general education to be found in any Chinese university – and this in a professional school. Renmin University in Beijing, founded as the “People’s University” on a Soviet model, now houses several of China’s leading centers for classical studies and Chinese history.

This is a time of investment, growth, experimentation, and internationalization in Chinese higher education. We have discussed many of its strengths. What are the weaknesses?

Given the size and diversity of the higher education sector in China, it is not surprising that there is a gulf between those who oversee Chinese universities (the cen-

tral government and the party-state at various levels) and those responsible for their day-to-day operation. “Education is the cornerstone of national rejuvenation,” according to the preamble of China’s 2010 National Plan for Medium and Long-Term Education Reform and Development. From the central government’s perspective, education takes as its goal the building of *national* strength, developing talent for the collective good, not primarily for individual merit. This viewpoint is in obvious tension with programs of general education at top Chinese universities that aim, like their American counterparts, also to liberate and educate the *individual* to be a critical thinker and an active citizen.

If the central government sees education as serving national strategies, making the best strategic use of the enormous funding now coming from all levels of government, the local and provincial officials who are the main funders of universities often have a short-term, utilitarian viewpoint. They seek to spur economic growth; to enhance the job opportunities of people in their late teens and twenties; and to take advantage of the cheap credit offered by state banks for the expansion of higher education.

If there is a “China model” for universities, it is not a particularly socialist one. As the historian Zhang Jishun, the former party secretary of East China Normal University, has argued, just because enrollments have grown does not mean that access and equity have increased in equal measure. Take the case of tuition. There used to be none in Chinese universities. In 2000, the standard tuition at public universities was RMB 5,000 per semester. By 2012, it ranged from RMB 16,000 to 27,000, with an average annual cost of US\$4,500. This figure is not high by American standards, but it is about 150 percent of the disposable income of rural residents. And in private Chinese universities, tuition can be many times higher. This has led to

a situation in which the poorest students often end up at private universities, which are the most expensive, while wealthier and well-connected students have much better access to elite public institutions, which are among the least expensive.

We can see this in statistics of rural students attending Chinese universities. Nationwide, about 50 percent of university students hail from rural families (with a generous definition of what constitutes a rural family), but at the elite universities such as Peking and Tsinghua, only about 20 percent of the student body is made up of students from rural areas. Even in an age of greatly expanded university admissions, the army and public security jobs offer better means of social mobility for China's rural and poor than do China's mass universities.

Urban-rural educational inequality, as Martin Whyte points out in his essay in this issue, can be measured directly in regional terms. In recent years, the gross enrollment ratios of college-age students in Beijing, Tianjin, and Shanghai all surpassed 50 percent. This is much higher than the national ratio of 24 percent. Indeed, Shanghai is already above 60 percent. But in Yunnan, Guangxi, Guizhou, and Tibet, the (unlikely and unrealized) goal is for a gross enrollment ratio of 15 percent. In higher education, the disparity between regions is not decreasing, but increasing.

Finally, take the case of examinations and admissions. The *gaokao* persists, as did the old imperial examinations, because it has the appearance of rewarding merit and is one of the few national institutions that people believe is fair and honest. In principle, only the best, determined by competitive examination, are admitted. But the limitations of the *gaokao* have long been known, and elite universities are the leaders in setting patterns for alternative portals of entry: through additional tests, interviews, "Olympic" style prizes, and

other mechanisms that privilege those of means and of position who went to the best schools. William C. Kirby

In short, despite the ever-larger numbers of applicants and students, there is growing inequality of opportunity in China's institutions of higher education. The prospect of higher education has been extended to China's new and urban middle class, but for the poor and the rural, opportunities remain limited.

Perhaps the greatest challenges to the rise of Chinese universities lie in the realms of governance and politics. The hierarchical governance structures of Chinese universities leave many decisions to a very few people. Chinese universities are overseen by party committees, and the university party secretary normally outranks and frequently outflanks the president. (A few extraordinary party secretaries are key to their universities' success, but as a rule this system of parallel governance limits rather than enhances the flow of ideas.) Few party secretaries – like few presidents of American universities – look favorably upon the prospect of unbridled faculty governance of universities. But the freedom of faculty to pursue ideas wherever they may lead is essential for sustained innovation in universities. Where, after all, do the best ideas come from in universities? Deans and presidents everywhere must make decisions and set priorities. In practice, however, many of the best ideas – those that deans and presidents will be compelled to support on their intellectual merits – will come up from the mistakenly named "bottom": that is, from faculty at the top of their fields. Having an institutional structure to support this well is rare anywhere, and in Chinese universities today it is rarer still. By any comparative measure of leading international universities, faculty in Chinese institutions have little role in governance. It was not a good sign when China's Vice President (now President) Xi

Jinping visited China's leading universities in June 2012 to call for increased party supervision of higher education.

This leads to a final challenge: can "world class" universities – however they are defined – exist in a politically illiberal system? Perhaps; but perhaps only with some significant degree of autonomy. German universities in the nineteenth century had many political pressures, but they were the envy of the world in part because they also had traditions of institutional freedom that fostered and (at times) protected creative thinkers. China's universities today boast superb scholars and some of the world's best students. But these students are also forced to sit through required courses in party ideology, and they learn a simplified book version of the history of their own country. Despite new programs of general education, in the realm of politics and history the distance between what students have to learn in order to graduate and what they know to be true grows greater every year. This is why, in 2012, when students in Hong Kong were faced with the prospect of enduring "patriotic education" as taught in mainland China, they took to the streets.

Can China lead in the global competition of universities? The question of potential Chinese leadership in this area, as in many others, is a comparative question. Who leads whom? As we have seen, in international rankings the American system appears to be the most formidable. But that would not have been the case a century ago, and there is no reason to assume that the United States will remain in a leadership position without constant reform, reinvestment, and reinvention.

American universities face big challenges. The great public systems of higher education in the United States have undergone a process of slow-motion self-destruction over the past decade. The Uni-

versity of California system, once the best system of public higher education in the world, has been weakened and made increasingly dysfunctional due to the state of California's budget problems. As that system declines, leading private universities – the Stanfords and Harvards, for example, which compete with the University of California for faculty and graduate students – may in turn be less challenged. A major test for any institution – Chinese or American – is not how good it can be when the money is pouring in; it is how the institution reacts and adapts when it stops. This has been a major trial for American universities, private and public alike, after the U.S. financial meltdown of 2008. Someday, surely, it will be a challenge for Chinese universities as well.

In terms of governance, it is easy to criticize Chinese universities for the party committees that oversee and limit them. American and European universities generally accord their faculty a large role in management and an extraordinary degree of academic autonomy. But there can be political interference from legislatures and statehouses in the working of American public universities as well. And how much transparency to the public is there, really, in the governing boards of America's leading private universities?

American universities have devoted enormous funds and equal amounts of rhetoric in recent years to extending the reach of a Yale or Michigan education to the least advantaged, in financial terms, in the United States. The jury is still out, however, as to whether or not they are succeeding. At present in the United States, as in China, the major beneficiaries of elite higher education remain the (already) well educated and well connected.

For the moment, however, American universities still enjoy their hour in the sun as the innovative places to educate leaders. After all, actual Chinese leaders

send their children to American universities, and in increasing numbers. In the 1920s and 1930s, China's most powerful man, Chiang Kai-shek, sent his sons to study in the leading (if quite different) institutions of his day: in the Soviet Union (Chiang Ching-kuo) and in Germany (Chiang Wei-kuo and Tai An-kuo). Today, the sons and daughters of Chinese political leaders study in many American colleges and universities. Applications to American universities from China have risen tenfold in the last decade. It used to be that the Chinese students who went abroad for undergraduate study were those who could not get in to leading Chinese universities. Today, even Peking University and Tsinghua University – the most prestigious and connected of institutions – lose students to top universities in America, Britain, and Hong Kong.

Can the twenty-first century nevertheless be “the Chinese century” in higher education? It is telling that this is not a question that could have been asked, and taken seriously, even a decade ago.<sup>14</sup> But China's growing strength in higher education is not simply the result of the extraordinary efforts and expenditures of recent years; it has been a century and more in the making. If the past is any guide to the future, Chinese universities will not

rise and thrive simply on their own, but in cooperation (and now competition) with leading universities worldwide. Even as the Chinese people expand their study abroad, the world is coming to China. The U.S. government has set a goal for one hundred thousand American students to study annually in China, balancing in part the nearly three hundred thousand Chinese citizens who study in the United States.

We do know this: the rapid increase in the scale of Chinese higher education and the rankings of elite Chinese institutions is unmatched anywhere. China's challenges – in access, equality, and governance – are the shared problems of higher education everywhere. The leading American universities have rushed to establish locations and partnerships in China. In three years, Schwarzman College will open at Tsinghua University, where it will seek to attract the best young talent in the world to study at an institution originally designed to send Chinese students away for their education. As the Rhodes Scholarship for the twenty-first century, it will endeavor to educate scholars from around the world who have “potential for leadership.” Surely Chinese universities, too, have the potential for leadership.

#### ENDNOTES

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- <sup>9</sup> For an excellent overview of all these trends, see David A. Stanfield and Yukiko Shimmi, “Chinese Higher Education: Statistics and Trends,” in *International Briefs for Higher Education Leaders*, no. 1 (2012): 5–7. On broad trends, see the annual *Zhongguo jiaoyu fazhan baogao* [Report on China’s Economic Development], edition 21 sheji jiaoyu yanjiuyuan (Beijing: Shehui kexue wenxian chubanshe, 2011).
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- <sup>11</sup> William C. Kirby, “On Chinese, European, and American Universities,” *Dædalus* 137 (3) (Summer 2008).
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# China & Globalization

Jeffrey Wasserstrom

*Abstract: In recent decades, China has become increasingly enmeshed in global institutions and global flows. This article places that phenomenon into historical perspective via a look back to important globalizing trends of a key earlier period: the late 1800s through early 1900s. The essay draws heavily on C. A. Bayly's discussion of that period, which emphasizes the way that moves toward uniformity do not necessarily produce homogeneity. Bayly's work is used both to illustrate the limitations of some competing ideas about contemporary globalization and how China is or is not being transformed by it, and to provide a basis for arguing that we are again seeing, now in China, important moves toward uniformity that are not erasing important differences between cultures and countries.*

How far back in time should one begin in an essay on China and globalization? The term *globalization* may have gained widespread purchase in its current sense only beginning in the 1960s, but ideas, objects, and people have been circulating across the planet for millennia. This has led some analysts to identify precursors to, or even earlier stages of, globalization in eras much before our own. Moreover, it is commonplace to describe China as having a very long history. And recent scholarship – on topics ranging from Silk Road travelers of the Tang Dynasty (618 – 907) to voyages of exploration and visits to Beijing by Jesuits during the Ming Dynasty (1368 – 1644) – has clearly shown that for much of that extended past, clichés of Chinese isolation and self-containment notwithstanding, China has been continually influenced by, and in turn has had a continual influence on, populations and developments outside its ever-shifting borders.<sup>1</sup>

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Still, given the current interest in making sense of China's rise during a new stage of globalization, one historical period stands out as a particularly appealing point of departure: the mid-nineteenth century to early twentieth century. The appeal of using this period to frame contemporary dilemmas is twofold. First, in that era, as in ours, new tech-

nologies of communication and transportation were sources of fascination and concern. Second, it was a time, like the present, when China's place in the world was generating anxiety – though the concern was primarily domestic, due to China's decline from a position of centrality, as opposed to today's international concern about its resurgence.

British historian C. A. Bayly's magisterial work, *The Birth of the Modern World, 1780 – 1914: Global Connections and Comparisons*, is an ideal launching point for introducing that earlier period into a discussion of China's rise and the contemporary period of globalization. Taking the long view of globalization, Bayly describes the decades leading up to World War I – during which China's fortunes declined dramatically as the Qing Dynasty (1644 – 1912) suffered a series of losses in wars with foreign powers and struggled to contain devastating domestic insurrections – as host to a “great acceleration” of globalizing processes. These were not new processes, but they took on a decidedly modern character.<sup>2</sup> Here, the similarities with our own era are striking. Then, as now, people had an exhilarating yet worrisome sense of a world becoming ever more tightly interconnected, of a planet shrinking as goods, people, fashions, and cultural forms, but also violence, moved across borders in novel ways and at faster speeds. Then, as now, the leading states of the status quo ante (Britain and France) worried (as the United States does today) about being displaced from their positions atop the global hierarchy. It was a time when leading thinkers within less powerful polities viewed the rise of new powers – such as Germany and Japan, as well as the United States – with a mix of envy, concern, and a desire to figure out how to adapt to their home states the characteristics and growth strategies of the new ascendants in the global hierarchy. They viewed these ris-

ing powers, in short, much as China is viewed by some in this early part of the twenty-first century.

The pre-World War I period, Bayly argues, was on many fronts characterized by a push toward *uniformity*, but not *homogenization*. Countries across the globe became tightly enmeshed in an international order rooted in new kinds of standardization that decreased the variation between places. This new order affected many domains, was registered in many ways, and can be appreciated through the investigation of many different historical developments, including the founding of new kinds of globally minded organizations and the growth of new kinds of globally minded events, in which countries were represented as homologous but distinctive units. The clothes worn by powerful men across the globe during this period is one telling example of uniformity without homogenization. In earlier periods, elite men dressed radically different from each other, with styles varying by location and cultural orientation. But by the early twentieth century, men of power tended to wear the same kinds of clothing, even if, for example, a Japanese leader might add a samurai sash to his frock coat and top hat ensemble.

