

Globalization and Social Conflict in China*

YONGNIAN ZHENG AND YANG ZHANG*

In China, as in other parts of the world, the perceived mal-manifestations of globalization have led to the rise of anti-globalization movement among intellectuals. The purpose of this paper is to examine whether globalization is linked to social conflict in China, as perceived by the anti-globalists. It argues that globalization per se does not lead to social conflict, and the state functions as an intervening variable between globalization and social conflict. The Chinese state has played a proactive role in promoting globalization, and introduced various reform programs to integrate the country with the rest of the world. These reforms have benefited China. Nevertheless, while the state has been successful in implementing "external reforms," it has not been able (or failed) to initiate and implement "internal reforms." The gap between "external reform" and "internal reform" has made it difficult for China to cope with some of the "negative effects" of globalization, thus leading to the rise of social conflict.

KEYWORDS: China; globalization; the state; income disparities; social conflict.

YONGNIAN ZHENG (鄭永年) is Professor and Director of Research, China Policy Institute, University of Nottingham. He can be reached at <yongnian.zheng@nottingham.ac.uk>.

YANG ZHANG (張洋) is Assistant Professor in the Faculty of Business Administration, University of Macau. She can be reached at <YZhang@umac.mo>.

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Over the past two decades, China, the most populous country in the world, has globalized rapidly. It has shifted "from a policy of self-reliance and suspicion to one of openness and integration."¹

With its membership of the World Trade Organization (WTO) and other major global and regional bodies, China has become an integral part of the world community. The country's rapid globalization has been driven by capitalistic economic development, and has caused a sea change in every aspect of China's economic and social life.

However, globalization is believed to have had some negative repercussions. Chinese intellectuals, especially those of the New Left school (新左派), have attempted to link globalization to social conflict.² For the New Left scholars, everything that takes place in China can be linked to the expansion of global capitalism into the country. According to Wang Hui (汪晖), for example, "In all of its behavior, including economic, political, and cultural—even in government behavior, China has completely conformed to the dictates of capital and the activities of the market."³ The New Left argues for more emphasis on economic justice, not just economic growth at any price, and views a complete divorce from the redistributionist ideals of Marxist Communism as callous and immoral.⁴ Some New Left thinkers attack the Chinese Communist regime for using "state interference and even violence" to enforce its vision of international capitalism and argue that China's leaders have colonized their own citizens.⁵ Like else-

¹Elizabeth Economy and Michel Oksenberg, eds., *China Joins the World: Progress and Prospects* (New York: Council on Foreign Relations Press, 1999), v.

²For a brief discussion of the New Left discourse on globalization, see Yongnian Zheng, *Globalization and State Transformation in China* (Cambridge: Cambridge University Press, 2004), chap. 8.

³Wang Hui, "Contemporary Chinese Thought and the Question of Modernity," in *Whither China: Intellectual Politics in Contemporary China*, ed. Xudong Zhang (Durham and London: Duke University Press, 2001), 160. Also see Wang Hui, *China's New Order: Society, Politics, and Economy in Transition* (Cambridge, Mass.: Harvard University Press, 2003).

⁴Tom Plate, "Has Hu Jintao Read Balzac?" *The Seattle Times*, September 6, 2005, http://seattletimes.nwsource.com/html/opinion/2002474818_plate06.html (accessed May 2, 2006).

⁵Wang, *China's New Order*.

where in the world, the perceived mal-manifestations of globalization have led to the rise of anti-globalization intellectual movements in China.

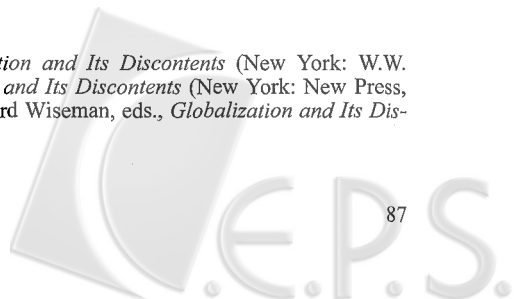
The purpose of this paper is to examine whether globalization is linked to social conflict in China, as perceived by the anti-globalists. We argue that globalization *per se* does not lead to social conflict, and that the state functions as an intervening variable between globalization and social conflict. The Chinese state has played a proactive role in promoting globalization, and has introduced various reform programs to integrate the country with the rest of the world. These reforms have benefited China. Nevertheless, while the state has been successful in implementing "external reforms" to benefit from globalization, it has not been able to initiate and implement "internal reforms" to achieve a fair distribution of the benefits globalization brings. The gap between "external" and "internal" reform has also made it difficult for China to cope with some of the "negative effects" of globalization, thus leading to a rise in social conflict.

The paper is divided into four sections. The first section contains a brief discussion of globalization and social conflicts, and establishes the framework for this study. The second section measures China's globalization, using different indicators. The third section investigates how globalization affects income disparities in China, a major source of social conflict. The fourth section analyzes how the state functions as an intervening variable between globalization and social conflict.

Globalization, the State, and Social Conflict

While globalization is an ongoing multi-dimensional process, the academic community has paid more attention to its undesirable (actual and potential) political and social consequences, i.e., "discontents."⁶ The

⁶For example, Joseph E. Stiglitz, *Globalization and Its Discontents* (New York: W.W. Norton, 2002); Saskia Sassen, *Globalization and Its Discontents* (New York: New Press, 1998); and Stephen McBride and John Richard Wiseman, eds., *Globalization and Its Discontents* (New York: St. Martin's, 2000).



controversy over globalization has moved beyond academic circles into government and civil society. As the violent demonstrations in Seattle, Prague, Quebec, Gothenburg, and Genoa have demonstrated, anti-globalization forces are gathering momentum.

On the political side, the hottest question is whether globalization will cause the state to wither away. Although scholars disagree over the impact of globalization on the state, the dominant view is that globalization weakens the power of the state, and even leads to its demise.

Among others, neo-Marxist and neo-liberal scholars are the major source of this argument. What Peter Evans called "the discourse of eclipse of the state" has become prevalent among these scholars.⁷ Neo-Marxism, especially world-system theory, regards globalization as the expansion of the capitalist system around the globe. Immanuel Wallerstein has given us a contemporary presentation of the Marxist theory of the linkages between capitalism and globalization in his world-system theory.⁸ While states play a supporting role in world-system analysis, more contemporary authors focus on the diminishing role of the state in the age of globalization. According to Kenichi Ohmae, capital can establish plants wherever it wishes, either for cost or market reasons; government actions, in the form of taxation or regulation, are constrained by the desire not to "scare away the global economy."⁹ Consequently, "traditional nation-states have become unnatural, even impossible business units in a global economy."¹⁰ Mathew Horsman and Andrew Marshall even argue for the end of the nation-state, "[The state] has become marginalized by the autonomy of companies oper-

⁷Peter B. Evans, "The Eclipse of the State? Reflection on Stateness in an Era of Globalization," *World Politics* 50, no. 1 (October 1997): 62-82.

⁸Immanuel Wallerstein, *The Capitalist World-Economy* (Cambridge: Cambridge University Press, 1979).

⁹Kenichi Ohmae, *The End of the Nation State: The Rise of Regional Economies* (New York: HarperCollins, 1995), 75.

¹⁰*Ibid.*, 5. Also see Kenichi Ohmae, *The Borderless World: Power and Strategy in the Interlinked Economy* (London: Collins, 1990); and Walter B. Wriston, *The Twilight of Sovereignty: How the Information Revolution Is Transforming Our World* (New York: Charles Scribner's Sons, 1992).

ating in the transnational economy."¹¹ Susan Strange puts it more bluntly: "State authority has leaked away, upwards, sideways, and downwards," and in some matters, "just evaporated."¹²

This eclipse of the state results from its interaction with the market in both the international and domestic arenas. Economic globalization is bringing about a "de-nationalization" of economies through the establishment of transnational networks of production, trade, and finance.¹³ This is so because economic globalization has been accompanied by the formation of an international financial market, rapid growth of foreign investment, and dramatic increase in foreign trade.¹⁴

With the formation of a global financial market, capital is now so mobile that markets will ensure that holders of financial assets receive roughly the same, risk adjusted, real return everywhere. Any country that offers significantly lower returns will experience capital outflow and a rapidly depreciating exchange rate. It is virtually impossible now to go back to exchange controls as an economic regulator.¹⁵

The rapid growth of foreign direct investment (FDI) through transnational corporations (TNCs) imposes constraints on the economic sovereignty of the nation-state. The dominance of TNCs in trade flows has changed the meaning of "exports" and "imports." The mobility of capital and the importance of FDI have subtly changed the nature of national economic policies.

Changes in the trade field of a qualitative kind are also having a serious effect on economic sovereignty. A substantial segment of trade is now intra-industry rather than inter-industry, often due to specialization within

¹¹Mathew Horsman and Andrew Marshall, *After the Nation-State* (New York: HarperCollins, 1994), 235.

¹²Susan Strange, "The Defective State," *Daedalus*, Special issue: "What Future for the State?" 124, no. 2 (Spring 1995): 56.

¹³David Held, Anthony McGrew, David Goldblatt, and Jonathan Perraton, *Global Transformations: Politics, Economics, and Culture* (Stanford, Calif.: Stanford University Press, 1999), 3.

¹⁴Vincent Cable, "The Diminished Nation-State: A Study in the Loss of Economic Power," *Daedalus*, Special issue: "What Future for the State?" 124, no. 2 (Spring 1995): 23-53.

¹⁵*Ibid.*, 27-28.

TNCs. There are now large parts of the economy where it is no longer possible meaningfully to disentangle "national" exports and "foreign" imports for trade policy purposes. As the economic system becomes more deeply integrated through trade as well as investment, the traditional, explicit barriers to trade disappear.

