

Cities and Stability:

Directing Urbanization, Defining Unrest, and Distributing Transfers in China

Jeremy Wallace
Ph.D. Candidate
Stanford University
jeremy.wallace@stanford.edu

[This chapter builds on the theory and empirical work presented in the previous chapter, entitled “Cities and Stability: Redistribution, Urbanization, and Autocratic Regime Survival”.]

ABSTRACT

Recently, the Chinese government has begun subsidizing rural areas after 50 years of taxing them. Most developing non-democratic regimes, on the other hand, are urban-biased, in response to the threat of urban unrest. This chapter demonstrates support for the theory presented in chapter 1 that these pro-rural policies are being implemented in part to mitigate urbanization using Chinese qualitative and quantitative data. First, I present a case study of the Chinese government’s policies to direct and control urbanization from 1949 to the 2005, showing that stability, especially in cities, has long been a dominant concern. Second, I analyze the allocation of fiscal transfers using new sub-national data on instability and migration patterns. I find that transfers are directed to unstable areas and to areas that export labor.

Comments are welcome. This is a work in progress.

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Introduction

Chongqing was the scene of a traffic accident in December 2005 that took the lives of three girls. While two families were given RMB 200,000 as compensation for their loss, the third was only offered RMB 58,000.¹ The discrepancy is due to the family's household registration or *hukou*. Despite living in the city for over 10 years, the third family officially remained rural residents; as compensation in such cases is determined by average income in one's official residence, the rewards differed dramatically.²

As unjust as this may be, it is perhaps not surprising. Social science knows that policies in developing countries tend to be biased towards urban areas (Lipton 1977; Bates 1981). This bias makes political sense as city residents – due to their proximity to each other and to the seat of government – can more easily threaten the government than people who live in the countryside. *Hukou*-based discrimination of people from rural areas in China fits in this framework.

Although the *hukou* system remains mostly intact, China has recently changed its fiscal policy to address rural problems, moving away from urban bias. Since 2002, China has expanded spending on agriculture and rural areas, while at the same time reducing the tax burden on farmers, addressing the problems of the “three rural issues” (*san nong*

¹ Around US\$25,000 and US\$7,000 respectively at the time, with a conversion rate at the time of near 8 yuan or RMB (*renminbi*) to the US dollar.

² Compensation is based on “average disposable income” in urban areas and “average net income” in rural areas. The facts of the story are from Wang and Zhou 2006. The discrimination is not inherent to the *hukou* system, that is, various other government departments give differential benefits and services based on one's *hukou* status. For simplicity, the text uses the phrase “*hukou*-based discrimination” to describe this phenomenon.

wenti).³ Provision of free education and health coverage has rapidly expanded in the countryside. The agricultural tax, which had existed in various forms for millennia, was eliminated. Local governments have received transfers from the center to make up for this loss of revenue. *Why is the government simultaneously discriminating against farmers in the city and subsidizing them in the countryside?*

I argue these policies that seem at cross purposes comprise key elements of China's attempt to manage social stability and the process of urbanization. Both the *hukou* system and changes in fiscal policy reduce the incentives for farmers to move to cities. Managing urbanization is fundamental to the government's strategy to maximize stability – in both urban and rural areas – over the long term. Most of the focus on the recent shift towards pro-rural policies has been, perhaps naturally, on their effect on the countryside. However, I argue that their effect on urban areas was an important concern during their formation.⁴

In the previous chapter, I show that controlling for level of economic development, urbanization substantially increases the likelihood of regime collapse in developing non-democracies.⁵ This finding illustrates a secondary effect of urban bias that has been neglected in the literature: it encourages urbanization, leading to larger cities in the future. By encouraging migration from rural to urban areas, urban bias undermines the original intent of preferential treatment to cities. Rather than reducing the risk to the regime by placating urban residents, urban bias actually increases the long-term risk to the regime by generating larger cities. Despite this, bias towards cities

³ The “three rurals” (*san nong*) of the “three rural issues” (*san nong wenti*) are agriculture, villages, and farmers (*nongye*, *nongcun*, and *nongmin*).

⁴ Thanks to Allen Hicken for clarifying on this point.

⁵ Wallace 2007. Note that the finding is not that authoritarianism collapses, but authoritarian regimes collapse; that is, authoritarian-to-authoritarian transitions are included in the dataset.

remains endemic in developing non-democracies, as most governments do not have the luxury of avoiding these long-term costs due to short-term threats.

While most regimes respond to the threat of urban unrest by biasing policies to favor cities, China has focused on slowing the pace of migration to unstable cities and even begun subsidizing rural areas. The Chinese government fears “Latin Americanization”—slums, crime, and regime instability—and hopes to moderate movement to cities by making agriculture more economically attractive.⁶ Thus, the Chinese government uses fiscal policy as a tool to maintain social stability.

This chapter proceeds as follows. I show support for the argument in two empirical sections. First, a narrative of Chinese urbanization and reform policy shows that stability, especially in cities, has been a dominant concern for Chinese policymakers. Second, analysis of Chinese fiscal transfer statistics shows that the government directs fiscal transfers to areas that are unstable and that export laborers. This finding is based on new estimates of sub-national social instability and migration patterns that I describe in this chapter.

China’s Management of Urbanization

Despite being home to the largest cities on the planet for much of human history, China today has a relatively low level of urbanization given its level of economic development. On average, countries with purchasing power parity per capita income of US\$5,000 have over 50% of their populations living in urban areas. China, despite passing this level of development in 2003, has only 43% of its people living in urban

⁶ e.g. Wen Tiejun quoted by Lang 2006.

areas as of 2005.⁷ Thailand is the only major country as developed as China with a lower percentage of its population living in urban areas.⁸ This is a result of a series of policy choices by the PRC government, most particularly the *hukou* system.

The Communists were from the beginning of their reign worried about the possibility of urban unrest. The government decided to ensure that urban workers and unemployed were fed. In 1950, Mao Zedong directed the Central Committee to “set aside two billion catties of grain to solve the problem of feeding the unemployed workers.”⁹ More directly addressing the problem of potential urban instability were policies pushing people to leave cities and move to rural locations. Hundreds of thousands if not millions were moved, tempted in part by land grants and subsidies for leaving major metropolises (Cheng & Selden 1994).

The development plan of the 1950s followed the Soviet model; it focused on strengthening the heavy industry sector. China extracted surplus from rural areas and invested the proceeds in urban industry (Bernstein 1984; Oi 1989). As the benefits of policies were concentrated in urban areas, without migration restrictions, the government feared that massive “blind flows” (*mang liu*) of people from the countryside would overwhelm urban social services (Cheng & Selden 1994). China established its *hukou* system in the 1950s and began using it to seriously restrict freedom of movement within the country in 1960.¹⁰ As economic planning became more comprehensive, markets evaporated. Ration coupons for food and other necessities were often only good in their

⁷ The 43% figure is the estimate from the 2005 1% Population Random Survey Sample.

⁸ World Development Indicators. This excludes countries with under two million people.

⁹ Mao Zedong in Kau and Leung 1986. Quoted by Cheng and Selden 1994.

¹⁰ Cheng and Selden 1994; Chan and Zhang 1999. The system combined aspects of the *baojia* system of imperial China, Japanese and Kuomintang (*guomintang*) policies, and the Soviet passbook system, Cheng and Selden 1994. *Hukou* started in cities in 1951 and the countryside in 1955, and with official legislation arriving in 1958.

locality of origin.¹¹ Illegal migration could be punished as a crime but was usually dealt with by returning the violator to his home territory (Chan & Zhang 1999).

The ability of the system to limit urbanization was impressive. From 1964 to 1982 China's urban population essentially held steady, moving from 18.3% to 20.9%.¹² It should be noted that only flows from low density to higher density localities were restricted. Movement of city residents to the countryside was unrestricted, as was moving from a large city to a smaller one (Chan & Zhang 1999).

In the early 1980s, China's reform and opening up led to the emergence of markets around the fringes of the planned economy, meaning that one could buy food or other goods without a locality-determined ration coupon, partially dismantling the invisible walls around cities (Chan 1994). With the increased opportunity to move to cities, millions have moved.¹³ The order of reforms – that is, their chronological arrangement – points to the government being interested in preserving social stability generally, but especially preventing urban instability. However, this does not mean that reforms were solely focused on the urban sector, in fact, quite the opposite.

