

SECTION 5: CHINA'S INTERNAL DILEMMAS

Introduction

The Chinese Communist Party (CCP) and the central government in Beijing face a variety of challenges in maintaining control over a fractious and geographically vast nation. To do so, the party and the government have relied upon two principal strategies: a strict authoritarian rule to discourage challenges from potential political opponents and a record of 30 years of strong economic growth. Opposition parties are banned, senior government leaders are chosen by top Communist Party officials, and only village leaders are elected and even then, only from slates of officially approved candidates. In marked contrast to the social and economic turmoil of the era of Mao Zedong, central party leaders since 1978 have focused their efforts on delivering economic growth at an average 10 percent annual rate. In the process, China has lifted an estimated 400 million people from poverty.³⁹⁶ Government policies have helped to establish China as the world's largest manufacturer and have fostered a small but growing middle class.

Continued Communist Party rule in China nevertheless remains a challenge for its leaders, who equate the success of the party with the existence of the nation.³⁹⁷ The central government and the Communist Party face increasing protest from citizens outraged over government corruption, the failure of government regulators to protect the public from unsafe food, and environmental degradation. China's emerging entrepreneurial class has been accompanied by a growing income inequality between the wealthy urbanites and the poorer rural residents and between the coastal region and the interior and western provinces. "Even as the overall level of poverty has dropped, inequality has increased, and remaining poverty has become concentrated in rural and minority areas," notes the World Bank.³⁹⁸

Growing inflation particularly threatens lower-income workers, while China's system of residency permits, or *hukou*, creates a disadvantaged migrant worker class. Outbreaks of "mass unrest," which sometimes include violent demonstrations against the government and its policies, have increased from 8,700 incidents in 1998 to over 120,000 incidents in 2008, according to outside estimates.³⁹⁹ Many such disputes involve illegal land seizures by local authorities, a growing source of income for corrupt local officials. Without recourse to an independent judiciary free of party control, Chinese citizens cannot rely on the courts to intercede on their behalf. In many cases, citizens feel that noisy and sometimes violent demonstrations are their only recourse. The government response to such demonstrations swings between repression and accommodation, seemingly without an overall direction.

On February 25, the Commission held a hearing and a roundtable discussion in Washington on these and other dilemmas faced by the CCP and by the central government. This section examines the origin of the problems faced by the party in maintaining control and describes the reaction of the Chinese citizens to the government's efforts to suppress dissent.

The party has created an extensive police and surveillance network to monitor its citizens and to forestall or react to any potential threat to social stability. However, the party still struggles to respond to the root causes of these protests, such as local corruption and the effects of rising food costs on the rural poor. Other current and potential causes of unrest include the unmet aspirations of the rural poor, the urban middle class, and college and technical school graduates unable to find work. Authorities in China are also concerned that a real estate bubble in the largest cities, particularly along the coast, may be followed by a market crash that could destroy the savings of the urban middle class.

Corruption and Abuses of Power

Government and private sector corruption and abuse of power are prevalent in China, despite growing central government efforts to combat the problem.* Among those efforts is a relaxation of government press controls on the reporting of cases of local government corruption and the harsh penalties assessed to government officials who take bribes or private businesses that sell adulterated food. Still, the problem persists.

Certainly, the public perceives corruption to be acute. Surveys of Chinese citizens found that 27 percent of respondents had been faced with arbitrary actions by a Chinese official, according to Martin Whyte, a Harvard sociologist who conducted the surveys and presented his findings to the Commission.⁴⁰⁰ “[T]his finding suggests that such official mistreatment is a surprisingly common occurrence,” said Dr. Whyte. “We may hazard a generalization that many Chinese feel they now live in a society characterized by distributive justice but fairly widespread procedural injustice.”

In a 2010 ranking of corruption, based on surveys of public perceptions, China ranked 78th worst among 178 nations, sharing this position with Colombia, Greece, Lesotho, Peru, Serbia, and Thailand. According to Transparency International's 2010 Corruption Perception Index, China scored an overall rating of 3.5 on a scale of 0 (highly corrupt) to 10 (highly clean).⁴⁰¹ In comparison, the United States scored a 7.1, tying with Belgium for 22nd place.⁴⁰²

Official Chinese statistics, official news accounts, and regulatory efforts also reveal a high incidence of corruption—with over 240,000 official corruption cases investigated from 2003 to 2009, ac-

*Transparency International defines corruption as “the abuse of entrusted power for private gain.” http://www.transparency.org/news_room/faq/corruption_faq. The Millenium Challenge Corporation defines a corrupt practice as “the offering, giving, receiving, or soliciting, directly or indirectly, of anything of value to influence the actions of a public official . . . in the selection process or in contract execution, or the making of any payment to any third party, in connection with or in furtherance of a contract, in violation of the Foreign Corrupt Practices Act, or any other actions taken that otherwise would be in violation of the Act if the Act were applicable, or any applicable law in the (relevant) country.” <http://www.mcc.gov/documents/guidance/mcc-policy-fraudandcorruption.pdf>. Most definitions include fraud and extortion and theft by government officials of public or private funds or assets, including the seizure by government officials of private land without adequate compensation.

ording to China's State Council.⁴⁰³ From January to November 2010, 113,000 officials received some form of punishment related to corruption.⁴⁰⁴ In December 2010 alone, Chinese media reported five cases of local officials murdering their mistresses in an attempt to avoid being exposed for corruption or for infidelity.⁴⁰⁵

Accounts in the Chinese news media and on the Internet have focused on the growing numbers of officials who kept mistresses on government salaries padded with misappropriated funds. In July, Xu Maiyong, former vice mayor of Hangzhou, was executed for bribery and embezzlement of more than \$30 million. The media reported that Mr. Xu had kept dozens of mistresses.⁴⁰⁶ China's top prosecutor estimated in 2007 that 90 percent of the country's most senior officials implicated in corruption scandals in previous years had kept mistresses.⁴⁰⁷ In a December 2010 report, the State Council announced new rules aimed at preventing Chinese officials from funneling misappropriated funds, bribes, and other illegally accrued gains into the bank accounts of family members.⁴⁰⁸ This method of embezzlement is the most common method for officials to hide extra income. Another method is simply to leave the country. The People's Bank of China estimates that 16,000 to 18,000 corrupt Chinese officials and executives at state-owned enterprises absconded with \$123 billion from China between the mid-1990s and 2008.⁴⁰⁹

Enforcement efforts often focus on local rather than central government officials and often involve the lack of due process in local regulatory decisions. Dr. Whyte testified that procedural injustice has drawn the most citizen ire:⁴¹⁰

In the growing body of research on social protest activity in China in recent years, it seems to me that almost always the sparks that set off popular anger and public protests are abuses of power and other procedural injustice issues, rather than distributive injustice complaints. . . . However, by my reading, protest targets tend to be local officials, employers, and other powerful figures, rather than individuals who are simply very rich.

