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# Policy Brief

## S U M M A R Y

China is confronting widespread violent and even deadly social unrest, raising Communist Party alarms about national security. Some observers speculate that unrest could undermine China's national leadership, as it did in the Ukraine and the Philippines. Some U.S. policy makers might welcome unrest in China as a path to democracy and "freedom." But rather than an opportunity to transform China's political order, China's social unrest should be understood as the unavoidable side effects—worsened by local corruption—of successful market reforms and expanded economic and social choice. Managing this unrest humanely requires accelerated reform of legal and social institutions with special attention to corruption. More violence would generate more suffering, potentially destabilizing East Asia and harming U.S. interests. The United States should encourage China to strengthen its social reconciliation capabilities, without making electoral political reform a prerequisite for intensifying engagement across the board. ■

## China's Social Unrest: The Story Behind the Stories

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Large-scale public disturbances have been on the rise in China for more than a decade. Media reports describe violence, injuries, and even deaths on both sides, linked to brick-throwing, tear gas, Molotov cocktails, rockets, bullets, beatings, burned vehicles, stabbings, and standoffs between hundreds of police and thousands of protestors. Claims by demonstrators and police are often at odds, but all agree that events can turn deadly and that serious injury and loss of property are common. Issues include labor grievances, taxation, land confiscation, and pollution. Corruption worsens common injustices and further inflames citizen anger.

Industrial China no longer pretends to be a workers' paradise. In southern China in 2005, 100 shoe factory workers smashed vehicles, threw rocks, and injured three police over unpaid wages. Thousands of workers at an electrical factory struck for four days over working conditions and the right to unionize. In western China, 2,000 laid-off workers barricaded a street and demanded severance pay. In 2004, more than a thousand workers in two south China factories struck for higher pay and one rest day per week. Elsewhere, workers took their bosses hostage over unpaid back wages. Two years earlier, in 2002, 80,000

retired workers in northeast China protested unpaid pensions.

Until recently, taxes, fees, and tolls caused widespread unrest. In 2004, 30,000 people confronted hundreds of police and paramilitary units in a riot over bridge tolls. In 1999, 10,000 peasants in central China demonstrated against taxes and fees. Police attacked with tear gas and batons. In one compilation for five provinces in 1997, half a million peasants took part in violent demonstrations in over 300 townships, with 250 injuries and fourteen deaths, including five police.

Poorly compensated farmland seizures now trigger most rural unrest. In January 2006, 20,000 farmers fought police over land condemned for a highway and an industrial zone. In December 2005, police fired on crowds opposing a new power plant, killing either three or twenty farmers, depending on one's source. In 2005, several thousand southern farmers, trying to stop earth-moving machinery, fought 600 police armed with clubs. In northern China, developers and officials hired thugs with pikes and knives to attack protesting villagers, killing six and injuring fifty. In 2004 in western China, only martial law stopped 90,000 protesters from fighting police over the loss of their homes to a hydroelectric dam.



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Protests over air and water pollution—exacerbated by corrupt collusion between developers and local officials—are also widespread. In eastern China in 2005, 3,000 police attacked 30,000 farmers blocking a road. The farmers' land had been taken for chemical plants whose pollution had since ruined all farming in the village. Local officials allegedly own stock in the plants.

### Limited Information

Notwithstanding such accounts, it is hard to find statistics that clarify the nature of China's social unrest. The number of media stories is small for such a large country, even allowing for China's suppression of such news. Still, available information indicates troubling trends.

Officials with access to classified information describe China's social unrest as serious and worsening. President Hu Jintao emphasizes police enforcement and the positive goal of a "harmonious society." Other leaders stress the negative. Premier Wen Jiabao told the Politburo in 2005 that mismanaging violent discontent endangered China. China's public security chief, Zhou Yongkang, acknowledged that a "lack of justice," "behavior of cadres," and "domestic economic factors" caused protests to increase. A senior official with extensive rural experience, Chen Xiwen, said rural unrest threatened national security and that reported protests were "the tip of the iceberg."

China's Ministry of Public Security (MPS) reports numbers on "mass disturbances" involving fifteen or more people; 2005 saw nearly 84,000 such disturbances, up from 8,700 in 1993 (see Table 1). This level of unrest per million persons of national population is equivalent to one "mass disturbance" every day of the year in each state of the United States.

The 74,000 disturbances in 2004 involved 3.67 million people, but there is no breakdown by issue or severity. One researcher reports that in 2005, 40 percent of protests were rural and 30 percent urban. MPS announced that each day the central government registers 120 to 230 "protests," but it is unclear whether they are all "mass protests."

