

Authoritarian Resilience under Crisis: Geography and Redistribution in China

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Abstract:

How do authoritarian regimes survive economic crises? Contrary to modernization theory, analyses show that economic growth aids regime survival, while regimes are much more likely to end during crises. While different types of nondemocratic regimes and institutions account for much of the variation in regime survival, the policies that shape the political economy of these regimes have received less attention. Why did the global financial crisis and ensuing Great Recession not generate the political instability in China that many predicted? I argue that China's success in weathering the storm was partly due to its long-term strategy of managed urbanization and migration paired with a short-term economic stimulus. These factors combined to structure, disperse, and reduce discontent generated by the Great Recession. Fearing instability and unrest among newly unemployed migrant workers along the coast, the regime sought to encourage employment in the interior. Along with continued collective ownership of land in the countryside and the *hukou* system, the fiscal stimulus facilitated stability by providing channels for those negatively affected by the crisis to return to the countryside and smaller cities in the interior, dispersing discontent. While the fiscal stimulus continued the regime's pro-rural, pro-interior development policy, at the height of the crisis, the regime also vastly expanded loans to urban industries in contrast to its general move away from urban bias. The analysis demonstrates the utility of in-depth investigation of the threats that regimes face and their policy responses to those threats.

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How do authoritarian regimes survive economic crises? In the post-WWII era, and contrary to modernization theory, nondemocratic regimes experiencing economic growth tend to persist (e.g. Geddes, 1999; Wallace, 2013). Economic hard times, on the other hand, make such regimes more likely to fail. Coalitions and institutions account for much of the variance in authoritarian regime resilience and crisis response (Jennifer Gandhi, 2008; Haggard, 2000; MacIntyre, 2001; Pepinsky, 2009; Slater, 2010; Wright, 2008). However, even these factors tend to operate through the mechanism of policies—both long-term and short-term—that shape the ability of regimes to respond to crises when they arise. I argue that economic downturns can create urban instability and counter-cyclical and geographically-targeted responses to crises by regimes can mitigate these threats. For instance, the Chinese Communist Party (CCP) and the Chinese economy seem to have sailed through the swells of the global Great Recession with little apparent damage, despite large decreases in external demand for products made in China and a brief dip below the symbolically important 8% growth mark.²

In the first five months of 2008, nearly half of the shoe exporters in China's Guangdong province shut down operations, and by the end of that year, tens of millions of Chinese workers lost their jobs (J. Huang, Zhi, Huang, Rozelle, & Giles, 2010).³ Such a dramatic economic decline also could have threatened to undermine the regime politically. Many accounts of China present a litany of threats facing the regime even if growth continues, such as nationalism, inequality, corruption, and the absence of political reform (G. G. Chang, 2001; Y. Huang, 2008; Lam, 2006; Pei, 2008; Shirk, 2008). Economic growth is widely believed to be a necessary if precarious condition for political stability in China. Some go as far as Zhao, who writes that, "The state still bases its legitimacy on performance and is thus intrinsically unstable" (Zhao, 2001). The party itself refers to the need to maintain rapid economic growth to stave off instability.⁴ Why did the downturn not generate the political instability that many predicted? How does China's experience inform our understanding of authoritarian responses to economic crises?

My principal claim is that the regime's successful maintenance of stability is partly due to two factors: management of urbanization mostly through its household registration (*hukou*) system and Keynesian stimulus package. These policies

² 2008 quarter 4 and 2009 quarter 1 both saw Chinese GDP growth below 8 percent. National Bureau Statistics (NBS).

³ (广州日报, 2008). Over 2300 factories of the 4750 that had been in operation at the end of 2008 had ceased operations. Smaller operations were particularly hit hard as seen by the share of factories closing their doors greatly exceeding the decline in exports, which decreased 15.5% through May 2008 compared with the same period of time in 2007.

⁴ e.g. Wen Jiabao's speech at the World Economic Forum in Dalian, September 2009. (Wen, 2009).

simultaneously *structured, dispersed, and reduced* the level of discontent in society, allowing the regime to avoid what might have become a revolutionary moment that could have challenged its rule (Acemoglu & Robinson, 2005; Boix, 2003). I acknowledge that other factors played a role in China's political stability: its status as a party regime, its military and policing prowess, its prior economic success, perhaps even its legitimacy from the glory of the spectacle of the 2008 Beijing Summer Olympics. Success has many fathers; I aim to demonstrate the importance of the regime's policies affecting the location decisions of citizens and redistribution, factors that could be overlooked in a complex multi-causal environment. The ways in which the regime's policies addressed the threats posed by this crisis demonstrate the utility of further investigation of the policies of nondemocratic regimes.

