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China’s Internal Unrest

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Hearings on Major Internal Challenges Facing the Chinese Leadership

Introduction

International news media in recent months have reported a number of violent confrontations between large crowds of angry Chinese citizens on one side and, on the other side, either law enforcement officials or private security forces hired by local officials and business interests. These reported confrontations reflect citizen claims of corrupt government collusion in theft, fraud and destruction of citizen livelihood. Reported violence has resulted in serious injury and deaths on both sides. The Minister of Public Security announced last month that 2005 saw 87,000 public security “incidents” involving 15 or more people, an increase of 6.6 percent over 2004. This is more than 235 such incidents each day. Data for 2003 report 58,000 such incidents, involving a total of 3 million persons, averaging 52 persons per incident. Last month China’s national news agency reported on a December 2005 speech by Premier Wen warning of the danger to China of mismanaging violent social discontent, especially unrest from unlawful or uncompensated seizure of rural land. He placed blame and responsibility with local officials.

It is not possible to verify the accuracy of these official data, or even to interpret their meaning, since such “incidents” apparently include a wide range of events, from strikes to barroom brawls. Nevertheless, the trends appear ominous. They show a ten-fold increase in “incidents” over twelve years (see Table 1), and international media have repeatedly documented the large scale and violent nature of most incidents they investigate. The incidents they investigate, of course, also represent only a very small number – indeed a tiny fraction – when compared to the official figure of 87,000.

My testimony today must be short, so I will emphasize only a few points. The first is that I believe we know very little if anything about the make-up and character of the 87,000 incidents reported in official statistics. I have not seen any report giving their breakdown by nature, cause, location, violence level or ultimate resolution. The Premier’s concern, however, indicates significant systemic and politically threatening characteristics. There are other crucial gaps in our knowledge, but this is the most serious. For example, I do not know if the 87,000 number for 2005 is compiled according to the same definitions as similar numbers for earlier years, going back to 1993. The announced rate of increase over 2004, 6.6 percent, is not compatible with an unofficial statistic, attributed to the same minister in a closed-door speech, reported in the Hong Kong press late last year of 74,000 – which would imply an 18-percent increase in 2005. The fact that the 87,000 figure and 6.6-percent growth came in the same announcement should at least mean that data in Table 1 for 2004 and 2005 are consistent.
Second, there is clearly a strong linkage between these incidents and China’s torrid pace of structural reforms, economic growth and international commercial engagement. Both media reports and examination of the 12-year record support this conclusion. So does analysis of the wrenching character of China’s economic reforms, which expose the inertia of inherited citizen expectations to the incessant and unsettling demands for higher productivity from exposure to markets and competition. This is a major theme of my testimony. The nature of China’s reforms and growth success themselves creates widespread tension threatening social unrest.

I will highlight three aspects of this reform-induced tension. To start, price reform has raised prices for some products produced by some groups and reduced them for others, in a relative sense. For those on the wrong end of price movements, whose accustomed “normal” lifestyle became no longer supportable by what had been an accustomed “normal” level of work effort, the shift to new jobs and harder work can be painful. Next, large numbers of citizens working in isolated “rust belt” locations before reforms now find their locations highly unproductive for the new era of commercial opening, which rewards coastal locations. Many workers have lost jobs and have had to move. Finally, migration reforms have brought rural workers, with low income expectations and willingness to work hard, into competition with previously subsidized urban citizens. For each reform aspect, there is no escaping the requirement to work harder in return for what might be, without overall growth, a lower standard of living. Under these circumstances, any form of government would be faced with citizen dissatisfaction and threats of widespread unrest and violence.

My third major point is that corruption inevitably magnifies these tensions engendered by rapid growth and system reform. Corruption takes many forms and in general is illegal official behavior harmful to citizens, including failure to carry out legal compensation for necessary losses in the modernization process. Corruption also adds insult to economic injury by employing webs of deceit and by flaunting legal procedures in ways that mock whatever reserve of citizen understanding exists for the practical requirements of economic growth and social progress. Eliminating corruption would not eliminate the underlying elevated social tension from growth and reform dislocation, but it would make managing that tension significantly easier.