Table 1 gives clues about the causes of unrest. The two years with the clearest surges in disturbances followed bursts of unusual economic policy activity.

The 67 percent increase in unrest for 1998 over 1997's level correlates with the firing of tens of millions of state workers, mandatory planting of low-profit grain, and the bursting of a real estate and financial bubble. The MPS 2000 yearbook cites urban labor unrest as the most serious source of protest, along with financial scandals and the populist quasi-religious movement Falun Gong. Real estate schemes in the mid-1990s funded through voluntary "collections"—high return but illegal bonds—went bust by 1998, and whole neighborhoods lost their savings.

The second surge of unrest, in 2004, reflected accelerated encroachment of urban construction on rural land. In 2003, Chinese officials, scared that the SARS epidemic would slow growth, relaxed investment controls, causing a surge in investment that relied heavily on land seizures for industrial parks and suburban real estate projects.

### Corruption

President Hu warned in summer 2006 that corruption threatens Party power, but China's corruption levels, when compared with those of other countries, don't by themselves explain unrest.

Domestic information on Chinese corruption comes principally from the prosecution of corrupt officials, but it is of limited usefulness because it is impossible to know how much corruption goes unprosecuted. When southern China stepped up its anticorruption efforts this winter, it produced a surge in cases, indicating that Beijing could certainly rein in corruption further if it chose to. Comparing corruption arrests today with arrest levels in the past also doesn't help, because the economy is more monetized now, offering more opportunities for corruption, and the level of prosecutorial effort may have changed.

Surveys and studies by international organizations, on the other hand, offer an independent assessment and show that while

corruption in China may have worsened recently, over a 5- to 10-year period, it has been less serious than in scores of countries, including India, Indonesia, the Philippines, Russia, and Argentina (see Table 2 and its footnotes). Consider India: In dealings with the police, 100 percent of surveyed Indian households reported corruption was involved in some way.

A recent survey by the Pew Research Center found that in 2002–2006 the share of all Chinese citizens satisfied with the state of their nation improved from 48 percent to 81 percent, while for U.S. citizens it dropped from 50 to 29 percent. China's general citizen concern over corruption appears muted.

In sum, available data lead to the conclusion that China's corruption is not so bad that by itself it could be the source of the reported levels of social unrest. Some Chinese scholars conclude that corruption is not the cause of social unrest but rather an exacerbating factor, a kind of "social pollution" spread evenly over the country. Surveys show that there are almost always more personal and immediate causes of protests.

### Economic Roots of Unrest

Throughout the developing world, economic shortages and competition over limited resources directly or indirectly cause social tensions. In China, such tensions are made unusually strong by otherwise economically useful market reforms and successful growth. The most important factors are market-based price adjustments, the concentration of modern investment in coastal areas, competition from rural migrants in urban labor markets, and urban expansion encroaching on rural farmland. All four factors reflect natural market forces, but they also challenge inherited lifestyles, cause real pain, and trigger unrest that the government must manage.

China's price reforms have gradually replaced distorted fiat prices of the Maoist period with prices that better show society's real needs. The earlier Maoist prices had financed showcase socialist worker "paradise" lifestyles by paying unusually low prices for

rural products and charging high prices for city products sold in the countryside. Ration coupons and a separate urban citizenship status had allocated a disproportionate share of consumer goods to registered city dwellers.

Because of these distortions, when price reforms induced general price inflation, prices rose fastest for rural products. This market-based correction of Maoist pro-urban bias is necessary, but it has been painful for city workers. Privileged urban groups on the wrong end of this price inflation discovered that income from what they once considered a "normal" level of work effort no longer supported their accustomed lifestyles. They resented the need to change jobs, work harder, and adjust expectations about their future standard of living. This resentment has fed unrest, despite a new three-tiered urban social safety net.

