

Social Cohesion in China: Lessons from the Latin American Experience

by Mariano Turzi

China's economic development over the last three decades has been dazzling critics and supporters alike. Since the launching of the "Four Modernizations" reform process in 1978, growth has averaged 9 percent annually.¹ As a result, according to IMF data released in July 2007, China is poised to overtake Germany as the world's third-largest economy. As growth has slowed in Europe, Japan, and the US the Chinese economy grew at a staggering rate of 11.9 percent in the second quarter of 2007.² The IMF report also pointed out that if exchange rates are adjusted to equalize the cost of goods in different countries (purchasing-power parity) China is already the world's second-largest economy.

This paper contends that major transformations in the economic landscape have a direct effect on the social fabric of societies by disrupting traditional identities and frames of reference. These rapid economic changes are associated with an increasing rift in the division of labor that generates a state of confusion in regard to norms and increasing impersonality in social life. This condition is further exacerbated by the dislocation between the standards or values and the new reality, leading to what is known as *anomie*. As defined by Durkheim, anomie occurs when the rules on how people ought to behave break down and nobody knows what to expect from one another.³ The state of anomie is symptomatic of a social fracture or growing lack of social cohesion. If social dislocation continues to worsen, it can discontinue growth and jeopardize development.

What characteristics of this process have been adopted in the Chinese case? What consequences can it have on future growth? Due to the level of integration with the world economy, the Chinese case becomes especially important; a slowdown in the rates of growth in China would not only send shockwaves that would rattle the entire international economic system, but would also create an immense domestic governance challenge.

In Latin America, social cohesion has been fractured time and time again. Development has often adopted exclusionary patterns that lead to shorter, smaller, and much more volatile cycles of growth. Even during the periods of growth, the

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“inequality trap” of income inequality and social exclusion has rendered the region the most unequal in the world.⁴ Inclusive economic development reinforces social cohesion, which in turn prevents anomic symptoms. Latin America provides an excellent case study to identify structural flaws and to avoid policy mishaps in China.

WHAT IS SOCIAL COHESION?

Theoretically

A consensus is still lacking on a unique definition of social cohesion. Social cohesion is usually associated with other closely related concepts such as social capital.⁵ Putnam originally defined social capital as a:

...feature of social organization, such as trust, norms, and networks that can improve the efficiency of society by facilitating coordinated actions.⁶

Later, Fukuyama refined the definition:

Social capital can be defined simply as an instantiated set of informal values or norms shared among members of a group that permits them to cooperate with one another. If members of the group come to expect that others will behave reliably and honestly, then they will come to trust one another.⁷

Social cohesion is also associated with social integration, which denotes the ability of all sectors of a society to have access to the minimum level of well-being possible at the level of development reached by a society. The social integration approach focuses on the ability of a social structure to distribute opportunities with a certain level of equality.

For the purposes of this paper, social cohesion operates at two levels, a micro level and a macro level. At the micro level, social cohesion is a feature of a community or society that can be associated with the concept of social capital, or the extent of the trust networks among the people. The macro level consists not only of the aggregation of social capital, but also a measure of the interaction between the citizens and public institutions, which adds a vertical dimension. In the framework of a cohesive society, trust in institutions and fellow citizens results in the ability to work together, as the very existence of trust paves the way for mutually beneficial transactions among individuals and societal groups.

It is important to note that social cohesion does not assume benevolent or symbiotic interaction among different social groups; conflict is considered an inherent feature and constitutive element of any system. Cohesive societies, however, do not have entire segments of their population disenfranchised from access to public goods, basic services, and consumption opportunities. On the contrary, cohesive societies have consistent policies to smooth inequalities ensuring minimum access to everyone. Fragmented societies are characterized by entrenched differentiated social networks of interaction for each societal group.

In March 2004, the Council of Europe adopted a revised Strategy for Social Cohesion, which defined social cohesion as,

*“the capacity of a society to ensure the welfare of all its members, minimizing disparities and avoiding polarization. A cohesive society is a mutually supportive community of free individuals pursuing these common goals by democratic means.”*⁸

The problem with this definition is that it is based in the European experience, assuming the existence of a functioning welfare State and intellectually grounded in the notion of social citizenship. Our understanding of social cohesion coincides with the one of the Economic Commission for Latin America and the Caribbean (ECLAC):

*“The notion of social cohesion, then, refers both to the efficacy of established social inclusion mechanisms and to the behavior and values of members of society.”*⁹

The ECLAC framework captures the micro and macro levels established earlier, by defining social cohesion not only as the inclusion and exclusion mechanisms instituted by society (macro), but also as the manner in which these mechanisms influence and shape personal perceptions and behavior towards society (micro).