Today as well, it is useful to see globalization as leading to standardization without eclipsing difference. As venues that emphasize both the basic homologies between and differences among countries, international expositions during the earlier period of “great acceleration” and the Olympic Games today prove useful in illustrating the parallels between the two periods. The country-specific exhibitions at the great World's Fairs of the 1800s and early 1900s, like the opening ceremonies of contemporary Olympic Games, encouraged states to present themselves as mutually intelligible entities, with a similar set of markers (flags of a basic shape), while

also drawing attention to what sets them apart from one another (colors and symbols on those flags). Hierarchical status was also plainly marked: whether a country was the sort that might host a World's Fair or simply host an exhibition at one; and whether a country's exhibition included its manufactures and machines (signs of power and often military might, with large artillery pieces, for example, among the objects displayed) or simply included its handicrafts and antiquities (a sign of a lower place in the global order).

The great international expositions were initially held only in the leading European capitals, but by the late nineteenth century, the United States was taking the occasional turn at hosting full-fledged World's Fairs. At this time, Japan also began holding smaller-scale exposition events, becoming the first non-Western country to do so and the first Asian country to be represented by its advanced manufactures, as opposed to simply its exotic wares. When the United States hosted World's Fairs, it generally followed the template established by the exposition spectacles staged in Europe, but it also experimented by adding novel features, illustrating one of the many ways that rising powers both adapt to and leave their mark on the global order.

The first major non-European World's Fair, the Philadelphia Centennial Exhibition in 1876, was the largest event of its kind ever held in any country, signaling an American ambition not simply to follow in the footsteps of London and Paris, but to do things on an even greater scale, in turn inspiring others to borrow from the American playbook. Of particular interest to Bayly, however, is the second great American World's Fair: the 1893 Columbian Exposition. The "World Parliament of Religions," held in conjunction with the Columbian Exposition, was a novelty of this World's Fair, an event that re-

flected and carried forward what Bayly calls the era's tendency toward the "bureaucratization of belief." The goal of this parliament was to bring together representatives of the world's "ten great religions" who would together explore the characteristics that these creeds held in common, as well as the features that made them distinctive.<sup>3</sup> Christianity, Judaism, Islam, and Zoroastrianism were represented, in addition to six other creeds, all with Asian roots. Among these was Confucianism, which has long defied easy classification as either a religion or a philosophy, but was then, in fact, designated as a religious faith by influential figures in the novel field of religious studies.<sup>4</sup>

Prior to the late nineteenth century, some of these ten spiritual schools lacked many of the features that we now associate with leading religions. Not all were organized around clearly specified canonical texts, nor did they all have recognizable hierarchies of leaders. But just as countries were expected to present themselves in mutually recognizable ways, religions were pushed toward standardization. Religious traditions associated with the leading global powers set the model for what a "proper" system of belief was supposed to consist of; thus, Hinduism and Buddhism, which had been structured quite differently from one another and from Christianity, made moves to be less completely out of step with European expectations. Representatives also made efforts to bring Confucianism in line with expectations for a standard "religion," even though it may have been better classified as a philosophical tradition or secular school of thought.<sup>5</sup> These "world religions" remained different from one another in beliefs, but became increasingly homologous in form, with their core "sacred" texts likened to the Bible (even if, as in the case of Confucianism, these texts stressed the need to focus on concerns of this world), their

leaders at times referred to as “priests,” and their ritual spaces dubbed “temples.”

The ways in which states organized themselves politically tell a similar tale, and also remind us that as new powers rose, fitting into global patterns while maintaining distinctive elements, the number of possible models to emulate increased. Just as the United States provided a model for hosting international events that could inspire imitation, Japan’s remaking of its political order, via a mix-and-match approach that both borrowed from the outside world and adapted from its own distinctive past, offered a possible script upon which other states could improvise. Japan’s rise toward world power status was facilitated by its adoption of a constitution and its reorganization of its educational and military systems, undertakings that sometimes drew heavily from what one or more Western countries had done before. The result was something unique on the world stage, both because of how imported elements were combined and because of the carry-over of elements from the Japanese imperial line.

When Japan began to be recognized by the European powers and the United States as a nation that deserved a seat on leading international bodies and as a military and economic force to be reckoned with – especially after it defeated Russia in 1905 in the Russo-Japanese War – the Japanese model began to interest leaders and thinkers in many countries outside of the West, a phenomenon explored most recently in essayist and novelist Pankaj Mishra’s *From the Ruins of Empire*.<sup>6</sup> As that work reminds us, the story of Japan’s rise was one of adapting to, but also in the process influencing, the global order. When other countries looked to Japan for inspiration, they often did so in the same kind of mix-and-match manner that Japan had used to look toward the West, identifying features

they wanted to adopt and others they wanted to avoid. Significant to our discussion, much of the Japanese model of selective adoption and internal adaptation can now be said of contemporary China.

Though these specific details of Japan’s emergence as a world power with a distinctive identity may be new to some readers, the lessons I have drawn – that there is value in looking back at the preceding century or two when trying to make sense of the present, and that rising powers both adapt to and play a role in reshaping international systems – are common sense. Curiously, however, the approach outlined above is revisionist, going against the grain of both an influential theoretical approach to globalization (with implications for understanding China’s rise) and an influential way of thinking about China (with implications for understanding globalization). This influential conception of globalization emphasizes the importance of the end of the Cold War and the birth of the Internet, suggesting that only events that took place within the last three decades really matter. The influential approach to understanding modern China, meanwhile, presumes that with this peculiar “ancient” country, it is crucial, when using history to frame our view of the present, to go back millennia, not just a century or even several centuries to the Song Dynasty (760 – 1279) or the Ming or early Qing Dynasties – all points that some scholars of China point to as the birth of China’s modernity. This ancient-minded approach is often invoked by writers who worry that China will soon “rule the world” (to borrow a phrase from a recent bestseller), or will do so unless determined interventionist action is taken to prevent it. Using a famous writer to represent each approach (for convenience’s sake), I will refer here to the *Friedman Fallacy* and the *Kissinger Confusion* as two mis-

leading schools of thought about China and globalization that put undue emphasis on very recent trends and millennia-old patterns, respectively.

Why Thomas Friedman and Henry Kissinger? Each is prolific, widely read, and often cited in general interest publications and even at times in scholarly ones. In the 2005 *Wired* magazine profile “Why the World Is Flat,” Daniel H. Pink describes Friedman as the “most influential American newspaper columnist since Walter Lippman.”<sup>7</sup> Kissinger, meanwhile, is widely acknowledged by critics and supporters alike as a singularly powerful voice within the U.S. policy establishment. Friedman’s most famous book, *The World is Flat*, has sold more copies in its many editions and translations than any other book on globalization. His two previous, closely related books also sold well.<sup>8</sup> Kissinger’s most recent book, *On China*, has also enjoyed very high sales figures, and is one of the principal works that generally educated readers are most likely to consult before taking a first trip to China.

Friedman and Kissinger are also extraordinarily well known and influential within China. They are among the Americans most often quoted in the Chinese media, and Chinese bookstores stock not only translations of their books, but also secondary works, often by academics, that discuss the texts and their ideas. Kissinger has been famous in China since he accompanied Nixon there in the early 1970s, and he continues to meet periodically with China’s current leaders and visit its retired elder statesmen.<sup>9</sup> Friedman’s standing in China, though of more recent vintage, attracted global attention when reporters for the *Economist* traced the likely role that a Friedman column had played in President Xi Jinping’s choice of the “Chinese Dream” for his first major public slogan.<sup>10</sup>

The Friedman Fallacy and the Kissinger Confusion also matter for another rea-

son: the views of the two authors overlap with those of other influential writers on the subjects of globalization and China. When Friedman posits an epochal shift in world affairs beginning in 1989, and foretells mass convergences for countries that formerly took divergent paths, we can hear a clear echo of political scientist Francis Fukuyama’s “end of history” formulations. Similarly, Friedman’s “flat world” visions of a seamless melding of once very different cultures align with arguments made in such works as China scholar Edward Steinfeld’s *Playing Our Game* and the earlier, less sophisticated work of political scientist Bruce Giley, *China’s Democratic Future*.<sup>11</sup> Nor is Kissinger’s emphasis on ancient history and “The Singularity of China” (the title of *On China*’s opening chapter) entirely original. His view dovetails with the vision that undergirds former Nixon staffer Stefan Halper’s *The Beijing Consensus: How China’s Authoritarian Model Will Dominate the Twenty-First Century* – a fearful book about a future of Chinese domination, which comes with an endorsement by Kissinger – and with political scientist Samuel Huntington’s *The Clash of Civilizations*.<sup>12</sup>

In a chapter titled the “New System,” featured in his work *The Lexus and the Olive Tree: Understanding Globalization*, Friedman offers a clear sense of the Friedman Fallacy:

Globalization is not just an economic fad, and it is not just a passing trend. It is an international system – the dominant international system that replaced the Cold War system after the fall of the Berlin Wall. . . . [T]he Cold War system was dominated by one over-arching feature – division . . . [and] was symbolized by a single word: the *wall* – the Berlin Wall. . . . The globalization system . . . also has one overarching feature – integration. . . . The globalization system is also characterized by a single word: the *Web*. . . [W]e have gone from a system built around

divisions and walls to a system built increasingly around integration and webs.<sup>13</sup>

In his later books, Friedman returns to this same view of globalization. In *Longitudes and Attitudes*, after making a near-identical argument to that quoted above, he writes that he is a “big believer in the idea of the super-story,” by which he means a tale that serves as a framework for making sense of the world (what academics sometimes call a “grand narrative”). Friedman makes it clear that he perceives a key super story in the rapid and epochal shift now under way. This shift is due to a mixture of geopolitical changes, especially resulting from the Soviet empire’s collapse, and the development of new technologies, especially the Internet. *The World is Flat* insists that Cold War assumptions instantly became outmoded when the Berlin Wall fell, and that an inexorable trend toward convergence started to trump heterogeneity, as exemplified by global chains serving interchangeable Big Macs.

The implications of this framework for thinking about China and globalization are twofold. First, there is no need to go back any further than 1989 to understand contemporary issues. Second, while every state is bound to become part of the new global order in a distinctive manner, the zeitgeist will make China, like all other countries, more and more like other nations, and in particular more like the United States. The Internet is not the sole driver of this process – Friedman allows for assists from jet plane travel, outsourcing, FedEx, and other global connectors – but he sees the Internet as the new system’s emblematic technology, just as free market capitalism is its defining economic practice. Friedman knows local differences will persist, but emphasizes a kind of homogenization that should come with a “Made in the USA” logo:

[T]his phenomenon we call “globalization” – the integration of markets, trade, finance, information and corporate ownership around the globe – is actually a very American phenomenon: it wears Mickey Mouse ears, eats Big Macs . . . tracks its investments with Merrill Lynch using Windows 95. . . . [C]ountries that plug into globalization are really plugging into a high degree of Americanization.<sup>14</sup>

Friedman does not posit easy, swift, and complete Americanization, but he does think in terms of an overall trend in that direction. This vision colors even his criticisms of the United States, as illustrated by the very title of his recent book, *That Used to Be Us: How America Fell Behind in the World It Invented and How We Can Come Back*. When writing on China, he notes the irony of now having to cross the Pacific to find the kind of ambitious can-do attitude and tendency to think big that formerly defined the United States, and cites examples of Chinese appropriation of once distinctively American processes and industries.<sup>15</sup>

But what’s wrong with this picture? Many things, as it turns out. Post-Cold War developments do not represent the complete and radical departure from all previous geopolitical trends, as Friedman suggests they do. Even the Internet is not completely without precedent, given how the telegraph was first announced as a medium that “annihilated” time and space. Consider, for example, how Prince Albert’s 1850 speech promoting the upcoming Crystal Palace Exhibition, the first great World’s Fair, reads today like an outline of a Friedman column:

Nobody . . . who has paid any attention to the particular features of our present era, will doubt for a moment that we are living in a period of wonderful transition. . . . The distances which separated the different nations and parts of the globe are gradually

vanishing before the achievement of modern invention, and we can traverse them with incredible ease . . . thought is communicated with the rapidity and even by the power of lightning . . . the products of all quarters of the globe are placed at our disposal.<sup>16</sup>

The Friedman Fallacy also challenges us to understand why so many countries have resisted the wholesale embrace of the allegedly natural and inevitable free-market principles of the United States. One can even identify a bloc – admittedly one quite different from the Cold War vintage, given the lack of professed allegiance to a formal ideology – that stands apart from the type of liberal free-market trends Friedman seeks to chart and champion. This at least is one way to read American journalist William J. Dobson’s impressive book, *The Dictator’s Learning Curve*.<sup>17</sup> And when it comes to the Internet in particular, that bloc is defined not just by webs, but also walls – the firewalls that limit worldwide digital connectivity not just within China, but also within other authoritarian countries.<sup>18</sup>

There is a rich literature that, contra Friedman, questions the notion that a Big Mac is a Big Mac is a Big Mac, given how vastly different the menus and meanings of the Golden Arches become as they travel.<sup>19</sup> Cultural globalization is about hybrid forms, as opposed to simple Americanization, meaning a more apt symbol for twenty-first-century globalization than the McDonald’s franchise might be the karaoke bar, which arrived in China around the same time as McDonald’s. While karaoke bars rarely get the same media attention as the burger behemoth, there are now many more locations in China to sing karaoke than there are to order a Big Mac. McDonald’s outlets have American roots, but karaoke bars have a more complex origin story that speaks more effectively to our era: they bear traces – via their organization, look, and play-

lists – of Filipino, Japanese, British, and American influences, and indeed African influences as well.