It is important to emphasize here as well that I do not know of any credible study of the extent of corruption at local government levels. How many county and township officials carry out their duty honestly and how many do not? We know of the corruption cases reported in the domestic and international media, including those prosecuted for corruption. But how representative is this corrupt behavior in the totality of Chinese local governments? Are claims of corruption by local citizens always accurate? I do not think we know.

Whatever its incidence, the challenge of reducing corruption is made especially difficult by several factors. For example, the corporate structure of China’s combined governmental and party organization neutralizes efforts to discipline government behavior. Normal channels require higher officials to work through those same local officials who are objects of investigation. Furthermore, the high fiscal cost of monitoring local government behavior in a systematic way is a major barrier to doing so for a country with a per-capita income as low and a tax base as weak as China’s. A different system, with federal components, would be expensive.
Finally, were such discipline of corruption organizationally possible and fiscally affordable, widespread and well publicized punishment of corrupt local officials risks undermining the legitimate authority of honest local officials, whose authority must remain intact in order to manage the many strenuous complaints of citizens inevitably forced to adjust their lifestyles to the requirements of a more productive economy. Nevertheless, China does prosecute both corruption and unjustified citizen acts breaking the law. Ultimately, in most cases, it requires careful sifting of facts and the law to determine in any given situation whether official actions are legitimate and honest. Neither claims of corrupt action nor claims of innocence can be taken as legitimate indicators of the truth in a given circumstance. Chinese arrests, prosecutions and convictions for corruption are an indicator of corruption's extent, but how many evade prosecution, and how often is prosecution based on political vendetta? I do not think we know.

Finally, my fourth major point emphasizes how little we know about the national context of these reported incidents of social unrest. Given the many dislocations and other provocations emerging from rapid growth and structural reforms, how many potentially disruptive circumstances do in fact evolve peacefully, without demonstrations or with demonstrations that are resolved peacefully and without arrests? There may well be studies based on random samples of reforms in different locations that determine how accurately anecdotal information from international media reports actually describes the nationwide situation, but I have not seen them yet. I do know of examples of peaceful resettlement of urban persons whose homes are destroyed for urban renewal— resettlement with compensation in the form of a new home—with better facilities but perhaps not as good a location. One researcher has called this “improving lives through hardship” (Grage 2004). But such studies are not comprehensive in a way that helps us understand whether media reports of violent unrest describe the general situation in China. I just do not think we know.

The remainder of my written testimony investigates the economic foundations of social unrest in somewhat greater detail and then attempts to answer several questions posed by the Commission as part of the preparation for these hearings.

**Growth and the economics of social unrest**

The simplest economic explanation of social unrest would be that faltering growth causes unrest, but this idea in its straightforward form is contradicted by the facts. The number of incidents did indeed accelerate during growth’s difficult years of 1997-99, when domestic economic policy errors affecting the rural areas sent China’s overall economic growth rate into a serious slump. But as China’s economy boomed in the 2001-to-2005 period, the number and scale of incidents continued to rise (Table 1 and Tanner 2005).

An alternative and more plausible explanation is microeconomic rather than macroeconomic—that dislocations and dissatisfactions accelerate with structural reform and modernization and that in China, reform and modernization are proceeding rapidly during both the boom and the slump phases of its macroeconomic cycle. This was especially evident during the most recent 1995-2005 cycle, but it held in the 1980s as well, with tragic consequences.
In the latter 1990s, GDP growth, measured through expenditure accounts, slumped from over 10 percent to as low as 4.5 percent (Keidel 2001). Losses and the build-up of unsold inventory became so obvious to policymakers and workers alike that officials could feasibly initiate state-owned enterprise (SOE) reforms involving layoffs of one-third of all SOE and collective workers, or 50 million workers, by end-2004—with 30 million jobs lost in the span of just three years from 1997-99 (NBS 2005). Meanwhile, during this same period, the initial farm policy errors caused household consumption in rural areas to decline in absolute terms, while employment in township and village enterprises (TVEs) also declined. These difficult rural conditions increased both the share and number of households below the rural poverty line and pushed increasing numbers of rural workers to migrate to towns and cities in search of jobs.

