
CHINA IN 2001

Economic Liberalization and Its Political Discontents

===== Dali L. Yang
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Violence of one sort or another ruptured China's Year of the Snake in 2001. Among the reminders of the year past are Falungong followers setting themselves on fire in Tiananmen Square, violent explosions here and there, the collision of a Chinese fighter plane and an American spy plane near the Chinese coast, and sweeping state crackdowns on crime and dissidence. For some commentators, most of these and other incidents are harbingers of China's "coming collapse."¹

Yet, these "highlights" must also be considered in the context of broader trends. Domestically, boosted by deficit spending and other stimulative measures, the Chinese economy grew at 7.3%. In light of the global economic slump, China's economic performance, even allowing for some degree of exaggeration, remained quite respectable. More tangibly, the number of cellular phone subscribers in China reached 120.6 million in July, the most in the world. China's foreign reserves surpassed \$200 billion on October 18. Overseas investors voted with their greenbacks and boosted actually utilized investment by 15.6% to \$42 billion in the first eleven months. Last but certainly not least, government revenue continued to benefit from sound growth and fiscal as well as tax reforms, and is forecast to have risen by around 20%. The steady revenue growth has provided China's leaders with the where-

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1. See, for example, Gordon G. Chang, *The Coming Collapse of China* (New York: Random House, 2001). Needless to say, the Chang book is but the latest in the cottage industry of prophesying China's doom or dissolution.

withal to tackle its myriad challenges, including the need to stimulate domestic demand and thus enhance regime legitimacy.

The continuing liberalization of China's economy and society offers both benefits and challenges to the leadership. For their part, China's leaders have taken the prognosticators of doom seriously. Internationally China finally gained entry to the World Trade Organization (WTO), so as to improve Chinese exporters' access to international markets under global rules. China's leaders have also taken the initiative to promote regional free trade zones. Domestically, under the rubric of reform and development with stability, China's leadership has continued to combine heavy-handed repression of its challengers with progressive reforms in numerous policy areas. On the one hand, the Chinese state fought hard against various sects and launched a major "Strike Hard" campaign to combat crime. On the other, progress has been made to strengthen the regulatory state and improve the rights of migrants, AIDS sufferers, and homosexuals.

The Quest for Global Acceptance and Prestige

Though recent annual reviews of China have tended to focus on domestic developments, it is appropriate for this one to start with China's uneasy relationship with the rest of the world. For the past year, the spotlights of this relationship were China's roller-coaster interactions with the United States and China's entry into the WTO.

Sino-American relations started on an icy footing when George W. Bush assumed the American presidency. Unlike Bill Clinton, George W. Bush spoke of China as a "strategic competitor." More important, he acted on his words: in his first few months of office, Bush's unilateralist policies on a range of issues ranging from national missile defense (NMD) to weapons sales to Taiwan portended more conflict to come. For China's leaders, the Bush administration's determination to go ahead with the NMD threatened to neutralize China's small arsenal of nuclear missiles, while U.S. weapons sales to Taiwan served to encourage Taiwan politicians to hold out against mainland overtures for national reunification.

It was in this context that a U.S. EP-3 spy plane on an intelligence-gathering mission collided with one of the Chinese fighter jets shadowing it above China's exclusive economic zone on April Fools' Day. The Chinese fighter plane, including its pilot, was lost while the U.S. spy plane crash-landed onto a Chinese military airport on Hainan Island.² Given the dangerous cat-and-

2. The 24 crew members of the U.S. spy plane left China 11 days later, after the two governments conducted intense negotiations with an eye toward domestic public opinion. China demanded a U.S. apology; the U.S. said "Sorry," but stopped short of formal apology. Enough

mouse games pilots from both sides often engage in, a collision of this sort had been just a matter of time. Yet, following on the heels of events such as the bombing of the Chinese Embassy in Belgrade, and in light of the Bush administration's unilateralist policies, the collision—as well as the knowledge that American reconnaissance aircraft regularly conduct intelligence-gathering missions along China's coast—served to reinforce the perception common among Chinese that the U.S. was seeking to contain China. Once again, a chill befell U.S.-China relations.