**Table 1: Incidents of "Mass Disturbances" in China\***

Year	Number	% Change over previous year
1993	8,700	—
1994	10,000	15
1995	11,000	10
1996	12,000	9
1997	15,000	25
1998	25,000	67
1999	32,000	28
2000	40,000	25
2001	n/a	12
2002	50,400	12
2003	58,000	15
2004	74,000	28
2005	83,600	13

Sources: 1993–1999 data from *Quntixing Shijian Lunwenji [Collected Research Essays on Mass Incidents]* presented in M. Scot Tanner, "China Rethinks Unrest," *The Washington Quarterly* 27:3 Summer 2004, p. 138–9; 2000 datum from Tanner estimate in Tanner, *op. cit.*; 2002 datum based on official 2003 growth rate reported in John Chan, "China: riot in Guangdong province points to broad social unrest," International Committee of the Fourth International, World Socialist Web Site, 30 November 2004 <http://www.wsws.org/articles/2004/nov2004/chin-n30.shtml>; 2003 datum from Chinese official *Liaowang Zhoukan [Outlook Weekly]* magazine (no citation details) reported in U.S. Department of State, Country Reports on Human Rights Practices—2004: China, February 28, 2005 (<http://www.state.gov/g/drl/rls/hrrpt/2004/41640.htm>); 2004 datum from Frank Ching, "China's Powder Keg," *South China Morning Post*, August 24, 2005; 2005 datum from Ministry of Public Security spokesman Wu Heping, reported in Irene Wang, "Incidents of Social Unrest hit 87,000," *South China Morning Post*, January 20, 2006.

Note: numbers in italics indicate annual average growth from 2000 to 2002.

\* Involving fifteen or more persons.

**Table 2: Corruption Indexes, Selected Countries, 2001–2005\*** (from less to more corrupt)

Transparency International		World Bank	
LESS CORRUPT			
Brazil	3.9	Poland	.39
Poland	3.7	Brazil	-.04
<b>China</b>	<b>3.4</b>	<b>China</b>	<b>-.27</b>
India	2.8	India	-.28
Argentina	2.8	Argentina	-.38
Philippines	2.6	Philippines	-.43
Russia	2.6	Russia	-.82
Indonesia	2.0	Indonesia	-.89
MORE CORRUPT			

\*Average for five reported years (Transparency International: 2001–05, World Bank; 1996, 1998, 2000, 2002, 2004); lower scores mean worse corruption.

Note: Transparency International shows little change in indicators over survey period; World Bank shows sudden worsening in China's corruption in 2004 such that it was worse than India's and Argentina's by that year.

Sources: Transparency International, reported by International Center for Corruption Research, [http://www.icgg.org/corruption.cpi\\_2005.html](http://www.icgg.org/corruption.cpi_2005.html), and World Bank's Corruption Control Index, data generated at: <http://info.worldbank.org/governance/kkz2004/>.

Earlier outbreaks of social unrest, in 1985, 1986–1987, and 1989, also reflected these factors. The “Seven Demands” that students posted on their banners during the Tiananmen demonstrations of 1989 included punishment for officials whose policies caused inflation and hurt living standards for themselves and their teachers.

In the early 1990s, the government fully liberalized food prices and eliminated ration coupons. It also mandated higher wages to compensate for the jump in the urban cost of living. But higher wages worsened corporate losses, and soon government's corporate subsidies became unsustainably large. Finally, in the late 1990s, widespread layoffs eventually affecting 50 million workers improved profitability. Predictably, labor unrest exploded.

Ironically, steps taken to compensate urban residents for layoffs and inflation triggered rural hardship and unrest. The new urban social safety net of the late 1990s did not apply to rural enterprise employees. Compulsory grain planting increased supplies and brought down urban food prices, but lower grain prices hammered farm incomes. Rural household consumption fell in the late 1990s and local tax revenues suffered. The resulting extra tax and fee collections became the major provocation for widespread rural unrest.

Adjustments in pre-reform administrative prices continue today, providing more accurate market incentives for meeting shortages, covering costs, and seizing opportunities for productive resource use. But reduced subsidies and hence rising medical and schooling costs for workers in the cities continue to produce hardship, uncertainty, and discontent.

A second market reform cause of social unrest is newfound profitability in coastal locations, where easy access to global markets promotes job growth. Earlier centers of industrial employment reflected Cold War realities: rail links to the Soviet Union or safe locations deep in China's interior. Today's business preference for investments on the coast means that job opportunities have lagged elsewhere. Most serious labor unrest has been in old interior rust belt locations.

A third link between reforms and social unrest is rural-to-urban migration, especially after so many layoffs for registered city workers. Rural migrants, mostly 16- to 35-year-olds, having temporarily left the family farm, offer diligent work habits, much-improved rural educations, and willingness to work for low wages. This labor competition especially threatens middle-aged and elderly low-skilled urban citizens, who don't want low-paying sweatshop jobs and whose poor-quality Maoist-era education generally condemns them to long periods of unemployment. They feel betrayed and unfairly treated.