Since 2000, while growth has boomed in the 9-to-10-percent range, SOE and collective layoffs have continued, with more than 20 million additional lost SOE and collective jobs by the end of 2004 (NBS 2005). In other words, once started, cost-cutting structural reforms continued in good times and bad. Meanwhile, reform and restructuring have taken additional forms that generate new dislocations without alleviating earlier ones. The boom has been centered in regions and sectors both far removed from the laid-off workers in various rust belt provinces and far removed from farmers in low-income grain-belt regions. At the same time, the boom has brought accelerated infrastructure, industry and real estate investments, mostly on rural land in the outskirts of urban areas but also in the aged and dilapidated centers of towns and cities. This stepped-up pace of land conversion from rural to urban use and from old to new structures has speeded displacement of both rural and urban residents from their homes and land. Finally, loss of in-kind health and education benefits for urban workers and separation from village-based support for rural workers have only worsened the impact of layoffs and loss of homes and land. In these ways the economy has become rapidly more monetized without providing adequate monetized income for large segments of the labor force.

A closer look at the data in Table 1 supports this interpretation of the impact of growth and reform. The rate of increase in reported incidents of unrest since 1993 has averaged 21 percent a year, but the pace has not been steady at all. By far the most rapid increase – a 66-percent jump – came in 1998. That year, and 1999 which followed, were the most severe years of state-enterprise layoffs. Labor unrest from factory closings, mergers, layoffs, unpaid wages, and lost pensions and other benefits spread throughout the country.

After 1998-99, the pace of increase in unrest slowed dramatically, as growth and employment improved—until 2004, when unrest jumped 41 percent. 2004 was a year of especially rapid growth, high rates of investment, electric power shortages and a related proliferation of local peri-urban industrial parks and power plant projects. The condemning and confiscation of rural land must have accelerated dramatically, although I do not know of comprehensive statistics on the subject, and it is reasonable to conclude that the nature and pace of this boom-time activity triggered widespread discontent. But this is only conjecture; its testing requires better data.

Whatever the cause of the jump in 2004, the pace of increase in unrest slowed dramatically last year, 2005. The officially announced increase rate of 6.6 percent is the lowest of any year in Table 1. The year 2005 experienced a concerted effort by government to slow the economy’s engines. Investment slowed, inflation slowed and import growth slumped. A plausible
hypothesis could say that, in spite of continued anecdotal reports of land seizures and confrontations, land seizures declined on a nation-wide basis leading to a sharp reduction in the growth of social unrest. Still, incidents of social instability continued to increase, and from an already high level, so simple explanations based on the rate of growth – whether too high or too low – remain unsatisfactory.

A more disaggregated review of anecdotal information supports the broader hypothesis that a wide variety of structural reforms and increases in economic complexity and monetization create the almost inevitable conditions for proliferation of dissatisfaction and its public expression.

Many forms of social unrest with an economic basis

Research resource limitations for this testimony could not allow a more comprehensive review. The listing of examples here is drawn from earlier research (Keidel 2005). It gives a general indication of the kinds of unrest common in China recently.

Low and unpaid wages. Workers frequently demonstrate to protest low wages and work conditions, in addition to expensive company store, dormitory and other expense charges. For example, in April 2004 more than a thousand workers went on strike in two factories in southern China demanding higher pay and one day off a week, resulting in the arrest and sentencing of the strike leaders to up to 3½ years in prison. (BBC 2004, Chan 2004)

Layoffs and unpaid back wages. Workers frequently take the law into their own hands to protest layoffs and unpaid wages. For example, in November 2004, workers at one factory in southern China took their bosses hostage over unpaid back wages, and also in November workers in another factory in the same town fought with security guards to protest layoffs. (Chan 2004)

Loss of worker benefits. Loss of health and pension benefits has affected large numbers of urban hukou workers. For example, in March 2002, 80,000 retired workers protested in two towns in China’s northeast over unpaid pensions. (Zhao & Wen 2002)

Union representation. Independent labor unions are illegal in China, but official labor organizations reportedly do little to protect workers from employer malfeasance with local government collusion. Efforts to form independent labor organizations lead to confrontations with police and often violent clashes. For example, in 2004 in Shaanxi Province 7,000 textile workers reportedly struck for seven weeks when they were forbidden to form their own union. (Marquand 2004)