Empirically

Social cohesion may appear as an elusive concept, because it inherently comprises complementary opposites: inclusion/exclusion, unity/fragmentation, community/individual, harmony/conflict, equality/inequality, belong/disassociate, participation/disaffection, legitimacy/illegitimacy, recognition/rejection. At present, progress is being made towards a conceptually valid and reliable set of variables to build an indicator of social cohesion that can be used as a comparative measure across countries. The Inter-American Development Bank, for example, is working towards developing a reliable set of indicators to measure social cohesion.¹⁰ The European Union has defined twenty-one indicators of social cohesion.¹¹ The socio-economic reality of Europe, however is especially unique, and does not reflect important complexities from other regions (like the integration of indigenous peoples in Latin America, or the situation of women in Middle Eastern countries), thus making it difficult to compare across countries.

Attempts to operationalize social cohesion should capture both micro and macro levels. The macro level should include indicators that capture the existence and status of gaps inside a society. Measures of income inequality (Gini coefficient) and poverty incidence should be at the core of macro level analysis. However, as noted before, social cohesion involves several dimensions and measurement demands going beyond the mere income gap. Social cohesion in this paper is inscribed in a human development perspective, where the distribution of well being and opportunities is more than the distribution of monetary income.¹² Methodologically, a human development indicator should incorporate measures of

inequality in the access to public services, from potable water to the administration of justice. At the micro level, effective measurement would include levels of interpersonal trust and trust in relevant public institutions. Why is it relevant?

Social cohesion is key to economic growth and development through linkages to social order. Widespread economic inequality provides an unsound basis for social cohesion, since it exacerbates tensions. Social cohesion works both to distribute more equally the benefits during the upswings of economic booms and to withstand the pressures of the downturns, as seen in the case of Argentina during the 2001 crisis.¹³

Economic growth raises disposable income, which increases consumption opportunities. This increase fuels expectations across the entire social spectrum. The material realization of those expectations, however, may not be uniform: an exclusionary model of growth will increase purchasing power only for narrow segments of society, as happened in Latin America during the 1990s.

Growth can also have negative consequences, such as unemployment and poverty that can be either temporary or permanent. When expectations about the improvement of living conditions are not met, perceptions of injustice typically arise. When these perceptions combine with the frustration over the lack of access to resources and consumption opportunities, a general lack of confidence spreads through the system.

In the framework of a cohesive society, trust in institutions and fellow citizens results in the ability to work together, as the very existence of trust paves the way for mutually beneficial transactions among individuals and societal groups.

Feelings of disappointment can quickly turn into dissatisfaction and in such scenarios inequality becomes not just an economic feature but the starting point of social unrest. Once social unrest stemming from inequality begins, demand for change quickly multiplies (i.e. the reversal of perceived grievances).¹⁴

Unrealized social mobility can lead to frustration, which is aggravated when access to public services is dominated by corrupt officials. This exacerbates the distributional conflict, undermining governmental legitimacy. If political practices, rules, and institutions function to exclude frustrated social sectors, this will force the citizenry to channel their demands outside the scope of those institutions, challenging the structure of authority and power. At this stage political elites face the option of belated reform or repression. Typically, the political system becomes locked and defensive, sparking a violent response that only aggravates the situation, generating political stalemate with escalating violence, heightened social conflict and a detrimental environment for investment and productive activities. When the system supports inclusion and flexibility, the result is a more resilient, cohesive society.

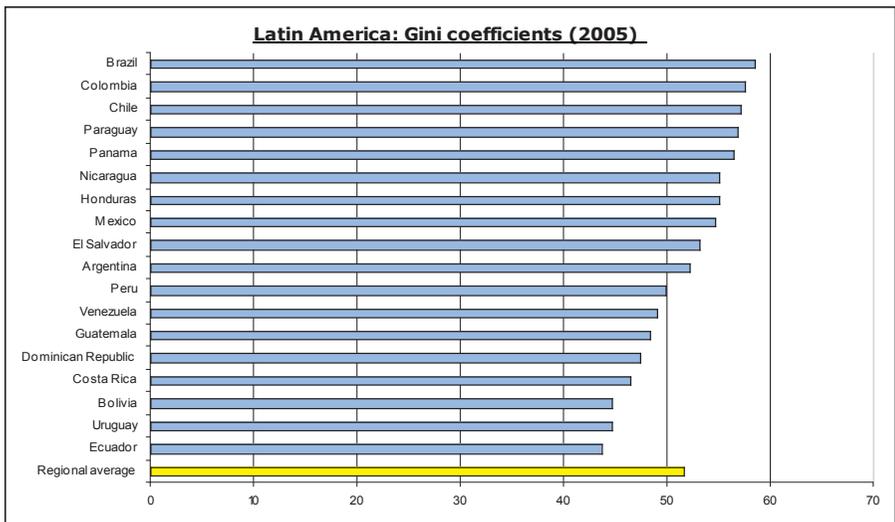
As explained theoretically above, we can see how social cohesion articulates the actions of the individual with the horizontal and vertical social levels. The above exercise explains why cementing social cohesion is a task that must be addressed longitudinally across the social structure. Social cohesion is the foundation that sustains not only growth and development, but also political stability. In the absence of a cohesive structure, economic policies and authority structures will lack a strong society to stand behind them, which will eventually lead to their breakdown. Social cohesion: a comparative appraisal

In this section we will explore the three main areas in which social cohesion can be fractured or eroded: economic, geographic, and political. Within this framework, we will review the present situation and major trends in Latin America and in China.