Initial reforms took place in the countryside. Land was decollectivized – but not privatized – and agricultural production soared as a result, due to improved incentives and higher prices (Oi 1989; Brandt et al. 2002). In addition to promoting agricultural development, policies were put into place that encouraged *rural* industrialization, led by companies controlled by local governments, known as township and village enterprises or

¹¹ Cheng and Selden 1994. In particular, see pp. 657-8.

¹² 2006 China Statistical Yearbook.

¹³ Accurate numbers of migrants are not available for the 1980s. The Chinese National Bureau of Statistics until 2000 used *hukou*-based lists for its survey. As such, migrants often went undocumented and uncounted. By 2005, over 147 million people were counted as part of the moving or “floating” population. 2005 1% Population Random Sample Survey.

TVEs (Oi 1999).¹⁴ While during the era of the planned economy, local governments were principally funded by the center, each according to its needs, the era of soft budget constraints came to an end with fiscal reforms in the 1980s (Oksenberg & Tong 1991; Oi 1999). Local governments were left to fend for themselves. Many seized the opportunity to produce consumer goods and other lightly manufactured products which were undersupplied throughout the planned years (Oi 1999). Initial reforms improved rural economic performance, thereby encouraging both rural stability and decreasing the incentives to migrate to cities.

At the same time, the lack (or delay) of reform in cities shows the high place that the potential for urban instability had in the hierarchy of concerns the Chinese government faced. Urban state-owned enterprises (SOEs) were hemorrhaging funds, yet the government was unwilling to allow managers to fire workers and thereby improve efficiency (Naughton 1996).¹⁵ This policy points to the government being interested in maintaining control of the economic levers in key sectors (petroleum and other fuels, electricity, telecommunications, etc) but also that concentrated large-scale layoffs were a concern that the leadership wanted to postpone as long as possible. In the mid-1990s, there is a call to grasp the large SOEs and let the small and medium ones go (*zhuada fangxiao*). It is only in the mid-to-late 1990s that significant reforms of large-scale SOEs occurred (Lee 1999). Even at this late date, restructuring rather than privatization was the reform of choice, in large part due to the problem of laid-off worker unrest (Oi 2005). By this time the non-planned economy had developed to the extent that foreign observers

¹⁴ It is only in the 1990s that private enterprises became significant in terms of output and profits.

¹⁵ The SOEs were also institutionally powerful, see Shirk 1993. However, the argument that institutional power led to delay, I argue, is not an alternative explanation. Rather the choice to grant these enterprises institutional and political power comes precisely from recognition of their significance in the political economy of the state, especially in terms of urban social stability.

described China’s reform strategy as a successful attempt to “grow out of the plan” (Naughton 1996). Thus, the fear of massive migration to urban areas led to reforms in agriculture while the fear of urban unemployment delayed SOE reform in the cities.

China has substantially urbanized in the reform period but between the order of the economic reforms described above and the *hukou* system, urbanization has been managed. The *hukou* system still offers constraints and imposes costs on migrants (Wang, F.-L. 2004). It has slowed labor market integration and increased inequities (Au & Henderson 2002). In a major move in 2001, the government lowered the bar for access to urban *hukou* but only for small and medium sized cities (Wang, F.-L. 2004). That is, the regulatory hurdles necessary to migrate to a small or medium city became substantially easier to overcome. Yet until the infamous case of Sun Zhigang who was beaten to death after not producing his registration permit in Guangzhou in March 2003, Chinese could be deported to the countryside simply for forgetting to have their documentation on their person at all times.¹⁶ There exists a market for large city *hukou* but prices remain outside of the range of all but the extremely wealthy.¹⁷ As the introductory example of the vehicle accident in Chongqing above demonstrates, despite professing to be a party of the peasants, the CCP-led government continues to differentiate its citizens by *hukou* and discriminates against those with rural *hukou*.

In changes described by Premier Wen Jiabao as having “epoch-making significance,” over the past ten years the fiscal extraction from Chinese agriculture has been simplified, cut, and replaced with subsidies.¹⁸ China’s current policy goal of “industry feeding agriculture in turn” was enunciated in the early 2000s. The abolition of

¹⁶ “Temporary Residence Permit System Illegal” *China Daily*. 2006.12.27.

¹⁷ Wang 2004. Referred to as “blue stamp *hukou*”.

¹⁸ Xinhua 2006b.

agricultural taxes and increase in transfers to the countryside began, as do many of China's reforms, as experimental projects in an area of the country. In the case of these pro-rural reforms, China's Northeast (*Dongbei*) was a primary test bed (Lu & Weimer 2005). Not coincidentally, nearly two million of "laid off workers" (*xiagang*) were concentrated there when SOE reform finally began moving forward in the late 1990s.¹⁹ SOEs were concentrated in *Dongbei* – Heilongjiang, Jilin, and Liaoning – taking advantage of the industrial investments the Japanese made there when they held it during WWII.²⁰

The central government spending on agriculture, rural areas, and farmers was reported as 297.5 billion yuan in 2005 a 30% real increase from 2003.²¹ The abolition of agricultural taxes and fees is estimated as a total reduction of the peasant burden of 125 billion yuan a year.²² Budgeted spending from central coffers on rural compulsory education by 2010 is 125 billion yuan.²³ The New Cooperative Medical System (NCMS) is expanding medical coverage in the countryside. Begun in 2003, by 2006 it covered 40% of China's counties and is to cover the entirety of the countryside by 2010.²⁴ Some find that in the past 5 years China has increasingly focused village level investments in public goods projects and locating such projects in poor and minority areas.²⁵ Two features in Figure 1 below illustrate the shift. First, there is a clear move from a regressive pattern of transfers, that is, richer areas receive more transfers, in 1998 to a non-regressive point in 2002. This shift can be seen in the change in the slope of the

¹⁹ 2005 Labor Statistics Yearbook, p. 162.

²⁰ World Bank 2006.

²¹ CPI data from the China Statistical Yearbook, 2005. The 2005 data is Xinhua 2006a.

²² Xinhua 2006c.

²³ Xinhua 2006d.

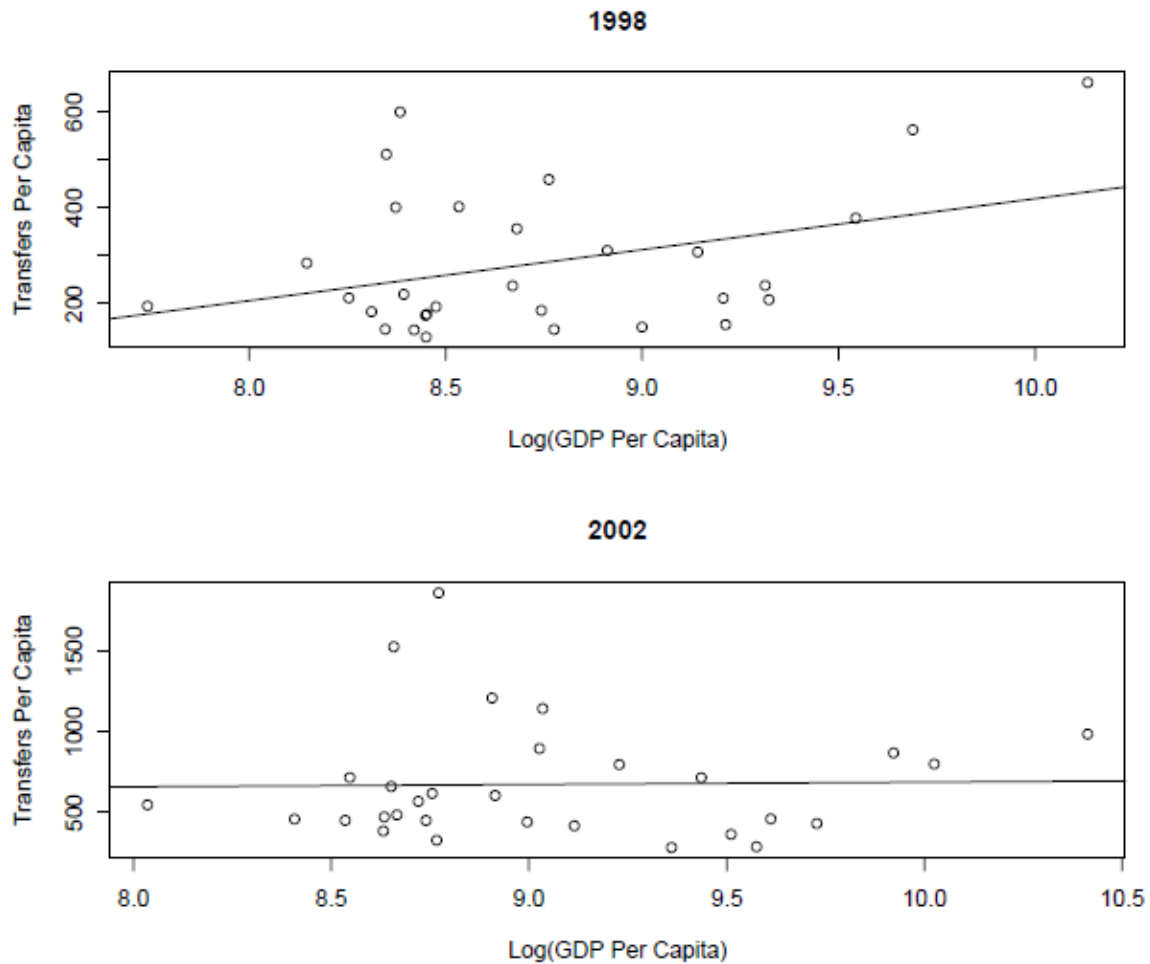
²⁴ Yan, Zhang, Wang, and Rozelle 2006. Also see Xinhua 2005.