When wealth and power are increasingly generated by private transactions that take place across the borders of states, it becomes harder to sustain the old image of states as the preeminent actors at the global level.¹⁶ As transnational economic activities become essential to domestic development, the state has to give up power to global actors. There remain few purely "domestic" issues.¹⁷

Globalization has led to the decline of state power over domestic social forces. It has become more difficult for the state to control civil society, just as economic globalization has made it almost impossible for state power to control private economic activities. This is especially so in authoritarian states. These states have exercised tight political control over domestic economic transactions and those engaged in them. However, globalization has created an economic sector which is beyond state control. For neo-liberals, the rise of (domestic and international) civil society is of significance for the nation-state. It could possibly become "a solution to the social and political side of public well-being, one that could make the state politically obsolete, just as global markets made the state economically obsolete."¹⁸

As the traditional boundaries and relations among the state, market, and society are redefined, different types of conflict have arisen. The state has traditionally played an important role in mediating conflict on both the domestic and international fronts. When the role of the state is affected by globalization, conflict becomes inevitable. Scholars have closely ex-

¹⁶Evans, "The Eclipse of the State?" 65.

¹⁷OECD Public Management Service, *Globalization: What Challenges and Opportunities for Government?* (Paris: OECD, 1996).

¹⁸Evans, "The Eclipse of the State?" 78-79.

amined how conflict can be associated with globalization.¹⁹ According to Dani Rodrik, globalization has created three sources of tension between the global market and domestic social stability.²⁰ First, it has reduced barriers to trade and investment and accentuated the asymmetry between groups that can cross international borders and those that cannot, and thus fundamentally transformed the employment relationship. Second, globalization has engendered conflicts within and between nations over domestic norms and the social institutions that embody them. As the technology for manufactured goods becomes standardized and diffused internationally, nations with very different sets of values, norms, institutions, and collective preferences begin to compete head-on in markets for similar goods. Third, globalization has made it exceedingly difficult for governments to provide social insurance—one of their central functions and one that has helped maintain social cohesion and domestic political support for ongoing liberalization throughout the postwar period. All these tendencies might lead to a loss of authority of those who govern in the name of the nation-state. The state cannot protect its citizens in ways they have been used to expect, and the state can no longer count on the loyalty of its citizens.

The neo-Marxist school has long associated globalization with social conflict. It often assumes that an open economy is more likely to lead to increased conflict. According to this school, globalization has been driven by two main actors: powerful local elites and transnational corporations. The penetration of trade and foreign capital into peripheral economies leads to the exploitation of local human and natural resources and to a transfer of profit back to the imperial centers. Close relations between the local power elite and foreign interests increase income inequality in the poor countries. Inequality is more often than not seen as giving rise to social conflict.

¹⁹For example, Gerald Schneider, Katherine Barbieri, and Nils P. Gleditsch, eds., *Globalization and Armed Conflict* (Lanham, Md.: Rowman & Littlefield, 2003); and Havard Hegre, Ranveig Gissinger, and Nils P. Gleditsch, "Globalization and Internal Conflict" (Paper presented at the conference on Polarization and Conflict, Barcelona, December 15-16, 2002).

²⁰Dani Rodrik, *Has Globalization Gone Too Far?* (Washington, D.C.: Institute for International Economics, 1997).

This logic is similar to the one presented by the dependency theory first developed in the 1960s and 1970s. Johan Galtung argued that economic relations between core and peripheral countries were driven by an alliance between the elites within both, and that such relations were conducted at the expense of the periphery within the periphery country.²¹ Based on a study of seventy-two countries during the period 1950-77, Volker Bornschier and Christopher Chase-Dunn also found that foreign capital increased inequality in poor countries.²² More recently, scholars of the dependency school have continued to find that FDI in less-developed countries reduces economic growth and increases inequality. It is argued that FDI is less likely to contribute to public revenues, encourage indigenous entrepreneurship, or promote links to other industries in the domestic economy, and more likely to use inappropriate capital-intensive technology.²³ A similar logic has been applied to the impact of globalization.²⁴

On the other hand, the liberal school has argued that globalization is likely to induce both international and domestic peace. These scholars have found that an open economy is often associated with a higher level of economic development.²⁵ Economic growth can directly reduce social conflict. When countries with more open economies achieve higher growth rates, they should eventually reach a higher level of welfare, which

²¹ Johan Galtung, "A Structural Theory of Imperialism," *Journal of Peace Research* 8, no. 2 (1971): 81-117.

²² Volker Bornschier and Christopher Chase-Dunn, *Transnational Corporations and Underdevelopment* (New York: Praeger, 1985).

²³ Glenn Firebaugh, "Growth Effects of Foreign and Domestic Investment," *American Journal of Sociology* 98, no. 1 (July 1992): 105-30.

²⁴ Hans-Peter Martin and Harald Schumann, *The Global Trap: Globalization and the Assault on Democracy and Prosperity* (London: Zed; New York: St. Martin's, 1998).

²⁵ David Dollar, "Outward-Oriented Developing Economies Really Do Grow More Rapidly: Evidence from 95 LDCs, 1976-85," *Economic Development and Cultural Change* 40, no. 3 (1992): 523-44; Ross Levine and David Renelt, "A Sensitivity Analysis of Cross-Country Growth Regressions," *American Economic Review* 82, no. 4 (September 1992): 942-63; Glenn Firebaugh and Frank D. Beck, "Does Economic Growth Benefit the Masses? Growth, Dependence, and Welfare in the Third World," *American Sociological Review* 59, no. 5 (October 1994): 631-53; and Indra de Soysa and John Oneal, "Boon or Bane? Reassessing the Effects of Foreign and Domestic Capital on Economic Growth," *ibid.* 64, no. 5 (October 1999): 766-82.

in turn is likely to reduce social conflict. According to Paul Collier and Anke Hoeffler, while there will always be someone who has sufficient grievances to be willing to start a rebellion against the government, the rebellion can only be carried out if it is financially viable. As welfare grows, the opportunities costs of participating in violent insurrection are higher. This increases the recruitment costs for the rebel group and thereby reduces the financial viability of the rebellion.²⁶

A stronger argument comes from the democratic peace school. The logic is simple. Economic growth is likely to promote democracy, and democracy is conducive to peace. Drawing on Manchester liberalism, particularly on a Kantian mode of thinking in international affairs, scholars have long argued for democratic peace in international affairs.²⁷ It is believed that such logic can be applied to domestic affairs.²⁸

The link between economic growth and democracy dates back to the modernization theory of the 1950s and 1960s. According to Seymour Lipset, higher incomes and better education for the lower strata of society lead to a more compromise-oriented view of politics.²⁹ Rich countries have a greater surplus to distribute; this permits modernization through education, occupational mobility, free flow of information, and organizational experience. All these factors encourage adaptability, compromise, tolerance, and modernization. Increased material and political resources, together with greater institutional diversity, act as preconditions for stable democracy.³⁰

²⁶Paul Collier and Anke Hoeffler, "Greed and Grievance in Civil War," *Oxford Economic Papers* 56, no. 4 (October 2004): 563-95.

²⁷Michael W. Doyle, "Kant, Liberal Legacies, and Foreign Affairs" (Parts I and II), *Philosophy and Public Affairs* 12, no. 3 (1983): 205-35 and 12, no. 4 (1983): 323-53; Michael W. Doyle, "Liberalism and World Politics," *American Political Science Review* 80, no. 4 (December 1986): 1151-61; Bruce Russett, *Grasping the Democratic Peace: Principles for a Post-Cold War World* (Princeton, N.J.: Princeton University Press, 1993); Bruce Russett and John R. Oneal, *Triangulating Peace: Democracy, Interdependence, and International Organizations* (New York: W.W. Norton, 2001); and Erich Weede, "Economic Policy and International Security: Rent Seeking, Free Trade, and Democratic Peace," *European Journal of International Relations* 1, no. 4 (1995): 519-37.

²⁸Hegre, Gissinger, and Gleditsch, "Globalization and Internal Conflict."

²⁹Seymour M. Lipset, "Some Social Requisites of Democracy: Economic Development and Political Legitimacy," *American Political Science Review* 53, no. 1 (March 1959): 75.

³⁰Hegre, Gissinger, and Gleditsch, "Globalization and Internal Conflict."

This logic is confirmed by some recent empirical studies.³¹ Democracy is believed to lead to domestic peace. In democratic countries, the decision-making system tends to enjoy greater acceptance among the general population, so dissatisfaction is not usually expressed in the form of serious challenges to the regime. Dissatisfaction can be channeled through the political system, with a low probability of outright rebellion.³²

In the case of China, we find that these arguments are not always clear-cut. It is found that the impact of globalization on state power is mixed. While the power of the state in some traditional areas has weakened, it has been strengthened or consolidated in some new areas.³³ For instance, the state bureaucracy and other economic institutions have been restructured to accommodate a globalized market economy. Individual enterprise and the development of an entrepreneurial class have also been encouraged.

As elsewhere, globalization in China has led to wider income disparities. Nevertheless, we believe that globalization *per se* does not lead to social conflict. What matters is the role of the state in redistributing income. The question is why the state has strengthened its power in certain areas but failed to achieve a fair distribution of income among regions and social groups.

We argue that the causality associated with liberal theory can be applied to the case of China. The inability of the state to cope with income inequality lies in the fact that China remains an authoritarian regime. While China as a whole has greatly benefited from openness and economic growth, these benefits have been unequally distributed among regions and social groups. Openness, while promoting rapid economic growth, has delayed China's democratization.³⁴ Without democratization, political

³¹For example, Adam Przeworski et al., *Democracy and Development: Political Institutions and Well-Being in the World, 1950-1990* (Cambridge: Cambridge University Press, 2000).

³²Hegre, Gissinger, and Gleditsch, "Globalization and Internal Conflict."

³³Zheng, *Globalization and State Transformation in China*.