Turning to the Kissinger Confusion, we see that he is attracted by a different super-story, at least about China. His *On China* encourages readers to be deeply skeptical about the Chinese state’s potential to become easily integrated into any global order not of its own creation. This is due to its deep indebtedness to specific ideas, many tied to Confucianism (or Kissinger’s conception of that creed), that keep China not just distinctive, but radically so. To Kissinger, the country has always stood apart and always will. The issue becomes one of managing this difference, not expecting it to disappear or even to lessen dramatically on account of the Internet, a rising middle class, or any other factor. Rather than wait for China to be reshaped by globalization, the goal should be to minimize the likelihood that China will take charge of defining the international order. Even China’s shift to Communist party-state rule is seen by Kissinger as in some senses epiphenomenal, due to the number of assumptions contemporary Chinese leaders share with their predecessors, including an unusually intense familiarity and identification with the ancient past.

To illustrate this, Kissinger analyzes one of Mao’s speeches addressed to a gathering of high-level cadres. Kissinger notes that despite Mao’s party’s official view that the pre-revolution past was to be discredited and forgotten, when the Chairman needed to convey a strategic point, he was wont to refer to ancient battles in China’s history. What lesson does Kissinger draw about China’s singularity from this kind of behavior?

In no other country is it conceivable that a modern leader would initiate a major

national undertaking by invoking strategic principles from a millennium-old event – nor that he could confidently expect his colleagues to understand the significance of his allusions. Yet China is singular. No other country can claim so long a continuous civilization, or such an intimate relationship to its ancient past and classical principles.<sup>20</sup>

One problem with the Kissinger Confusion is that those in its sway tend to ignore evidence that might contradict the view that China's distant past has left it with a "cultural DNA" that is virtually impervious to change.<sup>21</sup> In *On China*, for example, Kissinger mentions but dismisses the relevance of Zhou Enlai (the first premier of the People's Republic of China) telling him that the United States should be seen as an *older* country than China, since China's current political incarnation goes back only to 1949. Those who focus on China's supposedly "singular" cultural DNA gloss over the fact that, while the mainland and Taiwan had strikingly similar political cultures circa 1960 (they even shared a cult of personality around Chiang Kai-shek, the former president of the Republic of China), within a few decades, the island country had become a lively democracy, while the mainland retained its Leninist political system. As for Kissinger's interpretation of the supposedly singular ability of Chinese leaders to make use of analogies from the distant past, Mao's reaching back more than a millennium for a tale that would make a readily understood strategic point brings to mind obvious counter-examples. For one, Mao's Western counterparts could just as easily refer to "Trojan Horse" strategies and take for granted that everyone in the room would get the point.

What do we gain by casting off the distorting lenses of the Friedman Fallacy and the Kissinger Confusion? We gain a van-

tage point from which to see the relationship between China and contemporary globalization in a new way. We can appreciate traits that today's China shares with the United States and Japan of a century ago, especially when it comes to China's adaptation to and impact on international practices, as well as the way that other countries look to it less as a model for wholesale emulation than as a state from whose toolkit it may be worth selectively borrowing. We can also see some recent moves made by the Chinese state as a restart of abortive processes that began to transform the country during the late 1800s and early 1900s.

First, take the idea of a Chinese "president," past and present. China's first president, Sun Yat-sen, was a poster child for his era in many ways. Sun's political life depended on new modes of transportation and communication that allowed him to travel between China, Japan, and the West to raise funds, and also let him circulate his ideas with expedience via telegraph wires. As the country's first post-dynastic leader, Sun took on an imported moniker, that of president, which brought him in step with political trends of the day for the heads of new nations, as the Republic of China (established in 1912) was then. Sun also participated in an inauguration ceremony that borrowed heavily from Western traditions of political ritual. Yet one of his earliest acts was to visit the graves of the emperors of the Ming Dynasty, the last ethnically Han Chinese rulers of the country. Through this act, he symbolically tied himself to a past Chinese group that had been overthrown by the Manchus of the Qing, thus acknowledging and capitalizing on the role that anti-Manchu passions, as well as globally circulating republican ideas, played in bringing him to power.

Chinese radicals of Sun's day were inspired by many domestic and international

precedents, citing parallels for their cause in the actions of rebels who had challenged unjust dynasties in China, the French insurgents of 1789, and other revolutionaries with righteous causes. Particularly popular among Chinese radicals were analogies to either the revolution the American colonists waged against Britain in 1776, which led to the formation of a new republic, or the efforts that led to Japan's Meiji Restoration, which resulted in the creation of a constitutional monarchy. Sun, while admiring of Japan, relied primarily on analogies with the American Revolution, and was sometimes called his country's answer to George Washington. The constitution of Sun's new republic featured some elements that were homologous to sections of the U.S. Constitution; but it also described a system of government with five branches, two of them tied to China's unique past. So in its very eclecticism, the Chinese constitution also paralleled the new constitution that Japan had adopted, exhibiting Bayly's underlying theme of moving toward uniformity without homogenization.

Sun's eclecticism even showed through in his choice of clothing. Early in his political career, he conformed to global norms, dressing for major political rituals in the sort of suit expected of powerful men of the time, often accompanied by a top hat. Later, however, Sun championed what he saw as a distinctively Chinese yet modern form of apparel. What is now called a "Mao Suit" is actually an adaptation of what was once called the "Sun Yat-sen Suit": a form of dress that was influenced by a mix of Western and Asian models, bearing, for example, some links to the student uniforms worn in Japan.<sup>22</sup>

When the People's Republic of China was founded in 1949, its leaders claimed that they, not Chiang Kai-shek and his Nationalist Party across the strait, were the true inheritors of Sun's legacy. This asser-

tion was aided by the fact that Sun, just before his death in 1925, had overseen an alliance of the Communists and the Nationalists, and had expressed admiration for the Soviet Union. The link to Sun was reinforced sartorially, via people of all walks of life wearing the type of suit he promoted – though small alterations were made to the design in Mao's day, and Soviet sartorial styles also later made their mark.<sup>23</sup>

It is typical now to see China's political system as an outlier – sticking to Communist Party rule at a time when it had been abandoned by all but three other countries – yet Sun reminds us that this is the case only in some regards. In Mao's China, the powerful did not dress like their counterparts in other parts of the world, nor was "president" or "premier" the designation of the country's leader. Flash forward to the present, and we find a new set of moves toward uniformity without homogeneity leaving their imprint on China's political system. For the last two decades or so, China's most powerful men (the holders of top posts have overwhelmingly been male) have dressed just like their counterparts in most other countries.<sup>24</sup> And the top Chinese leader, while still holding the post of General Secretary of the Communist Party, is routinely referred to as the country's "president" (we do not often hear of "Chairman Xi"). Even Mao's appearance on Chinese banknotes, frequently cited as evidence of China's inability to move decisively away from its outlier past, has in some ways conformed to international norms. The faces of past leaders grace the currency of many modern countries; the currency in Mao's own day, which featured anonymous representatives of ethnic or other social groups, was more unusual.

My second set of comments relates to global spectacles, in particular China's hosting of the 2008 Olympics. In the

lead-up to that event, the potential for the Olympics to bring China into step with global norms was a source of lengthy discussion, though from the beginning, Susan Brownell, a prominent scholar of Chinese sports and the Olympic Movement, suggested that rather than only asking “how the Olympics will change China,” we should also question “how China will change the Olympics.” In the end, Brownell proved prescient, as there are ways in which China both conformed to expectations for a host country and altered expectations for future Summer Games, raising the bar for eye-popping high-tech performances in the games’ opening ceremony, for example. This unusually brash Olympics, followed by China holding its first World’s Fair in 2010 (which was the biggest event of its kind to date), brings to mind America’s bold entrance into the club of international exhibition-hosting countries in the late 1800s. These modern events in China also stirred the global imagination in ways that paralleled Japan during its own period of great acceleration. Japan’s surge inspired a desire among other ambitious peoples to borrow tricks from the Japanese approach, even if the aim was not strictly to mirror Japan’s path, as was the case with Chinese revolutionaries wishing to modernize their country in a Japanese fashion without introducing a Meiji-style constitutional monarchy. And for all the talk of a “Chinese model” today, it is important to consider an example like Brazil, which in hosting the World Cup in 2014 and the Summer Olympic Games in 2016, will find much to emulate in China’s handling of the global spotlight in 2008, without necessarily reproducing China’s political disposition.

Finally, let us consider the current revival of Confucianism, which would seem to add force to the argument that all Chinese state actions are rooted in the distant past. To begin to see the Confucianist

revival in a different light, however, let us look back to the 1893 World Parliament of Religions, as well as to a 1902 story fragment by Liang Qichao, often described as the leading Chinese intellectual of that era. In Liang’s story “The Future of New China” – which was inspired in part by the 1893 Parliament of Religions as well as an awareness that Japan’s rise above China in the global hierarchy had been marked, among other causes, by its increasingly significant role in various international organizations and spectacles of various kinds – Liang imagines a future when China’s status as a world power would allow it to host, rather than merely participate in, a World’s Fair. He describes such a Chinese-run international exhibition taking place in Shanghai in 1962, featuring elements of the World Parliament of Religions, such as a lineal descendant of Confucius addressing dignitaries and thinkers from across the globe.<sup>25</sup>

Liang clearly foreshadowed what would take place during the next great acceleration. At the World Parliament of Religions, a kind of revamped Confucianism 2.0 – made as legible as possible to religious leaders in the West – took its place among a family of spiritual creeds in a robustly international setting. Over a century later, the opening ceremonies of the 2008 Olympic Games were, in part, a chance for China to give global audiences a sense of a Confucianism 3.0, officially defined not as an indigenous religion (the status accorded to Daoism) but as a philosophy and a symbolically potent state ethos. The event began with a quote by the sage himself, now cast as a secular but revered embodiment of national wisdom whose views do not contradict those of the development-driven Communist Party, which until the 1970s had reviled Confucius as a feudal figure whose ideas were largely responsible for the country’s backwardness. One part of the lavish performance that followed

featured a large number of actors onstage dressed as Confucius's disciples. Confucius's new status in the People's Republic of China – which dovetails with the way he has been or still is venerated in Taiwan and Singapore – has also been marked in other ways, most notably in the founding of state-supported and controlled “Confucius Institutes” in foreign countries.

When searching for meaning in the Confucius Institutes, as with so many topics associated with China and globalization, we should not choose between thinking only in terms of the distant past or another time frame, nor should we choose between thinking of the Chinese state as only either being reshaped by international forces or itself reshaping the global structure. We are instead better off drawing from all of these perspectives at once. Confucius is a figure from the distant past, but he has gone through reinventions before, with the most recent preconfigured not only by Liang Qichao's work of speculative fiction, but also by Chiang Kai-shek's celebration of “Confucian values” in his New Life Movement of the 1930s. Confucius is a Chinese figure, but in classic uniformity-without-homogeneity fashion, Confucius Institutes are modeled in part on what Western nations, such as Germany via its Goethe Institutes, have accomplished in the arena of nationally minded cultural dissemination. In addition, Confucius Institutes bear the influence of recent efforts in Singapore – a country whose economic success and political stability has been admired by Chinese leaders – to combine appeals to traditional “Asian values” with authoritarian politics, in a setting where the Internet is defined by walls as much as by webs.

This essay is not meant to offer a complete alternative vision of China and globalization. To do that, much more would need to be said about the novelties of the

current era as they pertain to both globalization and China. For example, the unprecedented degree to which educational institutions have become globally minded would need to be addressed. So, too, would the related phenomenon of an unprecedented number of Chinese people spending time abroad, whether as tourists, as workers, or perhaps most significantly, as students; the paths taken abroad by all these Chinese citizens could affect the country in profound ways. And there are several important questions about how modern China's rise to global power should be contextualized. For example, contrast the United States, whose rise to global dominance was without precedent in North American history, with China, which can be seen as reclaiming a position of influence it once had but then lost.

My relatively modest aim here has been to show how focusing on one particularly interesting medium-term historical framework, in addition to presenting the Chinese state as both a shaper of the global order and an entity being reshaped by it, takes us much further toward an accurate view of the contemporary terrain than Friedman's riffs on Beijing Big Macs or Kissinger's wonderment at Mao's knowledge of ancient battles. China's rise is one of the most important and complex stories of our time, and there are parts of this tale that are truly unprecedented. Making sense of this critical and intrinsically fascinating tale is likely to remain one of the great intellectual challenges of our time. This essay, if successful, will not have provided a magic key for unraveling the mysteries involved in its telling. Rather, it will have clearly shown how focusing too tightly on the novelty of the now, or assuming that all the answers lie in the distant past and its imagined hold of ancient patterns on a fast-changing present, is to distort the story we seek to bring into focus.