Senior party officials are more frequently seen as a recourse to corrupt local governments. Chinese officials in the central government have worked to propagate this view among Chinese citizens, notes Dr. Whyte:⁴¹¹

CCP leaders have also proved very adept at taking credit for wise guidance of the economy and the improved living standards of ordinary Chinese citizens, while being perhaps even more obsessed with deflecting blame for procedural abuses onto local officials and bosses rather than on the system itself (and its top leaders). As a result, China displays a 'trust differential' that is common in many authoritarian regimes (although not in Tunisia and Egypt recently). Many citizens get angry at arbitrary and unfair actions of local authorities while having more faith in the central leadership, to whom they direct complaints and appeals in the hope that 'grandpa' Wen Jiabao or other top leaders will intervene and set things right.

One of the most recent examples did not directly involve a Chinese official, but it quickly came to symbolize the suspicion by ordinary Chinese that the justice system is rigged against them, particularly in disputes between citizens and officialdom. As Li Qiming, 23, was driving recklessly through Hebei University in October 2010, he struck two female pedestrians, killing one 20-year old student and injuring the other. As the drunken Mr. Li tried to flee the scene, he yelled out, "Sue me if you dare, my father is Li Gang."⁴¹² (Li Gang was a deputy chief of security in the university's district.) Authorities censored news reports about the incident, but the declaration became a popular rallying cry of Chinese citizens in online posts about Chinese corruption. The son was given a relatively light sentence of six years in prison after the Li family paid \$84,000 in restitution.

Chinese Internet users also highlighted the death of Qian Yunhui, a village leader in Yueqing who had been carrying on a six-year fight with local officials over land seizures. Witnesses reported that four security officers held down Mr. Qian as a truck drove over him. Officials initially described the death as an unfortunate traffic accident.⁴¹³ Photos of the scene refuted the official account, showing that Mr. Qian was perpendicular to the truck and that there was no damage to the front of the truck. Even after the truck driver was found guilty and sentenced to three-and-a-half years in prison, Chinese Internet users continue to discuss the incident and remain suspicious of the police and judicial forces involved in the investigation.

The Internet continues to be a useful tool both for the central government and citizens in the fight against local corruption. *China Daily*, a CCP-controlled newspaper with print and Internet editions, will cover instances of crackdowns on abuses of power and corruption and has commented in a positive vein on citizen whistleblowers who target local corruption. The state-owned *Beijing News* revealed that public security officials in Xintai City had been committing to mental institutions residents who protested official corruption or the unfair seizure of their property.⁴¹⁴ In March, *China Daily* published a survey paid for by the Ministry of Industry and Information Technology that was critical of local government websites for lack of information and access to officials. The survey of 450,000 citizens showed that 78 percent were "very unsatisfied" with local web portals.⁴¹⁵ A February article announced an audit of local land use regulators in an effort to stop illegal seizures of rural land.⁴¹⁶ The newspaper also noted that a position reserved for a former city official's son had been eliminated after Internet protests that local government officials favor hiring the children of senior officials.⁴¹⁷

The party has attempted to draw a sharp distinction between local officials, who are sometimes portrayed as corrupt, and central party leaders, who are portrayed as trying to end corruption. For example, the central government issued new rules in March on foreign travel by Chinese central government officials to prohibit non-business-related excursions, according to one news report.⁴¹⁸ In contrast to local officials who may line their pockets and fill the municipal coffers with the proceeds of forced sales of land, the government limits the property ownership rights of State Council

members. Commission witness Yukon Huang, from the Carnegie Endowment for International Peace, refers to this official mandate of transparency as the “fishbowl” for top Chinese leaders.⁴¹⁹ The trade-off, said Dr. Huang, is that top officials “be subjected to scrutiny in exchange for assuming power.”⁴²⁰ He continued:

*When they assume those positions [they] have given up their ability to operate in the economy. They can't earn income; they can't give speeches; they don't own property; they can't even travel without someone signing off on them. When they leave and retire, you don't hear of them anymore. They can't do anything.*⁴²¹

However, this fishbowl does not extend to the families of State Council members, Dr. Huang said. The children and families of Chinese officials regularly own businesses and earn income. Family members are still able to benefit from business and political connections.

Despite such efforts at reform, corruption remains a significant issue even among higher-ranking officials. In one recent example, Liu Zhijun, the former party chief of the Ministry of Railways, was dismissed from his position and placed under investigation for “severe violation of discipline,” a charge frequently used in cases of corruption.⁴²² The next month, Zhang Shuguang, the Railways Ministry deputy chief engineer, was also dismissed and investigated for corruption. *China Daily* reported that an audit found that at least \$28 million of the Beijing-Shanghai high-speed railway project had been misappropriated through “fake invoices, faulty bidding procedures and mismanagement.”⁴²³ China’s newest rail system drew increased scrutiny after a collision between two bullet trains on July 23 killed 40 people. The state-owned China North Locomotive and Rolling Stock Company admitted that an automatic safety system had malfunctioned.⁴²⁴ Onlookers were punished for photographing the site, and journalists were prohibited, in some cases, from initially reporting on the accident.

According to Xinhua, the official news agency, 11 ministerial-level officials were sentenced for corruption convictions to life imprisonment or faced other severe punishments in 2010.⁴²⁵ Even so, officials have an easier time getting their sentences reduced. Xinhua reported that 20–30 percent of prisoners receive a reduced sentence, while convicted officials are given reduced sentences in 70 percent of the cases.⁴²⁶ A common punishment for high-ranking officials guilty of corruption is a death sentence with a two-year reprieve. While seemingly harsh, this sentence can be legally reduced to life in prison and further commuted to “no less than 12 years for good behavior or contributing to society.” In the first five months of 2011 alone, at least four high-ranking officials were found guilty of corruption charges and sentenced to death with a two-year reprieve. These included former mayor of Shenzhen Xu Zongheng,⁴²⁷ former Dangchang County Communist Party Chief Wang Xianmin,⁴²⁸ former Deputy Director of Shanghai’s municipal housing support and building administration bureau Tao Xiaoxing,⁴²⁹ and former Vice President of the Superior People’s Court of Chongqing Municipality Zhang Tao.⁴³⁰

After personal encounters with corrupt officials and institutions, Chinese citizens are becoming increasingly discouraged and aggravated by abuse of power even as the government works to demonstrate competency in reducing corruption at all levels. Given the regime change of the Arab Spring in the Middle East, the Chinese government is keenly aware of the potential that corruption has in serving as a rallying point of discontent under which dissatisfied citizens can gather, Dr. Huang told the Commission:⁴³¹

Much of this frustration is directed at failings that emanate from corruption and inconsistent application of the rule of law. Corruption in China is a major concern and source of potential internal instability. Even the senior leadership has recognized its seriousness in noting that if unchecked, it could threaten the credibility of the Party.

