

## **How Resilient China's Regime Is and Why: A State Capacity Perspective\***

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### Abstract

In this paper we document three aspects of state-society relations in post-1989 China that are easily misconstrued. First, despite the general trend of China's three-decade long economic reforms, whose depth is commonly measured by privatization, the state has remained the most important economic player and its economic influence has been strengthened, rather than weakened, in the new market system in recent years. Second, despite prevalent social discontent and alarmists' warnings, such discontent has not translated into real political danger, because the state has been able to manage the perception of inequality by benevolent redistributive policies, a process that is aided by its increasing extraction and control over resources and by citizens' localized reference frames. Third, authoritarian rules notwithstanding, the state has tolerated non-political discontent and protest, most notably by changing its mode of public-order policing. Enhanced state capacity, we argue, is the common thread across these three aspects. Our analysis will also touch upon the vulnerabilities of and the challenges faced by the system.

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## **How Resilient China's Regime is and Why: A State Capacity Perspective**

Twenty years after Tiananmen Square and the Berlin Wall, the communist regime in China is alive and well. Two decades ago, few could have predicted the vitality and longevity of its communist rule, whose control seems to have risen to a new height in recent years. While the fanfares of the Beijing Olympics in 2008 and the 60<sup>th</sup> National Day Anniversary in 2009 may not necessarily convey the regime's vitality and popularity, there is no question that the Chinese government is capable of making things happen and that it is enjoying a smooth ride propelled by economic achievement and nationalist sentiment. This is so despite rampant government corruption, enormous economic inequality, frequent popular protests, and occasional breakouts of ethnic riots.

The Chinese puzzle thus defies commonly-held dichotomies in the social science literature: socialist versus capitalist social system, planned versus market economy, public versus private ownership, and authoritarian versus democratic rule. In today's China, one finds elements of all these binary opposites co-existing side by side. Looking back to twenty years ago, the Chinese case is made all the more bewildering by two related intellectual observations at the time. One is the depth of crisis that China shared with other communist countries on the eve of the 1989 revolutions. The other is the incapacity of the communist system to survive the crisis, as shown by many other cases of the post-socialist states. Few would dispute the former observation, but the Chinese experience so far has challenged the latter.

The Chinese exceptionalism has inspired considerable public fascination and scholarly effort, with works mainly from the perspectives of politics and political economy (Goldman and MacFarquhar 1999; Walder 2003; King and Szelenyi 2005; Whyte 2009). Our approach here is to document some aspects of the state-society relations, highlighting China's state capacity. We start by differentiating two important concepts: regime type and state capacity. In a paper published in 1990, political scientist Wang Shaoguang articulated the idea that political stability could be built on strong state capacity, regardless the type of the regime (Wang 2007; also see Kornai 1990; Migdal 1998; Fukuyama 2004). Regime type no doubt has implications on state capacity hence on successful governance, but a democratic regime does not seem to be a necessary condition for successful governance (measured here by being able to achieve social stability and deflect revolution). Wang Shaoguang charted four possibilities of political systems along two dimensions of regime type and state capacity. His normative call was for a "strong and democratic state."

In addition to the capacity of extracting economic resources,<sup>1</sup> state capacity contains three key dimensions: 1) Effectiveness in influencing the economy; 2) Legitimacy, as seen in the penetration of the state into social sections and social classes to the effect of integrating and culturally shaping discourses; 3) Social control (behavior): the extent to which the state is effective in regulating citizens' behavior through its court, police and the army (Mann 1988; Migdal 1988; Evans 1995; Zhao 2004; Hu 2007).

Corresponding to these dimensions of state capacity, in the remainder of this paper we document three aspects of state-society relations of China that are easily misconstrued. First, we examine and document the evolving role of the Chinese state in China's post-Mao economy, namely how the Chinese state adapted itself with increased control over the economy along with the expansion of market forces. Second, we discuss the implications of such a continued state dominance for rising inequalities in the society. Third, we examine how the Chinese state, with such a political-economy basis, has managed public protests and controlled social mobilization.

## **The (Re)emergence of the Chinese Developmental State**

### *China Enters the World Stage*

On September 5, 2009, the big news covered by every major Chinese news media outlet was that for the first time in history, the combined profit of China's largest 500 companies in 2008 exceeded that of the 500 largest in the United States, and moreover, the 500 largest companies in the world.<sup>2</sup> Chinese companies' superior performance came in part in the heels of the drastic downturn of the profits of American companies, which suffered severely from the U.S.-led global economic crisis. The much reported news nevertheless is just another recent demonstration of the rising might of the Chinese economy.

Leading the list of the 500 largest Chinese companies are companies either entirely owned or controlled by the Chinese state. In fact, state-owned and controlled companies comprised of over 60 percent of the top 500 companies. The largest 20 companies on the list are all state-owned companies of monopoly status. The top two companies are China Petroleum and Chemical Corporation (Sinopec) and China National Petroleum Corporation (CNPC), followed by state-owned banks, insurance

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<sup>1</sup> Wang Shaoguang's idea as interpreted by Hu Angang in a preface (Hu 2007)

<sup>2</sup> See for example, [http://www.chinadaily.com.cn/bizchina/2009-09/07/content\\_8660864.htm](http://www.chinadaily.com.cn/bizchina/2009-09/07/content_8660864.htm), or [http://news.xinhuanet.com/fortune/2009-09/05/content\\_12002226.htm](http://news.xinhuanet.com/fortune/2009-09/05/content_12002226.htm) (accessed October 5, 2009).

companies, and telecommunication companies.<sup>3</sup> Sinopec and CNPC also made the top echelon of the Fortune Global 500 largest companies, as number 9 and 13 respectively. In 2009, 37 Chinese companies made the list of the Fortune Global 500, in contrast to only 6 about a decade earlier (in 1998).<sup>4</sup> With the exception of two companies based in Hong Kong, and one non-state owned steel making company, all Chinese companies on the Fortune Global 500 list are wholly owned or controlled by the Chinese state.<sup>5</sup>

The 47<sup>th</sup> company among China's top 500 companies is Shandong Iron and Steel Group Co Ltd (Shandong Steel), a company that made the list with its revenue of 120.5 billion RMB (about 17.7 billion USD) in 2008. During the first half of 2009, it was reported that this company suffered a loss of 128.5 billion RMB.<sup>6</sup> Yet, the day after the national report of the ascent of the largest Chinese companies, this company got just a little bigger, at the expense of a privately owned firm. On September 6, 2009, Shandong Steel signed a deal to merge with a non-state owned steel company, Rizhao Steel.<sup>7</sup> By purchasing 67% of Rizhao's shares with cash, Shandong Steel not only got bigger, to become the second largest steel making group in China, but also effectively ended the life of another non-state controlled company (Shandong Steel is wholly controlled by the state). Featured prominently at the agreement signing ceremony was the Communist Party Secretary of Rizhao city, as along with the representatives of the two companies.

The resilience of the Chinese Communist Party' rule in the last twenty years has not only defied the many predictions 20 years ago in the wake of the 1989 suppression of student demonstrations in Tiananmen Square (e.g. Goldstone 1995), it has also been widely observed and now recognized as the most defining feature of post-reform China (Naughton 2008; Davis and Wang 2009). The persistence, and indeed,

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<sup>3</sup> A list of the companies in Chinese can be found at:  
<http://money.163.com/09/0905/16/51FAICN7002510B6.html>.