³⁴Mary E. Gallagher, "Reform and Openness: Why China's Economic Reforms Have Delayed Democracy," *World Politics* 54, no. 3 (April 2002): 338-72.

participation for different social groups has been asymmetrical. While privileged groups, especially the newly ascendant private entrepreneurs, dominate national policy agendas, workers, farmers, and other under-privileged groups do not have an effective channel to provide policy inputs. When the state is more representative of wealthy social groups, any effective redistribution policy for the poor becomes unlikely, if not impossible.

Globalization in China

Globalization has been an integral part of China's post-Mao reforms. "Reform" (改革, *gaige*) and "openness" (開放, *kaifang*) have been two sides of the same coin. The aim of both was to integrate China into the international community. Gradually, international integration or globalization became an important force for further reform and openness. After the reformist leadership legitimized capitalism as a way of promoting economic growth in the early 1990s, the tide of globalization became irreversible. Not only has globalization generated its own dynamics,³⁵ but more importantly, it has become essential for overcoming difficulties associated with the domestic reforms.

Reform and openness have generated rapid economic growth. The Chinese economy grew at 9.7 percent during 1991-2003, after Deng Xiaoping (鄧小平) promoted the policy during his "southern tour," compared to 9.0 percent during 1978-91 (see table 1). Much of China's economic growth after 1978 was essentially investment-driven, with fixed assets investment growing at 19.6 percent for the period 1978-2003. However, investment growth was faster after the southern tour: 21.1 percent in 1991-2003 as opposed to 17.9 percent for 1978-91.

The most convincing economic effect of openness has been the explosive growth of FDI flowing into China after 1992. China has become

³⁵On how China's domestic interests pursued globalization, see David Zweig, *Internationalizing China: Domestic Interests and Global Linkages* (Ithaca, N.Y.: Cornell University Press, 2002).

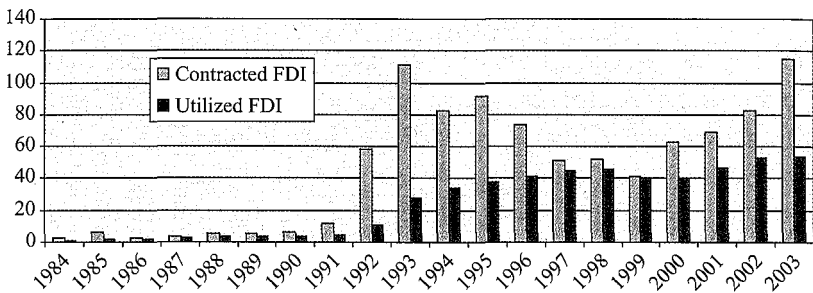
Table 1
Economic Growth in China

	1978-2003	1978-91	1991-2003
GDP growth (%)	9.4	9.0	9.7
Fixed assets investment (%)	19.6*	17.9*	21.1
FDI growth (%)	30.0**	28.2**	32.3
Export growth (%)	16.4	16.6	16.3

Notes: *The starting year is 1980; **The starting year is 1983.

Sources: *China Statistical Yearbook* (2004); and Invest in China website, <http://www.fdi.gov.cn>.

Figure 1
Foreign Direct Investment in China, 1984-2003 (US\$100 million)

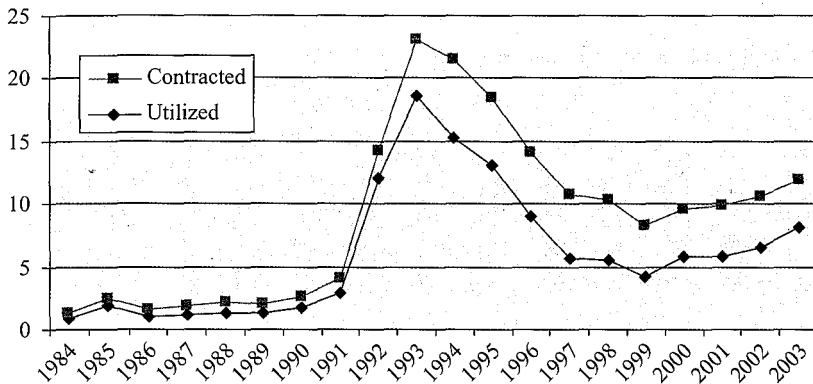


Sources: *China Statistical Yearbook*, various issues.

favorite destination among all developing countries for FDI. From 1984 to 2003, actual or utilized FDI increased at an average rate of 21.8 percent per annum to reach a cumulative total of US\$53.5 billion (see figure 1). For ten years in a row after 1993, China was second only to the United States for foreign capital inflow. During the 1990s, China absorbed about half of all FDI that went to the developing economies. In 2003, China surpassed the United States to become the world's top recipient of FDI. Accumulated FDI inflow to China by 2004 amounted to US\$60.9 billion.

FDI liberalization is believed to be a central part of the policy of "reform and openness," and increased foreign investment is a clear indicator of increased openness. There has been a significant rise in the ratio of

Figure 2
FDI over GDP (%) (1984-2003)



Sources: *China Statistical Yearbook*, various issues.

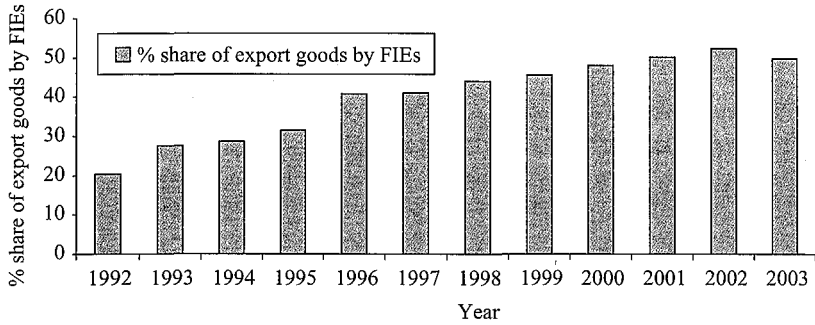
FDI to GDP, especially after 2001 (see figure 2). FDI has contributed most significantly to China's phenomenal export growth, and foreign-invested enterprises (FIEs) accounted for almost half of all exports from China in 2003, up from 20 percent in 1992 (see figure 3).³⁶

The last two decades have seen a rapid growth in China's exports in general, from US\$9.8 billion in 1978 to US\$593.4 billion in 2004, an average growth of 17.1 percent. In the aftermath of the 1997 Asian financial crisis, most Asian economies saw their export growth plunge into negative territory. China's export growth also stagnated at a mere 0.5 percent in 1998, compared to 21 percent in 1997. However, it rebounded quickly to 6 percent in 1999 and then shot up to a startling 28 percent in 2000 (see figure 4).

China has gradually emerged as a major world trading economy. By 2004, it had become the world's third largest exporting nation after the

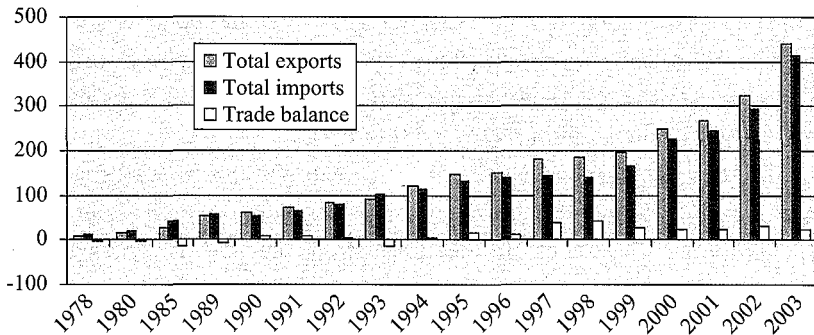
³⁶John Wong and Sarah Chan, "China's Rapidly Changing Export Structure," *EAI Background Brief*, no. 85 (East Asian Institute, National University of Singapore, April 9, 2001), 1.

Figure 3
FIEs' Contribution to China's Exports, 1992-2003



Sources: *China Statistical Yearbook*, various issues.

Figure 4
Exports, Imports, and Trade Balance (US\$ billion)



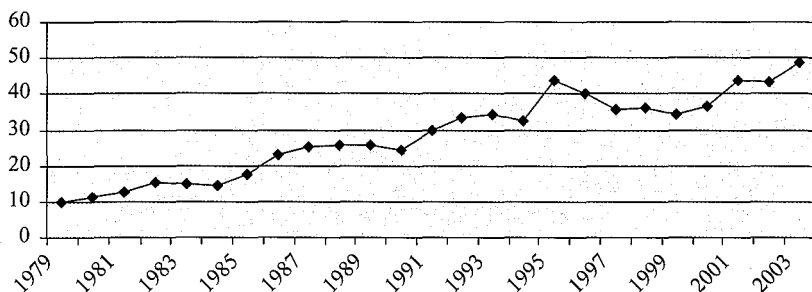
Sources: *China Statistical Yearbook*, various issues.

United States and Germany.³⁷ China accounted for 6 percent of global exports in 2003, compared to 1.7 percent in 1990; China's share of imports increased from 1.3 percent in 1990 to 5.4 percent in 2003,³⁸ a period when

³⁷"China Becomes World's 3rd Largest Exporter," Xinhua, April 16, 2005, http://www.china-daily.com.cn/english/doc/2005-04/16/content_434830.htm (accessed May 3, 2006).

³⁸*Direction of Trade Statistics* (Yearbook 2004, International Monetary Fund).

Figure 5
Share of Total Trade over GDP



Sources: *China Statistical Yearbook*, various issues.

Japan's shares declined and those of the Asian newly industrialized economies (NIEs) edged up only slightly.³⁹ Above all, on account of its strong external balance, China's foreign exchange reserves recently soared to US\$609.9 billion, the world's second largest. China's growing trade-GDP ratio is also a sign of an increasingly open and outward-looking economy (see figure 5).