The country's goal of eliminating citizenship distinctions (except for major cities like Beijing and Shanghai), further stimulates migration. In pilot reform cities like Zhengzhou, capital of interior Henan Province (population 95 million), many rural migrants with a job and a home have won urban citizenship, permitting them to enroll their children in urban schools.

A final link between reform and social unrest is the expropriation of farmland for non-farm uses. This cause of unrest has worsened since the resurgence of high economic growth rates in 2001. Higher downtown land values have brought a radical restructuring of urban land use. Homes and factories are shifting to rural suburbs, as location-sensitive services concentrate downtown. The growth in jobs, output, and profits associated with suburban expansion makes farming a low-profit use for well-located land. Conversion of suburban farmland to other uses—on a large scale in some coastal regions—was especially rapid through early 2004 and clearly fed corruption and violent social unrest.

A major culprit is China's legal process for converting farmland to other uses. Villages own rural land, not farmers, who contract land from villages. A fair system would distribute proceeds from land sale or rental four ways—farmer compensation, village capital gains, taxes to higher-level governments, and cost advantages for developers. But village leaders often get side payments or budgetary bonuses in secret deals for projects with dis-

puted public usefulness. Low or negligible payments to farmers quickly lead to social unrest.

### Compensation

Compensation is central to most unrest scenarios. In principle, China compensates the economically dislocated in many ways—with severance pay, pensions, unemployment insurance, retraining subsidies, replacement housing, relocation subsidies, and lump-sum payments for land. In practice, however, mandated payments are often insufficient to begin with, and weak local budgets and corruption reduce them further.

For example, China's Land Law requires compensating farmers for their land at a multiple of average farming profits over the previous three years. But Land Ministry surveys themselves find these amounts fail to support farmers' transitions to new productive lives—especially for the poorly educated. Hence, essential reforms must ensure that land seizures promote economically valid projects, that mandated compensation can enable appropriate living standards, and that officials administer compensation honestly.

In this context, land compensation juxtaposes individual rights and investment productivity. China's system of compensation for land seizure clearly prefers rewarding good investments over granting windfall profits. Suburban farm families originally received their now-valuable land for free, either when communes broke up in 1982–1984 or during a subsequent village land reorganization. The issue is whether they should now receive market prices for it.

To ensure the best private and public use of suburban land, monetary incentives should encourage well-conceived, well-financed, and well-managed projects. This means that reducing infrastructure costs and attracting qualified developers have priority over giving bonus money to farmers with no historical investment stake in the location.

Ideally, an economy should be designed to reward individual effort and smart risk taking. In a mature market economy, property

rights are supposed to do this automatically. But China's markets are far from mature—rural property markets have not operated properly in China for more than half a century. Sudden conversion of farmland to private individual farmer ownership would award windfall fortunes to suburban farm families while raising costs and other impediments to the best use of the land.

This is probably why current proposals to introduce rural property rights are stalled in China's legislature. They must be unattractive to policy makers seeking economical ways to speed cost-conscious modern development and growth of urban jobs.

Throughout the developing world, shortages and competition cause social tensions. In China, such tensions are made unusually strong by successful reforms and growth.

But good investments are of course not the only priority. Adequate compensation for displaced farmers requires equal emphasis. In this regard China has often performed poorly. Displaced farmers deserve compensation that guarantees a quality of life at least roughly equivalent to what has been lost. A home and a chance to work in a good job are what most displaced people want. But China's compensation schemes often provide jobs that are poorly paid, short-lived, or both.

This is a tough issue. Local officials interviewed in rural China in June 2006 emphasized the difficulty of finding good jobs for displaced farmers. Some thought automatic urban citizenship should be part of the compensation package. An automatic rule such as this would go a long way to guaranteeing adequate compensation, because cities gaining from suburban growth could apply both urban privileges and safety net resources as compensation.

### Beijing's Response

Widespread market reforms and rapid growth thus all but guarantee social unrest. In a separate dimension, poorly regulated market incentives also worsen pollution, whose costs are borne publicly in undrinkable water, poisoned soil, and dangerous air. Corruption worsens all of these repercussions of China's economic modernization, and Beijing's apparent leniency toward corruption undercuts China's own constitutional guarantees—especially for the rural population.

## Corruption by itself cannot explain China's unrest, but corruption worsens all such repercussions of economic modernization and undercuts China's own constitutional guarantees.

It is important to emphasize that China's social unrest is not made up of street demonstrations demanding a new government or western-style democracy. Except for a number of ethnic separatist or populist pan-China movements like Falun Gong, unrest is overwhelmingly composed of local single-issue protests. Even student riots in summer 2006 were not political; they were protesting university affiliations printed on their degrees that were less desirable than those they thought they had been promised.