The Chinese regime's policies mitigated the political and economic dangers present in the crisis in three principal ways. First, prior to the crisis, the *hukou* system shaped urbanization in the country to be relatively decentralized, with urban clusters all over the country. In a counterfactual China without a *hukou*-molded city system, when the crisis hit, the regime would likely have faced fewer, larger cities whose street politics might have turned against it. Instead, the regime relied on the ballast provided by a massive urban population spread out in hundreds of cities to steady it against significant unrest bubbling up in a few locales. Second, the *hukou*-based incentives pushed migrants by the millions to leave the urban areas where they had been employed to return to the smaller cities of the interior and countryside. The *hukou* system both lowered the level of urban concentration in the country prior to the crisis and in the moment of crisis further dispersed the disaffected by the millions. Third, the regime then stimulated the economy with fiscal policies and an expansion of bank loans that reduced levels of discontent by providing opportunities for employment. The geographic distribution of these policies—emergency loans to urban factories in the short-term and large-scale investment in rural areas and the interior over the longer run—again points to the political fear of unrest in cities and the regime's continued efforts to influence the location decision of individuals and businesses.

The paper next discusses the danger large cities pose to nondemocratic regimes and the ways in which the CCP has managed that danger, before turning to the Great Recession in China. Massive job losses and spikes in the numbers of labor disputes and unrest in China made this episode fraught with peril for the regime, even with existing *hukou*-based policies. Without proactive government policies to stimulate demand, the collapse of orders and money from abroad would have left millions more out of work and poorer. The robust response boosted the country's economic fortunes and decreased the likelihood of serious political turmoil. Urban-biased loans addressed concerns of instability in the short-term, while more interior and rural-directed

infrastructure projects continued the regime's long-term efforts to develop the west and spread urbanization across the country.

Danger of Cities and Crises

Nondemocratic regime survival has emerged as a subject of significant study in the social sciences. Competing typologies of nondemocratic regimes are said to account for variation in the duration of these regimes (Geddes, 1999a; Hadenius & Teorell, 2007). Nondemocratic regime types are associated not only with different durations but also different foreign policy behavior, patterns of economic growth, likelihood of democratization, and the fates of leaders after they leave office (Debs & Goemans, 2010; Jennifer Gandhi, 2008; Weeks, 2008; Wright, 2008). Military regimes are particularly short-lived, while single or dominant party regimes endure (Geddes, 1999b; Hadenius & Teorell, 2007; Magaloni, 2006). Others have pointed to higher levels of institutionalization as abetting authoritarian rule (Blaydes, 2010; Lust-Okar, 2005, 2006). Legislatures can both tie the dictator's hands and act as arenas of information collection and exchange, aiding economic growth and political survival (Boix, 2003; J. Gandhi & Przeworski, 2006; Wright, 2008). This burgeoning literature has shed light on much that was obscured by the focus on democratization. This literature has not yet delved into the structural threats that regimes face and their strategic response to those threats. Cities and urban concentration present such a danger and one that regimes attempt to negotiate (Wallace, 2013).

The threats that cities pose to nondemocratic regimes manifest themselves through different channels. Large cities bring together huge numbers of people in a shared space. This makes effective collective action more likely and reduces the ability of the regime to understand, observe, and govern the population. These mechanisms connect large cities with the collapse of nondemocratic regimes.

Large cities are more likely to have significant incidents of collective action for reasons having to do with the math of population. This mechanism operates both from the perspective of the masses who might participate and the elite activists who might organize. The larger the urban population in a city, the smaller the proportion needed to participate for a large riot to occur. Larger cities are more likely to have politically salient protests, marches, and riots, as such phenomena are usually conceived in ways where the *total* number of people involved is the critical number not the *share* of the population taking part. Crowd sizes are rarely given as a percentage of the area's total number of inhabitants. Demonstrations are measured as large or small based on the number of people that are present at the event. A similar situation arises when considering the creation of movements by elite activists. As the population of a city increases, the expected number of extremists or activists or talented individuals present

in a given spatial territory is more likely to exceed some minimum threshold. Collective action incidents are associated with shorter authoritarian regime durations (Magaloni & Wallace, 2008; Wallace, 2013). When economic crises arise, the likelihood of such protests in large cities rises with them.

Likewise, cities can be *illegible* to regimes (Scott, 1998). Governments have difficulty piercing through their complex web of social interconnections. The physical geography of cities evolved over time in ways that make them difficult for outsiders to understand. Compare the irregularity and twisting paths of Beijing's *hutongs* with the massive thoroughfares of its modern ring roads.⁵ As the character of China's cities transforms from *hutongs* to highways, history is lost but so too is the some of the ability to hide from the state. The former is difficult for a regime to navigate or comprehend when compared to the latter. The impenetrable character of cities comes from density and anonymity, and danger can arise when a spark of discontent has time to grow into a conflagration in the absence of regime suppression.