²⁵ Rozelle et al 2006.

regression line from strongly positive in 1998 to essentially horizontal in 2002. Second, the scale of transfers per capita increases dramatically. Whereas in 1998, the largest per capita transfer is Shanghai's at 661 per person, by 2002 twelve provinces received transfers that large with the largest per capita transfer, Qinghai's 1860 yuan per person, nearly tripling the previous high.

Figure 1. Illustrating the Fiscal Shift

Transfers per Capita (in yuan) in 1998 and 2002 by Log(GDP per Capita)²⁶



²⁶ Transfers data is from the 1999 and 2003 Government Finance Yearbook (*Caizheng Nianjian*) and 1998 and 2002 Local Government Fiscal Statistics (*Difang Caizheng Tongji Ziliao*). Calculated as (transfers from center less system remittances)/population. It also should be noted that Tibet is excluded from this data; as seen below in Figure 4, Tibet is an extreme outlier in terms of transfers per capita due to its small population, minority status, and unique political position.

These changes have been implemented on the ground. Every county that I visited during my field work from 2005 to 2007 had eliminated agricultural taxes and instituted subsidies for seeds, fertilizers, and agricultural machinery. Individuals that used to have to pay hundreds of yuan in taxes and fees every year are now receiving subsidies, sometimes on the order of hundreds of yuan.²⁷ Given that rural income per capita is usually estimated at less than RMB3000, this shift represents a dramatic change in the economic calculus of potential migrants.

Figure 2. National Level Mass Incidents, 1993-2003

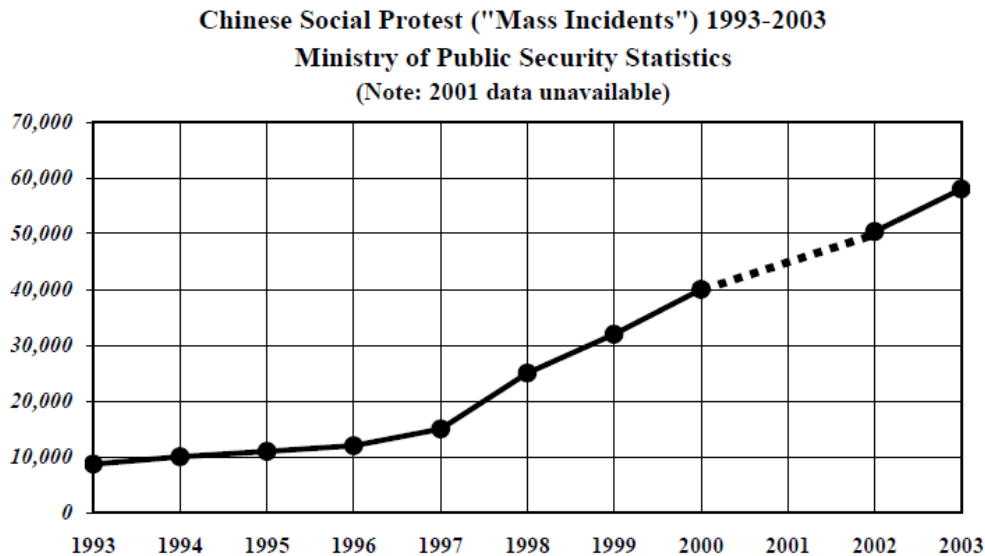


Figure is from Tanner 2005.

These “populist social policies” are clearly being sold by the state as efforts to combat inequality (Yang 2006). From 1991 to 2001, tax revenue from agriculture exceeded 374 billion yuan;²⁸ the government is trumpeting the abolition of these taxes. Such policies are in part a response to a social situation that appears to be increasingly

²⁷ Heilongjiang interview, May 2007.

²⁸ 2002 China Government Finance Yearbook. p. 353. Included are the agriculture tax, special products tax, arable land use tax, forest products and contract taxes. (*nongye geshui baokuo nongye shui, gengdi zhanyong shui, nongye techan shui, he qi shui*) The figure is in real 2001 yuan, CPI data from 2005 China Statistical Yearbook.

dire. The number of “mass incidents” (*quntixing shijian*) increased dramatically in the decade prior to 2003, when the last annual number was announced. Figure 2 above from Tanner 2006 shows the dramatic trend. The slogans of “people-centered” (*yi ren wei ben*) development and increased focus on the three agricultures are part of the attempt to address this situation. However, the stability situation is more complicated than the simple image figure 2 depicts.

Social Stability

Chinese social instability is often discussed but little understood in popular media. The Western press frequently trumpets that over 200 protests/day occur in China as evidence that the country is falling apart, with regime change, and thus democratization, just around the corner.²⁹ Simultaneously, the same papers and others portray China as a behemoth barreling towards its future as a superpower with little chance that the rule of the Chinese Communist Party (CCP) will be derailed.³⁰ The former are too dire in their predictions while the latter underestimate the social upheaval and associated political difficulties of China in this era of reform and opening up.

In 2003, villagers from Shengyou Village, Dingzhou, Hebei began building huts on 387 *mu* (25.8 hectares) of land that had been requisitioned by the Hebei Guohua Dingzhou Power Plant as they were unhappy with the lack of transparency and the compensation they were offered.³¹ The power plant was interested in using the land for a coal ash storage facility.³² The conflict escalated. On April 21, 2005, around 20 people

²⁹ e.g. Kahn 2006.

³⁰ e.g. Mann 2007.

³¹ Original reporting by the *Beijing News* (Xinjingbao), including field notes translated by Ronald Soong at the EastSouthWestNorth blog. Other helpful news stories were filed by Philip Pan at the Washington. Pan 2005; Soong 2005; Xinjingbao 2005.

³² Pan 2005.

arrived to move the villagers off of the land. They were prepared to use violence. The villagers fought them off, even capturing one who had been recruited from his job as a waiter in Beijing with an offer of 100 yuan (around \$12).

Less than two months later, a much larger force tried again. In the early morning on the 11th of June, two to three hundred young men, wearing helmets and combat fatigues and armed with guns, flares, and homemade pikes, attacked the villagers. The assault killed 6 and left well over a hundred villagers wounded.³³ Villagers told reporters that they “hope the central government will come and investigate. We believe in party central, but we don’t believe in the local police.”³⁴ News reports and a video showing the explosive melee appeared shortly after. Within days the Dingzhou party secretary had been fired, and in February 2006, he was sentenced to life in prison and four conspirators were given death sentences.