Economic

Income distribution is the most widely studied aspect of social cohesion. Inequality in Latin America has deep historical roots in institutions, practices and even cultural attitudes. Even during the strongest cycle of economic growth in the past three decades, average Gini income distribution measures are over 0.5; Latin American inequality remains over the internationally recognized “danger level” of 0.4.¹⁵ To make matters worse, poverty ratios have remained relatively stagnant, while in some countries extreme poverty increased during the early years of this decade.

TABLE 1 – LATIN AMERICA: GINI COEFFICIENT (2005)¹⁶



Income disparities in China constitute an extremely contentious issue. Arguments against the validity of the released data include the lack of available or credible data, and ways of calculating or aggregating the results of Chinese figures. Nevertheless, there is enough information to conclude that inequality has been climbing steadily. In some periods, China's poor grew poorer at a time when the country was growing substantially wealthier.¹⁷ A comprehensive World Bank study on poverty and inequality shows that inequality has worsened for more than twenty five years in China. However, Ravallion and Chen found no evidence that the rise in inequality was the 'price' of high economic growth.¹⁸ Their findings suggest that periods of rapid growth did not increase inequality, which would point to a non exclusionary kind of growth. Nonetheless, there are warning signs that income inequality, on the rise since the mid-1980s, is slowing down the impressive poverty reduction efforts in China. Between 1981 and 2001, the proportion of the population living in poverty in China fell from 53 percent, to an astounding 8 percent. It should be noted that this progress is not uniform, since half the reduction occurred in the first half of the 1980s.

TABLE 2 - CHINA: GINI COEFFICIENT (1980-2004)¹⁹



In the presence of high levels of inequality, individuals are more likely to develop non-cooperative social ties, leading to a widening confrontation between those who have access to resources and those who do not.²⁰ In this way, income inequality would contribute to increased transaction costs, especially in the production of public goods. Higher Gini indices also appear to have a correlation with higher crime rates (Fajnzylber, Lederman, and Loayza, 2000).²¹ Easterly and others also demonstrate that a relationship exists between social cohesion and institutional quality which affects economic growth. The argument is that social cohesion leads to strong political institutions and solid social consensus, which produces more innovative, competitive economies.²² Social consensus contributes to the capacity for adaptation to the changes and demands imposed by market-styled economies and helps to strengthen their capacity to resist potential destabilizing policy changes and the effects of economic shocks.

Geographic

Another manifestation of exclusion is the presence of regional divergences. The causes can be traced back to colonial times and the commodity-based extractive means of production adopted throughout the Western Hemisphere. Furthermore, the long-standing economic inequality we analyzed in the previous section rendered the domestic markets negligible, as vast sectors of society were excluded from consumption. Ultimately, an inefficient economic organization coupled with an inadequate transport infrastructure has reinforced economic mismanagement.²³ This has led an entire geographic segment of countries (the agriculturally rich *pampa* in Argentina, the *Café com leite* states in Brazil, the Peruvian coastal areas) to prefer extraction and export over market integration. In turn, this has produced a geographic concentration of wealth in the rich areas, while great portions of the country remain poorly connected and insufficiently served by basic service infrastructure.

In China, the urban/rural income gap is widening and in 2005 average per capita urban incomes were 3.2 times those in rural areas. In short, since 1985, income inequality has progressively increased, as evidenced in the Table 3.²⁴

TABLE 3 - CHINA: URBAN AND RURAL INCOME (1980-2005)²⁵

| Average Per Capita Disposable Incomes, 1980 - 2005 | | | |
|---|--------------------|--------------------|--------------------------|
| | Urban (CNY) | Rural (CNY) | Urban:Rural Ratio |
| 1980 | 478 | 191 | 2.49:1 |
| 1985 | 739 | 398 | 1.85:1 |
| 1990 | 1,510 | 686 | 2.2:1 |
| 1995 | 4,283 | 1,578 | 2.71:1 |
| 2000 | 6,280 | 2,253 | 2.78:1 |
| 2005 | 10,493 | 3,255 | 3.2:1 |

A closer appraisal of the geographic breakdown reveals an even more daunting picture. The pattern, displayed in the table above, demonstrates that growth within the PRC is highly uneven across regions. Income disparity between the east and the west is most marked in the rural sector, while the urban-rural gap is most pronounced in the poorest areas. Eastern cities are thriving more and more, while the western rural areas are steadily falling behind. For example, urban income in Shanghai is more than double Shanghai rural income. However, Shanghai rural income is almost ten times as much as rural income in Guizhou.