International agreements to free up trade have been the major drivers of the large increase in trade and investment, which for many is the main manifestation of globalization. Since its entry into the WTO in 2001, China has become an active participant in global and regional economic integration. On November 4, 2002, China signed a landmark framework agreement with the Association of Southeast Asian Nations (ASEAN) in Cambodia to establish a free trade agreement (FTA) by 2010.⁴⁰ The formation of the China-ASEAN FTA signifies the creation of an economic region of 1.7 billion consumers with a combined GDP of US\$2 trillion and a trade

³⁹Tanikawa Hiroya, "Pitfall of Envisaged 'East Asian Economic Integration'—Implications of Expanding Imbalances in the Global Economy," *Columns Back Issues* 0100 (June 8, 2004, Research Institute of Economy, Trade, and Industry, Japan).

⁴⁰The framework agreement signed by the eleven nation-states sets out a road map for trade liberalization in goods and services for most countries by 2010 and for the less-developed ASEAN nations (namely Cambodia, Laos, Myanmar, and Vietnam) by 2015.

volume of US\$1.2 trillion. It is envisaged that the FTA will give impetus to the rapid expansion of intra-regional trade and investment and further accelerate bilateral tourism and cooperation in areas ranging from construction, energy, and financial matters. Eventually this is expected to lead to greater economic cooperation between China and ASEAN with benefit to both sides.⁴¹

In addition to the China-ASEAN FTA, China also concluded Closer Economic Partnership Arrangements (CEPAs) with the Hong Kong Special Administrative Region (SAR) and Macau SAR in June and October of 2003, respectively, to provide enhanced access to the mainland market for products, service providers, and professionals from both SARs. By offering "WTO plus" concessions, China is at the same time dangling big "carrots" in front of Taiwan's businessmen to encourage their further economic involvement with the mainland. China's closer ties with Hong Kong, Macau, and Taiwan, together with its FTA initiative with ASEAN, are accelerating the openness of China and its integration with the global market.

The Disequalizing Impact of Globalization

How has social conflict been associated with globalization? As discussed earlier, scholars have attributed social conflict to growing income inequalities, which have contributed to serious political tension between the "haves" and "have-nots." Under globalization and an increasingly market-oriented economy, some groups and regions, which are able to participate in the process, have benefited more than others.

Who, then, are the losers? According to one survey of perceptions among Chinese government officials and urban residents on the winners and losers of China's reforms in recent years, farmers and state-owned

⁴¹For further discussion of this topic, see John Wong and Sarah Chan, "China-ASEAN Free Trade Agreement: Shaping Future Economic Relations," *Asian Survey* 43, no. 3 (May/June 2003): 507-26.

Table 2
Perceptions among Government Officials and Urban Residents as to Which Social Groups Have Benefited Most and Least from the Reform and Opening-up Policy

Social Groups That Benefited the Most			Social Groups That Benefited the Least		
Types of social groups	Ranking	Choice as a %	Types of social groups	Ranking	Choice as a %
Party and government cadres	1	59.2	Workers	1	88.2
Private enterprises bosses	2	55.4	Farmers	2	76.3
Acting personnel	3	43.0	Teachers	3	15.3
Urban and rural self-employed	4	33.0	Professionals	4	14.2
SOE managers	5	29.3	SOE managers	5	8.8
Professionals	6	24.3	Urban and rural sole proprietorship	6	7.7
Teachers	7	14.9	Party and government cadres	7	5.1
Farmers	8	3.4	Private enterprises bosses	8	4.7
Workers	9	1.5	Acting personnel	9	2.5
Others	10	0.5	Others	10	2.7

Source: Zhou Jiang, "2002 nian Zhongguo chengshi redian wenti diaocha" (Investigation of the hot issues in Chinese cities in 2002), in *2003 nian Zhongguo shehui xingshi fenxi yu yuce*, ed. Ru Xin, Lu Xueyi, and Li Peilin (Analyses and forecasts of China's social situation in 2003) (Beijing: Shehui kexue wenxian chubanshe, 2003), 159-60.

enterprise (SOE) workers are seen as the biggest losers in the globalization process (see table 2).⁴² The question then arises: Why and how do these groups become losers?

The reforms dismantled the Maoist egalitarian policies and promoted China's economic growth, and this was accompanied by substantial poverty reduction. Nevertheless, both welfare increases and poverty reduction

⁴²This is also illustrated by the increasing income inequality between rural and urban residents and the rising disparity between rich and poor within the urban regions.

were extremely uneven, and income disparities among different social groups and regions were not reduced. According to World Bank estimates, China's Gini coefficient increased from 0.288 in 1981 to 0.388 in 1995. It was still lower than in most Latin American, African, and East Asian countries and similar to that of the United States, but it was higher than in most of the transitional economies of Eastern Europe and many high-income countries in Western Europe.⁴³ Various studies indicate that income disparities have become worse since the mid-1990s (see table 3).

Urban disparities: According to official data, the urban Gini coefficient increased from 0.176 in 1981 to 0.275 in 1995.⁴⁴ In 1996, nearly two-thirds of the bottom 20 percent of households found that their income had fallen. Almost half of the next 20 percent of households found their income had declined. In contrast, the top 20 percent of urban households enjoyed an increase in their income.⁴⁵ In 1990, their average income was only 4.2 times higher than that of the bottom 20 percent, but by 1998, it had jumped to 9.6 times. The share of total income enjoyed by the richest 10 percent of households increased from 23.6 percent in 1990 to 38.4 percent in 1998. On the other hand, the share of the bottom 20 percent declined from 9 percent to 5.5 percent during the same period.⁴⁶ Urban residents used to be "haves," cut off from the hundreds of millions of "have-nots" in the vast countryside. However, after more than two decades of economic reform, about 30 million urban residents were living in poverty and their incomes were no more than one-third the national average.⁴⁷

⁴³The World Bank, *China 2020. Sharing Rising Incomes: Disparities in China* (Washington, D.C.: The World Bank, 1997), 7.

⁴⁴*Ibid.*, 17.

⁴⁵National Bureau of Statistics, *Annual Prices and Family Incomes and Expenditures in Chinese Cities, 1998* (Beijing: Zhongguo tongji chubanshe, 1998), 9.

⁴⁶Xu Xinxin and Li Peilin, "1998-1999 nian Zhongguo jiuye shouru he xinxi changye de fenxi he yuce" (Employment, income, and IT industry: analysis and forecasts, 1998-1999), in *1999 nian Zhongguo shehui xingshi fenxi yu yuce* (Analyses and forecasts of China's social situation in 1999), ed. Ru Xin, Lu Xueyi, and Shan Tianlun (Beijing: Shehui kexue wenxian chubanshe, 1999), 34.

⁴⁷Shaoguang Wang, "The Social and Political Implications of China's WTO Membership," *Journal of Contemporary China* 9, no. 25 (November 2000): 385.

Table 3
Estimates of Gini Coefficients of Income in China, 1980-2004***

Year	World Bank	Zhao Renwei & Li Shi	Ministry of Finance	Chen Zongsheng	Liu Xiaodong & Lu Qing	Xiang Shujian	Other sources
1981	0.288			0.264		0.268	
1982				0.253		0.249	
1983				0.287	0.331	0.264	
1984	0.297			0.271	0.340	0.278	
1985				0.288	0.345	0.266	
1986				0.288	0.360	0.297	
1987				0.292	0.357	0.305	
1988		0.382		0.296	0.362	0.313	
1989	0.349					0.321	
1990	0.339					0.306	
1991			0.282			0.324	
1992	0.375					0.340	
1993						0.359	
1994						0.362	
1995	0.388	0.445				0.351	
1996							
1997							
1998	0.403		0.456				
1999			0.457				
2000			0.458				
2001							0.459*
2004							0.465**

Sources and notes:

World Bank data during the 1981-95 period come from World Bank, *China 2020. Sharing Rising Incomes: Disparities in China* (Washington, D.C.: World Bank, 1997), 2, 10.

World Bank data for 1981-95 were based on a survey of labor income conducted by the State Statistical Bureau Survey Team. The data included estimated in-kind income such as housing, education, and health care benefits. Data for 1998 come from *World Bank, World Development Report: Attacking Poverty* (New York: Oxford University Press, 2001), 282.

Estimates by Zhao Renwei and Li Shi come from Zhao Renwei, Li Shi, and Carl Riskin, eds., *Zhongguo jumin shouru fenpei zaiyanjiu* (Income distribution of China's residents revisited) (Beijing: Zhongguo caizheng jingji chubanshe, 1999), 11. The data are based on surveys of wages, in-kind income, and income from property. According to Azizur Rahman Khan and Carl Riskin, international experts participating in the surveys, the results are more comprehensive and reliable than the above estimates by the World Bank. See Azizur Rahman Khan and Carl Riskin, *Inequality and Poverty in China in the Age of Globalization* (Oxford: Oxford University Press, 2001).

Table 3: Sources and notes (Continued)

Estimates by the Ministry of Finance (MOF) were cited in several news reports. See "Conditions of Income Distribution of Residents in Our Country and Fiscal Adjustment," *Jingji ribao* (Economic Daily), June 16, 2003, 6.

Estimates by Chen Zongsheng (陳宗勝), Liu Xiaodong (劉曉東) and Lu Qing (盧青), and Xiang Shujian (向書堅) come from Zhao Manhua and Wang Shangyi, *Shouru chaju yu liangji fenhua wenti yanjiu* (A study of income gaps and polarization) (Beijing: Zhongguo jingji chubanshe, 2002), 152. No details about the methods used for these series are provided.

*Yang Yiyong and Huang Yanfen, "New Situation in Income Distribution of China's Residents," in *2003 nian Zhongguo shehui xingshi fenxi yu yuce* (Analyses and forecasts of China's social situation in 2003), ed. Ru Xin, Lu Xueyi, and Li Peilin (Beijing: Shehui kexue wenxian chubanshe, 2003), 226-34. No details about research method are disclosed.

**Study by Gu Yan (顧嚴) and Yang Yiyong, cited in "Resident Income: A Beautiful Upward Curve," *Zhongguo xinxi* (China Information), January 24, 2005.