In spite of, and indeed, partly because of the spy plane incident, both Chinese and American leaders made various gestures to stabilize the Sino-American relationship.³ By September, international terrorism had become the common enemy for both. China's leaders felt vindicated that China, together with Russia and four Central Asian states, signed the Shanghai Convention on Combating Terrorism, Separatism, and Extremism in June. Now China not only closed off the border with Afghanistan but also shared intelligence with the U.S. and helped in the effort to interdict the financing of terrorist organizations. In October, President Bush declared in Shanghai, at the summit meeting of the Asia Pacific Economic Cooperation (APEC) nations, that China and the U.S. stood side by side in the fight against terrorism and that the two countries could work on constructive cooperation. The chill in bilateral relations suddenly dissipated.

Yet, for China's leaders, the travails in U.S.-China relations again illustrated the perceived capriciousness of some of China's major trading partners and underscored the need to mitigate the uncertainties facing China. As it has become increasingly dependent on the wheels of global commerce, China has chafed under a multitude of bilateral trade disputes. Not only did Chinese leaders each year expend much political energy seeking the renewal of Most Favored Nation trading status (now known as NTR, Normal Trade Relations) from the United States, but Chinese companies have also become favorite targets of anti-dumping actions and various protectionist practices. Economically, WTO membership will permit China to invoke multilateral rules to deal with bilateral disputes and indeed to participate in rule making, rather than depend on the whims of U.S. congresspersons and others. Politically, Chinese decision makers believed that China's WTO membership

common ground was thus found to return the crew home, though the question of compensation remains unresolved.

3. At the end of May, the Bush administration granted China an extension of normal trade relations (NTR) status. Unlike in the early 1990s, Washington also chose not to sabotage, in the name of human rights, China's bid to host the 2008 Olympics in Beijing. For China's leaders, the extension of NTR status was seen as an indication of a pragmatic Washington. In July, Secretary of State Colin Powell was able to go to Beijing to prepare for President Bush's visit in October.

would help China break out of Western containment and sanctions, and would also reduce the influence of the “China Threat” theory.⁴ Fortunately, the U.S., the European Union, and others have also been willing to talk to China about membership in the WTO in order to open up the Chinese markets and bind China to global rules. After 15 years of marathon talks, the final deal for China’s WTO membership was concluded. Following approval by the WTO Ministers’ Meeting and ratification by President Jiang Zemin with the authorization of the Chinese legislature, China became a WTO member on December 11.

Realist theories of international relations argue that a wealthy and powerful China would seek regional hegemony and become a global competitor for the United States, rather than being content with the status quo.⁵ In the world of economics, however, China has overcome great obstacles to become a part of the status quo, and membership in the WTO clearly marks a milestone in China’s integration into the global economic order. Indeed, since the Asian financial crisis of 1997–98, China has played a leading role in promoting economic stability and openness in Asia. The year past saw Japan and China take on strikingly different postures. In April, Japanese leaders caved in to domestic interest groups’ demands to impose 200-day “safeguard” import curbs on Chinese-made stone leeks, shiitake mushrooms, and rushes used in tatami mats—all products grown or made in China to Japanese specifications.⁶ The Japanese import curbs prompted China to strike back with punitive tariffs on Japanese cars, mobile phones, and air conditioners.⁷

While Japanese leaders preoccupied themselves with domestic economic paralysis and cut Japan’s overseas aid budget, Chinese Premier Zhu Rongji took the limelight at the annual meeting of the Association of South East Asian Nations (ASEAN) Plus 3 (Japan, China, and South Korea) and agreed with ASEAN to create a free trade area of more than 1.7 billion people by 2010. The fact that it was Communist Party (CCP)-led China that upheld the mantle of free trade and Asian integration was not lost on observers. Japan’s *Asahi* newspaper, for instance, noted that the agreement on the ASEAN-

4. “Interview with Long Yongtu” (in Chinese), *Caijing* (Finance and economy); Gong Wen, “Let History Remember These 15 Years” (in Chinese), *Renmin ribao* (People’s daily), overseas edition, November 12, 2001.

5. See, for example, John Mearsheimer, “The Future of the American Pacifier,” *Foreign Affairs* 80:5 (September/October 2001), pp. 46–61.

6. Ritsuko Ando, “Japan Official Says China Trade Talks Difficult,” Reuters, November 6, 2001. Japanese makers of goods such as towels, bicycles, and chopsticks have also demanded protection from cheaper Chinese imports.

7. After many rounds of intensive negotiations, the two sides finally agreed to remove the protectionist measures in December.