Large cities are prone to collective action and are difficult to govern, making them dangerous for authoritarian regimes, especially during economic crises. China has managed its urbanization since the founding of the PRC, emphasizing stability over freedom of movement.

China's Management of Urbanization

While it began in the 1950s, the *hukou* system shapes China's political economy to this day in dramatic fashion. Its modern origins come from the CCP's efforts to follow a Soviet-style development path promoting industry, particularly heavy industry. The regime gave urban workers in that sector an "iron rice bowl" of lifetime employment, housing, and numerous other social services to which farmers in the countryside were not given access (Fung, 2001; J. Y. Lin, Cai, & Li, 1998). Streams of farmers desiring this better life as part of the urban proletariat flooded into cities, vastly outnumbering the jobs available and straining the infrastructure of cities. To prevent this wave from crashing and overwhelming the cities, the CCP created a *hukou* system that quickly leapt from merely keeping track of individuals to limiting in-migration to cities (Kam Wing Chan & Zhang, 1999, p. 820). In some periods, policies even expelled urbanites from their cities to go to the countryside. The CCP recognized that managing urbanization would require policies to deal with both the countryside and the cities. The *hukou* system is the main way in which the regime limited freedom of movement within the country and into large cities in particular (Cheng & Selden, 1994, pp. 644–

⁵ (Scott, 1998, p. 54). Or the winding and convoluted streets of Boston with the grids of New York City or Washington, DC. Scott uses Bruges in 1500 and Paris before Haussmann.

645). Following Mao Zedong's death in 1976 and the initiation of economic reforms under Deng Xiaoping from 1978, millions of individuals were able to move away from the countryside as the restrictions on migration were relaxed. Yet migrants were treated as second class citizens in cities and discriminated against by firms, the state, and city residents (Solinger, 1999). Large, first-tier cities remain the most difficult to access for migrants. The regime's promotion of small cities and "rural urbanization" while closing off large cities has shaped the country's city system to be particularly deconcentrated (Au & Henderson, 2006).

The prioritizing of urban stability can be seen throughout the CCP's rule and is particularly acute during moments of crisis as seen in the Great Leap Forward, Cultural Revolution, and at the start of the economic reforms. The political significance of large cities and the regime's willingness to inflict suffering on the countryside led to differential starvation rates across the urban-rural divide during the famine caused by the Great Leap Forward (Kung & Chen, 2011; Justin Yifu Lin & Yang, 2000). Politburo members argued that city dwellers and particularly those in Beijing counted more than did farmers; even Deng Xiaoping, who was born in rural Sichuan, claimed "a food shortage in Sichuan had less serious political ramifications than food shortages in the big cities" (J. Yang, 2012, p. 340). Zhou Enlai's concern about urban stability during the Great Leap is obvious. "From June 1960 to September 1962, Zhou spoke of the food crisis 115 times, and 994 notations in his handwriting can be found in 32 statistical reports that have been preserved by the Food Ministry. His main concern was food supply to the cities" (J. Yang, 2012, p. 341).

At the height of the urban chaos of the Cultural Revolution, the regime dismissed and dispersed millions of militarized student Red Guards by sending them to the countryside. Rival factions of Red Guards came to fight in the streets of Beijing and other major cities over which groups were most in line with Mao and the radical ideologies of the moment (Walder, 2002, 2009). These fights escalated into urban guerrilla warfare with different Red Guard groups having People's Liberation Army (PLA) soldiers and their weapons operating on their behalf. The fighting came to a halt when Zhou Enlai and Mao Zedong called for its cessation and for Red Guards to be dispersed into the countryside to be educated by the peasantry. By December 1968, even Mao conceded that the urban bedlam caused by the Red Guard factionalism needed to be curtailed and agreed to expand massively the policy of sending youths educated in cities "up to the mountains and down to the countryside" (*shangshan xiexiang*).⁶

⁶ (Bernstein, 1977, p. 72; Kam Wing Chan, 1994, p. 40). While the policy predated the Cultural Revolution and even the Great Leap Forward, the numbers of youths rusticated by the program expanded

One of the principal changes of China's Reform era was the relaxation of the effective migration restrictions that had prevailed for decades. Yet this increased freedom to move from countryside to city came with severe limits. Migrants were allowed to reside in or near cities but were not treated as full urban citizens. Further, the largest cities were the ones that did the least to remove their invisible walls. This left China's city system much flatter than other countries, with its largest cities smaller and filled mostly with those who had benefited from reforms (Au & Henderson, 2006). The precarious position of migrants in cities proved pivotal in China's experience of the Great Recession.