<sup>4</sup> The list can be found at:  
<http://money.cnn.com/magazines/fortune/global500/2009/countries/China.html>

<sup>5</sup> The mainland Chinese exception, Jiangsu Shagang Group, is also headed by a person who is both the Chairman of the Board and the Communist Party Secretary in the company.

<sup>6</sup> Nanfang Zhoumo. September 10, 2009, E29.

<sup>7</sup> Rizhao Steel Holding Group Ltd was a joint venture company set up by Hebei Jing-Hua Innovation Group Co., Ltd. and Hong Kong Fame Risen Development Co., Ltd. Jinghua Innovation Group Co., Ltd. is a private enterprise set up in May 1993, mainly focusing on fabrication business of various pipes, structural pipes, water gas pipes, line pipes, fire protection pipes etc. And unlike Shandong Steel, Rizhao was a well-run and profit-making company. Rizhao Steel is also large by any standard. In 2008, Rizhao Steel had a revenue of 47.19 billion RMB, in comparison to Shandong Steel's 120.5 billion.  
[http://www.tradekey.com/profile\\_view/uid/821261/RIZHAO-STEEL.htm](http://www.tradekey.com/profile_view/uid/821261/RIZHAO-STEEL.htm).

the increasing dominance of the Chinese state during the so-called market reforms of the last two decades presents a central paradox of China's economic boom (Whyte 2009). While much of the discussions to understand this paradox have focused on the political arena, such as how the Chinese Communist Party has adapted itself to the new economic environment and has improvised to prolong and even to strengthen its rule (e.g. Yang 2004, Tsai 2007, Naughton 2008), we focus in the following in this section on the political economy foundations of the Communist rule and their social ramifications. The continued grip of the state in the Chinese economy, as we examine and argue in this paper, is of paramount importance in understanding the post-Berlin Wall, post-Tiananmen, state-society relationships in China.

### *The Story Behind the State's Decline*

Over the last three decades, the main storyline of China's economic change has been the transition from a planned to a market economy, and correspondingly, from a state-owned and dominated economy to an economy where private ownership gains increasing importance. In a nutshell, it is a storyline of the decline of the state's control over the economy. Given the importance and the novelty of the market economy and the emergence of the private economy in the wake of China's shift away from the socialist planned economy, it is understandable that the lens of tracking China's economic change has been trained on the rise of the private and non-state owned economy sectors. In the 1980s there were stories of the dissolution of the People's Communes, and the rise of Township and Village Enterprises (TVEs). In the 1990s, the stories featured the reforms of state-owned enterprises and the massive layoffs of workers. Throughout the process of Chinese reforms, there has been the also the story of rising foreign direct investments (Huang 2003; Arrighi 2007).

Official statistics of employment and industrial output by ownership sector, in addition to numerous reports of successful private businessmen, have lend support to a depiction of the transition. In urban China, employment outside of the public sectors – state-owned and collectively owned work organizations – was virtually non-existent around 1980 (Figure 1). Even by 1989, the year Berlin Wall crumbled, only about 5 percent of urban employment was found outside these public sectors. At the turn of the twenty-first century (by 2004), the share of urban Chinese employees working in the state-owned organizations for the first time dropped to below that in non-state, non-collective owned units, here labeled as “other.” By 2008, the ratio between the “other” category and “state” was 7:3 (Figure 1).

(Figure 1. Changing Composition of Urban Employment)

A similar trend can be observed in rural China, by the rising shares of laborers first engaged in township and village enterprises (TVEs), and later as owners or employees in privately owned enterprises and as self-employed non-agricultural

laborers. By 2008, on top of nearly 35 percent of rural Chinese laborers working in the TVEs, an additional 10 percent each were in the categories of privately owned enterprises or as self-employed individuals. Combined, the large numbers of rural non-agricultural laborers and urban employees in non-state sectors more than dwarf the declining number of Chinese employees remaining in the state sector. From the official statistics of employment, it is indisputable that a fundamental transformation has taken place in China.

A similar conclusion, that the private economy has exceeded the state owned, can be drawn if one uses the share of industrial output by ownership sectors. By OECD's definition, in 2005, industrial value-added or profits generated by domestic private Chinese firms accounted for 50.5 percent of all firms above scale (with sales over 5 million Chinese RMB). Adding that from firms of foreign ownership, 20.7 percent, combined these private firms generated 71.2 percent of all value-added or profits of China's industrial firms (Huang 2008, 15).

How could these much-trumpeted official statistics of the rising prominence of the private economy be reconciled with the report cited at the beginning of this paper, namely that the Chinese state has retained its strong control over the economy, not only in policies and regulations, but also in actual control in the form of ownership control? The answer lies in large part in how one reads and analyzes the statistics, or, to be more precise, what kind of news one wants to hear. We see what we want to see.

Take changes in urban employment sectors as an example. As shown in Figure 1, employment in the state and collective own sectors in China both declined precipitously since the early 1990s, especially starting in the mid-1990s. Between 1995 and 2004, in one decade's time, the share of urban employees in the state sector was reduced by more than half, from about 60 percent to merely 25 percent, an astonishing accomplishment if one's goal was to show the withering hand of the state. In terms of absolute numbers, it went from 112.6 million in 1995 to 67.1 million in 2004, a whopping reduction of over 45 million in less than a decade. The changes are especially drastic in the late 1990s, when in three years, from 1997 to 2000, 20 million employees disappeared from the payrolls in the state-owned sectors. Where did they go? Some were laid off and some were forced to retire early. But that is only part of the overall picture. Most of the disappeared state employees ended up in three categories (included as "other" in Figure 1): cooperative, limited liability, and share-holding corporations. The first two of these three categories emerged on the official statistics yearbooks only after 1997. In 1998, these two categories emerged with a combined number of employees of 6.2 million, by 2004, 16.28 million, and by 2008, 23.58 million. The number of employees in the third category, share-holding corporations, also doubled in a decade, from 4.1 million in 1998 to 8.4 million in 2008. Combined, these three categories employed over 30 million people in 2008 (Figure 2). A substantial share of the lost 45 million workers in the state-owned sector in the mid 1990s, therefore, ended up in these newly

created categories. Moreover, it is in these categories, along with the private sector, that absorbed the large share of labor market new entrants.