China free trade area marked “the beginning of a gradual shift of the axis of the Asian economy to China from Japan.”⁸

Besides the WTO membership, Beijing also won the right to host the 2008 Olympics. The Chinese soccer team, coached by a foreigner, won the ticket to the World Cup finals after more than four decades of unsuccessful tries. For the average Chinese, these events helped assuage the psychology of wounded nationalism. With self-confidence recovering, and growing prominence on the global stage, China’s leaders have shown an increasing willingness to abide by global rules such as the WTO and even to offer desirable leadership, as the China-ASEAN agreement showed.

Liberalization under Party Leadership

Entry into the WTO is a double-edged sword for China. Throughout the reform era, the Chinese leadership has coupled economic liberalization with a political iron hand.⁹ For the CCP leadership, notably General Secretary Jiang Zemin, a sense of precariousness has animated the Party’s initiatives in recent years, as reforms have become more and more contentious. WTO membership accentuates these sentiments. Whereas it helps secure access to international markets, WTO membership also exposes the Chinese economy to more intense competition and increases the pains of adjustment. The growing competition occurs at a time of rising unemployment and underemployment in both urban and rural China. In this context, China’s rush into WTO membership at Dohar contrasted with the Chinese government’s tardiness in releasing details of membership within China. Indeed, apparently afraid of a political backlash about the market-opening concessions China made to secure membership, the Chinese leadership refrained from letting the increasingly assertive national legislature deliberate over the terms of the deal.

Anticipation of the disruptive effects of WTO membership has made China’s leaders especially vigilant toward subversion and prompted them to work hard to put the house in order. Within the Party, the leadership has continued its “Three Emphases” education drive, emphasizing theoretical study, political awareness, and good conduct, to rectify Party style and strengthen discipline. Meanwhile, in the latter half of the year the central leadership began to reshuffle the ranks of provincial leaders in preparation for the 16th Party Congress to be held in late 2002 and the transition to a new generation of national leadership. In public, to enhance the legitimacy of the Party and the government, the net of anti-corruption continued to catch grow-

8. Quoted in Masayoshi Kanabayashi, “Japanese Officials Concerned by China-ASEAN Trade Gains,” *Wall Street Journal*, November 15, 2001.

9. Not surprisingly, Samuel Huntington’s *Political Order in Changing Societies* (New Haven, Conn.: Yale University Press, 1968), has been well received in China in the past decade or so.

ing numbers of the Party's own elite. In 1998, 12 provincial-ministerial-level officials were tried and publicly humiliated. The numbers were 17 for 1999 and 22 for 2000.¹⁰ For 2001, the list of the infamous included Li Jizhou, a vice-minister of the Ministry of Public Security, Li Jiating, former Yunnan governor, and swarms of officials in Xiamen, Shenyang, and other places.

Much prominence was given to Jiang Zemin's theory, first adumbrated in 2000, of "Three Represents," namely that the Communist Party should represent advanced productive forces, advanced culture, and the majority of the people's interests.¹¹ On July 1, the 80th birthday of the CCP, Jiang invoked the theory of "Three Represents" to announce that the Party should go beyond its traditional base and accept outstanding people from other sectors of society, notably private entrepreneurs, who meet the conditions for party membership. This controversial policy move reversed a ban, imposed in 1989, on private business persons becoming Party members. It is designed to give representatives of the growing private sector a stake in the existing system, in the hope that they can be co-opted by the Party. Such co-optation is obviously intended to help consolidate the Party's dominance and prolong its rule.

The Party's initiative to reach out to newly rising economic interests met with highly visible resistance from leftists within the Party. The challenge from the leftists sparked an interesting response. While Jiang advocated thought emancipation to persuade the Party rank and file to accept the new policy initiatives, the official media reminded readers of Deng Xiaoping's four cardinal principles, especially the principle of the importance of Party leadership. In November, the *People's Daily* also published a major editorial on the need for Party unity. By then, the leading leftist publications, including *Pursuit of Truth*, had been shut down. Thought emancipation was encouraged as long as it toed the Party line.

In accordance with this philosophy of controlled liberalization, the censors also pressed local officials to reshuffle editors at a number of liberal publications such as *Southern Weekend*. A variety of other publications were shut down for publishing offensive materials (such as pornography) or for publishing without a license.¹² Many more Internet cafes suffered the same fate. While the *New York Times* website was unblocked, others including those of CNN, BBC, and Reuters remained inaccessible except by proxy.¹³

10. Zhang Jingping, "The Fall of Provincial-Ministerial Ranked Officials Accelerates," at <Chinesenewsnet.com>, November 14, 2001.