***The data in this table is compiled by Hongyi Lai. See Hongyi Lai, "Growth with Rising Income Inequality: China's Response to the Problem," *Background Brief*, no. 227 (East Asian Institute, National University of Singapore, February 16, 2005).

Urban-rural disparities: The urban-rural income gap, which is a legacy of the Mao era, is widening (see figure 6).⁴⁸ For example, when China began its economic reform, urban per capita income was 2.6 times the rural equivalent.⁴⁹ In the early years of reform, urban-rural disparities were reduced as reform was first implemented in the countryside. However, since the beginning of the urban reforms in 1984, the gap has widened continuously. According to the World Bank, China's rural-urban gap is large by international standards. In most countries, rural incomes are on average 66 percent or more of urban incomes. In China, they were only 40 percent of urban incomes in 1995, down from a peak of 59 percent in 1983.⁵⁰ In 2003, average per capita disposable income in rural areas was 2,622 *yuan*, compared to 8,742 *yuan* in urban areas.⁵¹

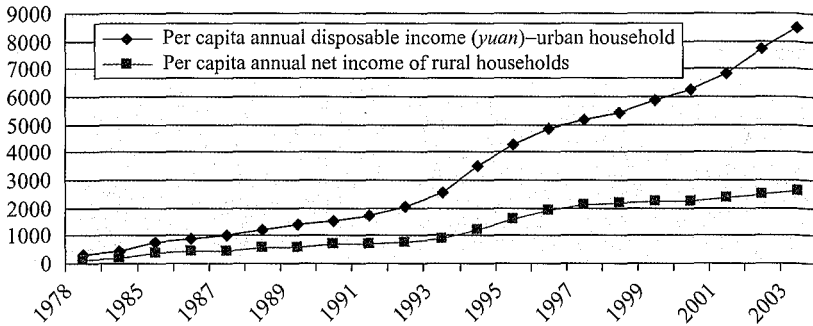
⁴⁸ Azizur Rahman Khan and Carl Riskin, *Inequality and Poverty in China in the Age of Globalization* (Oxford: Oxford University Press, 2001). We thank a referee for pointing this out.

⁴⁹ Wang, "The Social and Political Implications of China's WTO Membership," 386.

⁵⁰ The World Bank, *Sharing Rising Incomes*, 16.

⁵¹ *China Statistical Yearbook* (2004).

Figure 6
Per Capita Annual Average Income (Yuan)



Sources: *China Statistical Yearbook*, various issues.

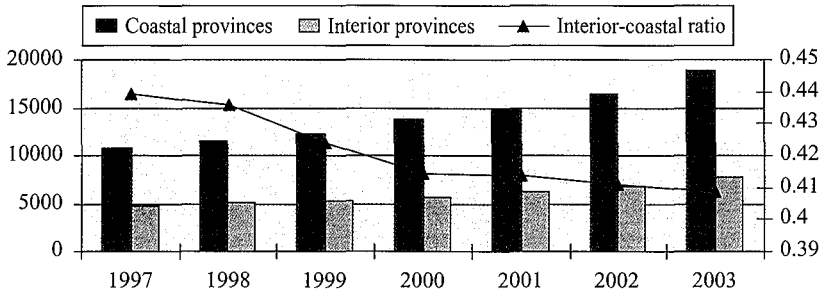
Regional disparities: According to the World Bank, regional disparities in China were moderate compared to inequality within provincial borders. For example, in 1992, the average income in coastal China was 50 percent higher than that of the interior provinces, but in the same year, the rural-urban income gap was twice as large.⁵² In contrast, Wang Shao-guang (王紹光) and Hu Angang (胡鞍鋼) have given us a more pessimistic picture. In a detailed study on regional disparities published in 1999, they reached three conclusions. First, inter-provincial inequality had been increasing; second, regional gaps were unusually large; and third, regional inequality was a multi-dimensional phenomenon.⁵³ Income disparity in terms of per capita GDP between China's coastal and interior provinces has been on the rise since 1983 and accelerated after 1990 (see figure 7). As in many other countries,⁵⁴ the growing inequalities among social groups and regions resulting from the ever deepening process of globalization are

⁵²The World Bank, *Sharing Rising Incomes*, 22.

⁵³Shaoguang Wang and Angang Hu, *The Political Economy of Uneven Development: The Case of China* (Armonk, N.Y.: M.E. Sharpe, 1999).

⁵⁴Christopher Cramer, "Economic Inequalities and Civil Conflict" (Center for Development Policy & Research Discussion Paper 1501, School of Oriental and Africa Studies, University of London, 2001).

Figure 7
Regional Disparity in China: Per Capita GDP (in Current Price)



Sources: *China Statistical Yearbook*, various issues.

increasingly becoming a source of social conflict in China, especially when proper state policies are not in place.

The State as Intervening Variable

Globalization-related economic factors are playing an important role in widening income disparities in China. One can ascribe the recent rise in urban inequality to technological change, or to the advancement of skill-biased technology, which has been augmented by globalization, both through trade liberalization and FDI. These technologies, in particular improvements in information technology, generate demand for new skills and thus create scarcity rents for workers with those skills. Equipped with new technologies, educated workers can now enjoy higher productivity. This allows firms to eliminate jobs performed by the less skilled and to replace unskilled labor with skilled labor and capital-embodiment new technologies, thus affecting the labor share in total income and the wage spread.⁵⁵ Moreover, since trade creates a tendency for the price of labor-

⁵⁵Giovanni Andrea Cornia, "Inequality and Poverty in the Era of Liberalization and Globalization" (UNU/WIDER Discussion Paper, 2000), in *Inequality, Growth, and Poverty in an Era of Liberalization and Globalization*, ed. Giovanni Andrea Cornia (New York: Oxford University Press, 2004), chap. 1.

intensive products to decrease and the price of skill-intensive products to increase, incentives for the introduction of new skill-biased technologies are strengthened.⁵⁶

Widening urban-rural disparities can also be linked to globalization, through rapid urban-based industrialization, export-led growth in urban areas, and neglect of the poor rural regions and of agriculture. The manner of globalization in China is highly sector-biased, with trade policies promoting urban-based industries. The manufacturing sector, especially the labor-intensive export sector, has gained the most benefit from the export boom and the inflow of foreign investment. There has been a surge in employment in the export sector, which has made urban workers better-off compared to their rural counterparts. Most rural areas remain relatively poor and have lost out in the fast growing process of globalization. This imbalance effect of globalization has widened the urban-rural gap and made it more difficult for the rural poor to catch up with urban dwellers.

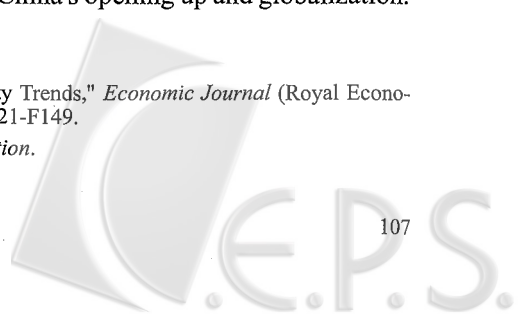
Nonetheless, any explanation must take the role of the state into account. The state has played an important role in facilitating globalization in China.⁵⁷ While the state, as a main agent of globalization, benefits from an increasingly globalized economy, it must also take responsibility for income disparities resulting from the process. How does the state come to play a part in this process? Three factors can be identified, including the state's reform strategy, its insufficient internal reforms, and the existing asymmetrical "voice" mechanisms resulting from the lack of political reforms.

The State's Reform Strategy

Income inequalities among regions and social groups are directly associated with the state's reform strategy, namely, using external reforms to create the dynamics for internal reforms. External reforms refer to those reform measures aimed at promoting China's opening up and globalization.

⁵⁶Acemoglu Daron, "Cross-Country Inequality Trends," *Economic Journal* (Royal Economic Society) 113 (485) (February 2003): F121-F149.

⁵⁷Zheng, *Globalization and State Transformation*.



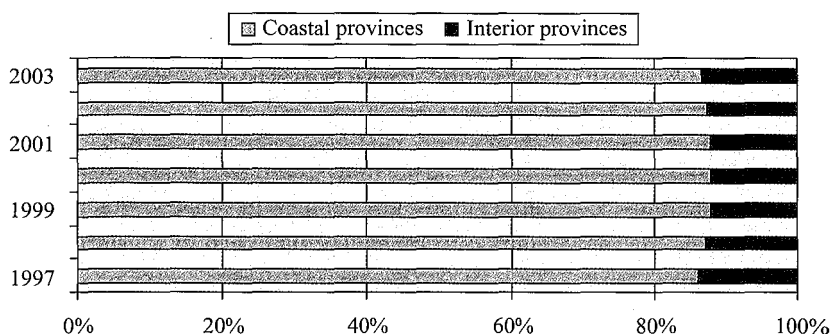
Most of these are in the area of economic policies. Internal reforms are measures aimed at rebuilding domestic governance and restructuring interest redistribution in accordance with changing socioeconomic conditions. Internal reforms are more comprehensive, covering social and political reforms as well as economic reforms. The rationale behind the strategy adopted by the Chinese leadership is simple: external reforms are easier to undertake than internal ones. To engage in internal reforms first, the leadership would have had to overcome resistance from vested interests. The Chinese leadership did not take this option; instead, it engaged in external reforms first. The goal of the external reform was to create new interests besides the old vested ones that would generate pressure for internal reform.

Nevertheless, contrary to what the leadership had initially expected, successful external reform did not create sufficient pressure for internal reform. The new interests generated by the external reform soon became vested interests themselves or joined existing vested interests to resist the internal reform. Consequently, the internal reform has lagged far behind external reform. The gap between the two has an impact not only on the progress of China's reform agenda, but also on income inequalities among regions and social groups.