(Figure 2. Divergent Paths in Urban Employment, 1978-2008)

### *How Capitalist is China's Economy?*

The big question is: are these newly created categories private? It turns out that the three categories, especially the two newly created categories of firms in the wake of enterprise reforms in the late 1990s, are by no means out of the hands of the state. To the contrary, many of them are previously state-owned companies under a new form of governance but still under the state's control, and some are jointly owned with state and private capitals. An analysis of ownership restructuring among China's state-owned industrial enterprises in 1998 shows that only about a quarter of over 4,000 restructured enterprises turned into private (including foreign) ownership, with the remaining in the hands of the state. In over 80 percent of the restructured enterprises, the government was involved in selecting CEOs (Lin and Zhu 2001). Later, in 2001, among 6,275 large and medium-sized restructured state owned enterprises, 70 percent had previous communist party committee members turned into board directors (Pei 2006, 31). Yasheng Huang makes the same observation based on his examination of ownership structure in Shanghai, as he concludes, "the majority of the shareholding firms, especially the large ones, are still state-controlled." (2008, 46). Many of the restructured economic organizations, in other words, turned into what David Stark (1996) labeled recombinant property rights arrangements, based on his studies of the Hungarian transitional economy. If we add up Chinese employees in state owned and in state-controlled or participated organizations together (this would include employees in state, collective, cooperative, joint ownership, limited liability, and share holding companies), the number in 2008 was 103.5 million. The number of employees in private enterprises, foreign owned, Hong Kong and Macao capital, and self-employed urban laborers combined in the same year is 103.6 million. So in urban China, half of the labor force in 2008 were still under the direct or indirect control of the state.<sup>8</sup>

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<sup>8</sup> Counting employees in the newly emerged categories as private leads to a very different assessment, as in Naughton: "By the end of 2004 the urban private sector, without counting foreign-invested firms, employed about twice as many workers as the traditional state sector: 55 million, compared with less than 30 million in SOEs." (2007:106) Naughton's comparison of employment by sector also shows that in 1978, 14 percent of the total labor force was in state owned enterprises, plus 4 percent in government and PSU. In 2004, the shares changed to 4 and 5 percent. Adding the "new corporate" category, 3 percent, to state owned enterprises and government and PSU, would add up to only 12 percent in 2004, compared with 18 percent of total labor force in the state sectors in 1978 (Naughton 2007, 182). In 2004, however, there is a new category of "urban informal sectors" that captured 13 percent of the total labor force, and whose nature of employment is not totally clear.

If one uses a different measure, industrial output, not labor force, a similar conclusion to the trend in labor force composition can be reached. In his recent book, *Capitalism with Chinese Characteristics*, Yasheng Huang asks the question, "Just how capitalist is China?" After sorting through definitional and statistical confusions, he concluded that "the size of the Chinese private economy, especially its indigenous component, is quite small." (Huang 2008, 8) A common mistake that led to the inflation of the private sector is to equate firms under the legal-person status to the privately owned. As Huang shows with some of what he calls the best-known and quintessential state-owned companies, firms listed with a legal-person status are by no means all privately owned. Confusing the two results in vastly different assessments of the share of indigenous private sector in China's industrial output (value added/profits): 50.5 versus only 22.0 percent in 2005 (Huang 2008, 15). Using a more realistic definition of the private sector based Chinese statistical definitions, Huang concluded that sum of indigenous private sector and foreign sector of the economy comprised of only just about half (50.8 percent) of all industrial value added/profits in 2005, not the 71.2 percent as used in the OECD definition. The changing share of the private and foreign sectors was from 31.8 percent in 1998 to 50.8 percent in 2005, rather than from 28.9 to 71.2 percent (Huang 2008, 15). So there are two qualitatively different conclusions: if one looks at statistics at a superficial level, the conclusion is the 70 percent of urban economy has turned private, but a more careful examination shows that the private share of the economy is at most only at parity with the state owned and state controlled sector of the urban economy. Comparison of national industrial output among organizations above scale (with output value more than 5 million RMB, or \$600,000) by ownership type leads to a conclusion similar to Huang's observations: in 1998, state and state controlled enterprises' share made up 49.6 percent, and in 2004, 38 percent. During the same time period, the share by joint-stock corporations (many are restructured state owned enterprises) shot up from 6.4 to 42.1 percent (Naughton 2007, 302).

Moreover, these newly emerged sectors under the control by the state, along with state-owned sector, occupy the most advantageous positions in the post-reform Chinese economy, both in terms of capital endowment and in revenue. In 2005, China conducted its first economic census. The economic organizations included in that survey covered all economic organizations. Among them, firms above scale comprised of a combined labor force of 167 million, revenue of 44.1 trillion RMB, and capital of 96.74 trillion RMB. Firms with hybrid property rights, in the state-controlled but not state-run sector, have the largest capital and revenue shares in relation to the labor share among all categories, as shown in Figure 3. The state sector continues to enjoy the most capital input in relation to its labor and revenue. In contrast, firms in the private sector covered in this census are the least capital intensive and contribute the most in providing employment. In 2004, combined, while state-owned and state-controlled firms comprised of only 44 percent of all labor in China's above-scale firms, they generated 55 percent of total revenue, and owned 75 percent of total capital. So while it is true that the majority of Chinese employees are no longer working in the state-owned or state-controlled firms, the



dominance of the Chinese state in the post-reform Chinese economy is hardly negligible.

(Figure 3. Shares of Revenue, Capital, and Labor by Ownership Sector, Above-Scale Firms, China, 2004)

### **Distributive Consequences of China's New Political Economy**

The continued state control in not only the key and largest companies in China (as shown by the list of Chinese companies on the Fortune Global 500 list) but also a large share of the Chinese economy (as shown in the section above) forms the political economy basis of the Communist rule.<sup>9</sup> Among others, it has allowed the Chinese state to continue playing the role of the benevolent redistributor on the one hand, and to shape the patterns and perceptions of inequality on the other.

#### *Extract and Redistribute*

Over the last two decades, especially in the last one, the economic power of the Chinese state has risen at a speed far outpaced its impressive economic growth. As shown in Figure 4, with numbers from China's National Bureau of Statistics, over the last decade the year-to-year growth rates of government revenue and taxes constantly exceeded that in GDP per capita (GDP/P). On the bottom of this figure are per capita household income growth rates for urban and rural residents. Between 1998 and 2008, unadjusted for inflation, China GDP per capita grew by 3.34 times, and per capita household income increased by 2.91 times in urban and 2.20 times in rural areas. Yet government revenue increased in the same time period by 6.21 times, and taxes increased by 5.85 times, far outpacing the growth in the economy, and especially in personal incomes. In a decade's time, the share of government revenue as total GDP almost doubled, from 11.7 percent in 1998 to 20.4 percent in 2008. These general numbers depict a clear shift of economic resources during China's recent economic boom towards the hands of the government.<sup>10</sup>

(Figure 4. Changes in GDP, Government Revenue, Taxes, and Household Income, China, 1998-2008)

This increasing concentration of economic resources in the hands of the government has enabled the state to play an active role as a benevolent redistributor. It has

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<sup>9</sup> In 2006, contributions from large firms under the state's direct control constituted over one quarter of the central government's revenue (cited in Nanfang Zhoumo, 8/19/2009).

<sup>10</sup> These numbers are calculated from China Statistical Yearbook 2009.

allowed the state to increase investment in previously neglected areas, and in social welfare spending. Over the last two decades, especially in the last one, the Chinese government has increased its investment in infrastructure and has launched a number of high-profile projects aimed at portraying the state at the driver's seat in economic growth and a redistributor of social welfare benefits. Such programs include the "Developing the West" program with heavy investment and support in the less developed areas in northwest China. They also include the various social welfare programs such as the minimum livelihood guarantee program (*dibao*) in urban areas, eliminating agricultural taxes, and government support for compulsory schooling in rural areas.