11. Jiang Zemin, *Lun "Sange Daibiao"* [On the three representatives] (Beijing: Zhongyang wenxian chubanshe, 2001).

12. See, e.g., Zhongxinshe [China news agency], November 13, 2001.

13. Tamara Vidaillet, "China Reimposes Foreign Media Internet Blocks," Reuters, October 22, 2001.

The Preoccupation with Domestic Order

While the Party metamorphoses and evolves, the leadership has been determined to crack down hard on challengers and potential challengers. 2001 witnessed the continuation of the relentless drive to suppress the Falungong, the quasi-religious movement that had stunned the Chinese leadership in April 1999 with a 10,000-strong protest around the leaders' own Zhongnanhai compound.¹⁴ In the meantime, the leadership launched a major anti-crime drive to tame rising crime and win popular support.

The Struggle against the Falungong

Like the student demonstrations of 1989, the Falungong protests of 1999 infuriated the Chinese leadership so much that the leaders became obsessed with control. At the start of 2001, the struggle against the sect looked like a war of attrition with no clear end in sight. The Chinese leadership's harsh words and tough tactics toward the Falungong appeared to have failed to persuade. Many of its practitioners were indeed self-absorbed in their doctrine, neglectful of family and society, and turned away from modern medicine, but to many Chinese these peaceful practitioners did not seem to be the serious cultist menace portrayed by the government. Informal interviews suggest that even many members of the elite thought that the state response to the Falungong had been unnecessarily harsh.

At the same time, Li Hongzhi—the former state granary-clerk-turned-Master who had quietly settled in the United States before unleashing his followers on Zhongnanhai—exhorted followers in China to stand up for their beliefs. Ominously, Master Li propagated his tradition-laden messages with modern communications, notably the Internet, thus making it exceedingly difficult for authorities to cut him off from his followers. Waves of Falungong followers responded to Li's call and braved the police and the law to show their allegiance to him on Tiananmen Square.

It soon turned out that the Falungong organization's worst enemy was itself. On January 23, the eve of the Chinese Spring Festival, five Falungong followers set themselves on fire in Tiananmen Square, including a 12-year-old girl and her mother, both of whom died. Master Li had issued a statement on January 1, 2001, titled "Beyond the Limits of Forbearance," which many believe to have incited some followers to take extreme steps. Yet, the Falungong's leaders firmly denied that the self-immolators were Falungong

14. The protest was triggered by the publication of an article in an obscure journal that had criticized the Falungong. For a detailed account of the decision making behind the crackdown on the Falungong, see Zong Hairen, *Zhu Rongji zai 1999* [Zhu Rongji in 1999] (New York: Mirror Books, 2001).

practitioners. Instead, the organization has asserted that the self-immolation was a government setup designed to ruin the Falungong's reputation.¹⁵

Yet, the dramatic event marked a turning point in the government's anti-Falungong campaign. With the media blanketed with the grisly images of the self-immolators, the government's claim that Falungong was an "evil cult" suddenly gained much domestic credibility.¹⁶ As cognitive psychologists would predict, the acts became too salient to ignore, and many followers who had resisted the government's strong-arm tactics earlier recanted after seeing images of the self-immolation. Meanwhile, the Chinese leadership drew on its vast organizational resources and used a "responsibility system" to take the struggle to every locality, urban neighborhood, factory, organization, or school. Diehard Falungong followers could either disavow their beliefs or be taken in for re-education. Combining police presence with a responsibility system that requires local officials to keep Falungong followers from going to Tiananmen, the government has largely been able to keep the square free of Chinese Falungong demonstrations and to reduce the number of protests nationwide to a small trickle.¹⁷

The Fight against Crime

The suppression of the Falungong and other sects cannot make up for the waning faith in communism and the spiritual void that has opened up. While some have turned to religious and quasi-religious groups for solace, others disoriented by rapid changes in society, economy, and values have turned to forms of deviant behavior, including criminal activities.¹⁸ The growing number of young single males also adds to the incidence of crime. Rising crime rates accentuate people's sense of insecurity. Dramatic media coverage of major cases, such as the spectacular hunt for Zhang Jun and his partners—

15. Robert Marquand, "Will New Pictures Shock Chinese Away from Falun Gong?" *Christian Science Monitor*, February 1, 2001. Beside the Tiananmen cases, another Falungong follower committed suicide by setting himself on fire on February 16 in Beijing. Yet another alleged Falungong follower intended to burn himself at the Ninth Games in Guangzhou on December 1 but was thwarted by police.