TABLE 4 – PER CAPITA INCOME AND GEOGRAPHY IN CHINA (2006)²⁶

| Regional Variatio in Average Per Capita Annual Incomes for Urban adn Rral Population (2005) | | | | |
|--|------------------|--------------------|--------------------|--------------------------------|
| | | Urban (CNY) | Rural (CNY) | Urban:Rural Icome Ratio |
| National | | 10,493 | 3,255 | 3..2 |
| East/Coast al Areas | Shanghai | 18,645 | 8,248 | 2.26 |
| | Zhejiang | 16,293 | 6,660 | 2.26 |
| | Guangdong | 14,769 | 4,691 | 3.14 |
| Central Areas | Henan | 8,668 | 2,871 | 3.01 |
| | Hunan | 9,253 | 3,118 | 2.96 |
| | Jiangxi | 8,620 | 3,129 | 2.75 |
| Western Areas | Sichuan | 8,386 | 2,803 | 2.99 |
| | Guizhou | 8,151 | 1,877 | 4.34 |
| | Gansu | 8,086 | 1,980 | 4.09 |

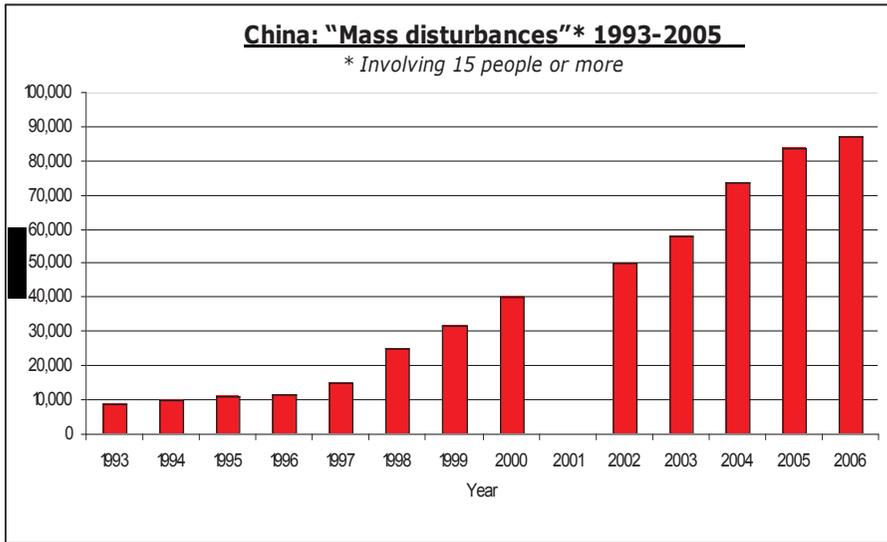
Arguably, eastern and coastal areas have benefited from a proximity to demanding urban populations and easier access to international markets, which has subsequently endowed these areas with better infrastructure and the bulk of investment. As a consequence of these factors, eastern and coastal areas have a more sophisticated market economy which has diversified into manufacturing and service sectors. Shanghai, with roughly 11 percent of the rural population, has a GDP per capita of 51,474 CNY. Shanghai per capita figures are more than ten times that of Guizhou, which are only 5,052 CNY with a population of over 73 percent living in rural areas. There is a clear correlation between higher GDP per capita and higher levels of urbanization, as revealed in the next table, which reinforces the urban/rural disparities that appear in Table 4.

TABLE 5 - CHINA: GDP STRUCTURE AND GEOGRAPHY (2006)²⁷

| GDP Per Capita, Urban - Rural Population and Structure of GDP | | | | | | | |
|--|------------------|----------------------|----------------|-------|---------------|-----------|----------|
| | | Per Capita GDP (CNY) | Population (%) | | GDP Structure | | |
| | | | Urban | Rural | Primary | Secondary | Tertiary |
| National | | 14,010 | 42.99 | 57.01 | 12.06 | 47.5 | 39.9 |
| East/Coastal Areas | Shanghai | 51,474 | 89.09 | 10.91 | 0.9 | 48.6 | 50.5 |
| | Zhejiang | 27,703 | 56.02 | 43.98 | 6.6 | 53.4 | 40.0 |
| | Guangdong | 24,435 | 60.68 | 39.32 | 6.4 | 50.7 | 42.9 |
| Central Areas | Henan | 11,346 | 30.65 | 69.35 | 17.9 | 52.1 | 30.0 |
| | Hunan | 10,426 | 37.00 | 63.00 | 19.6 | 39.9 | 40.5 |
| | Jiangxi | 9,440 | 37.00 | 63.00 | 17.9 | 47.3 | 34.8 |
| Western Areas | Sichuan | 9,060 | 33.00 | 67.00 | 20.1 | 41.5 | 38.4 |
| | Guizhou | 5,052 | 26.87 | 73.13 | 18.6 | 41.8 | 39.6 |
| | Gansu | 7,477 | 30.02 | 69.98 | 15.9 | 43.4 | 40.7 |