Environmental degradation. Economic development leading to deforestation and grassland overgrazing are converting vast stretches into desert and forcing rural migrants into cities where they are not welcome. For example, in 2001 in China’s northeast, migrants from desertified areas working as pedicab drivers blocked the entrance to a government compound to protest local government efforts to use high fees to force them out of town. (Economy 2003)
Access to water. Water shortages in the north of China lead to social unrest over access to what limited supplies are available. For example, in 2000 in eastern Shandong Province a thousand villagers fought with police for two days over access to water for irrigation. (Economy 2003)

Tolls and fees. Many protests object to fees and exorbitant tolls levied by local officials—in part to pay for public services and in part to supplement their official incomes. For example, in November 2004 a woman’s anger at bridge tolls apparently led 30,000 persons to riot, confronting hundreds of police and paramilitary units, leaving one person dead. (Chan 2004)

Land condemned for public use. Citizens faced with relocation to make way for roads, airports, dams and other sanctioned public investments have little effective legal recourse to ensure just compensation, leading them to demonstrate publicly. For example, in October 2004 in Sichuan Province, 90,000 peasants reportedly fought with police over losing their homes for little compensation to make way for a hydroelectric dam. Only martial law restored order. (Marquand 2004, Mooney 2004) Demonstrations against both the relocation and environmental damage from dams are reportedly growing in size, frequency and sophistication as activists organize across provinces and with the support of central government environmental agencies. (Economy 2004)

Ethnic tensions. Ethnic tensions apparently often exacerbate the economic stress brought on by economic dislocation. For example, fighting broke out in 2004 in the southern city of Guangzhou between Moslem Uighur migrants and local riot police after security guards stopped Muslims from selling fried mutton in a shopping district. (Mooney 2004) In Henan Province in October 2004 an ethnic battle between Han Chinese and Muslim Hui minorities using farm implements left many dead, including 15 policemen, by one account. But the link to economic tension was not so straightforward, since the widespread fighting was sparked by a traffic incident in which a Hui refused to pay compensation to a Han. The inferior economic opportunities available to the migrant Hui households is one explanation given by a local Hui interviewed by the media. (Marquand 2004, Pocha 2004)

Economic analysis of Chinese social unrest—productivity, remuneration and tastes

In economic terms, a great deal of observed social tension over the past 25 years in China can be better understood by considering what reforms and global opening have done to patterns of productivity, remuneration and lifestyle expectations.

Shifts in productivity, pay and expectations lead to changes in relative prices, location and aptitude requirements. These changes set up conflicts between old accustomed patterns of work and consumption on the one hand and a market economy’s tough insistence on adequate productivity as the basis for affording a certain consumption level.

The following analysis is taken from (Keidel 2005).
Relative price shifts since 1978

Relative price shifts since the start of reforms in 1978 are one of the most powerful levers in China’s emerging market economy responsible for economic dislocations. The clearest example is in rural-urban terms of trade—prices paid for rural products versus prices for urban products—and what their shift has done to SOE finances and urban standards of living.

Beginning in the early 1980s, prices of rural products began to rise relative to prices of goods made in the city. At the same time, rural productivity in the early 1980s jumped dramatically with the breakup of communes and revival of household farming on individually managed plots. Matters came to a head very quickly in 1984-85, when production of rural goods, especially grain output, grew so rapidly with reformed higher prices so remunerative, that cities and local governments ran out of cash with which to buy them. This was an early and famous incidence of “hard-to-buy, hard-to-sell” (nanmai nanmai). “Hard to buy” because while farmers had cash, the stores were sold out of manufactured products from the cities, and “hard to sell” because while farmers had good harvests and guaranteed purchase prices, government procurement offices closed down due to shortages of funds. This trend ushered in more than a decade of urban inflationary booms alternated with credit-tightening job-cutting slumps.

The immediate result of these price shifts favoring rural areas was the realization that urban productivity was not high enough, when combined with the higher relative rural prices, to pay for the standard of living once guaranteed to all registered urban households. Not only were food prices higher, but construction materials and other rural products had become more expensive. The longer-term result of the shift in relative prices was that urban households needed larger and larger direct cash subsidies through official urban distribution centers, and when these became too great a government budget burden, retail price reforms coupled with matching urban wage increases shifted the financial burden onto employers, especially SOEs and urban collectives. As SOE financial burdens in support of the accustomed urban hukou standard of living grew, so did SOE losses. The climax to this shift in relative prices began to unfold in the late 1990s as SOEs and urban collectives rapidly began to reduce their cost burdens by laying off workers.