The Dingzhou incident is obviously atypical in numerous ways, yet it dramatically illustrates many salient features of popular unrest in China. The “mass incident” occurred in rural areas on the basis of a land dispute. The conflict pitted local government officials against those they are supposed to govern. Villagers pray that the central government will come to their aid. The fight was over a construction project, a coal power plant, suggestive both of the infrastructure development generally seen as key to the country’s economic growth and the dark side of that development, its massive environmental problems. The willingness of someone working in Beijing to come to this area two hundred kilometers from that city for 100 yuan to take on dangerous ‘work’

³³ One of the attackers was killed as well.

³⁴ Pan 2005.

shows how cheaply labor can be purchased, for any purpose. Both the extreme violence of the situation and the punishment doled out to the officials are rare.

Connecting these trends to Chinese social stability statistics is not a simple task. Chinese statistics generally and especially in the area of stability are not transparent. In this section, I lay out the national level official data related to social stability. Variables discussed include protests, unemployment, labor disputes, and crimes.

The official website of the “most authoritative” Party-controlled newspaper in China, People’s Daily Net (*Renmin Wang*), has a recurring headline: “China by the Numbers.” As reported by the Party’s mouthpiece, the figures tend to illustrate China’s tremendous economic progress. Writers in the West also marshal nearly unfathomable statistics in their attempts to help their readers understand China. One such statistic is the number of public protests, usually given as 74,000 in 2004 or 87,000 in 2005.³⁵ This figure is then divided by 365 to come up with the 200+ protests per day figure cited earlier. The usage is unfortunate as drawing conclusions from aggregate data is difficult when it is unclear precisely what these events entail.

The sources of these numbers are multiple press conferences by officials in the ministry of public security.³⁶ These figures are part of two separate data series measuring similar but distinct phenomena, “mass incidents” (*quntixing shijian*) and “public order disturbances” (*raoluan gonggong zhixu fazhui anjian*). Figure 2 above from Tanner charts the mass incident data series, which begins in 1994 and stops in 2004. The 87,000 figure that is often cited in the press is from the second series, public order disturbances.

³⁵ Google News Archive Search for “87,000 protests” AND China finds 76 articles, “74,000 protests” AND China finds 88 stories. Search conducted 2007.08.04.

³⁶ <http://www.mps.gov.cn/cenweb/brj/cenweb/jsp/common/article.jsp?infoid=ABC00000000000001018>

The press conference announcing the 2005 figure stated that it represented a 6.6% increase from the previous year, implying a 2004 figure of 81,600. While this is close to the 74,000 mass incidents given by the Minister of Public Security, Zhou Yongkang on July 6, 2005, it is clear sign that these are two distinct data series.

Further complicating matters is that what constitutes a mass incident or public order disturbance remains less than perfectly clear. Certainly public protests are included; however, many other kinds of incidents also are part of these figures (Yang 2002; Chen 2004). The website of the Jiangsu Public Security Division defines a mass incident as one of over a dozen different illegal actions and distinguishes between extraordinarily important (*tebie zhongda*) and important (*zhongda*) mass incidents (Soong 2005). Public order disturbances can include printing counterfeit currency, impersonating a police officer, or hacking a government webpage (Soong 2005). Perhaps in response to Western newspaper reports portraying China as a country run amok, the Ministry of Public Security referenced a third data series also called “mass incidents” which in 2005 only numbered 30,700 and in 2006 declined to 23,000.³⁷ The range of events counted as “mass incidents” in the new series remains hazy.

If each of these 23,000 cases were mass rallies against the CCP leadership in Beijing, then this number would be portend considerable danger to the regime, if nothing else as having the potential to serve as the source of an informational cascade similar to that preceding the collapse of the communist ruled states in Europe in 1989-90 (Kuran 1991; Lohmann 1994). However, few of these incidents—protests or otherwise—actually target the central government. Protests such as those violently suppressed in June 1989 or

³⁷ Annualized based on a nine month figure of 17,900 for 2006 and that the 2006 number was a drop of 22.1% from 2005 for the same period. Reuters 2006.

the Falun Gong demonstration in front of Zhongnanhai's Xinhua gate in 1999 are rare exceptions (Li & O'Brien 1996; Cai 2002, 2004). The vast majority of protests are like the Shengyou case: aimed at local business or government decisions and calling on the center for assistance (Hurst & O'Brien 2002). In fact, the central government uses public complaints as part of its strategy to monitor local governments. This is explicit in the Chinese *xinfang*, or Letters and Visits system, where local officials are punished if too many complaints are registered. Public protests also seem to follow this logic but as the government does not encourage (in fact, it outlaws) such protests, the strategy is apparent but unstated (O'Brien 1996; Lorentzen 2006).

These caveats aside, the trend of such incidents is clearly not reflective of an increasingly stable social situation. The seven-fold increase in mass incidents over a decade shows that despite enormous economic growth, discontent has grown. The call for a "harmonious society" by the Hu Jintao-Wen Jiabao administration shows the high priority given to stability in recent years.

Although mass incidents may be the activity most directly related to threats to continued government rule, they alone does not encompass social stability. Inflation is often seen as a proximate cause of social unrest, both in China as well as other countries (Bates 1981; Tanner 2004). Along with inflation, unemployment is a key economic factor for predicting instability. Related is the issue of labor disputes. Similarly, crime and corruption are negative indicators of stability. I address Chinese national level trends in each of these in turn.

Chinese unemployment data has generally been seen as not reflecting the total labor situation in the country, or even in urban areas (Solinger 2001). Strides have been

made recently to improve the collection of unemployment data (Zhang et al. 2005). The official data on unemployment is “officially registered urban unemployment,” which as its name implies requires registration. For those not eligible for unemployment benefits, registration comes with no tangible benefits, and so it is generally accepted that the registered unemployment figures offer an overly rosy picture of the Chinese labor situation (Solinger 2001; Giles et al. 2005). The trend line of the data at the national level resembles that of the mass incident data series. From 2000 to 2004 year-end officially registered urban unemployment increased over 38%.³⁸ Interpreting this increase is difficult as changing data collection methods mix with the changing real world situation. The criticisms of the unemployment data are that the levels are too low and with improved data quality, expectations are that the reported level of unemployment would increase, even if the conditions on the ground remained the same. As long as the methodology is consistent across provinces in a given year and does higher levels of the official statistics represent areas with more unemployment, these statistics can be usefully employed in a measure of instability.

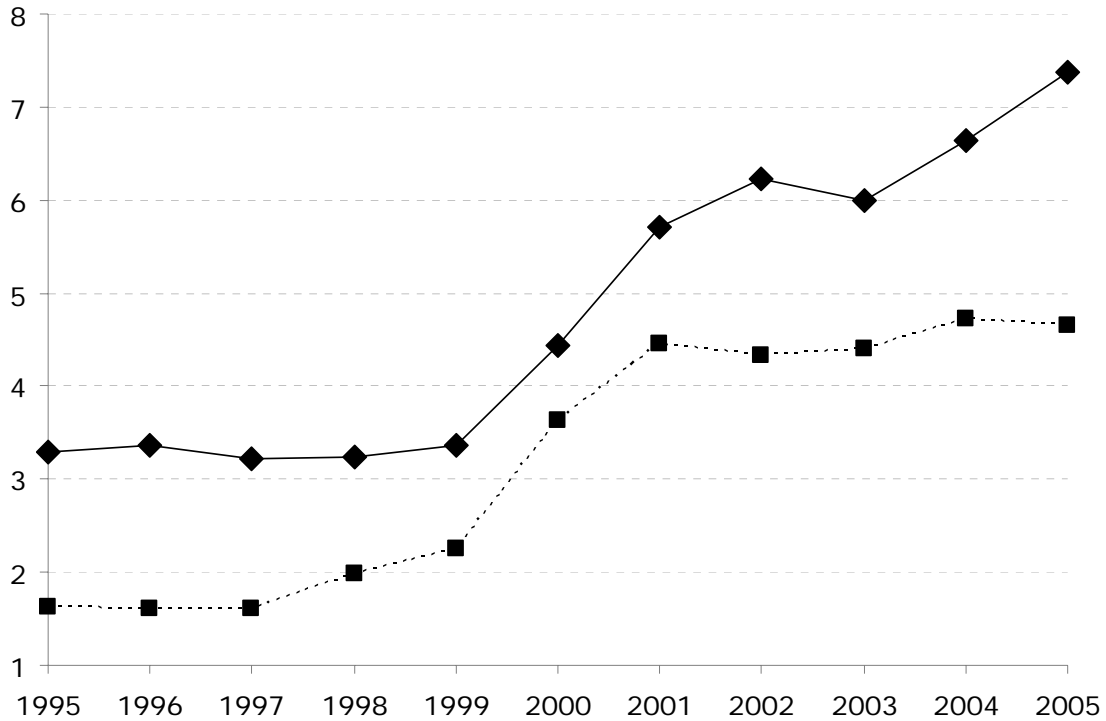
National crime statistics also have increased dramatically since the late 1990s. Registered crimes and “public order cases” (*zhian anjian*) also increase dramatically over the past decade, but their trend is different from the mass incident pattern tracked by Tanner presented above.³⁹ The series are presented below in Figure 3. There is a dramatic increase in cases of both kinds from 1999 to 2001. After this period, the series diverge, with criminal cases remaining around the 2001 level through 2005 while by 2005 the

³⁸ Labor Statistics Yearbook, various years.