Inflation

The CCP faces the difficult challenge of maintaining a balance between growing too fast and overheating the economy, leading to price increases, or slowing growth to a level at which job creation lags behind the number of young adults entering the workforce. The problem for the party and the government is all the more difficult because China's central bank lacks the autonomy and the monetary tools to wage an all-out battle against inflation. Consumer prices increased by 6.1 percent in September, maintaining the fastest pace of inflation since the summer of 2008.⁴³² Particularly worrisome for Chinese officials was a 13.4 percent increase in food prices.

Food inflation also exacerbates the growing rural/urban wealth inequality divide. Food represents a larger percentage of overall consumption expenditures for rural households in China, 41 percent, than that of urban households, at 37 percent, according to official Chinese statistics.⁴³³ By contrast, food expenditure in Japan averages 14 percent of household income and in the United States just 7 percent, according to UN statistics.⁴³⁴

Economic issues have been a large driver of protest in China. Sharp price rises were “perhaps the most pivotal factor” in the early days of the student protests in Tiananmen Square in 1989, Murray Scot Tanner, RAND Corporation senior political scientist, told the Commission. “If growth rates go below about 8 or 10 percent, [Chinese officials] think they’re in trouble, but if the economy starts growing too fast and inflation starts taking over, that’s been historically another source of unrest[.]”⁴³⁵

Nearly 22 years after the 1989 Tiananmen Square massacre, “the most powerful and widespread roots of discontent [are] unaffordable urban real estate followed by inflation—specifically rising commodity and food prices,” noted Elizabeth Economy of the Council on Foreign Relations.”⁴³⁶ Several protests have already occurred in China as a result of increasing food and fuel costs. The government has largely relied on price controls to curb discontent, with mixed results. One demonstration against rising costs in April 2011 drew several hundred truck drivers to obstruct access to a Pudong district dock in Shanghai, China’s most active port. The

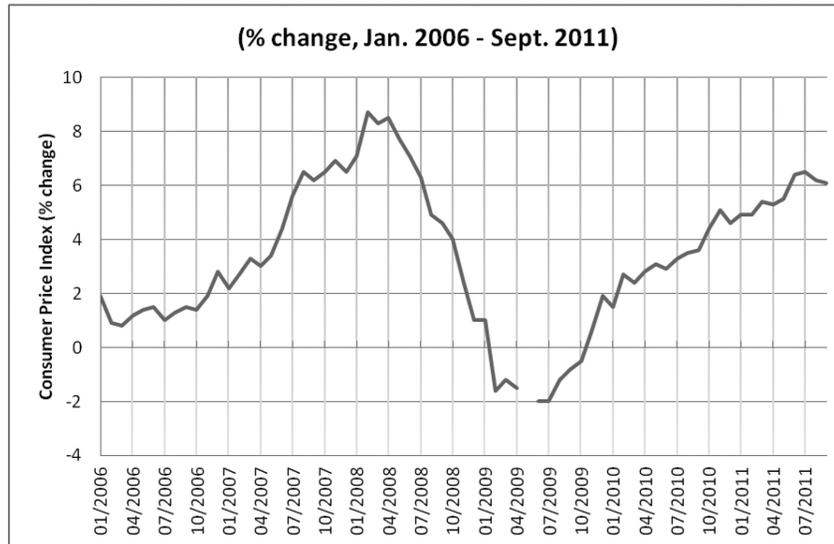
drivers cited increased fuel prices and new fees imposed by warehouse operators as the basis of their anger.⁴³⁷ In response, the Shanghai Municipal Transport and Port Authority withdrew a fuel surcharge and reduced the cost of other related fees.⁴³⁸

While measures such as direct price controls are often effective in the short term in lowering specific costs, their effect is quickly dissipated as secondary or black markets spring up in response to shortages caused by hoarding or production cutbacks. In China, price reductions on energy also reduce the revenue of government-owned or -controlled energy companies, including coal mines. Managers of state-owned companies are expected to meet sales and revenue quotas at the same time that price controls reduce their company income. For example, oil and gasoline distributors suffer when their acquisition costs rise but their retail sales prices remain frozen by government fiat. Consequently, price controls are especially unpopular with government officials and state-owned businesses.

One way that the government has tried to hold down inflation is by pressuring companies to cancel price increases. The government has accused some foreign and domestic companies of “intensifying inflationary expectations among consumers” and “seriously disturbing market order.”⁴³⁹ One such company, Unilever, was fined \$308,000 by the National Development and Reform Commission (NDRC) in March after announcing it planned to increase product prices by as much as 15 percent.⁴⁴⁰ The announcement led to panic buying and hoarding among Chinese consumers and spurred the government to charge Unilever under its pricing law, which limits a company’s ability even to comment about future prices.⁴⁴¹ *China Daily* also reported that the NDRC instructed more than a dozen industry associations to postpone or call off planned price increases.⁴⁴²

China has a history of rapid price surges and strong but ultimately ineffective responses. In 2008, China registered a consumer price index that was 8 percent higher in the first quarter than during the same period in the previous year. In response, the government allowed the renminbi (RMB) to appreciate in order to lower the real costs of imports, raised the bank reserve requirement ratio to cut down on bank lending, and rejected requests for price hikes from several companies involved in the food industry.⁴⁴³ Nevertheless, the consumer price index continued its climb and reached an 11-year high in November 2010, as the government froze the price of gasoline, natural gas, electricity, water heating, and urban public transport fees while setting temporary price controls on staples such as grain, edible oil, meat, milk, eggs, and liquefied petroleum gas.⁴⁴⁴

But the efforts to halt inflation did not keep prices from accelerating throughout 2011. Chinese officials reported that the inflation rate rose from 5.0 percent in the first quarter to a 6.3 percent rate in the third quarter. (See figure 1, below).⁴⁴⁵

Figure 1: China's Consumer Price Index January 2006–September 2011

Source: International Monetary Fund, accessed through CEIC Data Manager, *Consumer Price Index: % Change* (Washington, DC: May 31, 2011); *Trading Economics*, “China Inflation Rate at 6.1% in September” (New York, NY: October 14, 2011). <http://www.tradingeconomics.com/china/inflation-cpi>.

Despite the government’s dramatic moves, inflation may even be higher than government figures show. China relies on an inflexible consumer price index to measure inflation.* China’s National Bureau of Statistics only updates the basket contents every five years, so it does not accurately capture current trends.⁴⁴⁶ Commission witnesses suggested that Chinese methodology also fails to capture the true rate of inflation, perhaps deliberately.⁴⁴⁷ While government-reported data may be erroneous, Dr. Economy noted that information on inflation in China is nevertheless available from a variety of nongovernmental sources including consumer-based tracking of foodstuff price increases, and those numbers are considerably higher:

While the government may try to downplay the challenge of inflation or report specious numbers, postings by concerned citizens ensure that information is available from a number of sources. As one posting on a Chinese website noted, ‘As a whole, food prices have risen 10.3 percent since this time last year. The price increases, however, are not uniform across the board. The price of wheat has risen 15.1 percent, the price of meat 10.9 percent, eggs 20.2 percent, water 11.1 percent, vegetables have risen 2 percent and fruits have shot up over 34.8 percent.’⁴⁴⁸

*The consumer price index examines trends in prices for a sample, or basket, of goods within an economy to determine inflation. China does not publish the list it uses, but economists believe that food is 30 percent of the index.