16. Charles Hutzler, "Beijing Is Breaking Down Spiritual Group," *Wall Street Journal*, April 26, 2001.

17. On the effect of the government ban on the behavior of Falungong followers within China, see, for example, Craig Smith, "Sect Clings to the Web in the Face of Beijing's Ban." *New York Times*, July 5, 2001. On November 20, 35 foreign Falungong believers from the U.S., Sweden, Germany, Australia, and Canada showed up in Tiananmen Square to protest against the Chinese government but were immediately taken into custody and deported shortly thereafter.

18. Xiaogang Deng and Ann Cordilia, "To Get Rich Is Glorious: Rising Expectations, Declining Control, and Escalating Crime in Contemporary China," *International Journal of Offender Therapy & Comparative Criminology* 43:2 (June 1999), pp. 211–29. For a Chinese overview of crime, see Cao Feng, *Diwuci gaofeng: Dangdai Zhongguo de fazui wenti* [The fifth peak: Crime in contemporary China] (Beijing: Dangdai zhongguo chubanshe, 1997).

bank robbers and ruthless killers—also heightened popular perceptions of increasing crime, especially violent crimes.

Unlike the suppression of the Falungong, however, fighting crime is a popular cause and helps improve the legitimacy of the ruling elite. At the end of 2000, the Ministry of Public Security decided to launch a Strike Hard campaign in 2001.¹⁹ As if to underscore the need for such a campaign, in the morning of March 16 four residential buildings in Shijiazhuang, capital of Hebei Province, were wrecked by explosions that killed at least 108 persons and injured many others. The bombings prompted a national manhunt and captured the public's attention. By March 23, suspect Jin Ruchao was apprehended. In mid-April, Jin and three of his explosives suppliers were put on a highly publicized trial and given the ultimate penalty. While Jin, who was hard of hearing, apparently committed his crimes to seek revenge on his stepmother, ex-wife, and other relatives, the explosions, so close to Beijing, accentuated the growing sense of insecurity in this rapidly changing society.

As Jin was put on trial, the Ministry of Public Security issued a directive on strictly abiding by laws and regulations on explosives and weapons, and a massive effort was launched to confiscate those in illegal possession.²⁰ By October, 1.3 million illegal arms and numerous other explosive items had been hauled in. Authorities believe the arms and explosives sweep helped reduce the number of explosive accidents and bring down the number of violent crimes.²¹ Yet, a string of violent explosions in Guangdong, Guangxi, and the ancient city of Xi'an in December suggest that police officers can ill afford to relax their efforts.

Meanwhile, massive efforts were mounted to crack down on other forms of crime and illegalities. On September 20, in anticipation of the National Day holidays, the Ministry of Public Security launched a 70-day special action to capture fugitives, to complement ongoing efforts to fight organized crime, curb explosives and weapons possession, and rectify and standardize the market economic order. Armed with the latest information technologies, the police, as of the end of October, had captured 60,069 fugitives on its online list, including 13,082 wanted for violent crimes.²²

The anti-crime initiatives also extended to the regulation of morals. For example, the Ministries of State Security, Supervision, Culture, and the State Administration of Industry and Commerce in September announced an action

19. For a study of earlier "Strike Hard" campaigns, see Harold M. Tanner, *Strike Hard! Anti-Crime Campaigns and Chinese Criminal Justice, 1979–1985* (Ithaca, N.Y.: Cornell University East Asia Program, 1999).

20. *Renmin ribao*, April 19, 2001.

21. *Zhongxinshe*, November 18, 2001.

22. *Ibid.*, November 6, 2001. The total figure includes 10,545 fugitives who turned themselves in as well as 2,044 wanted for economic crimes and 80 wanted for Falungong activities.

plan for rectifying and regulating dance halls and other entertainment venues (such as video houses, massage parlors, and similarly oriented “barber shops”) with the aims of curbing sex, drugs, and gambling. No fewer than 16 cities and districts, including Beijing’s Changyang District, were major targets of this campaign.²³

As part of the Strike Hard campaign, the courts have held various mass sentencing rallies around national holidays and days such as the International Day against Drug Abuse and Illicit Drug Trafficking (June 26). In Guangdong Province, host of the ninth National Games but one of China’s most freewheeling regions, the provincial leadership showed special determination. Days before the Games, Guangdong courts held 97 mass sentencing sessions focused on cases of robbery and vehicle theft. Of the 880 people sentenced, 661 were given punishment of at least five years in jail.²⁴