The state's economic and social welfare spending as such has indeed helped create an image of a benevolent redistributor, especially for the central government, and a broad support basis for China's reform programs and the Chinese government (Han and Whyte 2008, Whyte forthcoming). It at the same also continues to fuel a public expectation that the state plays a major role in economic and social security. As shown in the results of Table 1, which are based on a 2004 national survey of the perceptions of distributive justice in China,<sup>11</sup> while the sentiment for state intervention for reducing rising inequality is strong, with 58 percent and 35 percent of the survey respondents agreeing with the statement that the state has the responsibility in reducing income inequality and in capping top incomes, the expectation for the state's role in guaranteeing basic livelihood is even higher: 77 percent of the respondents agree that the government is responsible for providing jobs for those who want to work and 79 percent of the respondents agree that the government should provide minimum livelihood guarantee (Table 1). Two and half decades after the start of China's economic reforms, over a decade after the end of the iron rice bowl (life long guarantee) employment system, and more than five years after the massive layoff of employees in state owned enterprises, an overwhelming majority of Chinese citizens still had hopes that the state would be responsible for employment.

(Table 1 Public Expectation of State's Role and Responsibilities, China, 2004)

Moreover, in the areas of basic social and economic guarantees, such as in health care, support for the elderly, and elementary education, only a small proportion of Chinese citizens believe that these are wholly or mostly their individual responsibilities. As shown in the lower panel of Table 1, in the 2004 national survey, only 19 percent of the respondents believed that health care is mostly or wholly an individual responsibility, 25 percent for elderly support, 22 percent for primary and secondary education, and only 26 percent for employment. In comparison, more respondents believed that these were mainly or wholly the responsibility of the state: the percentage was 32, 35, 44, and 30 respectively (Table 1). The Chinese

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<sup>11</sup> A detailed introduction to the survey can be found in Whyte forthcoming.

public, in other words, continues to hold the state responsible and at the same time hopeful, if not wishful.

### *“Global” versus “Local” Inequality*

The prominent role of the Chinese state and the rise of the hybrid property rights regime, with the state controlled capital playing a key role in economic organizations, contains two profound consequences for social inequality, a subject that has received much attention but not well understood. The first distributive consequence is that employees working in organizations belonging to the state monopolized sectors receive a large share of the rent the state extracts, and therefore an income level much higher than others. The second is an inequality pattern that features a large share of inequality between different social categories versus that within each category (Wang 2008). In 2008, urban employees in state owned work organizations received the highest average earnings, at 30,287 *yuan* versus 18,103 for those at collectively owned and 28,552 for those in “other” types of ownerships. Moreover, between 1996, the year when massive layoff in state-owned enterprises spread, and 2008, the latest year with available official statistics, employees in state owned work organizations in urban China enjoyed an increase in earnings of 4.9 times, versus 4.2 and 3.4 times in the other two categories (China Statistical Yearbook 2009, Table 4-16). Employees in the state monopolized sectors were especially privileged. In 2005, at the Bank of China, the average yearly income for its over 200,000 employees was 88,548, more than five times the average for all state employees in that year. In two of the state controlled power-generation companies, Datang and Huanneng, the average yearly income for their employees was 103,500 and 105,828. In the state controlled China Mobile, it was 143,292 (Wang 2008, 151).

At the same time as the state monopoly creates large differences across sectors and work organizations in income, and therefore contributing to rising income inequality, public stake in the property rights arrangement also plays an opposite role, namely more equal distribution within work organizations. Organizational, or *danwei*, affiliation once again has become an important factor in income determination. Not only are employees in better-positioned work organizations receive higher pay, intra-organization income distribution also often follows a more egalitarian pattern (Wang 2008). As a result of this combination of between-category inequality and within-category equality, China’s rapidly rising overall level of inequality has not had the same psychological effect on Chinese citizens as in places where inequality increase does not follow such a pattern. In the 2004 national survey mentioned above, Chinese citizens were asked to assess the degree of inequality across the country, as well as within their social and geographic proximity: work organizations, neighborhoods, and local areas. The share of urban respondents who perceived their workplaces’ inequality as too large was only a third as that for the whole country (14.7 versus 44.5 percent), and more than twice perceived the degree of inequality is just about right in their workplace than that for

the whole country (37.3 versus 15.9 percent) (Wang 2008, 167). A major reason for the relatively more equal income distribution within work organizations is the hybrid nature of the property rights arrangement, namely the state still controls these organizations, and has a say on pay distributions. As a result of such an inequality pattern, while the overall level of inequality has risen sharply, many urban residents do not feel the same degree of inequality in their vicinity. Perceived vast inequality at the national level, therefore, has not translated into localized resentment, which explains in part why rising inequality has not led to the much speculated social unrest.

### **Managing Social Discontent**

On 4 June 2009 an emblematic scene from the Tiananmen Square was broadcasted to the world audience. In many different ways it shows how much the country has changed and how much it has remained the same. Journalists encountered no protest nor commemoration, but desperate groups of well-dressed men, each holding an umbrella. Quickly one could tell these middle-aged men were undercover government security agents as they interfered who could enter the Square. The umbrella, seemingly for shielding summer's sunshine, was used to block any attempt to photograph the agents. The dancing between photographers and these men almost conveyed humor, a far cry from the images of blood, deaths and tanks that marked the night twenty years ago.<sup>12</sup>

Similar quiet and wariness marked the past anniversaries. Political dissidents were mostly in jail or exile. College students, the main force of the 1989 demonstrations in China, turned out to be one of the most ardent groups of regime supporters; the 20 years would never again see them wage any visible protest against the regime, save their occasional outbursts of nationalistic zeal targeting elsewhere. The most visible public defiance familiar to Beijing was from the Falungong religious cult, whose organizations within China were also decimated by harsh waves of suppression. On sensitive occasions such as the anniversaries of June 4th, deployments of large numbers of uniformed forces gave ways to more subtle management. The scene of the umbrellaed men culminated the increasing confidence and professionalism. It is also a testimonial to China's state capacity in social control.

The success of deflecting revolutionary challenge took place in the context of myriad events of collective action. The last decade and a half have indeed witnessed an upsurge of social protest in China. Statistics show that the number of "mass incidents," a government term for collective action events, has increased almost tenfold, from 8,709 in 1993 to 87,000 in 2005 (Yu 2007). This growth in numbers of

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<sup>12</sup><http://www.cnn.com/video/#/video/bestoftv/2009/06/03/ac.shot.wednesday.cnn?iref=videosearch>

protest is accompanied with the increasing number of labor disputes (Gallagher 2005). Official statistics report a seven-fold increase in labor related disputes in about a decade's time, from under 50,000 cases in 1996 to more than 350,000 in 2007. The number of collective labor disputes also rose rapidly, from only around 3,000 cases per year in 1996 to close to 13,000 in 2007. As many as 270,000 individuals involved in these collective labor disputes in 2007 (Figure 5). The regime did not experience a revolutionary crisis not because of a shortage of discontent but of its success in managing it.