- <sup>1</sup> Two appealing introductions to China's past that emphasize far flung geographical connections and encourage a long view of globalization are Joanna Waley Cohen, *The Sextants of Beijing: Global Currents in Chinese History* (New York: Norton, 2000); and James Millward, *The Silk Road: A Very Short Introduction* (New York: Oxford University Press, 2013).
- <sup>2</sup> C. A. Bayly, *The Birth of the Modern World, 1780 – 1914: Global Connections and Comparisons* (London: Wiley-Blackwell, 2003).
- <sup>3</sup> On the Parliament of Religions, see the documents, including texts of the speeches given by representatives of different creeds, gathered together online at [http://www.parliamentofreligions.org/\\_includes/history/archive.swf](http://www.parliamentofreligions.org/_includes/history/archive.swf) (accessed July 23, 2013).
- <sup>4</sup> For background on the debates over how Confucianism should be classified, as well as references to important late nineteenth-century and early twentieth-century works on comparative religion, such as those of sociologist Max Weber, see Anna Sun, *Confucianism as a World Religion: Contested Histories and Contemporary Reality* (Princeton, N.J.: Princeton University Press, 2013).
- <sup>5</sup> Moves toward making Confucianism conform more closely to a standard "religion" include terminological efforts, such as translations of the *Analects* that dubbed it one of China's key "sacred" texts, as well as abortive efforts in the late 1800s and again in the early 1900s, most famously by the Chinese scholar Kang Youwei, to transform Confucianism into a state religion with parallels to Christianity in form and Japan's Shinto in function. On these efforts and the resistance to them, see Sun, *Confucianism as a World Religion*; and Yong Chen, *Confucianism as Religion: Controversies and Consequences* (Boston: Brill, 2013).
- <sup>6</sup> Pankaj Mishra, *From the Ruins of Empire: The Intellectuals Who Remade Asia* (New York: Farrar, Straus and Giroux, 2012).
- <sup>7</sup> Daniel H. Pink, "Why the World Is Flat," *Wired*, May 2005, <http://www.wired.com/wired/archive/13.05/friedman.html> (accessed May 29, 2013).
- <sup>8</sup> Thomas Friedman, *The Lexus and the Olive Tree* (New York: Farrar, Straus and Giroux, 1999); Thomas Friedman, *Longitudes and Attitudes* (New York: Farrar, Straus and Giroux, 2002); and Thomas Friedman, *The World is Flat* (New York: Farrar, Straus and Giroux, 2005).
- <sup>9</sup> In April of 2013, for example, Kissinger met with current President Xi Jinping, and then in July of the same year, he met with former President Jiang Zemin.
- <sup>10</sup> "The Chinese Dream: The Role of Thomas Friedman," *The Economist*, May 6, 2013; <http://www.economist.com/blogs/analects/2013/05/chinese-dream-0> (accessed June 3, 2013).
- <sup>11</sup> Bruce Gilley, *China's Democratic Future* (New York: Columbia University Press, 2005); and Edward Steinfield, *Playing Our Game: Why China's Rise Doesn't Threaten the West* (New York: Oxford University Press, 2012).
- <sup>12</sup> Juan Pablo Cardenal and Heriberto Araujo, *China's Silent Army: The Pioneers, Traders, Fixers, and Workers Who are Remaking the World in Beijing's Image* (New York: Crown, 2013); and Stefan Halper, *The Beijing Consensus: How China's Authoritarian Model Will Dominate the Twenty-First Century* (New York: Basic Books, 2010). Contrast the final words of the subtitle of Cardenal and Araujo's work ("remaking the world in Beijing's image") with the final words of Halper's ("authoritarian model will dominate the twenty-first century"). See also Perry Anderson "Sinomania," *London Review of Books* 32 (2) (January 2010), which includes a review of Martin Jacques, *When China Rules the World: The End of the Western World and the Birth of a New Global Order* (New York: Penguin, 2009).
- <sup>13</sup> Friedman, *The Lexus and the Olive Tree*, 7–9.
- <sup>14</sup> Thomas Friedman, "Big Mac II," *The New York Times*, December 11, 1996, <http://www.nytimes.com/1996/12/11/opinion/big-mac-ii.html> (accessed May 29, 2013).
- <sup>15</sup> Thomas Friedman and Michael Mandelbaum, *That Used to be Us: How America Fell Behind in the World It Invented and How We Can Come Back* (New York: Picador, 2011). See also Fried-

man's use of quotations in his work, such as this, from author Joe Romm: "China is going to eat our lunch and take our jobs on clean energy – an industry that we largely invented," quoted in Thomas Friedman, "Our One-Party Democracy," *The New York Times*, September 8, 2009, [http://www.nytimes.com/2009/09/09/opinion/09friedman.html?\\_r=2&](http://www.nytimes.com/2009/09/09/opinion/09friedman.html?_r=2&).

- <sup>16</sup> Quoted in *The Economist*, March 23, 1850, 310.
- <sup>17</sup> William J. Dobson, *The Dictator's Learning Curve* (New York: Doubleday, 2012).
- <sup>18</sup> It seems likely that these firewalls will become even sturdier, and not only in China, given recent accusations and leaks concerning cyber espionage against and by the United States.
- <sup>19</sup> James L. Watson, ed., *Golden Arches East: McDonald's in East Asia*, 2nd ed. (Stanford, Calif.: Stanford University Press, 2006).
- <sup>20</sup> Henry Kissinger, *On China* (New York, Penguin Press, 2011), 2.
- <sup>21</sup> This term even shows up in very sophisticated works, such as David Shambaugh's *China Goes Global: The Partial Power* (New York: Oxford University Press, 2013); a work that, overall, takes a much more nuanced approach to Chinese continuities than does *On China*, yet at times falls into the trap (as political scientist Lucian Pye, who Shambaugh cites approvingly, often did) of presenting the country as having a political culture virtually impervious to change, with features hard-wired into its DNA. Another admirable recent work, which refers to DNA in a similar fashion and alludes to a recessive "Confucian gene" that colors the ideas of important Chinese thinkers, is Orville Schell and John Delury, *Wealth and Power: China's Long March to the Twenty-First Century* (New York: Random House, 2013).
- <sup>22</sup> On Sun Yat-sen, see Henrietta Harrison, *The Making of the Republican Citizen* (Oxford: Clarendon, 2000); Joseph Esherick, "Founding a Republic, Electing a President: How Sun Yat-sen Became Guofu," in *China's Republican Revolution*, ed. Harold Shiffrin and Eto Shinkichi (Tokyo: University of Tokyo Press, 1994): 129 – 152; and especially David Strand, *An Unfinished Republic: Leading by Word and Deed in Modern China* (Berkeley: University of California Press, 2011), 33 – 35 (which notes Sun's dress) and p. 205 (which notes various Chinese senators wearing Western-style dress in 1912).
- <sup>23</sup> See the illustrated discussion "Mao Suit," provided by the Powerhouse Museum, [http://www.powerhousemuseum.com/hsc/evrev/mao\\_suit.htm](http://www.powerhousemuseum.com/hsc/evrev/mao_suit.htm) (accessed July 22, 2013).
- <sup>24</sup> For more details on the symbolism of clothing in recent meetings between Chinese and foreign leaders, see Jeffrey Wasserstrom, "What Obama and Xi's Shirt Sleeves Summit Means," *History News Network*, June 17, 2013, <http://hnn.us/articles/what-obama-and-xis-shirt-sleeves-summit-means> (accessed July 23, 2013).
- <sup>25</sup> On Liang Qichao's story, see John Fitzgerald, "The Unfinished History of China's Future," *Thesis Eleven*, May 1999, 17 – 31.

# Local Governance in China: Incentives & Tensions

*Joseph Fewsmith & Xiang Gao*

*Abstract: China faces major challenges from social instability and general societal disaffection, which have continued to grow even as the economy has developed. In recent years, the Chinese government has tried to address such issues by diverting increasing resources to raising the income of villagers and providing social services to the urban and rural population alike. So why have “mass incidents” – public protests that sometimes turn violent – continued unabated? This article argues that the structure of central-local relations leads local governments to discount the interests of residents on the one hand, and distort central policies to the benefit of the local government on the other. The “party manages the cadres” principle, through which the central government exerts vertical control, prevents horizontal and bottom-up accountability, and thus ends up setting the interests of local cadres against those of local residents. The central government’s interest in preserving its own power makes it reluctant to reform the central-local relationship, thus perpetuating crises.*

Relations between central and local governments are increasingly seen as critical both for governance issues and for economic development. Overly centralized states pose the threat of killing market incentives and dampening economic development, whereas overly decentralized states risk stifling economic development through cronyism and sometimes predatory behavior.<sup>1</sup> A combination of a Weberian-style central bureaucracy and a decentralized political system is generally recognized as conducive to good governance.<sup>2</sup>

But the question is not simply one of centralization versus decentralization, as important as that discussion may be; rather, the question is also one of how local governments are nested within hierarchical political systems. For instance, Brazil’s political system has historically been characterized by extreme decentralization; a tradition that resumed in the 1980s following the nation’s return to democracy, much to the detriment of coherent policy-making and economic growth.<sup>3</sup> In contrast, contemporary

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India has a highly centralized bureaucracy, though individual states have been empowered to set economic policy within their regions. Some states have lobbied New Delhi for investment and have moved ahead economically, whereas others have pursued oppositional strategies, bolstering the popularity of local politicians but falling behind economically.<sup>4</sup> Under the Partido Revolucionario Institucional (PRI), Mexico had a highly centralized government, but also a patrimonial bureaucracy that was not conducive to rapid economic growth. Decentralization reforms in recent years, however, have brought about better governance in Mexico, if not greater income equality.<sup>5</sup>

Over the past three decades, China has developed extremely rapidly, averaging nearly 10 percent growth by GDP per year. Built around a revolution-era mobilizational party system that combines strong centralism and local initiative, China's political system seems to have developed a strong mix of capable leadership at the center and incentives for building "developmental states" at the local level.<sup>6</sup> Indeed, much of China's success and uniqueness in the contemporary period is attributed to its local governments, which are seen both as laboratories for policies that can be extended throughout the whole country, and as competitive units that "race" each other in a battle for development.<sup>7</sup>

If China in the post-Mao period (since 1978) has achieved a benevolent balance between centralization and decentralization, it is in part a result of historical accident. Following the Cultural Revolution, China's economy was quite decentralized, and planners, led by senior economic policy-maker Chen Yun, worked hard to recentralize the economy. They could only do so much, however, and they ended up achieving only a modest recentralization of the fiscal system and a strengthening of the planning system, while at the same time

rewarding decentralization. The system of fiscal contracting (*caizheng baogang*) allowed the provinces, particularly Guangdong and Fujian (which struck better deals with the central government), to remit a fixed amount of revenue to the center for a specified period of time. This system incentivized provinces, and below them counties and townships, to maximize revenue by allowing them to keep any revenue collected above the amount owed to the central government. Thus, it encouraged localities to increase economic production. The southeast province of Guangdong was in an especially good position, being geographically located next to Hong Kong and also the native home of many of its residents. The province offered favorable terms for investors from Hong Kong, who were then facing rising labor costs, and thus Guangdong managed to move, in East Asia scholar Ezra Vogel's terms, "one step ahead."<sup>8</sup>

As this short summary suggests, there are two critical linkages binding central and local authorities in China: the party system (particularly the cadre management system) and the fiscal system. In addition, through the approval process and the transfer of funds, Beijing can shape, if not determine outright, economic and spending priorities of localities. Collectively, these factors condition the behavior of local cadres, providing incentives and disincentives for governance and economic behavior.

Over the first decade or so of reform, the incentives given local cadres aligned with the objectives set by central leaders (primarily economic growth). But the decentralization associated with fiscal contracting and the "delegation of power and yielding of benefits" (*fangquan rangli*) went too far, eroding the fiscal authority of the central state – that is, until the major tax reform policy of 1994 shifted the balance back toward Beijing. Because this tax reform

was negotiated between the center and the provinces, however, little consideration was given to the fiscal needs of the lower levels of government, particularly the counties and townships. This neglect of fiscal resources for lower levels of government, in turn, exacerbated relations between local cadres and peasants. The fiscal deprivation of counties and (especially) townships worsened in 2006, when the central government ended the collection of agricultural and miscellaneous taxes. Together, these changes in the fiscal system, combined with the exercise of vertical accountability through the cadre management system, have created frictions and dysfunctions at the local level. The benign alignment of incentives between the principle (the central government) and its agents (local governments) that characterized the early years of the Dengist reforms no longer prevailed.

The cadre management system is the core political mechanism that binds the different levels of Chinese government together. There are five levels of government in China: central, provincial, municipal (prefectural), county, and township. Villages are below townships, but are considered “self-governing” because their cadres are paid by the villages themselves rather than by the state (though there have been moves in recent years to pay some village cadres in poor areas using state funds). But self-governing does not mean autonomy, since village affairs are still dominated by the local party branch.

The cadre system holds these levels together through a hierarchical arrangement in which each level (with the exception of township) is responsible for appointing and evaluating cadres at the level below. The cadre system is also task-oriented: cadres are not given job descriptions, but are rather assigned tasks to perform. Such tasks can change depending on the

needs of the superordinate leaders, and subordinate leaders are evaluated not by how well they serve their “constituents,” but by how well they perform these tasks. Because power remains highly concentrated, there is a strong tendency for authority to be personalized; and because the ties between leaders at one level and the cadres below them at the next are often quite close, relationships tend to be corrupt.