The Remaking of State-Society Relations

While the Chinese state displays its hard edges in suppressing the Falungong and fighting crime, in other respects it continues to adapt to the demands of modernization and liberalization. As was the case during the Progressive Era in the United States, widespread public concerns about health, safety, and similar issues have stimulated efforts to strengthen state intervention in these respective areas. Especially prominent were the efforts to improve workplace safety. In response to highly publicized accidents in coal mines and other facilities, the central government has rushed to rebuild the regulatory institutions for workplace safety. Small coal mines, often lacking the requisite permits and adequate safety protection measures, are being closed down at a faster pace, helping to drive up coal prices in some areas. The stronger regulatory efforts have helped bring down the number of coal mine fatalities since the last quarter of 2000, though the number of deaths from coal mine accidents remains very high by world standards.

The various regulatory agencies, including those handling industry and commerce, quality and technical supervision, and pharmaceutical supervision, have also become more aggressive in recent years. In the past year, these agencies worked in concert with the police in a major drive to “rectify the markets” and protect consumers; they fought counterfeits and substandard products, and imposed tougher regulatory requirements on pharmaceutical products.²⁵ While these agencies have pursued such actions for years, en-

23. *Shenghuo shibao* [Life times], September 21, 2001.

24. *Nanfang ribao* [Southern daily], November 7, 2001.

25. Not all the market-regulating initiatives are designed to save lives or protect rights. In publishing and other forms of media, as noted earlier, most of the official efforts are devoted to upholding the official orthodoxy. Mapmaking became the subject of a nationwide crackdown in

forcement became more vigorous in 2001 as the central government sought to brace for more competition following China's entry into the WTO.

The building of the regulatory state has been accompanied by the remaking of social institutions. As is well known, economic openness also implies a willingness to bear risks and make adjustments. In consequence, studies have found that more-open economies tend to have larger governments.²⁶ In China's case, market-oriented reforms have already forced a series of adjustments in social institutions, even in the absence of WTO membership. Imminent entry into the WTO prompted the Chinese leadership to accelerate these adjustments.

Under the command economy, the life of an individual revolved around state units such as state enterprises that were more extensions of the state than business ventures. In the reform era, however, growing numbers of state firms have suffered financial difficulties and disappeared. As a result, millions of state-sector employees have seen their lives cast adrift, leaving them unable to collect on benefits promised. Entry into the WTO promises to exacerbate such difficulties. To deal with this great transformation, the central government accelerated a number of institutional reforms in 2001. Increasingly, state-sector workers will not be furloughed from their units (*xiagang*) but will become legally unemployed and collect unemployment benefits from government employment centers. At the same time, a major social security reform is under way to provide for an ageing population, relieve fiscal pressures on the government, and reduce labor market rigidities. The State Council has chosen Liaoning Province to pilot the implementation of social security reforms.

However inadequate the existing pension and unemployment benefits may be, they are off limits to China's 900 million rural residents. Premier Zhu Rongji admitted that the farming sector was his greatest worry following China's WTO entry. Since the mid-1990s, farming areas, like farmers worldwide, have been caught between stagnant farm prices, expensive inputs, and more-limited opportunities from the non-farm sectors. The lean time has magnified the political implications of excessive government burdens on farmers and sparked numerous protests directed at local authorities. WTO membership promises more cheap grain imports, and thus threatens to accentuate tensions in rural China.

November. The crackdown targeted piracy as well as those who printed maps that contradicted the principle of "one China."

26. Dani Rodrik, "Why Do More Open Economies Have Bigger Governments?" *The Journal of Political Economy* 106:5 (October 1998); *Has Globalization Gone Too Far?* (Washington, D.C.: Brookings, 1997). An earlier statement of this thesis is Peter Katzenstein, *Small States in World Markets* (Ithaca: Cornell University Press, 1985).

As WTO membership loomed, the central government sought a comprehensive rationalization of rural extraction. The reform, derived from experiments in a number of counties, would eliminate most levies and fees on farmers and essentially leave in place a flat-tax system. The early pilot counties such as Anhui's Huaiyuan saw a drastic decline in the number of farmer protests and petitions for redress.²⁷ In 2000, Anhui Province tried the rural fee-tax reforms provincewide under the auspices of the central government. This measure reduced the financial burden on farmers by 1.7 billion yuan, or 31%.²⁸ With less revenue, the reforms also imposed hard budget constraints on local authorities and provided incentives for reducing the size of local government and related expenses.