So the question remains, how can the disparity between urban/rural economic performance translate into the degeneration of social ties in China? To begin, cleavages in a society can be cross-cutting or overlapping.²⁸ In a cross-cutting scenario, allegiances are distributed across many groups in a society; when cleavages overlap, divisions in a society accumulate. The data indicates that in China there is a rise in overlapping inequalities: the rich, urban and modern vs. the poor, rural and traditional. These inequalities have already manifested themselves in “mass disturbances” in China, with the majority of these disturbances caused by rural demands. Rural complaints include: price adjustments of food staples, rural-to-urban migration (and consequent labor competition), predatory or illegal tax burdens on peasants, and the expropriation of farmland for non-farm uses. It is important to note that in the rural areas, the frequency and scale of incidents are greater but they still remain largely spontaneous and unorganized.

TABLE 6 - CHINA: MASS DISTURBANCES (1993-2005)²⁹



Mass disturbances involve primarily local issues and do not promote broader political reforms. Furthermore, they do not appear to be articulated to any regional or national coordinating organization. Due to the ad hoc nature of these unrest movements, the government does not perceive current unrest to be at a level which could threaten the stability of the regime and handles these issues quietly, primarily with force. However, blunt repression has become increasingly costly and focus has shifted towards preventive policies, like surveillance and containment of crowds, distribution of economic incentives to leaders, managing recording of the events, and supervising press reports on the matter. Regardless, sophisticated control techniques are no substitute for addressing the root causes sparking social unrest.

Political

A final measure of social cohesion, or lack thereof, is the interplay between citizens and state institutions. Political structures and officers can entrench economic and social patterns of exclusion in a society or act as agents of redistribution to mitigate the natural inequalities produced by market economies. This section will examine this interplay.

In Latin America there has been endemic corruption over many years. The World Bank has described the corruption in Latin America as the imposition of distortions in the prescribed *implementation* of existing laws, rules, and regulations to provide advantages to either state or non-state actors.³⁰ According to the World Bank, corruption is a result of the illicit and non-transparent provisions of private gains to public officials.

However, a far worse phenomenon plagues the Latin American region: state capture. State capture is defined as the actions of individuals, groups, or firms, to influence the *formation* of laws, regulations, decrees, and other government policies to their own advantage.³¹ State capture is the result of the illicit and non-transparent provisions of private benefits to public officials. State capture results in demands not being properly channeled, due to a political system that is inherently exclusionary. State capture has produced deadlock, where citizens take to the streets in demonstrations and protests over discontent with the government and its policies. Ecuador and Bolivia's indigenous movements, the rise of Hugo Chávez in the face of a corrupt political party entente, the pickets and the "all the politicians out." (*Que se vayan todos*) campaign in Argentina, and the MST in Brazil, have all been movements that signal that current state structures are incapable of processing demands. When demands at last emerge, they carry with them an explosive force. With demands and conflict magnified beyond the point of accord, frequently the ousting of the government occurs. Examples of this include Pérez in Venezuela, Collor in Brazil, Mahuad, Bucaram and Gutiérrez in Ecuador, Fujimori in Perú, De la Rúa in Argentina, and Sánchez de Losada in Bolivia.

In China, for the past fifteen years, the Communist Party has undergone a remarkable transformation, assembling the most sophisticated government class it has had in generations. These leaders have committed to move China forward, and have adapted to the challenges that emerged at every new stage. However, the pattern of political development has been highly unequal. The sophistication of the elites diminishes as one moves away from the center and into the rural and poorer areas of the country. In the rural areas, corruption is widespread and criminal elements continue to form pervasive alliances with government officials. These "alliances" allow the criminal elements to freely manipulate local power to their advantage.³²

In the current political structure, there is an excessive concentration of power in a few local party leaders. There is an almost total absence of mechanisms to check power in China other than direct intervention from the center. The abuse of power, and the use of public authority for private gains by local cadres, is deepening the perception of institutionalized inequality in China. This perception is the prime cause of discontent leading to social upheaval.³³

Moreover, since the chain of command penalizes local officers that face demonstrations, there is an incentive to resolve social unrest as swiftly as possible. Often, this translates into the use of means that prove not only ineffective in the long term, but counterproductive, as they have extremely negative effects on governance and stimulate further discontent.

Presently, there is little probability that in the current situation, social protest movements will topple the government, as in Latin America. However, this does not mean that recurring contentious issues cannot arise at subnational levels that may leave the government facing dilemmas of repression, embarrassment, or both.

CONCLUSION: LATIN AMERICA AND THE “HARMONIOUS SOCIETY”

When in October 2006, the Chinese Communist Party (CCP) Central Committee adopted the political doctrine of a "harmonious society," the CCP implicitly recognized that disharmony existed. This meant shifting away from the promotion of unfettered growth to deal with escalating social tensions. The first three, and most important, of the eight challenges identified by Chinese scholars in building a harmonious society (the growing gap between rich and poor, corruption, lack of protection mechanisms for some social groups, an inadequate social security system, unsustainable economic growth twinned with environmental pollution, backwardness in science, education, culture, medical care and sports, and a general lack of management skills)³⁴ are essential components for social cohesion. From the Latin American experience we have drawn policy lessons that the CCP could take advantage of in order to avoid the same mishaps.