The cadre system was built as a mobilizational system, not a professional bureaucracy. Mobilizational systems can be quite flexible, and that flexibility was very useful in the rapidly changing environment of the revolution, the civil war, and then the political campaigns that dominated the first quarter-century of the People’s Republic of China (PRC).<sup>9</sup> The cadre system proved malleable once again when the party-state began to execute Deng Xiaoping’s economic reforms in 1978. Instead of being evaluated by their effectiveness in carrying out revolutionary or political campaigns, cadres were now evaluated largely by their success in economic development. This shift in tasks was accompanied by new recruitment criteria that emphasized being “more revolutionary, younger, better educated, and more professionally competent,” though “more revolutionary” was generally thought of as “politically reliable” in practice. Retirement was gradually institutionalized. The party school system was reprogrammed to train cadres in updated ideology and, eventually, management skills.<sup>10</sup>

This system proved highly effective in promoting growth, as China’s high-speed development over the past three decades attests; but its very focus on economic growth meant that other areas of governance – including health care, education, and environmental protection – were neglected. This imbalance was caused by four factors. First, the cadre system privileges targets that are easily counted. Thus, the

one-child policy could be implemented with remarkable effectiveness and, at times, ruthlessness.<sup>11</sup> Similarly, economic development can be counted, albeit with some slippage, through the calculation of GDP figures. Second, pursuit of economic development has been relatively uncontroversial at all levels of government, which makes it a consensus target. Prioritizing economic development as the core task and weighing it heavily in the cadre evaluation system avoids arguments about how to measure and compare “softer” tasks. Focusing on economic development also aligns the personal interests of cadres – who often benefit personally through privilege and corruption – with the goals of the state, making economic goals more likely to be attained. But again, the focus on development inevitably comes at the expense of softer social services. Though some of these service areas, such as education and, even more so, medical care, have received greater attention recently, they continue to suffer from years of neglect and are typically not emphasized in local government plans. Third, particularly with increasing pressures to develop and the rising price of land, there are strong incentives for cadres to requisition peasants’ land, often with little or no compensation given in exchange. There is also considerable temptation to pocket some of the proceeds. Such actions put local government in direct conflict with at least some of its people and create resentment through the local cadres’ public displays of wealth.

Finally, the broader fiscal environment influences the way cadres interact with common citizens. When the state moved to recentralize the fiscal system through the tax reform of 1994, local cadres, under pressure to develop the economy, reacted by over-collecting taxes, provoking popular tax resistance. The abolition of the agricultural tax in 2006 certainly ben-

efitted most peasants, but cadres responded by requisitioning land to attract development projects. Land seizures may have affected fewer peasants, but those affected were hurt badly, and they reacted strongly against their local officials. Increasingly, development issues have set the interests of local cadres against those of the people they govern, and the cadre management system sharpens the conflict. Together, these four factors point to the cadre system itself as the primary cause of social instability.<sup>12</sup>

Local governments pursued the primary goal of the central government – economic development – because the interests of central and local governments largely overlapped; but local governments also pursued their interests in their own way. That is to say, the central government can define tasks for local authorities to implement, but it cannot stipulate the way in which local governments pursue those goals. The differences between the interests of the central and local governments become more obvious when the central government takes steps to diversify its goals, moving from economic development to new pursuits such as controlling corruption, protecting the environment, and building a health care system. This divergence of interests became apparent when the central government began to address the issue of instability both through modest political reform and, more important, when it tried to establish a “service-oriented government.”

Political reform, though that term must be understood modestly, was one way China tried to deal with the growing problems of cadre networks and social protest that developed in the wake of the 1994 tax reform. In 1995, the Central Organization Department, then under the leadership of Zeng Qinghong, issued the “Interim Regulations on the Selection and Appoint-

ment of Leading Cadres of the Party and State.”<sup>13</sup> These regulations tried to open up the cadre selection process by requiring wider participation and mandating processes of “democratic recommendation,” inspection, preparation, discussion, and decision-making. Such processes were intended to constrain the ability of leading party secretaries to gift promotions to their followers single-handedly. The 1995 decision laid the foundation for the experiments in “inner-party democracy” that would unfold first in Sichuan province and later in other provinces.

Neither the 1995 regulations nor the burgeoning inner-party elections at the township level were intended to lay a foundation for the democratization of China. Rather, the hope was that by involving more people in the selection process, the party could break up the tight-knit groups that formed around local leaders, tighten control over lower-level party organizations, reduce the potential for corruption (by multiplying the number of people who would have to be paid off if bribery were attempted), and give promotions to people who might be less predatory. Reformers hoped that by exploring a democratic process, however narrowly and gingerly, the party might be led along a path that would increase public participation and accountability. Perhaps in the long run, such measures might, in fact, form a bridge toward democracy.

Social scientists are accustomed to thinking that if there are sufficient incentives to provoke social innovation, there will likely be increasing returns, which in turn lead to path dependency and a benevolent cycle of ever-deeper innovations. In China, there certainly were incentives to innovate. The adoption of new regulations on cadre selection reflected the central authorities’ concerns about social stability (as explored by Ching Kwan Lee in her essay in this volume) and their will-

ingness to innovate, if only cautiously. Similarly, local cadres who faced social pressures and who, perhaps more important, wanted to show their superiors that they could deal with such pressures creatively, were willing to innovate. But that does not mean there were sufficient pressures to produce a benevolent cycle. On the contrary, there were countervailing pressures that minimized, and perhaps rendered meaningless, the impact of political reform. According to a study on China Local Governance Innovations Awards, the number of local innovations in political reform has decreased since 2005–2006.<sup>14</sup> Not even the innovation of “participatory budgeting” (*canyuxing yusuan*) in Wenling, Zhejiang, widely acknowledged to be a successful (if limited) experiment in reform, has spread to neighboring cities. It remains to be the only existing case of “deliberative democracy” (or perhaps more accurately “consultative authoritarianism”) in Zhejiang province.<sup>15</sup>

What are these countervailing pressures weighing against experimentation in political reform? First, even if the central government were concerned about poor governance and social stability at the local level (and it has been), it had no interest in weakening the party. In any contest between the organizational principle of “the party manages the cadres” and efforts to constrain local party secretaries, the organizational principle – and therefore the party secretaries – would prevail. Hierarchical control of the party was simply too important to sacrifice, even if doing so improved local governance. Second, inner-party democracy innovations took place at the township level, and the county party committees that supervised them had mixed motives. On the one hand, county party committees wanted to be seen by their superiors as skilled in responding to local problems. Electing a new township head or party secretary might help an area

past a difficult time, either by calming social concerns or by helping to raise funds for construction projects. On the other hand, choosing a new township leader might be more about jump-starting a career than serving the interests of the public. Thus, leaders chosen in the course of an inner-party election were frequently moved to new posts shortly after being elected; the county may have discovered a new talent, opening the door for the newly elected leader to move on to a better position. The social impact of his election on the area, then, was minimal. Perhaps more important, the official who had organized the election may also soon move on to a new position, and the next party secretary might very well feel that further elections are unnecessary. Thus, there are very few areas that have held more than two township-level elections.<sup>16</sup>

Ever since reform and opening began in 1978, authoritative party documents have maintained that the primary contradiction facing China is that between the “ever-growing material and cultural needs of the people and the backwardness of social production.” That is to say, the most important task was economic development. The implication was that whatever social problems China might face, they would eventually be solved through further economic growth. This conclusion was implicit in General Secretary Jiang Zemin’s “Three Represents” (*sange daibiao*): the doctrine, first introduced in 2000, that posited that the Chinese Communist Party (CCP) represented the “advanced forces of production,” advanced culture, and the fundamental interests of the overwhelming majority of the people. The theory that the party represented the advanced forces of production was what justified allowing entrepreneurs and other “new forces” to join the party. Nevertheless, by the end of Jiang Zemin’s term of office in 2002, more

and more people were discussing the need to address social problems in addition to economic growth. For instance, Li Peilin, a prominent sociologist at the Chinese Academy of Social Sciences (CASS), argued that the Chinese government thought for years that it could grow its way out of social problems, but “a new round of economic growth would, on the contrary, exacerbate things, even to the extent of severely threatening sustainability and stability of continued growth.” Has the time come, Li asked, when China should adjust its development strategy from “taking economic development as the center” to “taking the coordinated development of the economy *and* society as the center”?<sup>17</sup>

The SARS (Severe Acute Respiratory Syndrome) crisis of late 2002 to early 2003 drove the point home: economic growth could not solve all governance problems in China. The central leaders started to realize that the uneven development and the diversification of interests meant that there would be “winners” and “losers” in the reform process. As reform deepened and the economy developed, Chinese society became increasingly made up of distinctive social groups with different and sometimes conflicting interests. During the Jiang Zemin era, CCP leaders paid more attention to the private entrepreneurs, since they were perceived as both the most dynamic demographic in the rapidly evolving society and the greatest potential political opposition. The Three Represents successfully co-opted the so-called red hat entrepreneurs (private entrepreneurs who registered as “collective” enterprises), but overlooked the welfare of peasants, laid-off workers, and others left behind in China’s economic boom. By the late 1990s, it was increasingly clear that reform was creating not only winners, but also losers.<sup>18</sup> Premier Zhu Rongji reflected the increasing consciousness of this reality when he for the first time used the term “vulnera-

ble groups” (*ruoshi qunti*) in the Government Work Report of 2002.<sup>19</sup>

Recognizing the diversity of interests and China’s uneven development, General Secretary Hu Jintao and Premier Wen Jiabao put social development on top of their policy agenda, emphasizing the importance of providing public service. The central leaders came to believe that by compensating those who lost out in the course of economic development, they could lessen public dissatisfaction with the government. This belief was given life in the new slogan “Scientific Development Concept” (*kexue fazhanguan*), which soon became the leading development principle in China. Whereas Jiang Zemin’s Three Represents had emphasized “advanced productive forces” (economic development), the Scientific Development Concept shifted the emphasis to the third of the Three Represents, namely the interests of the vast majority of the people.

The Scientific Development Concept, like the idea of a “harmonious society” (which appeared in 2006), was embodied by the proposal to build a “service-oriented government” (*fuwuxing zhengfu*). As a reform agenda, the idea of a service-oriented government tried to redefine the function of government by highlighting social management and the delivery of public service, which had long been ignored.

In line with this idea, the government focused much attention on the countryside. Beginning in 2004, the government resumed publication of “Central Document No. 1,” the annual document that had led the way in rural reform in the early and mid-1980s. In 2006, the government abolished agricultural taxes and unveiled plans to build a “New Socialist Countryside” that focused on infrastructure construction and improving the income of rural residents. By 2011, the Chinese government’s expenditure on rural and agricultural issues reached nearly three trillion

yuan, which was ten times the same expenditure in 2004. As part of this effort, the government invested 105 billion yuan over the course of the Eleventh Five-Year Plan (2006 to 2010) for the Safe Drinking Water Project, which provided clean drinking water for more than 210 million rural residents.

The government also publicized a series of social policies related to education, health care, employment, and social security, ending the long history in which rural areas were excluded from the state welfare system. In less than ten years, the Chinese government successfully built a basic social safety net for rural residents. Initiated in 2003, the New Rural Cooperative Medical System had more than 830 million rural participants by 2010. The New Rural Social Pension System, another key policy of the Hu–Wen administration, began to be implemented nationwide in 2012, three years after it was first experimented with on a smaller scale. Besides such new policies, the central government also increased the standard of public services. For instance, in 2011, it increased the minimum standard of living in rural areas to 2,300 yuan per household per year, which is 92 percent higher than it was only two years earlier in 2009.

In urban areas, public service provisions that emphasized the needs of migrant workers were also introduced. By the time Hu and Wen left power in 2012–2013, rural migrant children without local household registration could go to primary and junior middle school (though the family’s obedience to the one-child policy was still a precondition), while the migrant workers themselves became covered by the endowment insurance system for urban workers. But all of these policies could not be carried out without a significant increase of government expenditure. Between 2007 and 2010, the Hu–Wen administration increased annual expenditures on education,

science and technology, culture, sports and media, the social safety net, employment-effort rewards, medicine and health care, environment protection, urban and rural community affairs, agriculture, forestry and water conservancy, and transportation by 265.2 million yuan, which made up 66.16 percent of total increased expenditures in those years.

But just how successful these efforts were in building a service-oriented government is a subject of controversy. On the one hand, there seems to be some narrowing of the urban-rural income gap since 2010. In 2012, rural residents' annual per capita net income reached 7,917 yuan, growing 13.5 percent over the previous year, a slightly higher growth rate than that of urban residents. Thanks to the improved social policy system, 1.3 billion citizens are protected by different forms of the health care insurance system, and two hundred million citizens are getting pensions from the state. Such data suggest that a service-oriented government has been successful to some degree.

On the other hand, the crisis in local governance has not eased and may, in fact, have gotten worse. While problems of environmental pollution, which have intensified since the industrialization boom in the 1980s, remain unresolved, new problems such as land acquisition have emerged and have triggered severe mass incidents, especially in well-developed areas. According to a local survey conducted in 2007, popular distrust of local cadres' commitment to the public is still significant.<sup>20</sup> The crux of the problem is that local governments must implement central policy, and the local governments, facing limited accountability, do not have strong incentives to build a service-oriented government.