The central government planned to popularize the rural fee-tax reforms nationwide and promised 20 billion yuan per year in transfer payments to help out sub-provincial governments losing revenue from these reforms.²⁹ Yet, the reforms soon raised troubling questions about how to fund important programs such as basic education.³⁰ By mid-year, the education shortfall and fears of recrudescence of old levies had prompted the central government to slow down the nationwide adoption of the tax rationalization reforms.

While the rationalization of rural extraction has proceeded more slowly than expected, an important shift in urbanization policy has picked up pace. In the 1980s, the Chinese leadership adopted the misguided policy of letting farmers "leave the land but not the countryside" by severely curtailing rural-to-urban migration and encouraging rural areas to urbanize in situ.³¹ As farm problems have mounted, and rural enterprise development has slowed down in recent years, however, the pressure for out-migration has mounted. Nevertheless, major cities have imposed a variety of discriminatory policies to protect the interests of urban residents and consign migrants, including those who have lived in cities for years, to second-class citizenship at best.³² The

27. *Renmin ribao*, eastern China edition, April 24, 2000.

28. China Central Television, January 24, 2001.

29. *Renmin ribao*, overseas edition, December 18, 2000.

30. See, for example, Charles Hutzler, "It's the Flat-Tax Flap Again, Now in China," *Wall Street Journal*, July 20, 2001.

31. The leading advocate of this policy was the famous social scientist Fei Xiaotong. In recent years, scholars have proposed the oxymoronic phrase "rural urbanization" to describe the pattern of Chinese rural development. Gregory Eliyu Guldin, *What's a Peasant to Do? Village Becoming Town in Southern China* (Boulder, Colo.: Westview Press, 2001); John Knight and Lina Song, *The Rural-Urban Divide: Economic Disparities and Interactions in China* (Oxford: Oxford University Press, 1999); Gabe Wang and Xiaobo Hu, "Small Town Development and Rural Urbanization in China," *Journal of Contemporary Asia* 29:1 (January 1999), pp. 76-94.

32. Dorothy Solinger, *Contesting Citizenship in Urban China: Peasant Migrants, the State, and the Logic of the Market* (Berkeley: University of California Press, 1999). Notable exceptions are for the highly educated and those with money to invest.

city of Beijing is especially notorious in this regard, through its periodic cleanups of migrants around national holidays and major events such as China's bid for the Olympics.³³ Beijing has also imposed a variety of restrictions, including quotas in certain professions, on the employment of outsiders.

The last few years have seen a major rethinking of China's urbanization policy, and there is growing recognition that urbanization is a hallmark of development to be encouraged, rather than contained. In recent months, provincial authorities in Anhui, Guangdong, Hebei, Zhejiang, and other regions have begun to implement policies that make it significantly easier for rural migrants to obtain formal residency in urban areas. The central government has actively encouraged the adoption of such policies. In November, the State Development Planning Commission and the Ministry of Finance jointly announced the abolition of various fees and charges on migrants.³⁴ Reducing the financial burdens on farmers and easing migration into urban areas have thus become the two major planks of a central policy platform for easing tensions in rural China. Some areas have gone even further by removing policies discriminating against rural residents; Zhejiang Province, for instance, has started to extend its minimum-life-support program, so far available only to urban residents, to include the rural indigent.

The Expansion of Rights

The crackdown on the Falungong and crime and the government initiatives to alleviate rural tensions point to the paradoxical nature of the state. Even though the Chinese government has taken care to invoke laws and regulations, the Falungong crackdown raises serious concerns about civil liberties.³⁵ Likewise, the urge and haste to combat crime and exact revenge have sometimes ridden roughshod over the pursuit of justice as the death penalty is meted out to thousands of people. In these developments, the Chinese authorities have justified their actions in terms that are similar to the doctrine of "clear and present danger." Meanwhile, efforts to improve the lot of migrants point to the good that the government can do when the governing authorities respond to social pressures.

For the foreseeable future, the development of rights must be pursued with this paradoxical nature of the state in mind. As the Chinese government has

33. For an earlier report, see *Not Welcome at the Party: Behind the "Clean Up" of China's Cities* (New York: Human Rights in China Arbitrary Detention Series, No. 2, September 1999).