Human Capital

As stated previously, changes in China have been occurring at a rapid pace. As material conditions change, so do their values and behavior. Among the effects the capitalist economy has had on individuals is a rise in individualism, an increased assertiveness, an unrestricted promotion of acquisitiveness, a constant exaltation of personal success, and a permanent display of prosperity. The fast-paced market economy has made consumerism and consumption expectations soar, especially among the younger generations who have more access to information and education. The Chinese integration into the world economy is simultaneously enhancing overall wealth, while magnifying wealth inequalities; the benefits of globalization in many ways remain largely diffuse, while the costs are highly concentrated. This inequality makes the likelihood of social unrest more likely among the portion of the population that is losing out.

In addition, there is an acute consciousness of local poverty versus local wealth. Even more so, there seems to be a general awareness that quality schools, jobs, and medical care are reserved for the few. Ultimately, this raises the questions: how deserved are the advantages the elites enjoy, and what kind of opportunities are there for individuals of the middle classes? Future stability will depend to a great extent on perceptions of fairness in this emerging social order. Just as it happened with Latin American youths during the 1960s and 1970s, disappointing expectations, if linked to social justice, could prove difficult to handle. If these perceptions of inequality and exclusion are not addressed, they will manifest themselves as social unrest, rising crime, disenfranchisement, and political polarization.

It is often argued that China's population of 1.3 billion poses an unparalleled management challenge. Regardless, China has a better base of human capital compared to its neighbors. This fact is one of the very reasons that allowed China to grow so much faster than the other parts of Asia.³⁵ Without further opportunities for people to develop skills and knowledge, the Chinese population will surely become a “demographic liability” in terms of continued unrest and economic

underperformance. At present, the Chinese state has a lever for creating social capital through education. Eliminating educational inequalities, rooted in income, location, or gender, would act as an intergenerational socializing force that could enhance social mobility. Ending educational inequalities, will also stimulate a merit-based culture, a well-known safeguard against the spread of corrupt practices.³⁶ In cohesive societies, the state does not “crowd out” social forces. Attempts to exert a firm grasp on civil society through undermining horizontal association can have a backlash effect of overheating the system, since the only *locus* of action is the central government.

Latin American citizens have never been the most law abiding citizens, and tend to exhibit a certain disregard for norms, exemplified by the historically high levels of tax evasion. The phrase “For my friends, anything; for my enemies, the law,” has been attributed to presidents all over the region. This phrase what is at the heart of populism: the law is perceived as an unequal recourse available only for the wealthy, while the dispossessed masses turn to the *caudillo*. However, this is a survival strategy in a scenario of pervasive, chronic inequalities. If the state fails to efficiently provide public goods for everyone, then people are bound to turn to a “protector.” The state will see its rule weakened, and social fragmentation will quickly translate into geographic autonomy. From Sicily to Colombia, from the Russian oligarchs to the pseudo-feudal Latin American governors, there are abundant examples of the perils of fragmenting social cohesion.

If political practices, rules, and institutions function to exclude frustrated social sectors, this will force the citizenry to channel their demands outside the scope of those institutions, challenging the structure of authority and power.

The prevalence of the strongman over the rule of law is a phenomenon not alien to China, especially at the local level. Government rule is for many the will of the local officer rather than a universal law. Strong rule in China is not the rule that obtains compliance through the use or threat of force, but rather the one that gets the ruled to comply on their own will. This “rule by compliance” can be achieved by incentive driven institutions run by a merit-based bureaucratic structure. A rule-based administration sets standards identical for all, avoiding privileges and creating a more stable system over time. Moreover, a rule based administration is more efficient, as it deflects criticism off the individuals and onto the institutional structure.³⁷ A concrete example of this is land tenure, which is currently weak at best and vulnerable to corruption and the urbanization impetus. Ironically, although land is usually the one productive resource of the underprivileged, the primitive condition of ownership rights over land in China prevents these assets from being turned into capital. In the end, if property rights are secure and entitlements clear, Chinese

citizens will unleash productive forces in the economy.³⁸ Secure rights will remove the need to seek “protectors” and the host of illegal activities associated with them. Furthermore, If rural land could be used as collateral for borrowing, then a new credit market could develop.