³⁹ Public order cases are yet another different category and are not the same as “public order disturbances.”

number of public disorder cases had increased 29% over its 2001 level and continues an upward trajectory.

Figure 3: National Public Disorder & Criminal Activity⁴⁰
Millions of registered cases



A final variable at the national level that I have collected is collective labor disputants. The Ministry of Labor and Social Security compiles and publishes a labor dispute series that includes “organized work stoppage, strikes, sit-ins and demonstrations by workers and retired workers” starts from 1992.⁴¹ This series also includes a breakdown of collective versus individual incidents as well as the number of workers

⁴⁰ Millions of registered cases. China Statistical Yearbook, various years. Public disorder cases are the higher series, with markers shaped as diamonds. The criminal activity series, with the dotted line and square-shaped markers, lies below the public disorder series in all years.

⁴¹ Chung, Lai, and Xia 2006.

involved. The trend is similar to the mass incident and crime statistics already presented in Figure 3.⁴²

Estimating Provincial Instability

The above discussion focused on national trends in different data series related to social stability. In order to understand if and how policies respond to stability threats, disaggregated data is needed. In this section, I describe an estimate that I have created that combines data from different series into a single estimate of instability for each province-year from 1999 to 2004.

The instability variable is created by principle components factor analysis, combining data on collective labor disputants per capita, petitions (*xinfang*) per capita, and the unemployment rate in a given province year. The collective labor disputants and unemployment data have been described above. National level data on petitions are not published, and provincial level data are not readily available. The most consistent estimate of provincial level petitions is data combining county, city, and provincial level petitions data for a given province and reported in that province's yearbook.⁴³ I have collected such data from 16 provinces.⁴⁴ These provinces are similar in character to the overall set of provinces; they include rich and poor areas, autonomous minority regions, municipalities, areas that export and that import labor, and unstable and stable areas. I impute missing values using Stata 8.2. *Xinfang* trends for selected provinces are

⁴² See the appendix for a depiction of the national collective disputants trend.

⁴³ N.b. As is the case with most Chinese yearbooks, year X's data is in the yearbook from X+1, that is, 2004 data is printed in the 2005 yearbook.

⁴⁴ Anhui, Guangxi, Henan, Jiangsu, Jilin, Shandong, Shanghai, Sichuan, and Yunnan have complete coverage. I also have partial data from Fujian, Hebei, Heilongjiang, Jiangxi, Tianjin, Xinjiang, and Zhejiang.

presented in the appendix. Factor analysis is used to extract information contained in each of the three series into a single estimate of the latent variable social stability.

Table 1. Top Ten Unstable Provinces, Average Instability Score 1999-2004⁴⁵

Rank	Province
1.	Shanghai
2.	Liaoning
3.	Guangdong
4.	Jilin
5.	Zhejiang
6.	Heilongjiang
7.	Ningxia
8.	Tianjin
9.	Fujian
10.	Jiangsu

Table 1 lists the top ten provinces in terms of their average instability score for the course of the data. While the fact that three of the top six slots are the provinces of the Northeast is to be expected, Shanghai's inclusion at the top of the list is a bit surprising, as it is often seen as a paragon of China's development. It arises from Shanghai's extremely high levels of per capita government petitions (averaging 379 per 10,000 versus a national average of 105 per 10,000). Two non-stability related factors may potentially help account for this result. First, the petitions data includes only petitions at the county and above. As an urban area, access to one's county level government office is relatively easy, and so petitions that might be taken to a village or township office and not enter the dataset are instead taken to the county-level office and are included as part of Shanghai's total. Second, Chinese population data in the past has been biased in a way that undercounts migrants (Chan & Zhang 1999). As China tended to systematically

⁴⁵ In the appendix, another table of instability by province based on one month's data according to a dissident website purporting to have a leaked report, from Chung, Lai, and Xia 2006.

undercount in-migrant populations in their official statistics, provinces (like Shanghai and Guangdong) that are large labor importers have population estimates that are smaller than their true values. This affects the petitions per capita variable by under-estimating the true population and hence over-estimating petitions per capita, leading to perhaps an overstatement of instability in those locations.

Data

This section of the paper utilizes the new estimate of provincial instability to try to account for variation in center-to-province fiscal transfers. Focus on transfers is appropriate as they account for nearly half of local fiscal resources in the data. In 23 of the 31 provinces,⁴⁶ transfers provided more than half of the total.⁴⁷ In particular, the analysis focuses on *ad hoc* transfers rather than ruled-based ones as only with the former is discretion allowed. The theory generates the following four hypotheses regarding the distribution of center-to-province *ad hoc* fiscal transfers.

H1: Transfers are directed towards areas with instability issues.

H2: Fiscal transfers are directed to areas that export workers.

H3: Transfers target urban areas as urban instability is weighed more heavily than rural instability.

A number of control variables that have been suggested by previous works are included in the analysis. Minority status, natural disasters, and political representation score are expected to be positively associated with transfers (Wang, S. 2004; Naoi 2006; Shih & Qi 2007). Expectations of the relationship between GDP per capita and the transfers differ depending on the type of transfer being analyzed. Level of economic development positively affects returned taxes and negatively affects *ad hoc* transfers. Full

⁴⁶ China claims 34 provincial level units, including Taiwan, Hong Kong, and Macau, which are always excluded from my analysis. The remaining 31 are comprised of 2X provinces, 4 municipalities, and X minority autonomous regions.

⁴⁷ 2005 China Government Finance Yearbook.

transfers are expected to be positively associated with GDP per capita as richer provinces have more bargaining power with the center.⁴⁸ *Ad hoc* transfers might be similarly affected by bargaining power and so positively correlated with income, or progressive transfers may dominate, leading to a negative predicted relationship.

The dependent variable of the analysis is *ad hoc* center-to-province transfers per capita. The independent variables of interest are instability, migration, and urbanization. Control variables include central committee representation of the region, natural disasters, and minority status.⁴⁹

The transfer data comes from two annual sources, the *Government Finance Yearbook (Caizheng Nianjian)* and the *Local Government Finance Statistical Data (Difang Caizheng Tongji Ziliao)*. The *ad hoc* transfer data series is created by removing various rule-based transfers from a total transfer figure. The figure on total transfers comes from the relevant province's budget in the *Government Finance Yearbook*. Returned taxes and old system subsidies, found in the *Local Government Finance Statistical Data*, are removed.⁵⁰ This remainder is the "other transfers" figure. The final transformation is to divide the transfer by the provincial population.