The state's reform strategy is linked to the uneven influence of globalization on China's coastal and interior provinces. From early 1980 when the five Special Economic Zones (SEZs) were established in the three provinces of Guangdong (廣東省), Fujian (福建省), and Hainan (海南省), local governments had considerable latitude to grant special privileges to exporting firms, such as the right to duty-free imports of intermediate inputs. Similar rights to encourage trade and foreign investment were subsequently granted to another fourteen coastal cities in a further eight provinces. These special economic zones and coastal open areas acquired considerable autonomy, enjoyed favorable tax treatment, and received preferential resource allocation.⁵⁸ As pointed out by Giovanni Andrea

⁵⁸ John M. Litwack and Yingyi Qian, "Balanced or Unbalanced Development: Special Eco-

Figure 8
Regional Distribution of FDI Inflow



Sources: *China Statistical Yearbook*, various issues.

Cornia,⁵⁹ export-growth policy, which was deliberately pursued in a regionally unbalanced manner, played an even greater disequalizing role, as it favored the coastal provinces through the granting of special administrative and economic powers, tax privileges, and other benefits which facilitated the development of export industries and the inflow of foreign direct investment. Thanks to these preferential policies, coastal provinces were able to experience rapid growth as a result of the liberalization of international trade and investment flows, leaving the interior provinces far behind in attracting investment and generating growth. This further widened the interior-coastal gap in term of growth and income level.

Throughout the 1980s and early 1990s, the coastal provinces attracted a disproportionately high share of foreign investments and trade,⁶⁰ and in more recent years the coastal region has consistently absorbed a dominant proportion of China's total FDI inflow (see figure 8). Sylvie Demurger

conomic Zones as Catalysts for Transition," *Journal of Comparative Economy* 26, no. 1 (March 1998): 1-25.

⁵⁹See note 55 above.

⁶⁰Dennis Tao Yang, "What Has Caused Regional Inequality in China?" *China Economic Review* 13, no. 4 (2002): 331-34.

and others have found that preferential investment and trade policies contributed directly to the differences in provincial growth rates.⁶¹

On top of the biased "open-door" policies, the geographical advantage of the coastal provinces also enabled them to better explore the opportunities offered by globalization, through their demographic linkages and closer economic ties with the East Asian and Pacific economies. This also worsened the disparities between the inland and coastal provinces.

Since the mid-1990s, the Chinese government has placed much emphasis on economic development in other regions, such as western and northeast China. Nevertheless, the different reform programs have not achieved much success so far. Compared to the early stages of reform, the capacity of the state has declined dramatically while the market has come to play a more important role in inducing economic development in the interior. Despite repeated calls on the part of the central government, the coastal regions are reluctant to make greater efforts to facilitate development in the inland provinces.

Poor Internal Reform

Compared to the smooth progress of external reforms, the internal reform has been slow and lackluster. This can be exemplified by the reforms of agriculture and the SOEs which are widely believed to be major causes of rural and urban social conflict.

On agricultural reform, most scholars would agree that farmers' protests are closely associated with the heavy taxes, fees, and charges imposed on them by the different levels of government.⁶² These burdens (*nongmin fudan* (農民負擔, peasant burdens) increased after the 1994 taxation reform, the aim of which was to centralize fiscal power and constrain the rise of localism. On one hand, the new system was quite effective, as it arrested

⁶¹Sylvie Demurger, Jeffrey D. Sachs, Wing Thye Woo, Shuming Bao, Gene Chang, and Andrew Mellinger, "Geography, Economic Policy, and Regional Development in China," *Asian Economic Papers* 1, no. 1 (January 2002): 146-97.

⁶²Zhao Yang and Zhou Feizhou, "Nongmin fudan he caishui tizhi" (Peasants' burdens and the fiscal system), *Hong Kong Journal of Social Sciences*, no. 17 (Autumn 2000): 67-85.

the downward trend of the budgetary revenue to GDP ratio, and increased the share of the central government in total budgetary revenue. In 1998, total budgetary revenue was 12.8 percent of GDP, only slightly below the 1993 level of 13.5 percent. The share of the provinces was also reduced. Remitting provinces saw their budgetary revenue share drop by more than 20 percentage points from 85.8 percent in 1993 to 61.8 percent in 1998. Those provinces that were recipients of subsidies also saw their share decrease from 112.7 percent to 86.3 percent during the same period.⁶³

While the new system strengthened the fiscal power of the central government, it drastically affected relations between different levels of government. In particular, the impact of the change was felt most at the county and township levels in two ways. First, while the new system shifted fiscal power from local governments to the center, there was no corresponding shift in responsibilities. For example, the central government should have been responsible for financing the cost of the nine-year compulsory education system, but in reality, local governments at county and township levels still had to foot the bill, and consequently, the financial burdens on these governments increased greatly. Second, the new system provided a disincentive for local governments to promote local economic growth, and thus local tax bases shrank.⁶⁴

The pre-1994 fiscal decentralization was widely regarded as providing a helping hand for local governments. It gave a fair share of revenues from additional growth to the localities, which effectively turned local governments into residual claimants in their regions, and thus provided strong incentives for them to promote local economic growth.⁶⁵ These stronger

⁶³Kang Chen, Arye L. Millman, and Qingyang Gu, "From the Helping Hand to the Grabbing Hand: Fiscal Federalism and Corruption in China," *EAI Working Paper*, no. 67 (East Asian Institute, National University of Singapore, February 2001).

⁶⁴Lu Xueyi, "Zhongguo nongcun zhuangkuan ji cunzai wenti de yuanyin" (China's rural situation, problems and their origins), in *2001 nian Zhongguo shehui xingshi fenxi yu yuce* (Analyses and forecasts of China's social situation in 2001), ed. Ru Xin, Lu Xueyi, and Shan Tianlun (Beijing: Shehui kexue wenxian chubanshe, 2001), 163.

⁶⁵Yingyi Qian and Barry R. Weingast, "China's Transition to Markets: Market-Preserving Federalism, Chinese Style," *Journal of Policy Reform* 1 (1996): 149-85; and Yingyi Qian and Barry R. Weingast, "Federalism as a Commitment to Market Incentives," *Journal of Economic Perspectives* 11, no. 4 (Fall 1997): 83-92.

fiscal incentives were found to be associated with the faster development of non-state enterprises and more reform in state-owned enterprises.⁶⁶

The 1994 reform turned what was originally intended to be the helping hand into the grabbing hand. It changed the incentive structure for local governments to promote economic development and led to negative consequences such as increasing corruption, widespread unemployment, and a slowing-down of economic growth.⁶⁷ The increase in *nongmin fudan* can also be understood in the context of this reform. As the resulting economic slowdown caused the local tax base to shrink, local officials turned to collecting informal revenues, both legal and illegal.

As the local governments were forced to extract more wealth from the peasants, so the latter have been driven to rebel against the local governments.⁶⁸ Instead of the Chinese saying, "tyranny is fiercer than a tiger" (苛政猛於虎, *kezheng meng yu hu*), the peasants complain that "excessive fees are fiercer than a tiger" (苛費猛於虎, *kefei meng yu hu*). If peasant rebellions in the old days were believed to be associated with "tyranny," peasant protests today are certainly connected with "excessive fees."

In recent years, more and more social unrest in rural areas has been associated with the violation of peasants' land-use rights on the part of local governments. While the sources of rural social conflict may differ over time, the logic is the same: when the central government is not able to provide peasants with institutional and lawful means to protect their interests, collective action becomes inevitable.

Like the peasant protests, labor movements can also be attributed to deficiencies in urban reforms, especially the reform of state-owned enterprises. Among others, unemployment, low wages, and managerial corruption are believed to be the most important factors leading to the rise of labor movements.

⁶⁶Hehui Jin, Yingyi Qian, and Barry R. Weingast, "Regional Decentralization and Fiscal Incentives: Federalism, Chinese Style," *Stanford University Working Paper*, SWP-99-013 (1999).

⁶⁷See note 63 above.

⁶⁸See, for example, Thomas P. Bernstein and Xiaobo Lu, *Taxation without Representation in Contemporary Rural China* (New York: Cambridge University Press, 2003).

The official rate of unemployment is unrealistically low since it only includes those jobless persons who bother to register with the authorities and excludes laid-off (下崗, *xiagang*) workers and excess labor in the countryside. The laying-off problem surged in the early 1990s. After Deng Xiaoping's southern tour in early 1992, various market-oriented reform measures were introduced into China's SOEs, such as "smashing the iron bowl" and "reform of the three systems" (i.e., labor, wages, pensions, and insurance).⁶⁹ These reforms immediately exacerbated the problem of laid-off workers. The situation deteriorated after 1997 when further privatization measures, such as the shareholding system, were implemented. Although the government initiated various reemployment programs to cope with the problem, they failed to improve the situation.⁷⁰ In some provinces, demonstrations involving tens of thousands of workers protesting against late pay-checks and unreasonable layoffs have led to backtracking in the reforms.⁷¹

The problem of unemployment was especially difficult to deal with in the traditionally heavy industry-oriented northeast provinces of Liaoning (遼寧省), Jilin (吉林省), and Heilongjiang (黑龍江省), as SOEs were privatized and downsized. It was also a serious problem in the interior provinces, such as Hunan (湖南省), Sichuan (四川省), and Shanxi (山西省). In contrast, the coastal provinces, including Guangdong, Shandong (山東省), Zhejiang (浙江省), Jiangsu (江蘇省), Hebei (河北省), Shanghai (上海市), and the national capital Beijing (北京市), saw low rates of unemployment (see figure 9).⁷² Poor labor protection is another major factor

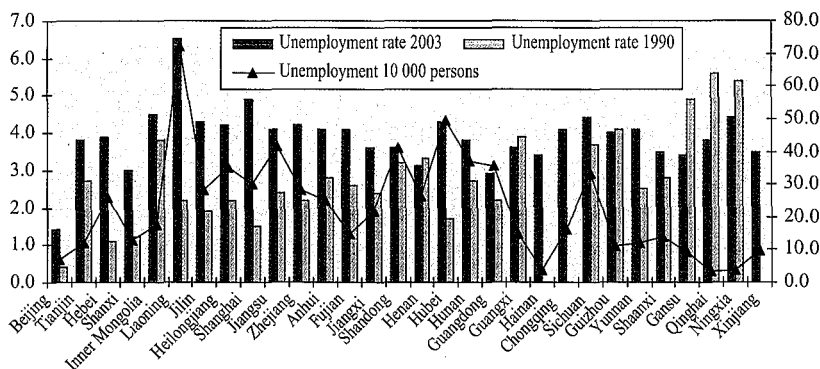
⁶⁹For a discussion of some immediate reaction to these policies, see Yang Aihua and Lu Shishan, *Zapo "santie" hou de Zhongguoren* (Chinese after the smashing of the "three irons") (Beijing: Beijing ligong daxue chubanshe, 1992).