[Figure 5. Labor Disputes and Participants, China, 1996-2007]

Theorists often attribute the occurrence of a revolution to the inflexibility of the "Old Regime" in coping with the looming crisis (e.g., Tocqueville 1995, Skocpol 1979, Goldstone 1991). Observers expressed a similar pessimism when it comes to reforms and changes in communist systems (Kornai 1959, 1989). Such pessimism has been borne out elsewhere, but China in the last three decades proves to be extraordinarily adaptive, not only in the realms of economic matters, but also in its management of dissent.<sup>13</sup>

#### *From Politicizing to De-Politicizing: A Two-Track Approach*

Coming out from wars, the revolutionary party for a long period of time was engaged in a rhetorical exercise of war-framing in dealing with crime, deviation, or defiance. The extreme version was practiced during the political campaigns under Mao such as the Cultural Revolution. In that era, no discretion was small and all offense was against the revolution (hence the people and the state as a whole). This tendency of politicizing survived into the reform years. Any organized expression of grievances or dissent was seen as a threat to the core of the system, and response was to extensively root out conspiracies. The analysis of and response to the 1989 Beijing popular movement were typical in linking domestic dissent to "enemy forces from abroad," hence a protester's act can be politicized as an issue of national security. Attempt at public venting on smaller occasions were dealt with in a similar fashion. Calls for more open dialogues and more liberal publications and cultural products during the pre-Tiananmen era were deemed as a political line of "bourgeois liberalization."

This principle that guides policies and actions with regard to social control was gradually altered in the recent two decades. That is no more evident than the wording of speeches by the Party's General Secretaries in the recent party congresses. In September 1997, Jiang Zemin called for "strengthening national

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<sup>13</sup> Here we do not attempt at explaining why the Chinese state is able to do so, but simply document some aspects of change that may help account for the puzzle of regime resilience (and regime vulnerabilities, see discussion).

security, watching out the activities of infiltration, subversion or separation by *enemy forces from abroad and inside the country*” (emphasis ours). This is a framework for handling speeches and activities undesirable to the regime. Along with this line in the same speech were the continued use of terms like “people’s democratic dictatorship” and overarching accusation such as “bourgeois liberalization.”<sup>14</sup> Jiang would repeat the same mater-frame of “enemy forces” for one more time in the next congress in 2002, although he dropped the words such as “dictatorship” and “bourgeois liberalization.”<sup>15</sup> By the time of the 17<sup>th</sup> Party Congress when Hu Jintao accented to power, the word “enemy forces” disappeared, and moreover, the “harmonious society” became a new keyword.<sup>16</sup>

Consequently, the Chinese government has begun adopting a key distinction between political and non-political dissents, shifting to a two-track approach of social control. Political dissent is seen as targeting the legitimacy of the system itself, including speeches and activities of democratic movement dissidents, religious leaders, union activists, and ethnic division agitators. The state’s response is invariably swift and harsh repression. While involving many human rights violations, it has been effective in preventing local dissent from finding a national airing, preventing economic grievances from becoming a political expression, preventing disparate groups of petitioners from forming alliances. Whether one endorses such tactics or not, it is apparent that China has succeeded in deflecting revolutionary crisis thus far. At the same time, the regime seems to become more and more tolerant of, at times accommodating to, protests targeting local government officials or business owners. One telling indicator of such a change is that the official term to describe such actions has gone from “mobbing crowds (暴徒)” or “illegal associations (非法集会)” to the more neutral “mass incidents (群体性事件).” The new terminology serves as a signal of depoliticizing the majority of citizen protests as an inevitable fact of life, ending the past taboo that banned any public discussion on the subject (Yu 2007; Su and He 2010).

### *Institutionalization of Public Order Management*

As recent as December 2008, Zhou Yongkang, the top Chinese official in charge of law and politics emphasized two principles with regard to “mass incidents”. The first concerns preemption. Local governments “should nip the bud of problems at the grassroots level and reduce the contradictions that would give rise to mass incidents.”<sup>17</sup> This principle lays down an interpretative framework to attribute

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<sup>14</sup> Jiang Zemin 1997 Sept 12 江泽民在党的十五大上所作的报告

<sup>15</sup> 江泽民在党的十六大上所作的报告 2002 11 17

<sup>16</sup> Hu Jintao 胡锦涛在党的十五大上所作的报告 2007 年 10 月 24 日

<sup>17</sup> Reported by *Chongqing Evening News*, 18 December 2008.

protests as a result of local officials' negligence. Indeed many local leaders are dismissed on such a ground in the event of a social protest.<sup>18</sup> The second principle demands that local government agencies appear on the site whenever a protest breaks out. In Zhou's words, local officials must appear in the "first site" at the "first moment."<sup>19</sup> This serves another attribution framework to blame local leaders under whose watch a protest escalates into a high-profile event. Failing to appear at the site of protest becomes an unforgivable responsibility should an event escalate into a mass incident.<sup>20</sup>

If Zhou outlined the general principles, other recent pronouncements have specifically warned against using violence to crackdown on mass incidents. In another high-profiled national policy clarification, Meng Jianzhu, a current Minister of Public Security of China, admonished the police to limit, or to refrain from, using weapons or policing devices in dealing protests (Zhong 2008). A document issued by the CCP Disciplinary Investigation Committee stipulates that a mistake of "indiscriminate use of police force" can be subject to "double dismissals" of official post and party membership for those local leaders found responsible (Li and Yu 2008). An op-ed piece published by *Beijing Daily* (1 December 2008), a newspaper known for its close heeding on the central party line, called for "a new way of thinking in handling mass incident."

### *Discontent Management in Operation*

Given the political structure in China, unmistakable across protest events on a variety of issues is the fear of any escalation by the local leaders. To the extent a protest can nonetheless gain publicity beyond the jurisdiction in question, particularly when attention is drawn from the upper level of authorities, the local leaders are often blamed and disciplined. The two above mentioned principles articulated by the national leader Zhou Yongkang have set the tone. The fear of local leaders is encapsulated in a widely circulated picture of a kneeling Jiang Guohua, the party secretary of Mianzhu City, Sichuan in 2008. After the earthquake in Sichuan that year in which thousands of children died due to the substandard school buildings, a group of grieving parents staged protests and vowed to appeal to Beijing. Secretary Jiang not only led his underlings to show up on the protest site, but also knelt down to plead to the parents to end the public spectacle (Zhang Xin and Chen Hongjiang 2008). Another high profile protest that escalated into riots in

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<sup>18</sup> One such report is in *Guizhou Daily*, 1 July 2008.

<sup>19</sup> *Chongqing Evening News*, 18 December 2008.

<sup>20</sup> Cuing on this interpretative framework, a newspaper reported that a vice governor of Anhui Province was sleeping around with mistresses in the days when a large-scale protest was going on. *Information Daily*, 2 November 2006.

Weng'an, Guizhou Province in 2008, drew attention of Hu Jintao, who reportedly gave personal instructions to investigate and to discipline. Following the protest, the county secretary and the chief of the public security bureau were dismissed. The province's party secretary came to the county to announce the dismissal and gave a post-mortem analysis blaming the lapse in the work of the local government that is allegedly the source of discontent.<sup>21</sup> In early 2007, two similar dismissals visited two county party secretaries in Sichuan Province.<sup>22</sup> In cases like these, though the protesters did not obtain tangible benefits, they nevertheless were vindicated by the fact that the leaders they targeted were disciplined for their "lapses."