In addition to price controls, China has also used monetary policy in an attempt to lower the rate of inflation. Since October 2010, the central bank has boosted interest rates five times. The People's Bank also raised reserve requirements five times in 2011, bringing the cash reserve ratio to a record high of 21 percent.⁴⁴⁹ By requiring banks to hold more money in reserve for each loan a bank makes, China hopes to slow lending and therefore economic growth. This may be a false hope, however, as "shadow banking" or unregulated loans to the private sector from hedge funds, insurance companies, and money market funds, among others, continue to undermine China's efforts to control lending.⁴⁵⁰ In December 2010, Fitch Ratings released a report warning that "[l]ending has not moderated, it has merely found other channels . . . [this] helps explain why inflation and property prices are still stubbornly high, why [third-quarter] GDP [gross domestic product] growth was stronger than expected."⁴⁵¹

China has limited options for responding to inflation because of its steadfast policy of maintaining an undervalued RMB. This policy actually exacerbates China's inflationary problems by driving investment into manufacturing for exports and interfering with an important market mechanism, the appreciation of the RMB against other currencies, which would make imports cheaper, particularly manufacturing components and energy.

Income Inequality and *Hukou*

China faces a large and growing gap in income between its urban and rural populations and between its richest and poorest citizens. In 2010, the average urban citizens' overall income was 3.23 times greater than the average rural income.⁴⁵² Urban per-capita disposable income was 5,963 RMB in the first quarter of 2011, while rural residents' per-capita disposable income was less than half that amount, 2,187 RMB.⁴⁵³ Urban citizens also have access to more jobs, sophisticated health care, better education, and available housing.

Another indicator of China's growing income disparity is its "Gini coefficient." The Gini coefficient is a measure of inequality. A score of 0 indicates total equality, while a score of 1 indicates maximum inequality. China's Gini coefficient rapidly increased from 0.215 20 years ago to 0.447 in 2001 and 0.490 in 2010.⁴⁵⁴ China's income inequality is similar to that of the United States, Malaysia, and Singapore, Dr Huang noted to the Commission.⁴⁵⁵ (By comparison, the United States also had a high Gini coefficient of 0.469 in 2009.)⁴⁵⁶ But China's Gini coefficient may be understated because of China's generally unreliable statistical methods.

While China's official Gini coefficient of 0.490 is not excessively high, it does exceed what some characterize as the "danger" line of 0.4.⁴⁵⁷ Dr. Huang characterized China's rate of growth as troubling for government authorities, because it means that China is facing a quickly bifurcating social structure.⁴⁵⁸ Even the global recession did not change the trend. The number of "high net worth individuals" in China—defined as a person with \$1.5 million or more—doubled to 585,000 from 2008 to 2011.⁴⁵⁹ Additionally, a report by the China Reform Foundation indicated that China's real Gini

score was actually considerably higher than the score quoted in official accounts. According to the *Wall Street Journal*:

*[A] landmark study earlier this year on unreported income ... found that hidden income totaled \$1.5 trillion, with 80 percent in the hands of the richest 20 percent. That would put China's Gini index at over 0.500, on par with many South American countries, and, if trends continue, headed for the income inequality of much of Africa.*⁴⁶⁰

The top income levels may be 3.2 percent wealthier than official data indicate, according to the study by economist and deputy director of the National Research Institute at the PRC's China Reform Foundation, Wang Xiaolu. Corruption may be one answer for the undercounting. Based on a detailed look at spending and income patterns in China in 2008, Dr. Wang estimates China's average urban household income is 90 percent higher than official data. His figures suggest the top 10 percent of Chinese households are 3.2 times richer than public data show, while the second decile income is 2.1 times higher.⁴⁶¹

Other witnesses, however, were less concerned with the growing inequality, asserting that while the majority of Chinese citizens perceived income disparities as excessive, they did not feel that the gap was unfair. Noted Dr. Whyte:

*If income gaps widen but most people feel that the widened gaps are fair (as appears to be the case in our surveys), then feelings of inequity and injustice will not be generated. Contrary to some public statements in China, there is no Gini coefficient 'danger line' above which further widening of income gaps inevitably produces political turbulence.*⁴⁶²

Dr. Whyte did, however, find broad dissatisfaction among both urbanites and rural dwellers with the *hukou* registration system and its intrinsic tendency to produce inequality.⁴⁶³ Created in its current form in 1960, China's modern *hukou* system was developed after 20 million migrants rushed to China's cities during the Great Leap Forward (1958–1960) in order to fill a perceived labor gap.⁴⁶⁴ The *hukou* system was created to manage intracountry migration and requires the registration of all citizens in China at birth and then limits access to government services based on the residency permits issued after registration. Citizens' residency permits fall into one of two categories, urban or rural *hukou*, and entitle a holder access to social services in the town or city to which their *hukou* is registered.

Since *hukou* is hereditary, changing the designation of one's *hukou* is extremely difficult and requires either large amounts of money paid to well-connected officials or a specific exemption, such as admittance to an urban university. Individuals are more easily allowed to migrate downward, from a small city to a village, or horizontally, from small town to small town. This often occurs when a rural bride moves from her hometown to her husband's village.⁴⁶⁵

According to a 2010 Harvard University study:

The hukou is the core of Chinese citizenship rights allocation, without which the state would not have been able to

*curb rural-to-urban migration; the hukou is used to maintain the urban unit (danwei) system, to extract agricultural surplus (especially during the high Maoist period), and to enforce rigorous birth control measures (in the reform era), among other policy goals. . . . Likewise, China's hukou system has persisted and evolved into an even more complicated matrix of governance during the market transition years.*⁴⁶⁶

Although rural migrants are a key part of the workforce for China's urban-based exporters, these transplanted workers must live as second-class citizens when in urban areas, due in part to their rural *hukou* status. Not only do migrant workers face discrimination and lower wages from employers, but their families also are restricted from access to government services, including education, Dr. Huang testified. In some areas, migrant workers are restricted from purchasing property and registering vehicles and are ineligible for subsidized housing and public health insurance programs.⁴⁶⁷

Migrant workers in urban areas therefore live very basic lifestyles and tend to have high rates of saving. This allows migrant workers to maximize the amount they can send home and to accrue funds to cover healthcare, housing, and education costs.