Local governments are usually considered to be either rational actors or a stra-

tegic group with shared interests.<sup>21</sup> Yet local governments are just as fragmented as the governments above them. Moreover, the Hu-Wen emphasis on the third of Jiang Zemin's Three Represents – the fundamental interests of the overwhelming majority of the people – did not mean encouraging the formation of interest groups (“civil society”). Rather, the party relied on the “mass line,” a traditional means of cadres determining the needs of the “masses” for them.

Under these circumstances, local governments, especially the county-level governments – the lowest level to have complete functions as well as independent fiscal and budget powers – responded to the new initiative as an opportunity to increase their budgets. Not surprisingly, the heads of departments in charge of social management or public services became the biggest supporters of the idea of a service-oriented government, pushing their local governments to adjust their budgets to meet central documents' guidelines. But other department heads, including local party secretaries, were not as enthusiastic. They continued to look on economic development as their primary goal and were reluctant to divert expenditures to meet social needs. Despite the fact that the cadre management system was adjusted in 2009 to include social management and public service indicators, and to reduce the weight of economic development indicators, it failed to provide a strong motivation for party secretaries to implement the Scientific Development Concept.<sup>22</sup>

Beijing was also aware of the weak incentives for local governments to pursue a service-oriented government. In response, the central government created specially earmarked funds (*xiangmu zhi*) to offer direct support to local service departments. This mechanism provided special funding, which bypassed the local budget process,

for projects supported by the local service departments. The intention of the mechanism was to avoid the abuse of special funds by other local authorities and to enhance vertical management. Ideally, the service departments with additional resources would improve the performance of public service delivery and social management. In 2012, more than 40 percent of the central government's transfer payment to local government was spent as special transfer payments via these earmarked funds.<sup>23</sup>

But even this mechanism could not necessarily improve local governance. Local service departments, unable to secure more funds from the local level, scrambled to apply for these special funds from higher-level governments. But when they received such funding, cadres preferred to spend it on construction projects – which brought them personal gain – instead of increasing the standard of public services. For instance, a huge amount of money was spent on building online networks for social security, while the transfer of migrant workers' social insurance funds has remained an unsolved problem. Despite the directive from the central government to improve the social security situation of migrant workers, local officials in social security departments still permit migrant workers to take only part of their pension insurance account with them if they move to another area, a policy that clearly hurts workers. In other words, local cadres cared more about their departments and personal interests than they did about the welfare of many in their communities.

The goal of building a service-oriented government is further hindered by China's decentralized fiscal system, which serves to make local governments more profit-oriented. This is contrary to the conventional wisdom of political economists, who tend to support the argument that a decentralized government system is more

efficient than a centralized system, since local governments have more information and are able to adjust their policy priorities according to the preferences of local communities.<sup>24</sup> But this can only be true if local residents or local people's congresses can seriously constrain the corruption and unethical practices of local governments, which is not the case in China. Without any horizontal or bottom-up accountability at the local level, responsiveness becomes a serious problem in building a service-oriented government. A survey in early 2009 showed that the most desired public services of rural residents, including environmental protection and public safety, were all neglected by local government.<sup>25</sup>

Instead of improving the quality of governance at the local level, the decentralized fiscal system has created a strong motivation for local governments to maximize their revenues. Case studies show that local governments respond to the central government's demand for service-oriented construction in name only. It is not until an opportunity for enhancing revenue emerges that all actors in the local government work together to initiate social policy innovations.<sup>26</sup> In China today, land acquisition is widely implemented under the guise of "rural community construction" or "urbanization," though the real intent of local government is to increase revenue through the seizure of rural construction land for urban development. By distorting central policies, local governments are creating more governance crises even as they claim to be building a service-oriented government.

Overall, actors in local governments have one of two divergent interests: they either neglect the policy agenda of the central government because of the limitations of the cadre evaluation system; or they take advantage of programs intended to build a service-oriented government

in order to benefit themselves. Local governments may implement the minimum policy to create a service-oriented government, but local actors are simply not accountable to the local community. The lack of such a mechanism reduces the effectiveness of service-oriented government and causes tensions in local governance.

Local government in China is responsible for implementing the policies of the central government, but it also wields considerable power within its sphere of control. Although local government must perform those tasks that leaders at the next highest level prioritize – particularly “hard targets” – its primary incentive is to maximize its own revenue. Thus, the cadre management system has held China together and propelled economic development, but it has not promoted good governance. The cadre management system has given local cadres incentives that are contrary to the interests of many local residents, either through overtaxing or through land requisitions and sales. The central government’s efforts to promote a service-oriented government can only mitigate this basic structural contradiction to a certain extent. Indeed, even though local residents benefit from the growth of social programs, local governments benefit more.

If the central government is aware of widespread bad governance at the local level, why does it not pursue more systematic government reform? As discussed above, the government did initiate experiments with limited elections, but those reforms soon faded out. Apart from such political reforms, the central government could set up a vertical management system to implement directly those functions that local government does not have strong incentives to pursue.

The central government, however, does not seem to have the motivation to change the current system of central-local rela-

tions. The current arrangement puts local government in charge of policy implementation, even though it seems to reduce the quality of local governance. Nevertheless, by espousing popular initiatives, the central government creates a good image for itself and wins peoples’ trust – as verified by the many surveys that show citizens have a high degree of satisfaction with the central government but are far less satisfied with their local governments.<sup>27</sup>

In fact, the central government is not only unwilling to experiment with enhanced vertical management, it is also reluctant to publicize the ways in which it intervenes in local affairs, except for when doing so results in favorable publicity, such as for the initiation of new social policies. For instance, since 1978, the central government has delegated some economic management power to the local governments, but has only allowed the localities to approve projects within a certain scale and category. For big projects that exceeded these limits or belong to a particular industry type, local governments had to submit proposals to higher levels for approval. This is the administrative device through which the central authority implemented, and continues to implement, macro-control. However, this approval process occurs within the governmental system and is not widely known to the public. If such projects go awry, people blame the local government where the project is located, rather than the higher-level government that approved the project or perhaps even demanded it. Thus, when there is a crisis, people protest and take action against the local government, which may well only be implementing a project that was conceived of at a higher level.

Such was the case with the controversial paraxylene (PX) plant that was being built in Ningbo, Zhejiang. The project was approved by the National Development and Reform Commission (NDRC) in Beijing,

though local residents were unaware of this point. So when protestors took to the streets in late 2012 to object to the PX plant, they first went to the Zhenhai District government, which had no authority to stop the project. Two days later, the protestors moved on to the Ningbo city government, which under pressure, announced the termination of the PX plant development – though that project was actually a smaller part of a major petrochemical project, with other initiatives still scheduled to be carried out. More important, because this project was approved by the NDRC, involves the powerful oil company Sinopec, and includes many additional components, it is not at all clear that the protest was as successful as reported. What is clear, however, is that the local government has borne the blame for decisions made much higher in the governmental chain. Public trust is eroded, but governance is not improved.

The cadre system emerged in the course of China's revolution as a way of maintaining party discipline and mobilizing populations. While it enforced central policy, it was always a decentralized system in which officials were appointed to posts and given great authority to see that tasks were completed. It gave the CCP flexibility, allowing it over time to unite with the Kuomintang (Nationalist Party), to split with it, and to unite with it again; to ally with the Soviet Union, but later to oppose "Soviet revisionism"; and to carry out land reform and, eventually, to allocate land to households in the name of reform (among other things). There is no question that the cadre system was central both to China's revolutionary quest and to its later economic development. The cadre system centralized China in unprecedented ways, but the country remained decentralized enough for local cadres to maintain great influence in the areas they controlled, for

better or worse. Thus, it is very different from the federal system of Brazil, the centralized system of Mexico under the PRI, and the combination of central bureaucracy and intense localism in India. China, of course, shares many similarities with the former Soviet Union, but the long revolutionary struggle and the Cultural Revolution seem to have given China a flexibility and an incentive for reform and economic development that the Soviet Union did not have.

The inauguration of reform in late 1978 unleashed tremendous changes in China, stimulating unprecedented economic growth and opening up unimagined opportunities for millions of citizens. The CCP was itself revamped, with younger, better-educated cadres replacing older, more ideological revolutionaries. But for all these changes, the cadre system has remained remarkably consistent. The curriculum they study at party schools has changed dramatically, but the core hierarchical personnel system remains the same.

Viewed from the perspective of local government, however, the cadre system has produced distinctly ambivalent results. On the one hand, China's infrastructure and its economic development owe much to the mobilizing abilities of China's cadres. But on the other hand, the people who have borne much of the cost of this rapid development have been those who should have been its beneficiaries: the local residents. The cadre management system revolves around vertical accountability (higher-level cadres judging the performance of lower-level cadres), but lacks horizontal or bottom-up accountability (be it from a freer media, a healthier civil society, or elections). The result is a high-pressure system that drives economic development but also creates unfairness and discontent among ordinary people. Whether overtaxed in the 1980s and 1990s, or forced to yield their land for minimal

compensation following the elimination of the agricultural tax in 2006, local residents have often felt taken advantage of, and have expressed their frustrations through public opinion surveys, in collective petitions, and through mass incidents.

Well aware of the situation, the central government has reacted in at least two ways: it has experimented with political reform, searching for new ways to select cadres and to involve wider circles of cadres, and sometimes even non-party people, in governance; and it has adopted measures to benefit the people, relieving peasants of the burden of agricultural taxes and creating a rural medical system and a rural pension system in an effort to build a service-oriented government. However, abolishing agricultural taxes and paying for the unfunded mandate of public service delivery put new pressures on local governments, particularly those without local industry, to find new sources of revenue. Meanwhile, measures intended to provide more and better services to residents are frequently distorted to benefit local governments through the construction of new projects.

Ironically, higher-level governments, especially the central government, not only seem immune to the discontent expressed at the local level, but actually garner praise for their efforts. By putting local government in charge of implementing policies, the central government distributes the risk among thousands of local governments and thus does not itself have to deal directly with the people. If when public discontent erupts into crisis the local government is able to resolve it, higher levels of government do not have to intervene. But if the crisis is not successfully resolved at the local level, higher levels of government can use their control over the personnel system to remove responsible cadres from their positions, thereby reducing public anger. By playing this role of medi-

ator between local governments and local residents, the higher levels of government, particularly the central government, are not only able to contain governance crises at the local level, but are also able to win support from the public.

Thus, despite the many systemic problems, it is not difficult to understand why the central government does not want to reform the current central-local relationship. The combination of a decentralized administrative system and a centralized personnel system offers the central government a vital risk-prevention mechanism. Were the central government to restructure governmental agencies and claim more direct responsibility for policy implementation, it would then have to face the residents – and their grievances and political expressions – directly. And if something did go wrong, the central government could not maintain its largely positive image. Balancing between its desire to stay in power and the hope of promoting better governance, it is no wonder that the central government maintains the status quo. So the tensions in local governance go on.

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# Environmental Governance in China: State Control to Crisis Management

*Elizabeth Economy*

*Abstract: After three decades of rapid economic growth, environmental degradation is now one of the most significant issues facing the Chinese government. The country's air, water, and land are all heavily polluted. Despite a number of environmental protection initiatives, both at the national and local levels, China ranks poorly when compared with other emerging nations. Formal government institutions have failed to address adequately the people's concerns. Beijing's system of decentralized authoritarianism lacks the political processes and incentives needed to implement meaningful national reform and to encourage local governments and polluting factories to enforce laws and regulations. The Chinese government now faces growing pressure from civil society, as NGOs, Internet activism, and protests compel the government to proactively address environmental issues. Beijing would do well to increase engagement between the government and its citizens, rather than relying on its current crisis management style of environmental governance.*

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In March 2013, residents in Shanghai watched as more than 16,000 diseased pigs floated down the tributaries of the city's Huangpu River. Farmers upstream in Zhejiang province had slaughtered the diseased pigs, and rather than bury or cremate them as the law mandated, they had simply dumped them in a nearby waterway that flowed into the Huangpu. Hundreds of miles away, Hunan's Liuyang River experienced a similar influx of dead pigs.

This was only the latest in a string of environmental disasters in China. Earlier in the year, residents in Beijing, along with those in a number of other Chinese cities, discovered that breathing the air where they lived was equivalent to living in a smoking lounge. And people in Guangdong learned that Hunan-produced rice sold in their province in 2009 was contaminated with cadmium, a metal that when ingested can cause severe joint and spine pain along with cancer. For all the headlines these disasters garnered, however, none was a first-time event. Similar incidents had occurred repeatedly in the preceding years.

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At the heart of the Chinese government's inability to protect the environment is the country's particular mix of political institutions, processes, and incentive structures. Decentralized authoritarianism, which so successfully spurred the country's economic growth, has proved highly damaging to the environment. On the economic front, the combination of centrally mandated targets for economic growth, devolution of authority to local officials, engagement with the international community, and constrained participation by the private sector provided substantial economic opportunities and incentives throughout the political system to encourage economic growth. This same institutional configuration, however, has not delivered an equivalent set of incentives – either economic or political – to engender effective environmental protection. Put simply, opportunities to “get rich quick” are more easily grasped than those intended to “protect the environment.”