Exacerbating the direct impact of relative price shifts on urban household purchasing power was its impact on urban incentives to work harder to compensate for less advantageous terms of trade. Rather than understanding these changes to be a natural part of the reform shift from central planning to a market-based economy, urban workers saw them as unjustified deterioration in their accustomed standards of living. Hence, instead of providing incentives to work harder and adapt to new realities, these price shifts brought about a series of three major social unrest incidents in the middle-to-latter 1980s, all with deep economic foundations.

While the most famous of such unrest incidents was in Tiananmen Square in May-June 1989, smaller-scale demonstrations also reflected similar economic frustrations—first in the summer of 1985 and second in the winter of 1986-87. In all three cases, the economic roots of the unrest were camouflaged by claims of a higher purpose—anti-Japanese activism in 1985, pro-democracy activism in 1986-87 and at Tiananmen in 1989, and opposition to corruption throughout the period. Despite the publicity given to the pro-democracy rhetoric of the latter
two movements, closer examination reveals the shallow nature of their democracy components and the powerful economic underpinnings for the anger and frustration released by students and workers alike. (Keidel 1992) Today, citizen claims of corruption in the face of uncomfortable adjustments are in many cases—but most certainly not all—likely part of a similar phenomenon.

In sum, China’s economy today is still reeling from the impact of relative price shifts begun in the early 1980s and stepped up for urban food prices in the early 1990s.

Regional productivity shifts

Nowhere is necessary adaptation to new and natural productivity patterns more difficult than in the dimension of regional location. This is the second great economic dimension of underlying shifts responsible for China’s social unrest. Most of the new opportunities presented by market and globalizing reforms are in coastal and other centers of transport and communication. Most of China’s labor force, however, is in interior cities and farm belts. The need to move locations to enjoy modern productivity gains is one of the greatest sources of economic inequality and dissatisfaction.

Interior concentrations of manufacturing labor reflect circumstances and policy decisions in the nearly 30-year Maoist period, as well as patterns of rural population concentration thousands of years old. First, cut off from the rest of the world by the Korean War, China relied completely on the USSR for technology in its first five-year plan (1953-57). Hence, a large industrial concentration accumulated in Manchurian cities, far from the coast, at the end of the trans-Siberian railway. This area is today the northeast (dongbei) rust belt.

Second, when fear of global nuclear war and fighting in Vietnam made coastal installations appear vulnerable, the Cultural Revolution’s “Third Front” industrialization strategy shifted major industrial concentrations deep into interior provinces where they would be able to support a war of resistance against foreign occupation. These industrial concentrations, from Guizhou to Lanzhou to Xian, are today China’s interior rust belts.

Third, the plentiful farmlands of China’s central alluvial regions, especially where combined with good rainfall in the Yangtze River basin and all to its south, mean that these regions, because of high per-hectare farm productivity, have for thousands of years supported large populations far from today’s centers of modern employment opportunities. These large and heavily populated interior farm regions today contain China’s impoverished grain belt areas.

In all three dimensions of inappropriately located population concentrations, no degree of policy success could avoid the market-oriented shift in relative productivity and value added advantages away from these regions toward the coast and other major natural crossroad locations. The only viable long-term solution to these regional gaps in productivity and income is large-scale migration from all over China to major urban hubs of transport and communication—mostly on the coast.
Market requirements for work aptitude – education, initiative and elbow grease

Finally, the third major dimension of shifts in productivity and remuneration is that of aptitude for productive employment. Aptitude encompasses education, skills, entrepreneurial smarts and energy, and the willingness to work hard in possibly unattractive working conditions. Between the 1980s and 1990s, for example, as a result of market reforms, educational attainment became increasingly correlated with household income. No amount of policy ingenuity could neutralize the anger and frustration of those who find themselves lacking education and other more productive aptitudes.

A second aptitude gap is between rural and urban workers. Rural workers coming to the city, because of a generally less privileged upbringing, have a much greater aptitude for undertaking dirty and physically tiring work. This gap reflects the difficulties of shifting one’s lifetime expectations of a certain established package of job quality and living standard. Tensions generated by productivity and remuneration shifts in this dimension are an unavoidable part of market reforms and modernization.