⁷⁰Edward X. Gu, "From Permanent Employment to Massive Lay-offs: The Political Economy of 'Transitional Unemployment' in Urban China (1993-98)," *Economy and Society* 28, no. 2 (May 1999): 281-99.

⁷¹Elizabeth Economy, "China Confronts the Challenge of Globalization: Implications for Domestic Cohesion and International Cooperation" (New York: Rockefeller Brothers Fund, 1998).

⁷²Hu Angang, "High Unemployment in China: Estimates and Policies" (Paper presented at the international conference on "Center-Periphery Relations in China: Integration, Dis-

Figure 9
Unemployment by Region



Source: *China Statistical Yearbook* (2004).

contributing to labor disputes. One major objective of the economic reform was that enterprises should become legally entitled to managerial autonomy, including the power to hire and fire.⁷³ When managers had greater power to lay off workers, tension was introduced into state-labor relations. Many other factors further worsened the situation, including wages that are excessively low or not paid at all, and managerial corruption.⁷⁴ If workers are unable to make ends meet, they have a strong motivation to protest, and this is exacerbated if they perceive their managers to be corrupt—i.e., enriching themselves by stripping the assets of enterprises that workers depend on for a living.⁷⁵

Market-oriented economic reform effectively eliminated the privileges that workers used to take for granted. Workers' standards of living

integration, or Reshaping of an Empire?" The French Center for Contemporary China and the Chinese University of Hong Kong, Hong Kong, March 25, 2000).

⁷³Barry Naughton, *Growing Out of the Plan: China's Economic Reform 1978-1993* (New York: Cambridge University Press, 1996), 294-95.

⁷⁴Feng Chen, "Subsistence Crisis, Managerial Corruption and Labor Protests in China," *The China Journal*, no. 44 (July 2000): 42.

⁷⁵For example, X. L. Ding, "The Illicit Asset Stripping of Chinese State Firms," *The China Journal*, no. 43 (January 2000): 1-28.

declined continuously as the reforms intensified, and many workers joined the ranks of the urban poor. Managerial reform, which granted greater autonomy to managers, subjected workers to coercive modes of labor control and arbitrary managerial power. Workers were defenseless in the face of heavy-handed enforcement of a capitalistic logic and increasingly despotic factory regimes.⁷⁶

In the state sector, labor protests arose because almost every step along the path of market reform resulted in a setback for workers' social status and livelihood.⁷⁷ The situation in the non-state sector, especially in foreign-invested enterprises, was not altogether rosy either. The government introduced various preferential policies to attract foreign investors, and the resultant surge in labor abuses in this sector caused the government to implement laws to regulate industrial relations and protect workers. Nevertheless, the enforcement of these labor laws had to contend with major obstacles. For example, local authorities were disinclined to enforce the laws as that might discourage foreign capital and technology in their localities.⁷⁸

Without effective law enforcement, labor disputes in foreign-invested enterprises surged. According to official statistics, since the mid-1990s, most labor disputes have occurred in the non-state sector. For example, in 1999, there were 76,633 labor disputes in the non-state sector, 63.8 percent of the total disputes that year. Among them, 27,824 disputes or 36.3 percent occurred in foreign-invested enterprises. In the same year, there were 2,726 collective labor disputes (30.1 percent of the total), involving 111,438 workers (34.9 percent of the total) (see figures 10 and 11).⁷⁹

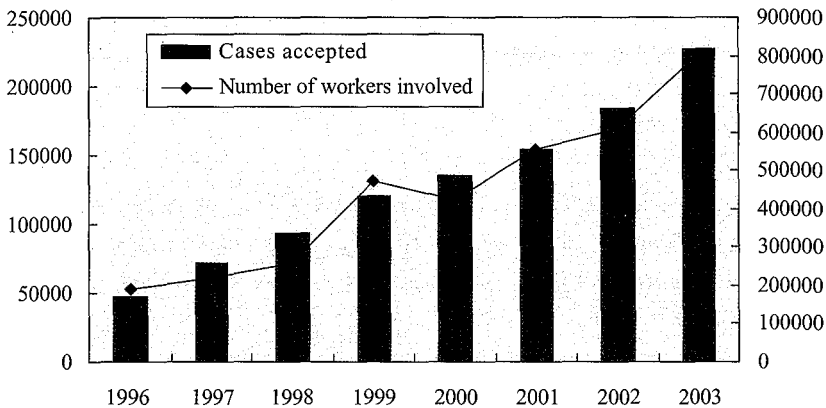
⁷⁶Ching Kwan Lee, "From Organized Dependence to Disorganized Despotism: Changing Labor Regimes in Chinese Factories," *The China Quarterly*, no. 157 (March 1999): 44-71.

⁷⁷Ching Kwan Lee, "Pathways of Labor Insurgency," in *Chinese Society: Change, Conflict, and Resistance*, ed. Elizabeth J. Perry and Mark Selden (New York: Routledge, 2000), 41-61.

⁷⁸Lo Vai Io, "Labor Law for Foreign Investment Enterprises in China," in *Reform, Legitimacy, and Dilemmas: China's Politics and Society*, ed. Wang Gungwu and Zheng Yongnian (Singapore and London: Singapore University Press and World Scientific, 2000), 167-95.

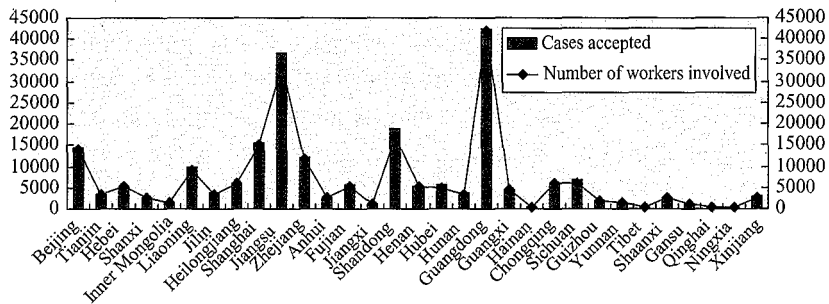
⁷⁹Ru, Lu, and Shan, 2001 nian Zhongguo shehui xingshi fenxi yu yuce, 320.

Figure 10
Number of Workers Involved in Labor Disputes, 1996-2003



Sources: *China Statistical Yearbook*, various issues.

Figure 11
Provincial Distribution and Number of Workers Involved in Labor Disputes, 2003



Source: Ministry of Labor and Social Security, PRC, <http://www.molss.gov.cn/>.

Asymmetrical "Voice" Mechanisms

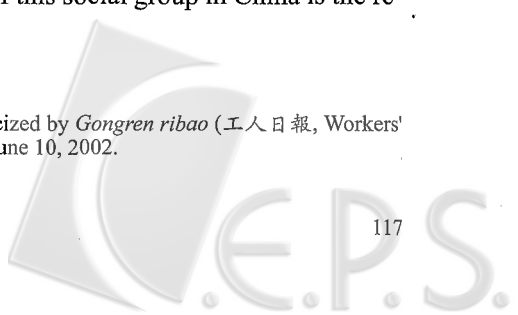
Reform and openness, while promoting rapid economic growth, have simultaneously generated a fertile environment for social conflict. The state has not been able to carry out sufficient reform to cope with all the undesirable side-effects. A more important factor is China's political system,

which renders the state unable to initiate feasible reform policies. As a Leninist authoritarian political system, China does not have formal mechanisms for interest aggregation and articulation for social groups. The various informal channels that do exist offer extremely asymmetrical access for different social groups, denying equal treatment for all.

Ruling class: The ruling class consists mostly of so-called technocrats. While this class has made a big contribution to China's economic growth throughout the reform era, it has also reaped large benefits. Since the technocrats are the decision-makers, they undoubtedly consider their own interests when they make decisions. This does not mean that their interests are always met first. Many of them have not been able to share the economic fruits of the transition from a planned to a market economy. As decision-makers, however, they are able to aggregate and articulate their own interests. Many of them have gone into business, taking advantage of their original positions, while others use their public power to profit from the foreign exchange market and various forms of corruption. In a way, both engaging in business and corruption can be interpreted as a form of silent protest at the leadership's failure to satisfy their economic interests. Those who are not able to take part in such protests can still demand more economic benefits in terms of increased salaries. For instance, from 1999 to 2002, the salaries of technocrats have increased four times, while other classes, especially peasants, have experienced continuous decreases in income.⁸⁰ The leadership has approved these wage increases in order to discourage widespread corruption. For whatever reasons, the technocratic class is becoming more capable of articulating its interests and inputting its demands into the political process.