Unrest poses a real, if indirect, political threat, however. Local authorities have essential responsibilities for governance, law-and-order, and delivery of public services. Beijing must find ways to discipline individual corrupt leaders without undermining the legitimate authority of all local governments.

The central government generally responds to unrest with a narrow, legalistic position. It considers property destruction, assault, disturbance of public order, and inciting protest to be illegal activities requiring arrest and prosecution. China's budget for the Peoples' Armed Police, its riot control force,

exceeded 3 percent of central expenditures in 2004, triple the spending level for courts and prosecutors. But most public disaffection never even gets disorderly. Forced into available legal avenues and centuries-old petition systems, most aggrieved parties end up swallowing their growing frustration over delays and rejection by largely unresponsive institutions.

On the positive side, a focus on root causes has brought results. In 2003–2005, Beijing eliminated the agricultural tax and informal rural fees. As a result, Chinese researchers report that protests over rural taxation have disappeared. Cuts in fees and taxes have left some local governments short of revenue, hastening long overdue personnel reforms that have cut some local political payrolls in half. Other cost-saving fiscal reforms have increased transfers to poor areas and sidestepped corrupt officials by instituting direct bank transfers for salary payments to teachers and other critical public employees. A government moratorium on land transactions in 2004 brought land sales to a halt for almost a year, arguably slowing the growth of land-related unrest.

What Beijing has not done is invest adequately in checks on illegal local government behavior. Instead, local officials are now held personally accountable for outbreaks of unrest—leaving to them the choice of methods for maintaining order and inviting draconian suppression.

### The Road Ahead

China's social tensions, largely induced by successful market reforms, will likely worsen as further reforms are undertaken and rapid economic growth continues. Uncorrected, the current combination of police enforcement and tolerated corruption can lead to ever-harsher local treatment of reasonable citizen complaints. Most fundamentally, Beijing needs to discipline local governments and strengthen dispute resolution mechanisms, including standards for policy transparency and institutions for administrative and legal redress.

Ironically, the hierarchical nature of China's political system makes it difficult to discipline local officials, because national agencies must usually work through their local branches. These are often the very officials under investigation. In contrast, in the U.S. federal system, central departments command local offices completely independent of local government. If Washington suspects corruption in a large city, it doesn't have to ask that city's authorities to investigate. The FBI's local office investigates, backed up by independent federal prosecutors, courts, and prisons. China lacks this systemic capability.

Fortunately, China seems to be introducing this kind of independent central reach. China's statistical bureau has in 2006 transferred comprehensive supervision of its local economic survey teams to Beijing. Even more recently, in August 2006, China's Environmental Protection Agency received authorization to set up independent regional enforcement centers, beyond the reach of local official interference. It remains to be seen what real clout they will have, but the change is in the right direction.

The highest priority should go to giving greater local independence to national and provincial anticorruption agencies. These include government auditors and Communist party discipline inspection commissions. Establishing independent authorities will be expensive, but social unrest risks becoming an impediment to prosperity. Beijing should treat unrest as a development constraint—as real and as costly as bottlenecks for transportation, telecommunications, and energy—and fund solutions accordingly.

### **A Role for Washington?**

The international community, including the United States, can serve its own interests as well as China's by encouraging China to strengthen its many dispute resolution capacities, including courts, police, administrative petitions, and policy transparency.

It is naive to think that a wave of unrest would accelerate the spread of freedom in China. It is far more likely to harm develop-

ment, promote organized crime, bring a breakdown in social cohesion, and prompt a government crackdown. Worsening poverty would accelerate the outflow of illegal Chinese migrants to the rest of the world. Under such circumstances, there would also be strong temptation for Chinese authorities to rally citizens behind belligerent patriotism. None of these developments would serve U.S. interests.

To strengthen understanding of China's challenges and policy options—both inside and outside China—the United States should

**Beijing has not invested adequately in checks on illegal local government behavior where officials exercise their choice of methods for maintaining order, inviting draconian suppression.**

work to give China full permanent participation as soon as possible in international policy conclaves like the G-7 finance ministerial meetings and the G-8, without making national electoral liberalization a prerequisite. Helping China improve its handling of the social unrest triggered by economic reforms could accelerate improvements in living standards and thus help weaken the economic basis for the social tensions that fuel unrest in the first place. ■

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## Related Resources

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