Equitable growth

The Latin American model of exclusionary development has hindered the region from fully realizing its potential, precluded the development of robust domestic markets, allocated infrastructure investments inefficiently, and marginalized potential consumers. With China attempting to move away from the export-led growth strategy, consumption may be stimulated and there may be an emphasis in developing the domestic market. Income inequalities would certainly put these kind of policies at risk, so progressive taxation schemes should be devised with special attention to the rural and urban gaps. Investment should pursue infrastructure that would provide basic social services (e.g., drinking water, sanitation services) and safety nets, as well as universal access to basic health and education. These policies have an important redistributive effect, with the added benefit of reducing the need for high savings rates which are currently over 40 percent.³⁹ Successful income transfer programs have been implemented in Latin America, such as Brazil’s *Bolsa Família*, Mexico’s *Oportunidades* (ex *Progresá*), and Colombia’s *Familias en Acción*. A long standing deficiency in Latin America has been the lack of access to finance and credit for small and medium sized businesses, without which domestic markets anywhere would be rendered fragile. Finally, as Sung and Kahagram found, there is a strong correlation between inequality and corruption. Thus, reducing inequality would also have positive governance effects on China.

Institutional adjustment

What political elites in Latin America have failed to understand until the 1980s, is that conflict only increases in the face of repressive and/or isolated state structures. Overarching compromises translate into effective, enduring policies with a broader consensus, decreasing the probability of excluding actors who might otherwise challenge the legitimacy of the government.

Western analysts of social unrest in China regularly miss cultural differences; western societies are based on the primacy of the individual, and view protests in a dialectic way as a clash of opposing wills. This misinterpretation creates a risk of underestimating the potential for instability. The philosophical framework of principles of authority relations in China is different than in the West. Evidence shows that protests in China are more geared towards the “enhancement” or “correction” of state action than in the West.⁴⁰ Most notably, a recurrent argument is that protestors want local officials to obey Beijing’s laws. This does not mean that the Chinese grievances are not legitimate or that they approve of every state action. The CCP cannot hope to contain social unrest unless they address its institutional catalysts, which usually consist of corrupt and abusive bureaucrats. Failure to

constrain state capture erodes state capacity by weakening revenue collection and affecting public finances. Furthermore, state capture also reduces confidence in public officials and state institutions, fostering an image of incapacity that encourages social mobilization. Paradoxically, episodes of unrest usually tend to reinforce the leadership's view that a firm hand on the affairs of state is necessary to assure continued growth.

An increase in transparency mechanisms, especially those linked with incendiary issues like public health and food safety, would not only be beneficial in the Chinese domestic political front, but would improve the country's image in the world. The execution of former chief food and drug regulator Zheng Xiaoyu in July 2007 is the latest episode in a series of scandals that have been damaging to the reputation of Chinese products. These scandals include pet food sold in the US containing an industrial chemical, toys covered in lead paint, tires that lacked an important safety feature, a cancer-causing dye used to color egg yolks, powdered baby formula that resulted in the deaths of several babies, and pork containing banned additives. Finally, Chinese controls offer many western nations an opportunity to advance a political liberalization agenda in terms that may not be in China's best interest. Taking the initiative in implementing local governance and local accountability will not only improve the CCP's legitimacy in areas affected by unrest, but it would also help monitor performance and strengthen control of the party structure.

Notes

¹ China Statistics Press, *China Statistical Yearbook 2007* (Beijing, China: China Statistics Press, 2007).

² Marcus Walker and Andrew Batson, "China's GDP Poised To Top Germany's As Power Shift Speeds Up," *Wall Street Journal*, July 16, 2007.

³ Emile Durkheim, *Suicide* (Glencoe, IL: Free Press, 1951).

⁴ Inequality in this sense is measured in terms of income distribution and of access to basic public services.

⁵ Social capital is understood as the capacity of individuals to embrace collective norms, maintain networks and reciprocal bonds of trust that can support collective action.

⁶ Robert D. Putnam, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton, NJ: Princeton University Press, 1993).

⁷ Francis Fukuyama, *The Great Disruption: Human Nature and the Reconstitution of Social Order* (New York, New York: Free Press, 1999). See also: Francis Fukuyama, *Trust: The Social Virtues and the Creation of Prosperity* (New York, NY: Free Press, 1995).

⁸ Council of Europe, "Revised Strategy for Social Cohesion" (Strasbourg, France: Council of Europe Workshops, 2004).

⁹ Economic Commission for Latin America and the Caribbean, *Social Cohesion: Inclusion and a Sense of Belonging in Latin America and the Caribbean*, May 2007. Available at: www.eclac.org/publicaciones/xml/0/29030/2007-219-SocialCohesion.pdf (accessed February 20, 2008).

¹⁰ Inter-American Development Bank Sustainable Development Department, *Social Cohesion in Latin America and the Caribbean: Analysis, Action and Coordination*. Available at: www.iadbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=733597 (accessed February 20, 2008).