Analyzing protest events and their management by the government is telling. The increasing level of professionalism is reminiscent of the evolution of protest policing in democratic countries (della Porta and Reiter 1998). We obtained information on these events through searching the newspaper database WISENEWS that includes newspapers in Chinese, published in mainland China and other Chinese speaking regions such as Hong Kong, Taiwan, Singapore. Set in the time span from 2006 to 2008, the search generated more than 600 relevant articles, from which we identify some 50 protest events, in most cases with information about the government intervention and the resolution of the outcome.<sup>23</sup> We differentiate and compare state reactions to labor disputes and to other types of protests. The term "mass incident" and the policy implications surrounding it apply to collective action incidents of all sorts, only excluding protest attempts deemed by the government as challenging the system as a whole.

These protest events add evidence to a new form of dispute resolution that Su and He dub as "street as courtroom" (Su and He 2010). Officials would bring the court hearings and decisions to the street, and in many cases rule in favor of those are able to combine their petition with street protest. We find that the accommodating approach was to some extent employed in dealing with non labor dispute protests as well. Comparing labor protest and other disputes, however, the degree of accommodation appear to be different. One of the key differences is whether the government itself or the government's interests is the target, or the government is largely a third party of the dispute. When meeting the protester's demand endangers the economic interests of the government itself, a favorable resolution is unlikely to forthcoming. In January 2006, for example, a group of fishermen in Dalian City, Liaoning, blocked the construction of the state project, protesting the pollution and noise generated by the project. The city government, the police bureau, and the construction company authorities arrived at the protest site immediately. The immediate hearing of the grievances on site and the restraint from violence are reminiscent of the "street as courtroom" approach. But instead of

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<sup>21</sup> *Guizhou Daily*, 1 July 2008.

<sup>22</sup> *Renmin Wang*, 10 February 2007.

<sup>23</sup> Our keywords strings include "群体事件," "群体性事件," "讨薪," and "堵路."



accommodating the protesters' request, the local officials and police officers "educated and persuaded" the 40 protesters to leave (Zhang Yang 2006). Working on cases of peasant resistance (O'Brien and Li 1995, 2006; O'Brien 2003; Yu 2003) and laid-off workers' protest (Cai 2002, 2006), past scholarly accounts have presented the state-protester relationship as more confrontational than what we documented above from Panyu. In those cases, peasants or laid-off workers directly *confront* state-actors. In comparison, protesters in the labor dispute *appeal* to the state actors for help. The "street as courtroom" is a mechanism of state response particularly salient in labor disputes, although its elements are also common in other protests. The event analysis with newspaper search also shows that the new approach of accommodation protest is not confined in the research site of Su and He (2010) in the economically advanced Guangdong Province. The above examples include geographical regions such as Sichuan, Anhui, and Guizhou. This should not be surprising in light of the national policies as stipulated by the two principles outlined by Zhou Yongkang, and the admonishment against violence by the country's public security chief. Similar dispute resolution processes seems to be also common in Shanghai, another region with heavy foreign investments. According to a Shanghai newspaper, in January 2008, the Civil Cases Department of the Xuhui District Court opened a "Green Channel" to resolve wage dispute cases staged in the street. In the first such case, "the judge approached to the 18 migrant workers protesting on the street and awarded them a back pay of 10,000 RMB." "The entire resolution process only lasted for 9 days." (Li Shengnan 2008). There are reasons to believe that in the more developed regions such as Guangdong and Shanghai, the government engages in "street as courtroom" in a more complete sense. This is partly due to the availability of funds for resolution. And the local government is more willing to go after the international companies who evade its accountability than the domestic parties of the dispute. This, however, is not to assert that contemporary Chinese protests are free of repression. Our cases also include those in which detention, prison time and even bullets were used against protesters. In a dramatic protest event in Longnan, Gansu Province in November 2008, for example, 30 rioters were arrested after the crowd burnt down 20 vehicles and 110 rooms.<sup>24</sup> In the above-cited case in Wengan, Guizhou, while the authorities dismissed two key county officials, they also blamed "black hands" behind the riot and arrested more than 50 individuals.<sup>25</sup> In the bloodiest crackdown of protests since the 1989 Tiananmen Square Movement, the police opened fire to protesters in Shanwei City, Guangdong, reportedly killing at least 3, wounding 8.<sup>26</sup> These cases indicate that repression through police force remains to be an alternative to the accommodating mode of government reaction. Our point is simply that the modal accommodation is at the same time common, and increasingly becomes a norm rather exception. In all

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<sup>24</sup> *Chongqing Morning News*, 21 November 2008.

<sup>25</sup> *Guizhou Daily*, 1 July 2008.

<sup>26</sup> BBC Chinese.com, 2005.

the above cited repression cases, local leaders were judged by the upper authorities as excessive and negligent, a fact that lends great support to our argument.

## **Conclusion**

Students of democratic systems are familiar with the concept “pocketbook voters” (Campbell, Converse, Miller and Stokes 1980; Lewis-beck, Norpoth, Jacoby and Weisberg 2008)). But how the spectacular economic growth translates into China’s regime resilience has not been fully explored. In this paper we trace three aspects of changes in state-society relations to understand how China has strengthened its state capacity and headed off a revolutionary crisis looming in the late 1980s. Myriad social problems notwithstanding, the government, at the moment of this writing, seems to be enjoying a honeymoon of stable rule, marked by the euphoria and hype displayed the Beijing Olympic Games in 2008 and the 60<sup>th</sup> anniversary of the Communist rule in 2009.

In two decades since 1989, China has seen a tremendous increase in the private economic sector and a corresponding decline in state owned enterprises, yet the state has remained the most important player in the economy, emerged not only with strong and increasing control over the key sectors of the economy, but also has accelerated its resource extraction. China’s economy, in other words, has grown out of the plan (Naughton 1996), but not away from the state. Government guaranteed jobs and welfare have long gone, but the state is still seen as a major provider. Economic inequality has skyrocketed, yet to the extent that social protests have increased, they were not organized to discharge general social discontent with rising inequality, but to protect people’s personal livelihood and property: when they are laid off from their jobs, not paid wages, or when their houses are torn down or land taken away (O’Brien and Li 2006; O’Brien 2008; Yu Jianrong 2007). In dealing with social conflict, the state has begun to cultivate an image of a third-party judge. The new approach stops treating all defiance as crime against the state, hence avoids precipitously stepping into the position as the target. Corruption, one of the main sources of grievance and protest, is then seen as more the sin of “corrupt officials” (贪官) than a lack of benevolence of the “emperor,” (皇帝), echoing a statecraft enjoyed by many rulers in Chinese history.<sup>27</sup> With neither meaningful elections nor a free media, the system is nonetheless able to afford more freedom to its citizenry than ever before. It has started to manage, rather than repress, most social unrests, if only to prevent them from taking on a larger political meaning. Some would call this process “liberalization and pluralization” without election (Mathra 2008).