When examining the data, it becomes clear that Tibet is a very distant outlier. Tibet's average per capita *ad hoc* transfer is over 2100 yuan per capita, more than twice the second largest average transfer (Qinghai at 1018 yuan per capita). Tibet's observations hold such leverage that when included they dilute the rest of the analysis

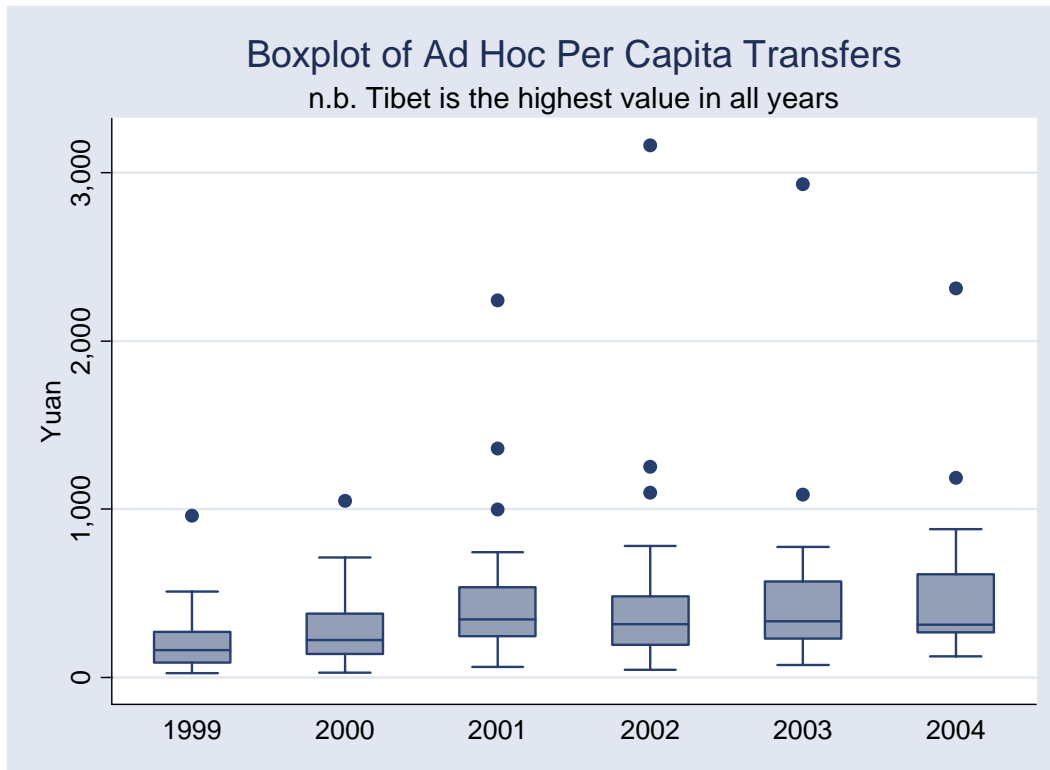
⁴⁸ Shirk 1994, Wang 2005.

⁴⁹ Future iterations of the paper will include FDI and/or trade statistics as recent papers have suggested that they might have some affect on the distribution of transfers.

⁵⁰ The *Local Government Fiscal Statistical Data* series has year X's data in year X's edition.

and thus are omitted for the rest of the analysis.⁵¹ The boxplot in Figure 4 below shows how distant of an outlier Tibet is on the dependent variable.

Figure 4: Tibet as Outlier



The primary independent variable is a new provincial level estimate of instability described above. The second independent variable of interest is migration. The sources for this population data are the 2000 census and the 2005 1% Census Random Sample Survey. Both sources provide a snapshot of the population distribution within the country including migrants and migration patterns and are free from the traditional problem of undercounting migrants. Census data is not used for judging cadres and so is relatively free of bias (Chan & Zhang 1999). Net emigration is measured as the population from

⁵¹ For example, a previous iteration of the paper used collective labor disputants per capita as a proxy for instability. With Tibet, the raw correlation between ad hoc transfers per capita and disputants per capita was 0.47. After omitting Tibet, the correlation fell to 0.093. However, the results found in the models below do mostly part hold with Tibet included.

province X living outside of the province less the population from other provinces living in province X at the moment of the census. That is, provinces that export labor are net emigrant provinces and thus have positive values on the variable, whereas net importers of labor take negative values. The data from the 2005 1% Population Random Sample Survey is transformed assuming that the national average sampling rate (1.32%) holds across provinces.⁵²

Figure 5. Provincial Net Emigration

(darker shades represent areas that export more labor)



⁵² In addition to this broad measure of export and import of labor, the censuses include a matrix of directional migration data that allow me to evaluate the implications of targeted transfers. For example, the 2005 1% Population Random Sample Survey finds 44,981 Hunan-registered individuals migrated to Guangdong (implying a total population of Hunanese in Guangdong of over 3.4 million). A transfer to Hunan thus might be interpreted as a move to slow down migration to Guangdong. Inner Mongolia, on the other hand, had no significant migration to Guangdong (246 people) so a different logic would have to be at work. The next chapter, focusing on county-level fiscal policy, more explicitly grapples with migration patterns.

Table 2. Net Emigration by Province

Province	Net Emigrants (millions)	Province	Net Emigrants (millions)
Anhui	5.40	Ningxia	-0.02
Sichuan	5.34	Shanxi	-0.02
Hunan	4.33	Tibet	-0.02
Henan	4.23	Inner Mongolia	-0.04
Jiangxi	3.45	Hainan	-0.12
Hubei	3.09	Yunnan	-0.16
Guangxi	2.46	Liaoning	-0.62
Chongqing	1.97	Xinjiang	-0.87
Guizhou	1.93	Tianjin	-1.07
Heilongjiang	1.19	Fujian	-1.86
Shaanxi	0.70	Jiangsu	-2.44
Hebei	0.53	Beijing	-3.24
Jilin	0.52	Shanghai	-4.49
Gansu	0.51	Zhejiang	-4.96
Shandong	0.16	Guangdong	-15.88
Qinghai	0.00		

n.b. Data from 2005 1% Population Random Sample Survey, using 1.32% sampling rate for all provinces. A negative net emigrant value denotes a positive net immigrant value.

The final independent variable for the analysis is urbanization. Urbanization data at the provincial level is also not well documented. Chan and Hu 2003 produce a compelling case that the generally used official urban population data from the 1990s is flawed and offer a method based on UN population growth measure statistics of fixing the data.⁵³ Shen 2006 offers an alternative method of estimating urbanization rates at the provincial level. Both are suspect of China's non-census population data for the reasons outline above but also because the definition of what constitutes "urban" areas has fluctuated over time. The 1982, 1990, and 2000 censuses all had different definitions of urban (Shen 2006). In order to avoid such data problems, I currently use only data from

⁵³ United Nations 1974. cited by Chan and Hu 2003.

the 2000 census and 2005 1% Population Random Sample Survey, connecting their estimates over time by linear interpolation.

In addition to the independent variables associated with the hypotheses derived from the theory, a number of control variables are used in the analysis. The Central Committee Representation of a province in a given year is the number of members in the Central Committee (CC) that work for or are stationed in that province.⁵⁴ The data series tracks the 15th and 16th Central Committees. Scores for 2002 follow the membership in the 15th CC as the transition to the 16th CC occurred late in the year (November 7 to November 15, 2002). The data uses an inclusive coding of the data. Government officials that transition away from or to a province during the year are counted as part of that province’s CC Representation. It is possible (and does occur in the data) that one official will contribute to multiple provinces’ scores in the same year.⁵⁵

Table 3. Summary Statistics of Variables

Variable	Mean	Std. Dev.	Min	Max
Total Transfers per capita (yuan)	695	436.70	186.45	2406.74
<i>Ad hoc</i> Transfers per capita (yuan)	340	245.27	25.93	1360.90
Instability	1	0.57	0.17	4.57
Net Emigration (millions)	0	3.89	-15.88	5.40
Urbanization	42	16.15	22.30	91.60
GDP per capita (100s of yuan)	99	67.41	24.58	427.69
Disasters (hectares affected)	163	127.11	0.10	665.90
Central Committee (CC) Representation	2	1.18	0	6
Autonomous Region (dummy)	4 of 30		0	1

n.b. net emigration is positive, net immigration is negative
n = 180 for all variables

⁵⁴ The exception being Beijing. Officials that work in Beijing but for the central government rather than the municipal government of Beijing are coded as “center” and do not contribute to any province’s political representation score from this analysis.

⁵⁵ I have also coded the political representation variable “exclusively,” that is, government officials do not contribute to a province’s score in the year that the transition into or away from a province. There is also some discussion in the literature that officials direct resources to the provinces of their birth; future iterations of the analysis will account for this possibility.

Disasters data come from the Civil Affairs Statistical Yearbook and China Agricultural Yearbook. They are the number of hectares lost in a given year to natural calamities. I also include a dummy variable for autonomous regions, which are 4 of the remaining 30 provincial-level units after Tibet is omitted. Many have argued that these minority regions receive additional funds from the center (Wang, S. 2004).