¹¹ The 12 primary indicators are: low income rate after transfers (threshold set at 60 percent of median income), low income threshold (illustrative values), distribution of income (quintile 5/quintile 1), persistence of low income, relative median low income gap, regional cohesion (dispersion of regional employment rates) long-term unemployment rate, number of persons living in jobless households, early school leavers not in education or training, fifteen-year-old students with low reading illiteracy scores, life expectancy at birth, and immigrant employment gap. The 9 secondary indicators are dispersion around the low-income threshold, low income rate anchored at a moment in time, low income rate before transfers, Gini coefficient, persistence of low income (below 50 percent of median income), workers at risk of poverty, long-term unemployment share, very long-term unemployment rate, and persons with low educational attainment.

¹² While income is positively correlated with some of these dimensions, the literature shows that the relationship between income and broader indicators of welfare is often tenuous and unclear.

¹³ It has been noted that due to high levels of social capital, the Argentine society had more resources at its disposal that allowed it to bear the brunt of the 2001 havoc. See: United Nations Development Program and The Inter-American Development Bank, *Índice de Desarrollo de la Sociedad Civil de Argentina*, March 2004. Available at: www.confinesociales.org/pdfs/IDSC%20de%20Arg.pdf (accessed February 20, 2008).

¹⁴ Note that perceived grievances do not always coincide with the legitimate or real grievances.

¹⁵ This is compared to an average annual growth rate of only 2.2 percent between 1980 and 2002

¹⁶ Source: World Development Indicators Online, 2005

¹⁷ Richard McGregor, "China's poorest worse off after boom," *Financial Times*, November 21, 2006.

¹⁸ Martin Ravallion and Shaohua Chen, "China's (Uneven) Progress Against Poverty," (working paper 3408, World Bank Policy Research, Washington, D.C., 2004).

¹⁹ Source: Ravallion and Chen, 2004

²⁰ Alberto Alesina and Dani Rodrik, "Distributive Politics and Economic Growth," *The Quarterly Journal of Economics* 109, no. 2 (May, 1994): 465-490.

²¹ Pablo Fajnzylber, Daniel Lederman, and Norman Loayza, "Crime and Victimization: An Economic Perspective," *Economia* 1, no. 1 (Fall, 2000): 219-302.

²² William Easterly, Jozef Ritzen, and Michael Woolcock, "Social Cohesion, Institutions and Growth," (working paper, World Bank, Washington, D.C., 2005).

²³ John H. Coatsworth, "Obstacles to Economic Growth in Nineteenth-Century Mexico," *American Historical Review* 83, no. 1 (February, 1978): 80-100.

²⁴ This improvement period coincides with that of income inequality observed before, and can be attributed to the end of collective agriculture and the consequent revitalization of the rural economy.

²⁵ Source: National Bureau of Statistics, China Statistical Yearbook, 2006, Table 10.2 (p. 347).

²⁶ Source: National Bureau of Statistics, China Statistical Yearbook, 2006, Table 10.15 (p. 357) and 10.22 (p. 371).

²⁷ Source: National Bureau of Statistics, China Statistical Yearbook, 2006.

²⁸ Ian Budge and Cornelius O'Leary, "Attitudinal and Background Cross-Cutting: Further Evidence from Glasgow and Belfast," *Midwest Journal of Political Science* 16, no. 4 (November, 1972): 712-722.

²⁹ Author's calculation based on numbers by Kiedel (2006) and official data.

³⁰ Sanjay Pradhan, *Anticorruption in Transition: A Contribution to the Policy Debate* (Washington, DC: The World Bank, 2000).

³¹ Ibid.

³² Yu Jianrong, "Social Conflict in Rural China," *China Security* 3, no. 2 (spring, 2007): 2-17.

³³ Albert Keidel, "The Economic Basis for Social Unrest in China," *Carnegie Endowment for International Peace*, May 26-27, 2005. Available at: www.carnegieendowment.org/files/Keidel_Social_Unrest.pdf (accessed February 20, 2008).

³⁴ "Eight Challenges in Building Harmonious Society," *Xinhua News Agency*, October 8, 2006. Available at: www.china.org.cn/english/GS-e/183095.htm (accessed February 20, 2008).

³⁵ David Dollar, "Poverty, inequality, and social disparities during China's Economic Reform," (working paper 4235, World Bank Policy Research, Washington, D.C., 2007).

³⁶ World Bank, *Combating Corruption in Indonesia: Enhancing Accountability for Development*, November 12, 2003. Available at:

www.wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2003/11/25/000012009_20031125111638/Rendered/INDEX/272460IND.txt (accessed February 20, 2008).

³⁷ Max Weber, "The Three Types of Legitimate Rule," trans. Hans Gerth, *Berkeley Publications in Society and Institutions* 4, no. 1 (1958):1-11.

³⁸ Hernando De Soto, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else* (New York, NY: Basic Books, 2000).

³⁹ David Dollar, remarks at, "Harvard Project for Asian and International Relations Conference" (conference, Beijing, China, August 17, 2007).

Remarks by World Bank China Country Director David Dollar at Harvard Project for Asian and International Relations Conference, Beijing, August 17th 2007.

⁴⁰ Keidel, "The Economic Basis for Social Unrest in China."