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27. One relatively recent example was the case of Chen Tonghai, who was given a death sentence for taking bribes amounting to nearly \$30 million, who also happened to be the head of Sinopec, China’s largest state-controlled company and number one Chinese company listed on the Fortune Global 500.

It is unclear, however, how long the current honeymoon may last. For one thing, the resilience of the economy itself is called into question, given the inflexibility inherent in the party-state's control and the volatility of the global environment. State sponsored economic monopoly, while allowing the state to continue and to enhance its control over the economy and supplying the state with easy revenue, in the long run suffocates innovation and competition, and reduces responsiveness and efficiency. For another, perception management notwithstanding, the increasing pace of inequality between haves and have-nots is showing no sign of slowing down.<sup>29</sup> Above all, it is too early to judge if the Chinese experiment on liberalization without democratic elections will ultimately succeed in transforming an authoritarian state into a free society (Mertha 2008; Su and He 2010).<sup>30</sup> The tight control of media and cultural discourse, while effective thus far in the sense of manipulating public perception and heading off political turmoil, may have the very effect of corking social discontent into a "social volcano," not to mention such practices run into the face of international acceptability, and at times afflict egregious human rights violations. The measures of protest management are experimental and *ad hoc*, subject to whims of the current "emperor," void of a constitutional foundation or institutional guarantees (Su and He 2010). In an era that witnesses the collapse and rebuilding of other communist regimes, China is celebrating its fortune of avoiding woes and pains accompanying democratization elsewhere. Yet it is unknown whether the Chinese way, maintaining the

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<sup>29</sup> In 2005, consumption by urban Chinese households in the top one-fifth income category was about 95 percent of combined consumption of the lowest 60 percent, approaching that in the U.S. in 2008. Moreover, the richest one fifth of urban Chinese households not only consumed more than the rest, but also saved more: their savings comprised over half of all urban household savings (as calculated from the difference between income and expenditure). Urban households in the lowest one-fifth group had only 1.8 percent of their income saved, and the next one-fifth, only 7.7 percent. They had hardly any more to consume. Spending disadvantages among the lower social strata in education and medical care also position them to form a permanent underclass in the society (Wang and Wang 2009).

<sup>30</sup> The increasing concentration of resources in the hands of the central and local governments, through the means of rent extraction and in the absence of external political check, nurtures a tendency of predatory behavior of the state (Pei 2008).

authoritarian rule while striving to become a more open society, is just delaying a political turmoil to a later day.

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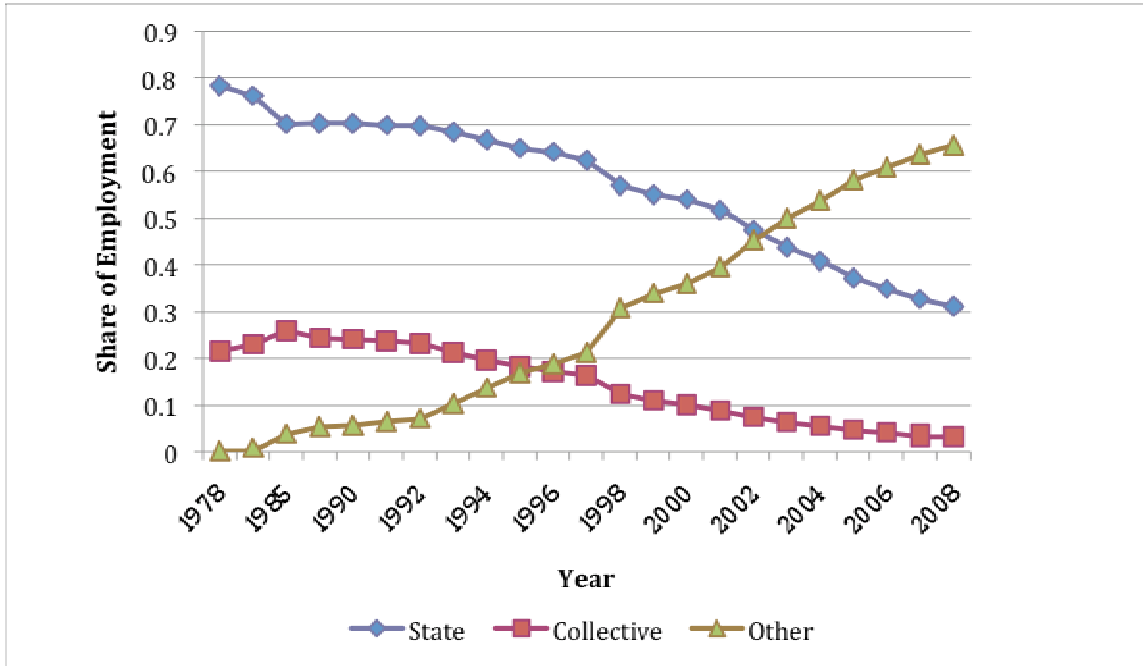
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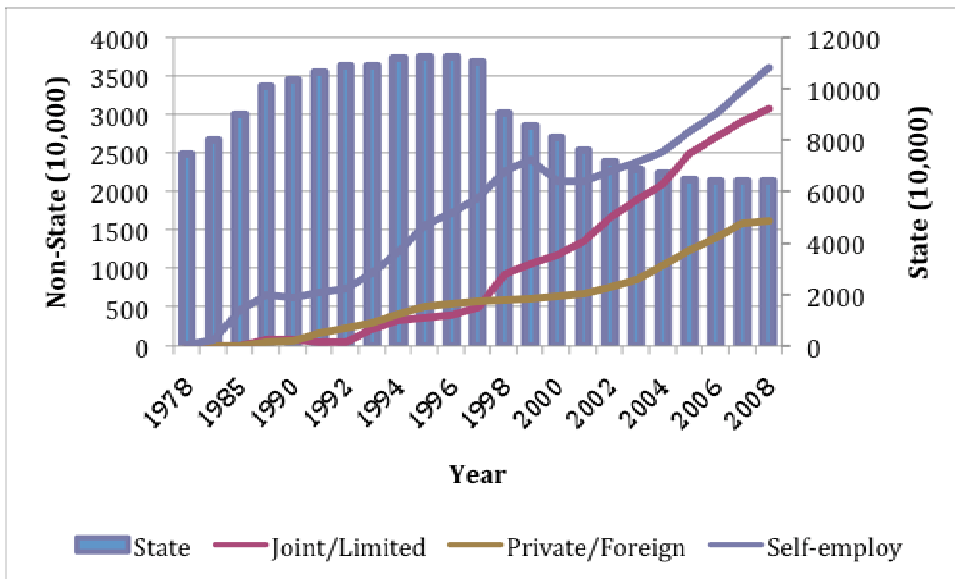