Analysis

The models support the principal contentions of the theory. Instability, net emigration, and urbanization all lead to increased levels of *ad hoc* fiscal transfers as expected. GDP per capita is negatively associated with transfers. I describe the results of the different models in more detail below.

The first three models are of one form. All use panel-corrected standard errors as well as a time trend to reduce the chances that the independent variables are credited with accounting for some of the variation that is actually structural in the data. The time trend variable – Year – is always strongly significant, both substantively and statistically, in a positive direction.

The results from Model 1 show the basic results. Transfers are directed towards areas with instability problems, lending support for H1. A one standard deviation increase in instability translates into 34.5 yuan more in expected *ad hoc* transfers per capita. Similarly, *ceteris paribus*, provinces that send workers out receive more than provinces that receive workers, as predicted in H2. The effect of moving from a province that has received around 1.86 million workers (Fujian) to a province that exports around as many (Chongqing, 1.97) leads to an expected increase in *ad hoc* transfers of 29 yuan per capita. Note that the potential problems in Chinese population data series discussed above would

bias results against this finding. *Ad hoc* transfers per capita are likely over-estimated for net emigrant provinces and under-estimated for net immigrant provinces; that is, if there were no relationship between net emigration and *ad hoc* transfers, the potential data bias could lead to a negative estimated coefficient. That the effect overcomes this potential source of bias strengthens confidence in the result. Even after accounting for these variables, the four autonomous regions receive substantially more, over 236 yuan per capita, than do other provinces. In Xinjiang, with a population of nearly 20 million, this translates into a subsidy of over 4 billion yuan per year.

Model 2 shows similar results. Instability, net emigration, and minority regions all have positive coefficients of similar magnitude to model 1. Model 2 differs in that it also includes urbanization and GDP per capita. While these two variables are highly correlated (0.89), their coefficients point in opposite directions.⁵⁶ A one standard deviation move towards higher urbanization translates into an expected increase in *ad hoc* transfers of 223 yuan per capita. For example, moving from Shaanxi (average urbanization of 33.5%) to Jilin (average urbanization of 50.4%), approximately a one standard deviation move, leads to an expected increase in *ad hoc* transfers per capita of 233 yuan. On the other hand, those provinces have substantially different average income levels. As areas with higher per capita incomes receive fewer transfers, all else equal, that same move from Shaanxi to Jilin leads to an expected *reduction* in *ad hoc* transfers of 92 yuan per capita. In net terms, the urbanization factor dominates the progressivity of the system. The interpretation of this pattern is that controlling for level of economic

⁵⁶ This holds even if they are added alone to Model 1. GDP per capita is always statistically significant and negative, and urbanization is always statistically significant and positive. When added individually, however, they do mitigate the effect of net emigration and can even reverse the sign.

development and instability, transfers are generally directed to urban areas demonstrating support for H3.

Table 4. Regression Models.⁵⁷

Dependent Variable: *Ad Hoc* Fiscal Transfers Per Capita

Variable	Model 1	Model 2	Model 3	Model 4	Model 5
Instability	60.5*** 20.7	68.2*** 17.0	93.2*** 18.2	45.0* 26.3	57.3** 25.4
Net Emigration (millions)	7.6*** 1.7	6.6*** 2.5	6.1* 3.5		
Autonomous Region (dummy)	236.2*** 43.7	198.4*** 37.2	213.4*** 26.7		
Urbanization (percentage)		13.8*** 1.9	13.8*** 2.3		
GDP per capita (100s of yuan)		-3.6*** 0.5	-3.8*** 0.6		-2.2*** 0.6
Disasters (hectares affected)			-0.4*** 0.1		
CC Representation			-35.6** 17.9		
Year	37.5*** 9.9	61.5*** 9.9	50.5*** 10.7	39.3*** 5.5	61.6*** 7.9
Constant	116.8*** 38.7	-185.2*** 54.7	-4.0 69.7	157.4*** 23.5	283.1*** 40.1
R-Squared within	0.23	0.40	0.43	0.10	0.12
between				0.40	0.45
Type of Regression	PCSE	PCSE	PCSE	Fixed Effects	Fixed Effects

n = 180 for all models. Coefficients in boldface, standard errors below. * p < 0.1, ** p < 0.05, *** p < 0.01. PSCE is Panel-Corrected Standard Errors. Analysis run in Stata 8.2.

Model 3 shows the results when including control variables suggested by others, namely disasters and political representation. The general results showing support for the

⁵⁷ This is a work in progress. The results hold for these and most other specifications, as discussed in the text, but other robustness checks remain to be performed.

theory continue to hold but the coefficients on the controls of disasters and political representation are negative when the opposite is expected. As these findings are extremely counter-intuitive and add little to the explanatory power to the model (Model 3's R-squared is only 0.03 more than that of Model 2), I do not focus on these results.

Models 4 and 5 use fixed-effects rather than the panel-corrected standard errors formulation found in the previous models. As many of the independent variables in the analysis do not vary over time (namely Net Emigration, Autonomous Region), they are omitted from the analysis.⁵⁸ Instability continues to be positively associated with *ad hoc* transfers per capita whether or not GDP per capita is present.

The results of the models provide evidence in support of the hypotheses; instability, exporting workers, and urbanization all lead to increases in transfers. Transfers are directed towards areas with higher levels of instability, as predicted in H1. This finding is robustly supported in every model, including models controlling for fixed effects. H2 is supported as transfers are directed towards areas that export workers. All else equal, the more workers that a province exports, the more transfers per capita it is expected to receive. Finally, H3 finds endorsement as urban areas receive more transfers. The results strongly suggest that the Chinese government uses its fiscal system to maintain stability and manage urbanization.

Conclusion

Most developing countries implement policies that favor urban areas, as regimes are vulnerable to urban revolts and riots. Often such favoritism takes the form of price ceilings on grain financed by extraction from agriculture. The government of the PRC has

⁵⁸ Urbanization actually does show minor variation over time but in narrow bands.

for most of its reign enacted such policies, most notably its *hukou* policies which discriminated against those from rural areas. Recently, China has begun moving away from such urban-biased policies. I argue that the government has done so evaluating long-term threats to its survival. Urban bias has a self-undermining secondary effect of encouraging urbanization, which, in the long-run, is destabilizing for non-democratic regimes. By subsidizing rural areas, the Chinese government is attempting to use fiscal policy as part of its strategy of managing urbanization and maintaining stability.

Examination of China's policy choices and development path support the argument. Reform of large SOEs was delayed until the economy could absorb the shock of millions of laid off workers. The *hukou* system of migration restrictions makes movement to large cities relatively unattractive. Agriculture is now subsidized. Analysis of Chinese center-to-province fiscal transfers finds support for the argument. Transfers are directed towards areas that are relatively unstable and urbanized, and that export migrants.

These findings lend support to the argument presented in the first chapter. Pairings the results here with those in the cross-national tests increases our confidence that authoritarian governments interested in extending their rule have an incentive to manage urbanization due to the destabilizing prospect of urban unrest. The next chapter digs yet deeper into the Chinese sub-national government structure to examine transfers to counties. Analyses at that level show that transfers are directed to counties near unstable cities, consistent with a strategy to decrease migration flows into these trouble spots by making remaining in the countryside a more viable economic alternative.

Appendix

Table 4. Taxing to Subsidizing Agriculture, Various Outcomes

Number	Proximate Outcome
1	Reduction in peasant burdens
2	Cutting funding to township governments
3	Decrease the number of officials at the township level
4	Increasing the control of higher levels
5	Transfer wealth from the urban to rural areas
6	Increase grain production
7	Slow down urbanization
8	Reduce rural unrest

The current set of “san nong” policies seems to have eight proximate outcomes which are listed above in Table 4. Alternative policy choices which were not selected (or are only a part of the total package of policies) are listed below in Table 5.