According to the 2010 national census, more than 260 million Chinese citizens are a part of the "floating population" and do not live in the area designated on their *hukou*.⁴⁶⁸ In Beijing alone, one in three residents is a migrant. This is a significant increase when compared with the year 2000's ratio of one in five.⁴⁶⁹ Similarly, Shanghai's migrant population accounts for approximately 39 percent of the city's total population, an increase of 159 percent since 2000.⁴⁷⁰ For both cities, migrants have been both a burden and an asset. On the one hand, the influx of migrants has taxed local transportation and healthcare facilities. On the other hand, migrants have reduced labor shortages in Shanghai and alleviated Beijing's aging population issue.

This dichotomy has made it difficult for the central government to overcome objections from municipalities to ending the *hukou* system. The Chinese government at the central and local levels has begun to address some of the problems, with mixed results. Healthcare has been expanded in rural areas. However, the level of care provided in rural areas is still below the urban standard, and doctors often will require full payment in advance for more complicated treatments.⁴⁷¹

Holders of rural and urban *hukou* have joined in protest over the past year against the registration system's unfair policies. One of the most popularly supported issues is education and the inability of rural *hukou* holders to sit for the national university entrance examination in cities despite having lived there for the majority of their lives. Students must take the exam wherever their *hukou* is registered. For children of migrant workers, this means traveling to their parent's hometown and taking tests based on the local curriculum, which may differ from what they have prepared for in the cities.⁴⁷²

In May 2011, Beijing authorities revised public middle school admissions policies to give more access to non-Beijing *hukou* holders.

Previously, options for migrant students were scarce and included paying upwards of 30,000 RMB for “sponsorship fees” that would allow non-Beijing *hukou* holders access to Beijing public middle schools.⁴⁷³ Of 102,000 children who graduated primary school in Beijing this year, 33.4 percent did not possess a Beijing *hukou*.⁴⁷⁴ The new policy is expected to equalize entrance requirements for more than 30,000 students without a Beijing *hukou*.

Protests are rarely focused on the *hukou* system alone but rather on specific effects of the system. Farmers, whose residency licenses require them to live in rural areas, can be evicted nevertheless by Chinese officials through land seizures for infrastructure projects or land development. Without their means of livelihood, they are forced to move. Indeed, local governments rely on land sales for as much as 60 percent of their revenues in some cases, according to City University of Hong Kong political scientist Joseph Cheng.⁴⁷⁵ This type of activity frequently results in protests.⁴⁷⁶ In March, 2,000 Chinese villagers in Suijiang in Yunnan Province launched a five-day protest against unfair prices offered for land in a forced relocation for a hydroelectric dam. Most farmers in the region were offered the equivalent of only \$1,740 per acre, but many without the proper *hukou* were disqualified from any payment. Chinese paramilitary police broke up the demonstration, claiming that a dozen police, but no civilians, had been injured.⁴⁷⁷

One of the most notable calls to action against the *hukou* system occurred in March 2010 when 13 Chinese newspapers initiated a coordinated petition for *hukou* reform. Part of their jointly published editorial read:

‘China has suffered from the hukou [household registration] system for so long,’ the appeal said. ‘We believe people are born free and should have the right to migrate freely, but citizens are still troubled by bad policies born in the era of the planned economy and [now] unsuitable.’⁴⁷⁸

Chinese officials are exploring ways to amend the structure without completely abolishing *hukou*. China has launched several programs in rural areas and second-tier cities to improve access to social services, such as basic healthcare. However, Chinese officials still fear they would be faced with a massive influx of migrants into the cities. Local governments argue that the increased demand for public services, such as housing and healthcare, would overwhelm them if the influx were too rapid. In addition, urban residents in major Chinese cities have already protested modest attempts at increasing the rights of migrant workers out of fear that the current residents would face a loss of jobs and increased competition.⁴⁷⁹ In both cases, the party and the government consider the potential instability too great a risk. Dr. Huang estimated that China’s rate of urbanization would grow rapidly from the current 40 percent to nearly 70 percent.

The “Ant Tribe”

Chinese attempts to help citizens in rural and second-tier urban settings have also raised expectations and created disappointment. Graduates from second-tier universities in rural areas are unlikely to find employment in urban areas, because they often lack connections. *Hukou* plays a role in exacerbating the situation, since these students are ineligible for subsidized housing and healthcare due to their migratory status. This situation has created a large surplus of underemployed young people living in substandard housing, dubbed “the ant tribe.”⁴⁸⁰ This ant tribe consists of over 6 million college graduates who annually flock to major Chinese cities such as Beijing and Shanghai looking for work.⁴⁸¹ Instead of finding jobs in their fields of study, they are forced to take sweatshop jobs or perform other low-skilled work.⁴⁸²

In the aftermath of the recent Middle East and North African revolutions, which featured a prominent role for disaffected youth, many academics pondered whether China could undergo a similar experience given its large population of unemployed recent graduates. Many academics agreed that while China shared some similarities to the attacked regimes, it was missing a few critical elements. Compared to Egypt and Tunisia, where youth unemployment is around seven to nine times higher than the national average, China’s unemployed youth, at 2.5 times the average, “is a serious but not explosive social problem,” according to Ho Kwon Ping, chairman of the Singapore Management University. However, quoting Lenin, that “awakened desperation, not idealism makes revolutionaries,” Mr. Ho further notes that:⁴⁸³

Because of hukou ... these jobless graduates are living on the edge of society, almost as disenfranchised as Arab youth. This educated underclass will potentially be more angry and assertive than the floating mass of roughly 100 million to 150 million unskilled migrant workers, simply because their expectations are much higher. Connected by the Internet, they are a potent and potentially organizable force, watching and learning from events in the Arab world with growing interest.

The Middle Class

During the Commission’s February 25 hearing, witnesses discussed whether the middle class is a force for political change or for stasis. For the present, the growing middle class is considered unlikely to risk its future economic well-being by defying the Communist Party. The party has successfully taken credit for 30 years of economic growth—the very source and foundation of China’s middle class. The party, in turn, comprehends that its control rests, in part, on a middle class that places a high premium on economic stability.