Figure 1. Employment by Ownership Sector, Urban China, 1978-2008



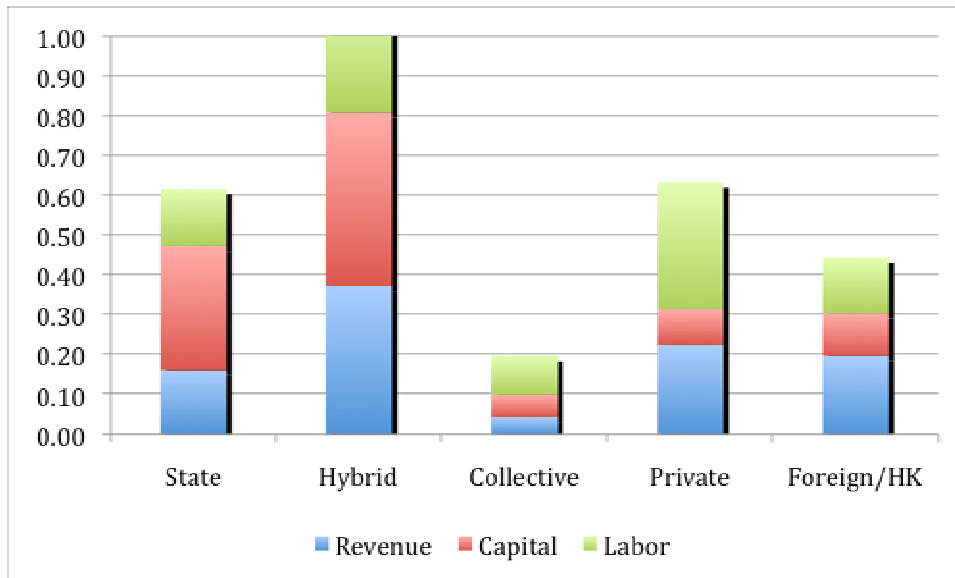
Source: CSYB 2005/2008, Table 5-4.

Figure 2. Divergent Paths in Urban Employment, 1978-2008



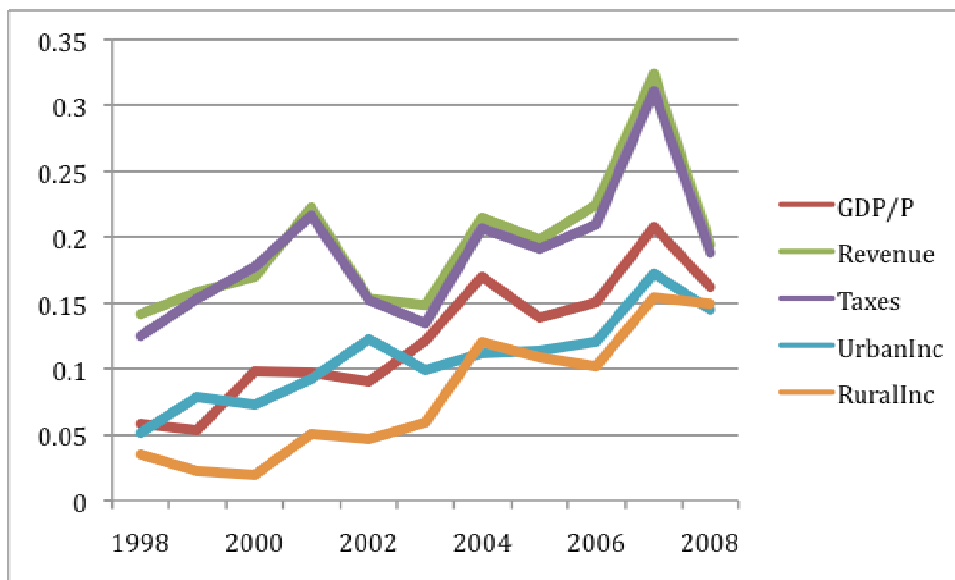
Source: CSYB 2005/2008, Table 5-4.

Figure 3. Shares of Revenue, Capital, and Labor by Ownership Sector, Above-Scale Firms, China, 2004



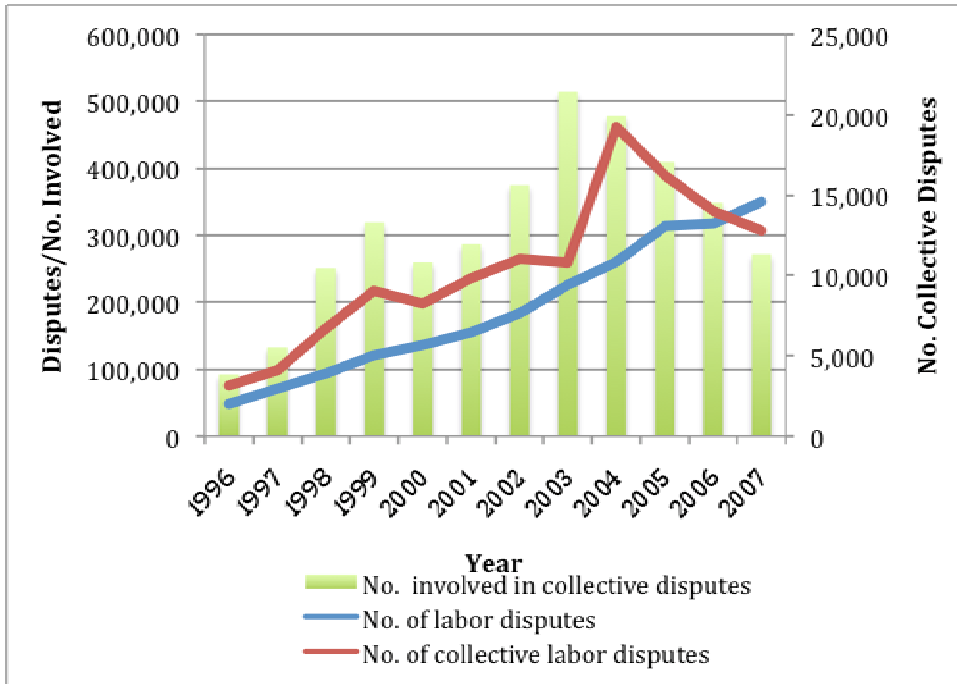
Source: Calculated from China's 2004 Economic Census.

Figure 4. Changes in GDP, Government Revenue, Taxes, and Household Income, China, 1998-2008



Sources: China Statistical Yearbook 2009, various tables.

Figure 5. Labor Disputes and Participants, China, 1996-2007



Sources: China Labor Statistical Yearbook (中国劳动统计年鉴, 国家统计局人口和就业统计司; 人力资源和社会保障部规划财务司编, 中国统计出版社)2008

Table 1 Public Expectation of State's Role and Responsibilities, China, 2004

	State Role			
	Reducing Income Inequality	Regulating Top Income	Providing Work for All	Ensuring Minimum Livelihood for All
Strongly disagree	1.9	6.74	0.49	0.34
Somewhat disagree	10.49	26.03	3.83	2.54
Neutral	30.03	31.82	19.75	15.94
Somewhat agree	35.83	25.41	46.24	42.08
Strongly agree	21.75	9.99	29.68	39.11

	State vs. Individual Responsibility			
	Health Care	Caring for Elderly	Primary and Secondary Education	Employment
State Fully	10.54	13.91	17.22	8.61
State Mainly	21.81	21.51	26.66	21.9
Equally	48.76	39.32	34.11	43.43
Individual Mainly	12.8	14.86	14.13	19.42
Individual Fully	6.09	10.39	7.88	6.65

Source: China National Survey of Perceptions of Distributive Injustice, N= 3,263