Private entrepreneurs: Private entrepreneurs or capitalists have helped promote rapid economic development and are the major contributors to the growing economic pie. And without doubt, capitalists are getting the biggest slice of this pie. The revival of this social group in China is the re-

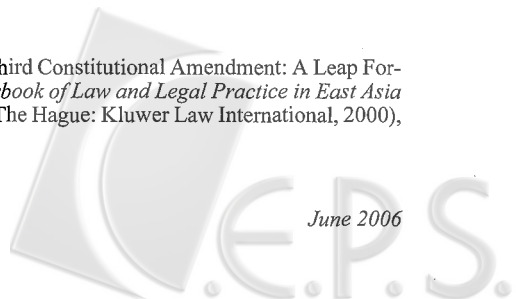
⁸⁰The latest efforts at wage increase were criticized by *Gongren ribao* (工人日報, Workers' Daily). See *Ming pao* (明報, Hong Kong), June 10, 2002.



sult of the leadership's decision to reform the economy and build a market system, and this system has greatly facilitated the capitalists in articulating their interests. In the early 1980s, the existence of capitalists was hardly recognized and they were subject to various discriminatory policies and practices. In the latter part of the decade, however, the private sector was legalized, partly because of its increasing economic significance and partly because of the leadership's desire for rapid economic development. In 1998, the third constitutional amendment further accorded the private sector constitutional protection.⁸¹ Once the capitalists' economic interests were satisfied, they soon turned to political demands. Business and commercial associations are the most powerful civic organizations in China, and they have representatives in state organizations such as the people's congresses and political consultative conferences. As discussed earlier, private entrepreneurs have made great efforts to participate in the political process at all levels of government. More and more private entrepreneurs are entering the Communist Party.

Intellectuals: Intellectuals are worthy of mention as important social actors. Since the early 1990s, the Party-state has effectively co-opted intellectuals. Many of them have now become part of the decision-making process through their membership of people's congresses, political consultative conferences, and other political bodies. Indeed, in the era of the "knowledge economy," intellectuals find no difficulty in articulating their interests and exerting their influence on the political process, and they have become a social stratum in their own right. Mainstream intellectuals have lost their traditional role as a "social conscience." They now articulate their own interests and the interests of groups that can bring them more economic benefits. Of course, there are intellectuals who speak up for the less privileged classes such as workers, peasants, and the unemployed. The rising New Left has been vocal in this regard. Nevertheless, its political

⁸¹ Zou Keyuan and Zheng Yongnian, "China's Third Constitutional Amendment: A Leap Forward Towards Rule of Law in China," in *Yearbook of Law and Legal Practice in East Asia 1999*, ed. A. J. de Roo and R. W. Jagtenberg (The Hague: Kluwer Law International, 2000), 4:29-42.



influence is doubtful since New Leftist intellectuals are very much marginalized.

*Working class and peasants:*⁸² Since the beginning of the reform period, the working class has experienced an increasingly difficult time. Market-oriented reforms have not only diminished workers' traditional privileges but also put them out of work. Their mechanisms for interest aggregation and articulation are extremely weak, and they are rapidly becoming defenseless in a market economy. Autonomous trade unions are not allowed. The All-China Federation of Trade Unions (ACFTU, 中華全國總工會), the officially recognized union, represents the interests of the government rather than the workers. Moreover, the right to strike was removed from the Constitution in 1982. The ACFTU has itself introduced changes that have a negative effect on workers. Nevertheless, to a degree, the working class is able to articulate its interests through informal channels, such as various forms of protest.⁸³ Workers are able to use organizational weapons to overcome the "free rider" problem and often succeed in initiating protests to articulate their interests. The examples in northwest China in recent years show the effectiveness of such protests. While workers there were not able to change government policies, they at least won more economic benefits from the government. In other words, although workers inevitably suffer as capitalists become dominant, they can resist this process and slow it down.

The interests of peasants are the least represented. Throughout the history of the People's Republic, peasants have never had effective mechanisms for interest articulation, although they were the main force of the revolution. Peasants have hardly had any political input, and their interests were sacrificed in the process of industrialization under Maoist rule. It was only after Deng Xiaoping initiated economic reforms that peasants were given access to economic benefits for the first time in PRC history. Never-

⁸²"Workers" and "peasants" are different in terms of their class interests. In this paper, we lump them in the same category since we believe that compared to technocrats and capitalists, both are disadvantaged.

⁸³For a discussion of labor movements, see Chen, "Subsistence Crisis."

theless, with the beginning of the urban reforms, peasants have found it difficult to increase their incomes, and since the early 1990s, the situation has worsened.

Unlike workers, peasants do not have their own union. As early as the late 1980s, the issue of establishing a farmers' union was raised among central leaders. Voices for such a union can still be heard today, but it is most unlikely that the Party-state will agree to it. It is unwilling to allow peasants any organizational weapons, since from its own revolutionary experience the ruling party knows that such organizations could be directed against itself. Peasants are largely defenseless against the ubiquitous intrusion of state power. Some engage in futile resistance while others choose to commit suicide. In places where peasants are able to act collectively, the outcome is almost always the same: a ruthless crackdown by the government. This is in contrast to the relative success enjoyed by workers.

NGOs: In the last decade the state has actively created and sponsored non-governmental organizations (NGOs) in order to transfer to them certain of its own functions. Chinese NGOs have increased steadily in number over the years. In the economic sphere, the government has attempted to reduce its direct management role by establishing intermediary organizations such as trade associations and chambers of commerce to perform sectoral coordination and regulation functions. In the social welfare sphere, the government wants to foster NGOs to which it can offload some of the burden of service provision. In the social development sphere, the government has also established NGOs to mobilize societal resources to supplement its own spending. While NGOs are encouraged to play a greater role in these areas, in other areas such as religion, ethnicity, and human rights, the influence of NGOs is virtually absent. In other words, NGOs have to act as the helping hands of the government, and are permitted to have hardly any independent role. Also, some NGOs are more powerful than others. As mentioned above, while most commercial organizations are extremely powerful in influencing the government's policy-making process, workers and farmers are not allowed to organize themselves, and thus do not have any effective mechanisms to articulate and aggregate their interests.

Conclusion

With rapid globalization, the level of social conflict in China appears to have increased in recent years. According to *Outlook Weekly*, a Communist Party mouthpiece, China experienced more than 58,000 major incidents of social unrest in 2003—up 15 percent from a year earlier, with more than three million people taking part in the protests.⁸⁴ The number of incidents rose to 74,000 in 2004. While globalization is irreversible, the Chinese leadership needs to introduce more internal reforms in order to contain social conflict.

The political goal of the Chinese leadership is the building of a "harmonious society." This was first mentioned by Hu Jintao (胡锦涛) during the fourth plenum of the CCP's Sixteenth Central Committee in 2004, and it was further elaborated in Wen Jiabao's (温家宝) work report to the annual meeting of the National People's Congress in 2005. Since China opened its door to the world in late 1978, and especially after Deng's famous "southern tour" of 1992, the goal of economic development had pervaded the leadership's considerations on policy matters. This was the first time that the Chinese leadership had placed "building a harmonious society" before "promoting economic development."

"Harmonious society" is an extension of the "scientific concept of development"—the essence of Hu's people-centered or "pro-people" approach—in which a balanced and comprehensive approach to development is favored over a single-minded obsession with economic development. The new leadership has come to realize that economic development does not constitute the single "hard truth" in managing an increasingly divided society; while economic development has improved the material well-being of society as a whole, it is not a cure-all for China's problems, and it has brought many undesirable side-effects. After thirty bitter years of experimentation since 1949, the leadership decided to employ capitalism in rebuilding the Chinese economy. However, while the capitalism prac-

⁸⁴Reuters, "China to Curb Demolitions to Defuse Unrest," June 15, 2004.

ticed in the advanced countries has altered in form, it still retains its popular image of nineteenth century "satanic mills" that exploited workers. In this light, the policy of a "harmonious society" has great strategic significance.⁸⁵

The new policy priority has brought some new initiatives aimed at bringing about rapid and significant changes in rural areas. Some remedies offered include the scrapping of the agricultural tax, the extension of an experimental health-care insurance scheme to rural areas, and the elimination by the end of next year of tuition and other fees for rural students in compulsory education. The state's planned spending on rural areas for everything from health care and infrastructure to subsidies for grain producers is also due to increase.⁸⁶

Legal reform has also become a government priority since the early 1990s. The leadership appears to have decided to allow legal institutions to play a major role in resolving social conflicts. Legislation designed to modernize and professionalize the nation's lawyers, judges, and prisons has been enacted. The 1994 Administrative Procedure Law allows citizens to sue officials for abuse of authority or malfeasance. In addition, the criminal law and the law of criminal procedure were amended to introduce significant reforms. The criminal law amendments abolished the crime of "counter-revolutionary" activity, while criminal procedure reform has encouraged the establishment of a more transparent, adversarial trial process.

Nevertheless, without substantial political reforms, none of these measures will be effective in containing social conflict. Despite some progress, the Chinese courts are finding it difficult to remedy the injustices of development in China,⁸⁷ and the effect of legal reform in alleviating

⁸⁵For a discussion of this policy shift, see Yongnian Zheng, "The New Policy Initiatives in China's 11th 5-Year Plan," *Briefing Series*, no. 1 (China Policy Institute, University of Nottingham, 2005).

⁸⁶Yongnian Zheng, Zhengxu Wang, and Sow Keat Tok, "China's National People's Congress 2006: Policy Shifts amidst Growing Dissatisfaction with Existing Development Patterns," *Brief Series*, no. 7 (China Policy Institute, University of Nottingham, 2006).

⁸⁷The Carnegie Endowment for International Peace, "Legal Reform in China: Problems and Prospects" (April 18, 2005), http://www.carnegieendowment.org/files/panel1_summary.pdf (accessed May 3, 2006).

social conflict is still modest. As for social welfare reform, a reliable social safety net has yet to be established and the current system is still weak and inadequate in dealing with the problems derived from globalization and inequality, and in turn mediating and accommodating social conflicts. The Chinese political system needs to include and integrate a broad spectrum of interests in society. Without broader social participation, new policy initiatives can hardly reflect the interests of the majority of the people, and without social support, policy implementation is deemed to be problematic.

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