Is China's environmental situation substantially different from those in other countries with a similar level of economic development, population size, economic complexity, or political system? While there is no country that closely approximates China across all these metrics, Yale University's Environmental Performance Index, which evaluates countries' current environmental performance as well as their performance trends over the past decade, offers some perspective. In 2012, China ranked 116th out of 132 countries.<sup>1</sup> China placed ahead of India (125th), which boasts a similarly large population, decentralized political system, and complex economy. (India, however, is a democracy, and its economic resources are far smaller: its per capita GDP is not even one-fourth that of China.) When compared with virtually any other strong emerging economy, such as Russia (106th) or Brazil (30th), China fared poorly. Its still-developing East

Asian neighbors – whether democracies or authoritarian states – also outperformed China handily: Thailand (34th), Indonesia (74th), and Vietnam (79th) among them.

Still, parallels and lessons can be drawn from others' experiences. Over the past five years, for example, new pressures to reform China's system of environmental governance have emerged. The Chinese middle class, much like that in every other country in the world at China's level of economic development, has begun to understand the trade-off between the benefits of rapid, unfettered economic growth in the short term and the health, environmental, and economic price paid over the long term. Aided by the widespread adoption of the Internet, the middle class has discovered its voice and, increasingly, the power to influence government policy – particularly at the local level – through public pressure. Chinese environmental NGOs, like their counterparts elsewhere, are taking on increasingly sensitive issues, moving from environmental education to anti-dam activism, pressure for greater transparency, and a stronger system of environmental law.

The impact that these calls for change have had on Beijing's system of environmental governance, however, has thus far been limited. The Chinese government has largely resisted the path adopted by most (albeit not all) of the other countries ranked above it in the Yale index, remaining wary of greater participation by civil society. What is emerging instead is a crisis-driven model of environmental governance at the local level, which, while effective in delivering environmental protection on discrete issues in the short term, does not foster a sustainable, long-term environmental governance structure.

China faces a deep and enduring environmental crisis born of decades – or in some cases, such as deforestation, centuries

– of resource-intensive growth. Two-thirds of China's cities cannot meet the country's air-quality standards,<sup>2</sup> and according to a 2012 Asian Development Bank study of the country's five hundred largest cities, less than 1 percent meet the World Health Organization's air-quality standards.<sup>3</sup> Much of the challenge stems from China's reliance on coal for power; coal contributes around 70 percent of the country's overall energy mix, and energy consumption grew 130 percent from 2000 to 2010.<sup>4</sup> And as Chinese citizens become wealthier and move into cities, they will use more energy. Urban residents use on average up to four times more energy than their rural counterparts.<sup>5</sup>

China also suffers from high rates of land degradation and desertification, as well as high levels of soil pollution. Centuries of deforestation, combined with overgrazing of grasslands and overuse of agricultural land, have left much of China's north and northwest seriously degraded. The level of soil erosion on the Loess Plateau, once the center of Chinese agriculture, is the highest in the world, and China has been unable to arrest the process of degradation. According to a survey completed by state forestry officials, more than one-quarter of China's land – well over one million square miles – is now desert or facing desertification.<sup>6</sup> At the same time, soil pollution from unregulated factories has seriously contaminated some of China's arable land.<sup>7</sup> The government, however, has been unwilling to release detailed information on soil pollution: a survey released in 2013, with information dating back to 2006, has been deemed a state secret. Beijing has only acknowledged that more than 10 percent of arable land in the mainland is polluted.<sup>8</sup>

No resource is more important to China's continued economic growth or more worrisome to China's leaders than water. Agriculture demands the largest share of

the country's water resources, but household and industrial demands have increased dramatically over the past decade as individual wealth and the overall economy continue to expand. At least ten provinces in China are below the World Bank's water poverty level of 1,000 cubic meters per person per year; these provinces account for 45 percent of the mainland's GDP, 40 percent of its agricultural output, and more than half of its industrial production. According to Jiao Yong, vice minister of water resources, in 2012 China had more than 400 cities without sufficient water, 110 of which faced serious scarcity.<sup>9</sup> China's water is also highly polluted. The quality of the water has deteriorated significantly due to industrialization and urbanization. A February 2013 report by the Geological Survey of China revealed that 90 percent of the country's groundwater was polluted,<sup>10</sup> and approximately one-fourth of the water that flows through China's seven major river systems and their tributaries is considered unfit for even agriculture or industry.

The environmental consequences of China's development choices are significant. Equally consequential is how the environment affects the Chinese economy and public health. As Minister of Environmental Protection Zhou Shengxian stated in a 2011 editorial, "The depletion, deterioration, and exhaustion of resources and the worsening ecological environment have become bottlenecks and grave impediments to the nation's economic and social development."<sup>11</sup>

In 2010, the Chinese Academy of Environmental Planning estimated that the cost of environmental degradation equaled 1.54 trillion yuan, or 3.5 percent of China's GDP.<sup>12</sup> Skyrocketing pollution has also brought about a number of public health challenges. In 2012, Vice Minister of Environmental Protection Wu Xiaoqing

claimed that 40 percent of rivers and 55 percent of groundwater was unfit for drinking. All along China's major rivers, villages are experiencing rising rates of disease, cancer, tumors, and other health issues. Lee Liu, a geographer at the University of Central Missouri, reported in *Environment* magazine that in 2010, he had identified 459 "cancer villages" – villages in which cancer rates are significantly higher than normal. Most are clustered around rivers with the lowest grade of pollution on the government's five-point scale. Some of these villages have cancer rates thirty times the national average.<sup>13</sup> The effects of water pollution are not limited to China's water supply. Chemicals and pollutants that seep into rivers and groundwater also find their way into food crops and eventually onto dinner tables. A consistent diet of cadmium-laced rice has caused bone softening and weakness in southern Chinese villagers. And according to *China Economic Weekly*, in 2007, as much as twelve million metric tons of grain – enough to feed forty million people annually – were contaminated with heavy metals absorbed from the soil.<sup>14</sup>

Air pollution is also a significant source of health-related problems in China. According to Yale's Environmental Performance Index, China's performance in the area of health impacts from air pollution was among the world's worst, ranking 128th out of 132 countries.<sup>15</sup> The Global Burden of Disease Study, first presented in December 2012, estimates that outdoor air pollution in China contributed to 1.2 million premature deaths in 2010. According to the same study, India, with roughly the same population but with a much smaller economy, confronts 620,000 premature deaths due to air pollution-related diseases.<sup>16</sup>

China's environmental challenges are daunting, and the needs of a rapidly ex-

panding economy and large population ensure that the country's environmental problems will not be resolved easily. As Premier Li Keqiang acknowledged in January 2013, Beijing's air pollution was the result of "accumulated problems" and solving it would take "a long time" and involve the "concerted effort of the whole society."<sup>17</sup>

Environmental policy-making in China reflects the same institutional arrangements that govern the formulation of economic policy. Beijing establishes a set of targets and timetables and relies on implementation by local authorities. Local officials are encouraged and sometimes directed to experiment with different policy implementation models. Interaction with and learning from the international community is also generally encouraged. However, private actors – in the case of the environment, NGOs, business, and the Chinese public – have limited opportunities for formal participation in the political process.

During the 12th Five-Year Plan (2011 – 2015), for example, the State Council's plan for environmental protection called for an investment of US\$536 billion (3.4 trillion yuan); by comparison, Bloomberg News estimates that the 11th Five-Year Plan allocated only around 40 percent of that total.<sup>18</sup> China is also the world's leading market for renewable energy investment: it attracted US\$65.1 billion in investment in 2012, which represents over one-fifth of total global investment in renewables.<sup>19</sup>

The 12th Five-Year Plan also embraced a number of binding targets on resource consumption and environmental protection. According to the 12th Five-Year Plan for the coal industry, China plans to restrict coal output and demand to approximately 3.9 billion metric tons per year by 2015.<sup>20</sup> (According to official statistics from the National Bureau of Statistics, in 2011, China produced 3.52 billion metric

tons of coal and consumed 3.48 billion metric tons.<sup>21</sup>) Additional measures from the 12th Five-Year Plan include a 16 percent cut in energy intensity, a 17 percent cut in carbon intensity, an 8 percent reduction for sulfur dioxide and chemical oxygen demand, and a 30 percent cut in water intensity.<sup>22</sup>

China's decentralized authoritarian system, however, does not augur well for actual implementation of these environmental targets. At the beginning of the 11th Five-Year Plan (2006–2010), Beijing also set a number of ambitious targets for pollution reduction and improvements in the country's energy practices: reduce emissions of sulfur dioxide by 10 percent, reduce energy intensity by 20 percent, expand the forest coverage rate from 18.2 percent to 20 percent, and many others. But in March 2012, at the joint session of the National People's Congress and the Chinese People's Political Consultative Conference (CPPCC), then-Premier Wen Jiabao, reporting on the results of the 11th Five-Year Plan, conceded that Beijing had failed to meet a number of the environmental targets. Those goals missed included reductions in energy intensity, sulfur dioxide, nitrogen oxide (which instead of decreasing by 1.5 percent actually increased by 5.7 percent), and chemical oxygen demand, a measure of water pollution.<sup>23</sup>

Why did the Chinese government not meet its targets? As Zhang Ping, head of the National Development and Reform Commission, noted in March 2012, "There are a lot of complicated reasons for failing to meet the targets [of the 11th Five-Year Plan] . . . the biggest is that we have not transformed our economic development model. Our means of growth are still too coarse and our structural adjustment is lagging behind." Zhang's remarks reflected the continued imperative of rapid growth, energy-inefficient industrial structure, and reliance on fossil fuels.<sup>24</sup>

The nature of China's political institutions and processes is just as important as the structure of the economy and energy use in understanding Beijing's inability to address its environmental challenges. One issue is China's continued reliance on large-scale campaigns to meet its environmental targets. The leadership uses mass campaigns to tackle macro-level environmental threats, including land degradation, water pollution, and water scarcity. These campaigns, however, suffer from several limitations.

Often there is significant attention upfront but little follow-through past the stated target of completion. In 1978, for example, Beijing initiated a series of large-scale tree-planting campaigns with the goal of covering 35.6 million hectares by 2050. The fourth phase of the project, the Green Wall of China, began in 2002 and included shelterbelt construction in northern China, conversion of farmland to natural forests, and conservation of natural forests. Beijing reportedly invested as much as 460 billion yuan in the project, which according to the State Forestry Administration has resulted in 61.4 million trees being planted over the past three decades. China's forest coverage reportedly grew to 20.36 percent in 2010 from 18.2 percent in 2005. However, a 2011 survey by the Beijing Forestry University revealed that the afforestation project has an 85 percent failure rate.<sup>25</sup> Local officials had little political or economic incentive to ensure proper implementation of the program. Tree-planting efforts, many of which engaged entire communities, produced a number of problems: planting foreign species with water needs beyond native capacity, planting trees too close together, and failing to care for the trees after they were planted.<sup>26</sup>

The decentralized nature of China's political system also means that Beijing often fails to get policy buy-in from local offi-

cials. Local environmental protection bureau officials' primary economic benefits and political obligations derive from local governments rather than from the Ministry of Environmental Protection. This creates ample opportunity for political pressure as well as distorted incentives to prevent local environmental officials from fully enforcing laws and regulations. Of the 1.3 percent of GDP that Beijing currently spends on environmental protection (note: Chinese experts believe the percentage should be closer to 2–4 percent of GDP),<sup>27</sup> half finds its way into other local priorities, such as infrastructure development.<sup>28</sup> Implementation of central directives also suffers from various elements of weak local capacity. Local environmental protection bureaus often lack the capacity to enforce laws and regulations, with too few human or financial resources to oversee the factories in their jurisdiction. Fines for polluting enterprises are often ignored or negotiated in such a way that continuously paying fines is cheaper than following regulations.

These challenges are not unique to China. Other highly decentralized states, such as India, face similar issues. A review of India's environmental policy-making states: "A major shortcoming [in environmental protection] relates to the gap between central and state-level authorities preventing consistent implementation of federal legislation . . . the SPCBs (State Pollution Control Boards) are embedded in a dual command structure, as they also receive funding and directives from state-level governments. . . . Moreover capacity of different SPCBs is highly uneven."<sup>29</sup>

In China, outright opposition by local authorities to central government environmental directives is also not uncommon. In 2005, the State Environmental Protection Administration (renamed the Ministry of Environmental Protection in 2008) launched the Green GDP campaign, an initiative designed to calculate the costs of

environmental degradation and pollution to local economies. These costs would then serve as a metric for evaluating the performance of local officials, accounting for both economic growth and environmental stewardship. A few provinces, such as Shanxi, embraced the process: officials there believed that the province's environment and citizens' health had suffered unduly from serving as the coal capital for much of the rest of the country and, therefore, should be compensated. Many more, however, balked at the process, fearing that adopting an evaluation metric of Green GDP would undermine the validity of growth statistics. Provinces that were reporting growth rates of 9 to 10 percent could easily see their rates drop to 5 or 6 percent once environmental externalities were included. The National Bureau of Statistics (NBS), which was charged with gathering and calculating the data, also resisted the campaign. It claimed that it did not have the ability to determine a Green GDP accurately and that it did not believe officials should be evaluated on such a basis. The NBS released only a partial report in 2006 and refused to release subsequent findings. While the initiative appeared to lie dormant for a number of years, in 2013, following the air pollution crises in Beijing and other Chinese cities, *China Daily* published a piece calling for renewed efforts toward adopting a Green GDP: "It is generally believed that it is not technical limits but local governments that have prevented such data from being released. Such data releases might affect the promotion prospects of local officials. It is clear that if China wants to press on with the uphill task, it must first reshuffle its performance assessment methods for government officials."<sup>30</sup> The message is unequivocal: until local cadres are held accountable for the environment by the central government, the green implementation gap will remain.