Part of the divergence between these two views of the middle-class role in China’s transformation is due to the nature and size of China’s middle class. Cheng Li, a scholar at The Brookings Institution, notes that there are multiple paths to achieving middle-

class status, making the group heterogeneous and difficult to study. These paths include success in business, party membership, and through an urban social network.⁴⁸⁴ This makes blanket conclusions about what the Chinese middle class will do difficult to formulate.⁴⁸⁵

In a book edited by Dr. Li, *China's Emerging Middle Class*, no agreement emerged on a single definition of the term.⁴⁸⁶ Some have attempted to define the term based on surveys examining an index of key factors, including education, income, occupation, consumption, and self-identification. One article notes the broad range of estimates that have appeared as a result of varying criteria, stating that “[e]stimates of just how big China’s middle class is range from a low of 157 million (which would be second only to the United States) to more than 800 million.”⁴⁸⁷

Reflecting the importance of the role the middle class is expected to play in China’s future, the government has attempted to study and characterize the group. The Chinese Academy of Social Sciences estimated China’s middle class accounted for 19 percent of the nation’s 2003 population of 1.3 billion, or 247 million. The academy defined the group as having assets between \$18,137 and \$36,275. (This level of wealth would exclude the vast majority of China’s workers. That same year, the per-capita income of China’s 786 million farmers registered only \$317.)⁴⁸⁸

By 2009, China’s urban middle class had reached 230 million, or 37 percent of those living in cities, the academy reported. Based on historical patterns, China’s middle class would make up 40 percent of the population in 2020, the academy predicted. By 2010, 40 percent of Beijing citizens, or 5.4 million, were in the middle class, with an average monthly income of \$885, according to the Academy of Social Sciences.⁴⁸⁹

Precise numbers are debatable and comparisons among the surveys are difficult because some estimates use wealth and others calculate according to annual income. There is more consensus on the existence of two groups: a new and an old middle class. The old middle class is composed of the “self-employed, small merchants and manufacturers” who emerged from the economic reforms of the 1980s, while the new middle class consists of “salaried professionals and technical and administrative employees who work in large corporations” as well as small- and medium-sized enterprise owners.⁴⁹⁰ It is, therefore, difficult to categorize the different middle classes as either a force for stability or for change. As Yang Jing, a sociologist at the East Asian Institute notes:

*China’s middle class composes of [sic] not only the majority of white-collar workers and well-educated professionals, but also those at the top of the social hierarchy in terms of wealth. Except for the new middle class who exhibit the most democratic mentality compared with the other two groups, China’s middle class as a whole has yet to hold a distinctive sociopolitical ethos. . . . Their acknowledgement of state authority is similar to that accorded by the rest of the society. As long as the majority of the middle class are able to maintain their current lifestyle despite the social policy reform, the force of democratization is unlikely to become strong.*⁴⁹¹

Other experts, too, are skeptical that China's middle class will contribute to large-scale unrest or initiate a drive for democracy. George Washington University Professor Bruce Dickson wrote that the party has effectively linked the continued success of China's middle class to the current economic model. Instability or movement away from the current system would endanger that success.⁴⁹² Instead, some experts believe that China's urban middle class and elite will remain focused on local issues, especially in preventing construction of polluting or unsafe industry in their areas. Dr. Dickson suggested that China's middle class will be more focused on smaller, "not-in-my backyard" issues rather than with larger social change.

Another Commission witness, sociologist Martin Whyte, agreed.⁴⁹³ Dr. Whyte's studies have focused on public perceptions of inequalities in China and have found that Chinese citizens are optimistic about their futures, which downplays the chance of significant social unrest. This is a surprising result, he argues, because China has become more unequal as it has developed. Dr. Whyte has written that "forms of wealth and privilege that the revolution set out to destroy have returned with a vengeance—millionaire business tycoons, foreign capitalists exploiting Chinese workers, gated and guarded private mansion compounds, etc."⁴⁹⁴

However, Chinese citizens are willing to accept this growing inequality, because they believe they have a chance to succeed. Dr. Whyte conducted a four-year study, including a questionnaire submitted to Chinese citizens, and found that the Communist Party had effectively convinced most of China's upwardly mobile population that its continued prosperity is inextricably linked to continued stability, while effectively shifting blame for corruption to local-level officials. He argued that China has successfully incorporated China's middle class into the group of winners in the current economic model. They are unlikely to push for systemic change, because their economic well-being remains linked to the control of the party.

Another aspect of China's middle class that pegs it as a force of stability is its size. Even when calculating the magnitude of the middle class at the highest end of the spectrum, the middle class remains a minority. Therefore, in theory, the middle class would be disinclined to bring about a democratic system that would put the majority of voting and political power in the hands of the lower class and the poor. "Those who have prospered from economic reform have no interest in sharing power or the spoils of prosperity with those beneath them," said Li Fan, director of the World and China Institute, a nongovernmental group in Beijing that studies political reform.⁴⁹⁵

Additionally, with the harsh punishments doled out to advocates of democracy such as Nobel Peace Prize winner Liu Xiaobo, the costs of supporting democracy are regarded as prohibitively high. The 2011 activities of Chinese security forces served as a powerful reminder to citizens that supporting the current regime and playing within the system was a far better alternative to near-certain arrest for protest. (For more on this topic, see the following subsection.)

There are some experts, however, who believe that China's middle class is a potential force for instability and that its members will likely challenge the CCP in the coming years. Commission witness Elizabeth Economy observed that China's middle class is now more willing to work to prevent the government from threatening their quality of life:

In the past few years, the urban middle class has demonstrated a newfound willingness to advance its interests through protest. In addition, the Internet has become a virtual political system with individual complaints able to go viral in a matter of minutes, gaining widespread popular support across gender, age, profession, and provincial boundaries.⁴⁹⁶

Middle-class protests in recent years have covered a variety of issues, including objections over a garbage incinerator being built in close proximity to middle-class homes, destruction of homes without proper compensation in the lead-up to the World Expo, concern over the environmental impacts of the extension of Maglev lines, and pollution concerns over the construction of a chemical plant. The majority of middle-class protests centered on issues that would adversely impact members' health and/or property value.

According to a survey by China's Academy of Social Sciences, the middle class is also the most likely group in China's social stratum to be critical of the present social and political situation and is the least confident of the government's performance.⁴⁹⁷ However, the middle classes' higher levels of criticism and uncertainty about the party's abilities do not necessarily mean that they are the group with the most potential to destabilize the government. Protests among the middle class remain small in frequency and size, and government officials have acted quickly in redressing issues that have attracted significant middle-class anger. As a result, it seems likely that should the CCP continue to sustain healthy economic growth for the country and citizens remain optimistic about the future and see potential for upward mobility, the middle class will continue to be a force for stability for the current regime.

China's "Aging" Problem

Although not as immediate a problem as inflation or mass unrest, China's aging population and stagnant population growth could act as a brake on the economy and an impediment to the growth of a middle class. The Chinese labor force, so crucial to the manufacturing sector, is due to start shrinking in 2016.⁴⁹⁸ In addition, as the average age of the population increases, there will be fewer workers supporting more retirees.

Much of the demographic change is due to China's one-child policy, which was instituted in 1980. The policy prevented 400 million births, which would have pegged China's population at 1.73 billion by now, according to the National Population and Family Planning Commission, which administers the program.⁴⁹⁹ The population over age 60 is now 13.3 percent of the total, up from 10.3 percent in 2000. Those under age 14 now make up 16.6 percent of the population, down from 23 percent in 2001. One solution is to raise the retirement age, but that would not be popular with those grad-

uating from college and hoping to find a job that might still be occupied.