A third aptitude gap emerges because of the shifting structure of the economy, away from farming and manufacturing into services. Workers, especially older workers, with a traditional aptitude for farming or assembly line work, find it difficult to learn the new skills needed to work in the service sector, much less in the newly expanding higher-tech dimensions of China’s manufacturing expansion. To the laid-off worker, it just seems that there are no suitable jobs remaining. And yet this rapid structural transformation of China’s economy by sectors is the very essence of market reform and modernization. Related disaffections are impossible to avoid.

What is really going on, and how will it continue?

Given this characterization of China’s domestic social unrest, how can these developments be compatible with life in what many perceive to be a tightly controlled authoritarian government known to employ harsh measures to control dissent?

My own answer, from working in rural and urban China over 25 years, and from living there continuously for three and a half years in the latter 1990s, is that the characterization of China as a tightly controlled authoritarian government is no longer accurate. Life in China has softened a great deal since I first went to the mainland in 1979. A wide range of individual and group patterns of behavior is tolerated because the government and party do not see this behavior as threatening to the social stability deemed necessary for continued rapid economic change.

What is perhaps more fundamental is that gradual shifts, such as the proliferation of domestic NGOs and implementation of legal reforms have legitimized a climate of constructive criticism for which the government has a rather thick skin, as long as the criticism is not seeking or contributing to demise of the established political order. These trends are consistent with a philosophy of economic reform beginning in the 1980s that sought to find ways to compensate losers to some degree. Chinese reforms and the officials implementing them have as a group have not been confiscatory or economically rapacious agents of change. Targeted poverty
programs in low-income rural regions all over the country have dramatically reduced rural poverty, a three-level layering of urban social safety nets has continued to receive expanded funding to eliminate destitution in urban communities because of layoffs. When price reforms moved against a particular population group, government subsidies to offset the price effect were for the most part adequately funded—although more so in urban than in rural areas.

Consequently, government’s response to unrest that reflects dissatisfaction with the impact of reforms has emerged as multi-faceted and flexible. Grievances are reportedly examined on a case-by-case basis, so that some redress is often forthcoming. At the same time, leaders of a demonstration or strike are frequently reported by international media as arrested, especially if they are deemed to have broken the law by leading a demonstration without a permit or, in the extreme, if they kidnapped a factory head or destroyed property.

In large part, this differentiated response appears to be a calculated strategy for defusing and discouraging further unrest. It reflects the government’s realization of its own limits as well as the dynamics of situations where harsh treatment more likely means that information of the incident spreads more widely, causing still greater difficulties, both at that location and at other protest sites. In this context, moderating government’s response in a “crowd-control” way complements limitations on media coverage in increasingly heavy-handed ways.

The above description of government’s approach means that leaders of such demonstrations or protests can expect to be arrested and eventually punished, while the much larger number of participant “followers” can expect not to be arrested or disciplined, with the exception of cases with criminal violence or where local government and business forces resort to thuggish methods. The net effect is that if potential demonstration leaders consider that a particular protest issue is not particularly crucial, serious, or justified by Chinese law they are much less likely to organize an incident. In most reported situations, however, local demonstration leaders have become so fed up and so incensed by apparent wrong-doing that personal consequences are given less weight.

Will these kinds of demonstrations continue to grow in number and eventually pose a threat to the government and the party? The answer to this question depends on how skillfully government addresses the underlying issues and the problem of corruption. My personal assessment is that policymakers in the politburo and government bureaucracy will continue to craft a hybrid response, combining a younger pool of local leaders with their enhanced supervision by higher levels of government. Media coverage will continue to restrict information about the extent and seriousness of incidents, and when outrageous developments break out, an overwhelming police response will punish both the demonstrators and local officials.

This kind of incentive scheme for local officials, if adequately funded and well designed, can contain unrest within a scale that does not threaten continued rapid economic growth. At the same time, this very rapid economic growth is the medium- and long-term enabler of calmer relations between short-term winners and losers in the reform process. Given my assumption of an informed but stern government policy program to resolve such incidents under the leadership of local officials, I do not see that continued frequent demonstrations pose a threat to the survival of China’s government as we now know it.
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* Incidents involving 15 or more persons

Note: *italics* indicate annual average growth.