At the same time, China's decentralized authoritarianism can bring benefits to the country's environmental protection efforts through its ability to conduct controlled experiments at the local level. China has invested billions of dollars in large eco-cities, models of green urban design. In this effort, China often looks to the international community to understand best practices and access advanced technologies. The most substantial of these efforts is the Tianjin Eco-City, a joint development project between the Chinese and Singaporean governments. Located just outside Tianjin and less than an hour from Beijing, the eco-city project sits on 11.6 square miles of nonarable land that was previously uninhabited and unusable. Upon its completion, the city will house as many as 350,000 residents. Already about 5,000 apartments have been sold. As much as 20 percent of the city's energy will come from renewable sources such as solar and geothermal power, and 90 percent of travel within the city will be by foot, bicycle, or public transportation. The city will also feature more green space than almost any other Chinese city. Early reviews suggest that the city planners have made a substantial commitment to green transportation through ample bus and bike lanes, but have failed to develop pedestrian-friendly community spaces.<sup>31</sup>

The city of Qingdao, as well, has partnered with Germany to establish an eco-park that not only will be a center of clean-technology investment, but also will itself operate with high environmental standards.<sup>32</sup> Shenyang, the largest city in northeast China and once an industrial hub, is another example. In 2009, the city announced plans to collaborate with IBM and Northeastern University to create a "smart eco-city" to improve energy efficiency, water supply and use, and traffic flow.<sup>33</sup>

If such partnerships are successful, these eco-cities and the Sino-German Qingdao

eco-park could become models for many other urban development efforts, particularly as hundreds of millions of additional rural Chinese citizens transition into urban life over the next decades.

While China eagerly seeks input on urban design and environmental technologies from advanced industrialized countries, it has been less interested in adopting certain of the political institutions that may contribute to more effective environmental protection. Missing from China's environmental protection efforts, for example, is the robust institutional mechanism for engaging with civil society, formally organized NGOs, the business community, and the Chinese public that typically exists in nonauthoritarian states. A comparative study by Andrew Whitford and Karen Wong of eighty countries (including China) indicates that democracy has a statistically significant and positive effect on environmental sustainability.<sup>34</sup> In contrast to democratic developing countries, the formal role of private actors in China – whether in the business sector or civil society – is much more circumscribed. In these other countries, environmental NGOs have played critical roles in educating policy-makers, as well as holding them accountable. In the Philippines, for example, environmental NGOs direct a Green Electoral Initiative that ranks politicians on their environmental views and practices and publishes these findings in advance of elections. In Costa Rica, NGOs provide formal environmental-law training to judges, police, and elected officials.<sup>35</sup>

In China, however, the two most established formal mechanisms – public participation in the review of environmental impact assessments (EIAs) and the citizen complaint system – are only spottily implemented. With regard to public participation in EIAs, as Chinese scholars have noted, there are a number of limitations: only a small percentage of projects are

subjected to compulsory public participation; the timing and duration of engaging the public is short; the method of selecting those who can participate is often biased; and the amount of information disclosed is often quite limited in an effort to prevent social unrest.<sup>36</sup>

Chinese citizens also have the right to engage the system through a formal complaint system: writing letters to local environmental protection bureaus complaining of air, water, and waste pollution. According to the 2010 *Environmental Statistical Yearbook*, there were more than 700,000 such complaints in 2010.<sup>37</sup> During the 11th Five-Year Plan, the Ministry of Environmental Protection itself received 300,000 petitions on environmental matters. But resolution of these issues remains difficult. All told, there were only 980 administrative court cases about EIAs and only 30 criminal cases from 2006 to 2010. It is estimated that not even 1 percent of environmental disputes are resolved in court.<sup>38</sup>

This lack of an effective institutional mechanism for the Chinese people to participate in the environmental policy-making process or to get redress through the legal system has translated into a vibrant environmental protest movement in China. When citizens' concerns are not addressed satisfactorily, they turn to protest to make their voices heard, either via the Internet or on the street. The environment has now surpassed illegal land expropriation as the leading source of social unrest in China.<sup>39</sup>

Taiwan experienced a similar phenomenon in the early 1980s through the lifting of martial law in 1987. In a study of the evolution of Taiwan's environmental movement, Yok-Shiu Lee and Alvin So detail how local communities in many areas of the island began to protest against the polluted water and air they felt was harming their health and livelihood. Middle-

class intellectuals, professors, and sympathetic newspaper reporters supported the protests and called upon the government to rethink its distribution of resources in favor of a stronger environmental protection effort. According to Lee and So, these protests contributed significantly to the evolution of a far more participatory political culture in Taiwan.<sup>40</sup>

Engaging China's educated middle class in environmental protest is reasonably recent, dating back only to the 2007 protest in Xiamen, where university students and professors organized a widespread protest against the planned siting of a PX (paraxylene) factory near the city center. Since that time, however, dozens of urban-based, middle-class environmental protests have occurred throughout the country. In July 2012, for example, protests broke out in the southwestern province of Sichuan, where residents of the small city of Shifang were upset by a planned molybdenum copper plant. The facility would have been a US\$1.64 billion project funded by the Sichuan Hongda Company,<sup>41</sup> but residents of Shifang, led by students and joined by others from nearby towns and cities, feared that the plant would have a negative impact on the environment and public health.<sup>42</sup> The state-supported *Global Times* estimated that several thousand people took part in the protests,<sup>43</sup> which turned violent, forcing the police to use tear gas and stun grenades to disperse the crowds.<sup>44</sup> Thirteen protestors were injured<sup>45</sup> and another twenty-seven were detained, six of whom were formally charged.<sup>46</sup> On the third day of demonstrations, local officials announced that the project would be halted.<sup>47</sup>

Later that month, inspired by Internet reports of the Shifang protest, thousands of protesters took to the streets of Qidong, a coastal city in Jiangsu province, to challenge a pipeline that would discharge waste into the sea and potentially pollute a near-

by fishery, as well as contaminate drinking water.<sup>48</sup> Worried that wastewater originating from Japan's Oji Paper Company in the city of Nantong would not be cleaned properly, a thousand or more protestors (Reuters reported that there were about one thousand,<sup>49</sup> while the *Asahi Shimbun* estimated ten thousand<sup>50</sup>) damaged government buildings, cars, and property on July 27.<sup>51</sup> Some demonstrators clashed with police, and at least one police car was overturned; hundreds of police arrived later in the day to protect government offices.<sup>52</sup> Fourteen people pleaded guilty to encouraging the riot in which dozens of police were injured, the local Communist party chief was stripped half-naked, and protestors caused more than US\$20,000 in damage.

Even Beijing has been confronted with substantial citizen discontent as a result of its skyrocketing levels of air pollution. In January 2013, Premier Li Keqiang first attempted to downplay the ability of the Chinese government to address the problem: "The current situation wasn't created in one or two days, it accumulated over a long time. Solving this problem will also be a long-term process."<sup>53</sup> Yet just two months later, facing mounting calls on the Internet for more aggressive action, Li stated that he would use an "iron fist, firm resolution and tough measures" to tackle the pollution problem.<sup>54</sup> By June, Beijing had issued ten measures to reduce air pollution, and by September, it announced the "Action Plan for Air Pollution Prevention and Control." The action plan was largely a top-down initiative, including targets to reduce coal consumption, to limit concentrations of the harmful pollutant PM<sub>2.5</sub>, and to eliminate high-polluting vehicles.<sup>55</sup> Subsidies for electric cars and plans to close down outdated factories were also included as part of the leadership's effort. Many of these policies, however, have been tried before or are already in place to little

effect. The question remains whether the incentives, as well as implementation and enforcement mechanisms, will be put in place to ensure that this time the effort succeeds.

In each instance of environmental demonstration, local governments respond by acceding to the demands of the protestors. According to Ma Jun, director of the Institute of Public Environment in Beijing: "The next leadership of China is going to face a challenge on these environmental issues, which the previous leadership had not seen so strongly for 30 years. For the first time, some local officials have begun to call us to learn more about how these situations are handled in other countries – they really worry about becoming the next protest targets."<sup>56</sup> In contrast to the often raucous engagement of the Chinese citizenry in environmental issues in the country, environmental NGOs in China have adopted a far more measured approach, relying on environmental laws and regulations to advance their cause. Despite numerous political and economic obstacles, they have been at the forefront of strengthening civil society in China, advancing transparency, rule of law, and official accountability. They also exist as part of a much wider community of environmental activism, including the Chinese media and international NGOs. Over time, Chinese NGOs have become far more adventurous in the types of issues they address, moving from environmental education and biodiversity protection in the mid-1990s to advocating greater transparency and launching anti-dam initiatives by the mid-2000s. Often they derive both technical and economic support by partnering with their international counterparts. Since 2009, for example, Ma Jun has worked with a U.S. NGO, the Natural Resources Defense Council, to conduct an annual transparency index, which "ranks the performance of 113 major Chinese cities

in complying with environmental disclosure requirements.”<sup>57</sup> While many cities refuse to release the data, even though it is required by law, some Chinese officials have become fans of greater transparency as a result of work by NGOs. One official from Hunan Province People’s Congress uses his Weibo account (a microblogging site similar to Twitter) to “name and shame” polluters, leading one named company to put in place new environmental clean-up technology.<sup>58</sup>

Chinese NGOs have also become active in the legal arena, which remains a weak link in the country’s environmental protection efforts. As is the case with other socialist and formerly socialist countries with strong command-and-control legacies, Chinese environmental laws are often not well- or fully-articulated and are ill-suited to the demands of an emerging market-based economy. In a review of its own environmental protection process, the Vietnamese government cites legal norms that are “contradictory, overlapping, irrational and unfeasible.”<sup>59</sup> India as well faces a situation in which its laws and regulations are ill-equipped to use market-based instruments to help protect the environment; its fiscal tools are also directed to “promote compliance with environmental standards” rather than to “support incentives to invest in pollution control.”<sup>60</sup>

Yet India’s legal system is far more accessible to the Indian citizenry, affording much greater opportunity for private citizens to play a watchdog role, working through the judiciary to “force state action.” A 1985 Indian Supreme Court case, in which local environmental groups in the state of Uttar Pradesh pursued a lawsuit against local limestone quarries, provided a legal precedent that established public-interest litigation as a “central pillar of Indian environmental governance” and provided the judiciary with a “key role in driving policy changes.”<sup>61</sup> In China, by

contrast, there is no such defining legal precedent for citizen engagement. While a limited number of environmental NGOs have had the right to bring environmental lawsuits through the court system, individual citizens have not. Moreover, a 2013 draft of China’s Amendment of Environmental Law proposes that only one body, the government-organized NGO All-China Environment Federation, will be allowed to file public-interest environmental lawsuits, thereby sharply limiting the number of lawsuits that will be able to be launched. The draft, unsurprisingly, has caused a firestorm of controversy among environmental activists in China.<sup>62</sup>

Despite growing prominence, Chinese environmental NGOs also remain hampered by government regulations that make it difficult for them to find funding, expand their activities, and operate freely. The government remains concerned that environmental activism could lead to a broader push for political reform. Thus, environmental NGOs lack both the independence of action and legal protection that they enjoy in other developing countries. In contrast to NGOs in Indonesia and India, for example, environmental NGOs in China are required to be registered with government bodies, which are then technically responsible for the actions of the NGOs: the government body must approve an NGO’s membership and activities. In some cases, environmental NGOs have been threatened with closure when political dissidents have tried to join. Chinese environmental NGOs are also not permitted to establish branches in multiple provinces; Beijing has long been concerned that such branches could provide an informal mechanism to develop a broad-based political challenge to the Communist Party.

**I**n most countries, effective environmental protection depends on a partnership

– sometimes cooperative, sometimes contentious – among local environmental protection officials, NGOs, the media, the public, and the central government. China has all the actors in place, but its system of decentralized authoritarianism does not provide adequate incentives or institutional mechanisms to help ensure effective environmental protection; the judicial system, for example, lacks the capacity and independence to serve as an effective check on corporate and official malfeasance. In addition, Beijing’s lack of trust in nongovernmental actors further means that the country is unable to take full advantage of the expertise, innovation, and watchdog capacity that such groups bring to many other countries. The rise of the

urban middle class, along with widespread adoption of the Internet, however, is changing the relative power dynamic between the state and society. As China’s environmental challenges continue to mount, this tension between largely ineffectual formal government institutions and processes, on the one hand, and growing pressure from civil society, on the other, may find resolution in a more flexible and open system with new channels of engagement between government and the people. In the meantime, though, it is an uneasy, politically fraught situation defined by official adherence to traditional, often ineffectual modes of government policy-making at the national level and crisis management at the local level.

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*Inside back cover: A woman walks her pet dog through a residential and commercial complex in a wealthy district in Beijing, China. © REUTERS/Kim Kyung-Hoon.*