One problem for China's rulers is the potential for wage inflation as the labor pool declines relative to the demand. However, that problem would be offset by a higher per-capita income.⁵⁰⁰

The Party's Response to Growing Unrest

While the number of protests in China continues to rise, the Communist Party seeks to respond quickly and efficiently either to head off trouble or to quell disturbances before they escalate and serve as a rallying point for further protest. Internal security is one of the top priorities of the Communist Party, which has created a vast apparatus of government control. Monitoring and restraining the population from direct confrontations with the party and the central government are the top priorities. An indication of this is China's 12th Five-Year Plan (2011–2015), which includes a broad range of programs imposing strict controls over the population.⁵⁰¹ The outline, released in March 2011 to the National People's Congress, laid out the party's rapid response system for "emergency incidents." The plan "must be under a comprehensive, unified command, rationally structured, capable of nimble reactions, and it must have guaranteed capability and high-efficiency operations."⁵⁰²

The scope of the investment in stability, which includes collaboration among police and paramilitary forces, Internet monitors, and the judiciary, has surpassed China's published military budget.* China's Finance Ministry budget report showed that in 2010, China's spending on law and order, including police, state security, armed militias, and courts and jails was \$83.5 billion. China's officially reported military expenditure was \$81.2 billion in 2010. The security budget was due to grow faster than military expenditures, by 13.8 percent versus 12.7 percent for the military budget.⁵⁰³ One example of China's spending on internal security is the effort underway in Chongqing to create the largest police surveillance system in the world, with 500,000 cameras intended to cover a half-million intersections, neighborhoods, and parks over 400 square miles in an area more than 25 percent larger than New York City.⁵⁰⁴

Despite rapid economic growth and increased prosperity, China continues to face growing numbers of public protests, officially referred to as "mass incidents."⁵⁰⁵ While official Chinese numbers have not been released since 2005, Dr. Tanner has studied protest statistics, including local Chinese police statistics, and has detected a spike in incidents following the financial crisis in 2008:⁵⁰⁶

Protest numbers apparently spiked with the onset of the financial crisis soon after the Summer Games, and by the end of 2008, total mass incidents had reportedly risen to 120,000 despite the pre- and post-Olympic security. Nationwide figures for 2009 and 2010 are not yet available, although local data and reports by some prominent Chinese academics indicate protests climbed greatly in 2009 in the wake of economic difficulties.⁵⁰⁷

*China's military budget is generally assumed to be larger than officially published figures.

Traditionally, protests were centered in rural areas in response to repressive government actions, especially over abuses by corrupt local officials. While rural protests continue today at record numbers, protests now occur more frequently in urban areas, drawing greater attention. One tactic of suppressing rural riots—blocking foreign media access to remote areas—is not possible within cities. The party has seen a growing number of middle-class and urban residents beginning to protest government actions prior to their enactment. These urban protests were notably different from rural incidents, because they involved middle-class Chinese citizens protesting policies before they were imposed, substituting a demonstration for a petition.⁵⁰⁸

The common theme among all of these issues is China's inability to respond to the underlying factors creating them. This is why protest numbers have continued to increase while China's economy has grown.⁵⁰⁹ According to Dr. Economy:

The roots of protest in China rest in the systemic weakness of the country's governance structure. A lack of transparency, official accountability, and the rule of law make it difficult for public grievances to be effectively addressed and encourage issues such as inflation, forced relocation, environmental pollution, and corruption to transform from otherwise manageable disputes to large-scale protests.

Dr. Tanner agreed, noting that “[p]arty leaders have repeatedly had to reissue orders calling for an end to these abuses, even while these abuses remain leading causes of unrest.”⁵¹⁰

Censorship and Thought Control

The CCP and the central government also seek to control the Internet. However, protesters and activists continue to play a cat-and-mouse game with Chinese censors. Chinese microblogs, similar to Twitter, are widely used in China, with over a million posts every hour.⁵¹¹ China's top two microblogs have over 200 million subscribers.⁵¹² Besides their immense popularity, microblogs are particularly useful for organizing events in China under the nose of Chinese censors, for two reasons. First, 140 characters can convey far more information in Mandarin than in English. Second, the number of homonyms in Mandarin allows users to mask the true meaning of posts from censors.⁵¹³ For example, the Mandarin word for harmony sounds like the word for river crab. When Chinese bloggers want to mock the government's “harmonious society” propaganda themes, they reference a river crab with watches lining its arms as a symbol of greedy officials. A “watered weasel ape” sounds like the word for “administrator” and is used to refer to the much-maligned Internet censors. A mythical creature, the grass mud horse, sounds like “... your mother,” where the reference to mother is taken to mean the Communist Party.

China's government has fought the technology. In 2010, the government blocked more than one million websites, including Facebook, Twitter, YouTube, and Evite.⁵¹⁴ Domestic microblogs were required to self-censor postings. In 2011, foreign microblog providers, including Twitter, remained unable to gain market ac-

cess. Most market analysts believed the prohibition on foreign microblogs was driven by concerns among government regulators over the ability to censor those sites.⁵¹⁵

China began requiring that bars, restaurants, hotels, and bookstores offering access to the Internet install Web-monitoring software to provide the identities to the public security agencies of those logging on. Establishments that resist face a \$2,300 fine and revocation of their business license. Cybercafés offering computers must demand from the customers a state-issued identification before logging on.⁵¹⁶

China's central government responded forcefully to the possibility that the unrest in the Middle East might spread to China. In January, as protests began in Egypt, Chinese Internet users could not complete keyword searches for terms such as "Egypt" or "Cairo." Official reporting on the protests, such as coverage on the Xinhua website, glossed over the causes of the protests or framed them in a negative light.⁵¹⁷ In a March front-page editorial, *Beijing Daily* had this to say of protests in the Middle East: "Such movements have brought nothing but chaos and misery to their countries' citizens and are engineered by a small number of people using the Internet to organize illegal meetings."⁵¹⁸

By February, China began to detain human rights and democracy activists⁵¹⁹ and to reimpose restrictions on foreign journalists and to disrupt access to certain websites, including Google's e-mail product, Gmail.⁵²⁰ Text messages with the words "jasmine" and "revolution" were bounced back. This response was triggered by anonymous Internet postings calling for a Jasmine Revolution in China, the same name given to the December 2010–January 2011 Tunisian revolution in which President Zine El Abidine Ben Ali was ousted after mass civil protests were launched.⁵²¹ U.S. ambassador to China Jon Huntsman's name was also blocked from Chinese microblogs in February after he was photographed near an anticipated Jasmine Revolution gathering in Beijing.⁵²²

On April 3, 2011, Chinese officials detained noted activist Ai Weiwei. Mr. Ai is one of China's most famous artists and an architect who helped design Beijing's "Bird's Nest" building used in Beijing's 2008 Summer Games opening ceremonies. Mr. Ai's wife and employees were also questioned or arrested. Authorities later reported that Mr. Ai was being charged with "economic crimes" including tax evasion. After his release on bail in late June 2011, Mr. Ai eventually returned to posting on the Internet even though he had been ordered not to "be interviewed by journalists, meet with foreigners, use the Internet and interact with human rights advocates for a year from his release."⁵²³ Mr. Ai may have violated the terms of his release when he began posting again on his Twitter account. Mr. Ai revealed that he had undergone "intense psychological pressure" and been interrogated more than 50 times.⁵²⁴ He also began talking about other prisoners of conscience and abuses by authorities.