34. The abolished fees are the temporary residency fee, the temporary (floating) population management fee, the family planning management fee, the urban capacity expansion fee, the labor adjustment fee, and management fees on laborers, tradespeople, and construction firms.

35. For the Chinese position, see, for example, "Falun Gong Ban Legal, Based on People's Will," *China Daily*, January 15, 2001.

won more international prestige, its leaders have also paid more attention to international norms, often in response to sustained international criticisms. Early in 2001, the Chinese legislature ratified the International Covenant on Economic, Social and Cultural Rights but placed a reservation on Article 8, the right to strike and freely form trade unions. Nevertheless, human rights groups such as Amnesty International welcomed the ratification. Late in the year, the National People's Congress amended the Union Law. The amended law was silent on strikes, thus possibly leaving room for labor action in the future. Various other laws have also been amended to provide better compliance with the terms of WTO membership.

There were encouraging developments for the rights of a number of marginalized groups as well. Death row inmates, if it is of any consolation, will soon no longer have to face the firing squad. Instead, in response to international criticisms, particularly reports that link the use of the bullet to the harvesting of organs for transplant, China began to introduce lethal injections following several years of quiet experiments.³⁶ Citing both domestic and international approval and support from the condemned and their relatives, the Supreme People's Court in fall 2001 directed local courts to ensure the use of more-humane lethal injections so as to make executions more "civilized and scientific."

Gay activists in China also had something to cheer about. The Chinese Psychiatric Association dropped homosexuality from its list of psychiatric disorders, thus coming to the same conclusion that its U.S. counterparts did in 1973. Equally interesting, the Chinese press published the view of sociologists such as Li Yinhe that gay and lesbian marriages should be legalized.³⁷

Another important development concerns the rights of China's growing number of AIDS sufferers. Prompted by domestic pressures and growing media attention, the central government finally woke up to the dangers of the AIDS epidemic and held China's first international conference on AIDS and the HIV virus with United Nations support. While the system of blood donations is being revamped, there is increasingly frank discussion about AIDS education among China's homosexuals and illegal drug users.³⁸

Amid serious reforms of legal institutions, a number of court verdicts also offered some consolation to those who contracted the HIV virus and AIDS via blood transfusions in hospitals. The plaintiffs have sued hospitals for negligence and in some cases illegal behavior. During the year, courts in a number of provinces including Hebei, Henan, Hubei, and Jiangsu rendered

36. See, for example, Craig Smith, "On Death Row, China's Source of Transplants," *New York Times*, October 18, 2001.

37. Xinhua News Agency, November 16, 2001.

38. John Ruwitch, "China's Gay Activists Cheer New Openness on AIDS," Reuters, November 14, 2001.

judgments on a number of such cases and in each one ruled in favor of the AIDS sufferers and provided them substantial damage awards by Chinese standards.³⁹ The awards were hard won in each case, but they followed the trends that have been set in consumer protection.

Conclusions

Simultaneously having to deal with the strains and disruptions of industrialization, marketization, urbanization, and globalization, China's leadership has for more than a decade, in the aftermath of the bloody confrontation between state and society in 1989, sought to strike a balance among reform, stability, and development. Yet, it is a precarious balance at best. The commitment to continuing reform has often implied the promotion of painful policies that are at cross-purposes with the goal of order and stability. Policies of liberalization have often been coupled with strategies to contain liberalization's pace and scope. Preoccupation with stability, together with the uncertainties of generational succession, has frequently appeared to outsiders to border on the lack of political reform.

With China's entry into the WTO, few now doubt the Chinese leadership's commitment to economic liberalization and globalization. Indeed, China has increasingly taken a leading role in promoting Asian economic stability and openness. Yet, the responses of the Chinese state to the challenges of WTO membership highlight the paradoxes of building state capacity. For rapidly changing societies such as China, a capable state is needed to regulate and enforce. WTO membership requires more of such a state. Yet, the same state that may offer security for most citizens, protection for consumers or regulation for producers, may also use the same power to coerce, as was also the case in the United States during its Progressive Era. How to maintain a capable state subject to constraints will thus be the most fundamental task for the future of China's reforms.

39. For example, the Hebei Xingtai Intermediate Court awarded 360,000 yuan in a case where a mother and child contracted AIDS from blood transfusions given during childbirth in 1997. This case is on appeal at the Hebei Superior Court. *China Youth Daily*, November 16, 2001.