Table 5. Alternative Policy Options and Related Outcomes

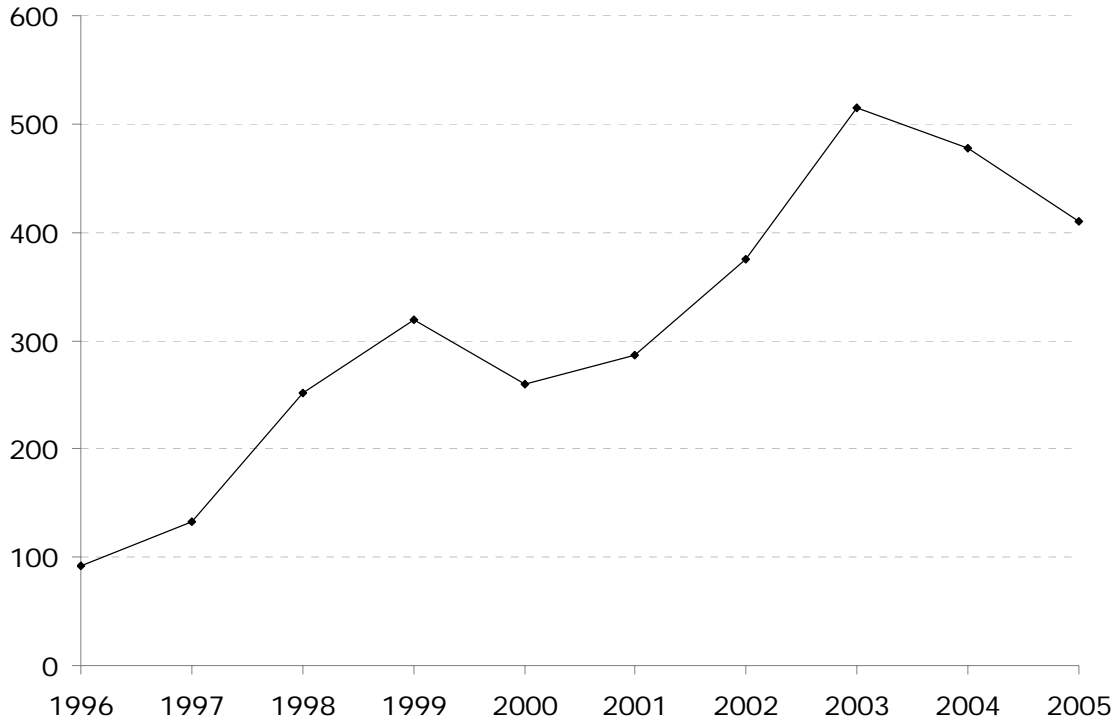
Policy Option	Outcomes
Privatize rural land	2, 3, 6, 8
Forgive township debts	1, 5, 8
Increase transfers to countryside without tax abolition	4, 5, 6, 7, 8
Crackdown on arbitrary charges and fees in the countryside	1, 2, 3, 4, 8
Abolish the township level of government	2, 3, 4
Strengthen migration restrictions	6, 7
Subsidize agricultural production	1, 4, 5, 6, 7, 8

Table 6. Provincial Protest Rankings, May 2004 data

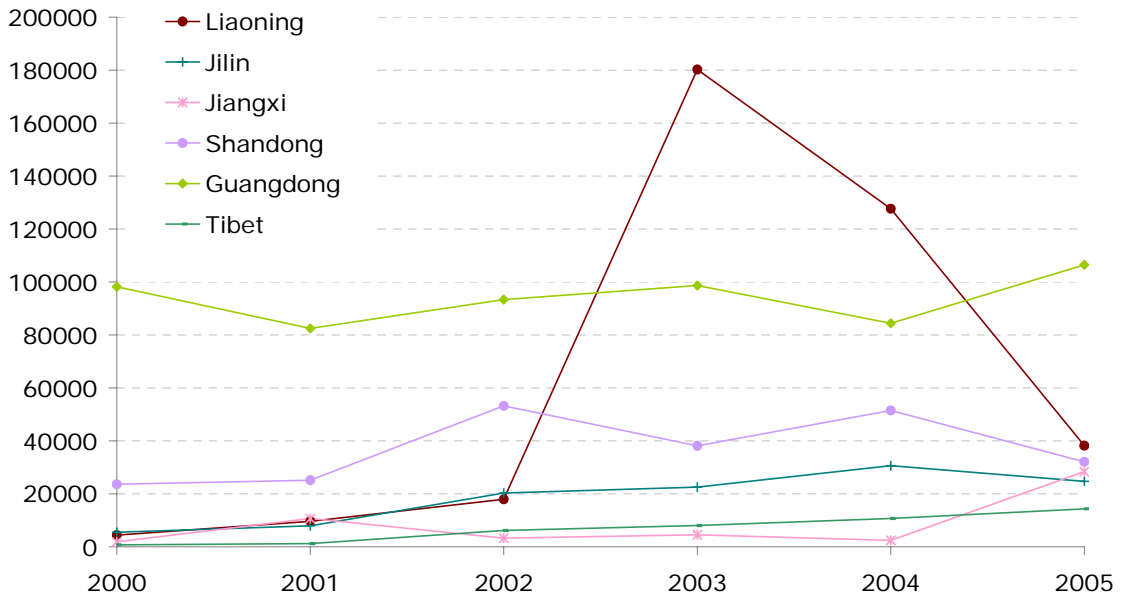
Rank	Frequency	Participants	Participants per Protest
1	Henan	Henan	Hubei
2	Shandong	Hubei	Heilongjiang
3	Shanxi	Anhui	Henan
4	Hunan	Hunan	Anhui
5	Anhui	Sichuan	Hunan
6	Shaanxi	Liaoning	Liaoning
7	Hubei	Shaanxi	Sichuan
8	Sichuan	Heilongjiang	Chongqing
9	Jiangsu	Hebei	Zhejiang
10	Guangdong	Jiangsu	Jilin

n.b. Data from (Lin 2004). Table recreated from (Chung et al. 2006).

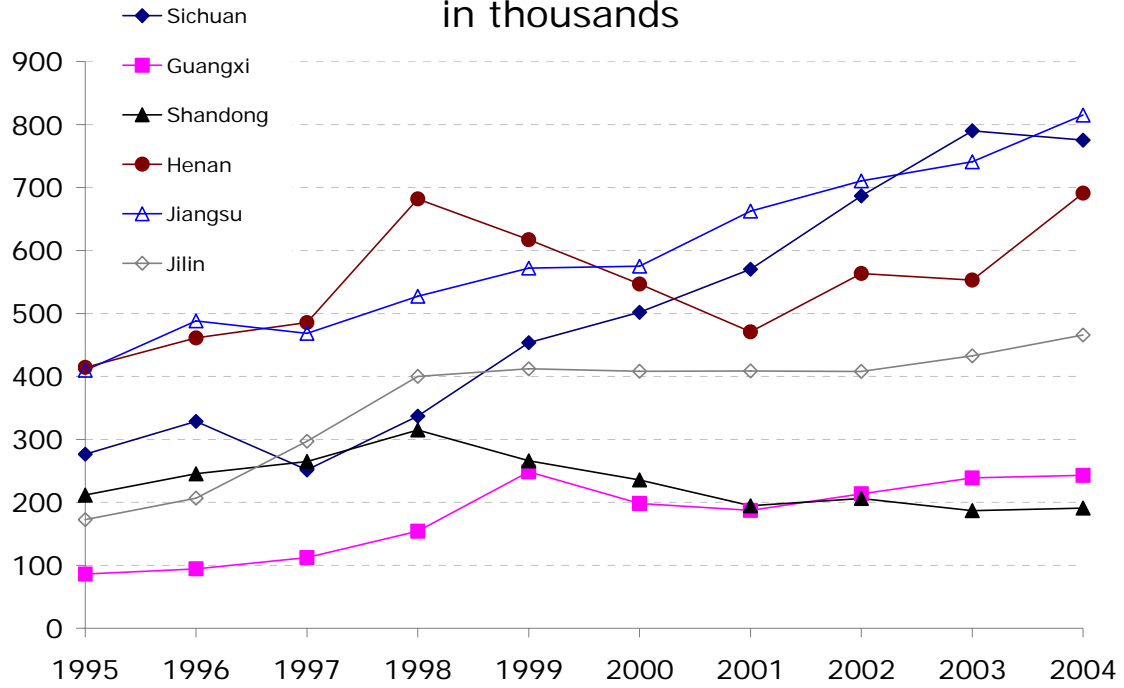
National Collective Labor Disputants (Thousands of disputants)



Collective Labor Disputants Selected Provinces



Petitions (*xinfang*) - Selected Provinces in thousands



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