Another high-profile case of censorship this year concerned Liu Xiaobo, a human rights activist who was sentenced to 11 years in prison for inciting subversion as one of 303 Chinese activists who called for an expansion of freedoms for Chinese citizens and an end to one-party rule in China in the *Charter 08* manifesto.⁵²⁵ In Octo-

ber 2010, the Nobel Committee announced that Liu Xiaobo had won the Nobel Peace Prize. In response, China's cybersecurity team blocked all searches of his name and prevented access to foreign news websites such as CNN and the BBC.⁵²⁶ Mr. Liu's wife was also placed under house arrest, and any gatherings to celebrate the award were quickly dispersed and some attendees jailed.^{527, 528} On the day of the actual awards ceremony, CNN and BBC television channels and websites were blocked in mainland China, and text messages containing the words "Liu Xiabo" or "Nobel prize" were blocked as well.⁵²⁹

In addition to foreign media being censored online, foreign reporters in China have noticed increased monitoring by authorities and restrictions on their movement. The *New York Times* reported in March that one of its staff had two telephone calls dropped when the call quoted Queen Gertrude from William Shakespeare's *Hamlet*. The line "the lady doth protest too much, methinks" in either English or Mandarin caused both calls to be disconnected due to the use of the word "protest."⁵³⁰ The Chinese government has also instituted new rules requiring foreign journalists to have government permission when interviewing anyone in a public area.⁵³¹

China has rescinded many of the freedoms that were granted to foreign reporters in the run-up to the Beijing Olympic Games. Reporters are no longer allowed to cover protests or the state response. These restrictions, as well as the arrests of well-known Chinese activists and lawyers, prompted an official complaint from the U.S. embassy in early March, according to a State Department briefing:

*[T]he United States is increasingly concerned by the apparent extralegal detention and enforced disappearance of some of China's most well-known lawyers and activists, many of whom have been missing since mid-February. We note that Teng Biao, Tang Jitian, Jiang Tianyong, and Gu Chuan all disappeared between February 16 and February 19. We have expressed our concern to the Chinese Government over the use of extralegal punishments against these and other human rights activists. We continue to urge China to uphold its internationally recognized obligations of universal human rights, including the freedoms of expression, association, and assembly.*⁵³²

In response to these protests, a Foreign Ministry spokeswoman said that China would "urge the [UN] mechanism to respect China's judicial sovereignty."⁵³³

Implications for the United States

China's neighbors, and trading partners, particularly the United States, have an interest in China's peaceful rise and its transition to a modern economic and political system. An evolution of the Chinese government and economy to a multiparty democracy and a free market system would benefit China's citizens as well. Chinese political dissidents, advocates of human and labor rights, and its entrepreneurs all have an incentive and an important role in fostering such a change.

The party and the government in Beijing are determined to pursue at all costs the preservation of single-party rule and the existence of a large, state-owned and -controlled economic sector. In recent years, this has led to violent confrontations and counterstrikes against citizens airing legitimate grievances. These protests are most often aimed at specific instances of local corruption or abuses of power, yet the central government is fearful that such protests could become a political movement.

Internal dilemmas such as the *hukou* system, by definition, are more likely to have an impact on Chinese citizens than the United States. However, issues including governance practices, consumer product safety regulations, and media restrictions may have transnational implications. For example, corruption, abuse of power and suppression of the media may compromise U.S. commercial opportunities just as weak safety supervision may result in tainted food or hazardous products entering the U.S. markets. In addition, tolerance of corruption disadvantages American companies complying with the Foreign Corrupt Practices Act.

The Chinese government continues to manipulate the value of its currency, keeping the RMB at an artificially low value in order to reduce the price of its exports and to increase the price of imports. This policy creates inflation within China's economy and reduces the ability of China's central bank to conduct monetary policy. This policy also reduces U.S. exports to China while it encourages U.S. consumers to purchase Chinese exports. The result has been lost production and jobs in the United States.

Conclusions

- The primary objective of the CCP is to remain in power. All other goals are intended to serve that end. As a consequence, the party has dedicated enormous resources to repress dissent before it becomes a destabilizing element and threatens the party's control.
- Despite the efforts of the party and the government to minimize dissent, citizen protest has been on the rise. Protests are sometimes brutally suppressed. The government will arrest and detain as a precautionary measure those it considers a threat to its control. The party and the government employ the news media to propagandize and mislead the public.
- The party is well aware of the dangers to its continuing authority posed by public rejection of a government that is unresponsive to the people. The party therefore reacts to citizen ire by attempting appeasement. This may take the form of authorizing the news media to highlight official abuses, particularly those committed by local officials. Still, corruption in all levels of government remains a problem for Beijing.
- Inflation has historically caused problems for the government in China. The rural poor and migrant workers are particularly disadvantaged by higher prices because they are so often reflected disproportionately in food and energy, which consume a larger portion of family expenses in rural areas. The government has responded to rising inflation with price controls and some curbs on bank lending. These tools are inadequate in the long run. Chi-

na's policy of keeping the RMB undervalued in order to gain an export advantage removes a powerful anti-inflation tool from the central bank.

- Income and wealth inequality is a growing problem in China. One cause is the *hukou* system of residential registration, which was intended to limit the migration of the rural poor to the cities. This has created a large migrant population in China, moving from city to city to seek work in factories but unable to access healthcare and education services without the proper *hukou* designation for that area. This situation perpetuates poverty among the disadvantaged. Local officials favor it, because it limits their responsibility toward the migrant workers. A smaller group, known as the "ant tribe," consists of college graduates from second-tier schools in rural areas who also lack the *hukou* to live in urban areas but who nevertheless seek but are unable to find the jobs that they have trained for. This restive and disappointed population is a potential source of unrest.
- China's middle class has been considered by some to be a potential force for political reform. But the opposite is likely. As long as the party can deliver strong economic growth, particularly in urban areas, the middle class is likely to remain a force for stability.
- China's central government has reacted strongly to perceived challenges to its authority. It detains and imprisons dissidents. It censors the news and punishes journalists for infractions of its unwritten and arbitrary rules. China also attempts to control and censor the Internet and has had more success than most other authoritarian regimes in suppressing the flow of information among the public.