Crisis Hits China

By the fall of 2008, the global financial crisis that would come to be called the Great Recession was at its most dire.⁷ Following the freezing of credit markets that September, growth reversed into free fall. China responded rapidly with a stimulus package that was formulated in November 2008 and began taking effect immediately. Even the stimulus initially only staunched the flow of losses. At this time, Chinese official economic data resembled nothing so much as an economy falling off a cliff.

[Figure 1. Exports and Rail Freight Collapse during the Great Recession about here]

Figure 1 depicts the seriousness of the moment. It shows the patterns of two economic time series in China, exports and rail freight.⁸ The decline of external demand for Chinese exports is obvious.⁹ In September 2008, which marked the beginning of the rapid descent in export demand, China exported goods valued at a little over \$136 billion. Two months later, the total was \$22 billion less. In January 2009, only 4 months after exports peaked, the total was \$90 billion, a drop of over 1/3 in 120 days. On average, in September 2008, a little over 4.5 billion dollars of goods were being shipped out of Chinese ports every day. By January 2009, that number had slipped below 3

dramatically in 1969 to over 2.67 million following Mao's decision the previous December (Pan, 2002, p. 361).

⁷ This narrative builds heavily from a series of pieces by Barry Naughton in the *China Leadership Monitor* from 2008 to 2009 as well as his chapter in *The Global Recession and China's Political Economy* (B. Naughton, 2009a, 2009b, 2009c, 2009d; Barry Naughton, 2008, 2012).

⁸ The numbers the six-month moving averages, normalized to their highest point to (1) smooth the Chinese New Year effect and (2) allow the two to be shown on the same scale

⁹ Data are from the Ministry of Commerce and measured in current US Dollars. The solid line represents a six-month moving average of the export value. So the two series can be shown together, the maximum value of each is normalized to 100. The y-axis then represents that month's percent of the maximum six-month moving average of the series.

billion dollars.¹⁰ The figure shows that even after smoothing cyclical changes in economic activity, exports were in free fall for the second half of 2008, dropping to just over 60% of their previous high by early 2009. By any measure, losses on the order of a billion and a half dollars a day would be a substantial shock. To those employed in the export sector and those who had invested billions in factories making goods bound for export, these losses represented catastrophe.

A similar story emerges when looking at goods shipped within Chinese borders. The amount of freight traffic over rail is pictured as the dashed line.¹¹ Again, a long run of growth followed by a reversal dominates the series. Beginning around the fall of 2008, Chinese rail freight traffic contracts, moving from strong growth to sharp decline. While the decline of internal freight traffic is not as stark as that of the exports, in an economy growing at 10% annually, to return to levels associated with two years prior is a substantial setback. Tens of millions of tons of goods were no longer moving around the country because they were no longer needed, whether to be processed by factories, consumed by households, or shipped outside its borders.

These trends demonstrate that the Chinese economy was negatively affected at the precise moment that the global financial crisis was coming to a head. While China's subsequent economic recovery may give the impression that it sailed smoothly through the crisis, contemporary accounts in the popular press also make clear that economic activity on the ground was seizing up as well (Schuman, 2008). Similar depictions of collapse can be found in Chinese monthly economic statistics from the fall of 2008. The economic shock hit China and did so through decreased demand for exports, which subsequently reduced domestic economic activity generally. Indeed, far from being unaffected, about forty percent of the entire global population of those unemployed by the crisis were Chinese.¹²

¹⁰ Even factoring in the Chinese New Year annual business cycle effects, this represented a drastic move. The average difference between the January and February export totals and the previous November and December export totals for the past three years was 28.3 billion dollars, whereas for 2009, the difference was over 70 billion dollars. In 2008, by November and December, exports had already dropped over 20 billion dollars a month from their high in July.

¹¹ The choice to use the Chinese rail freight series came from the website seekingalpha.com which used it to make a similar point, but as noted in the text almost any of the statistical monthly series displays the same pattern.

¹² (K. W. Chan, 2010, p. 660; International Food Policy Research Institute (IFPRI), 2009; Xinhua Net, 2009). The 40% figure is derived from an estimated global total of 50 million unemployed due to the Great Recession with 20 million of those in China. As we have seen, however, others have estimates within China that greatly exceed this figure, pointing to a larger global total and perhaps even greater share of those job losses occurring in China.

The low demand for Chinese exports added to the difficulties many exporters faced due to the adjustments required by the yuan's appreciation vis-à-vis the dollar in 2008. The drop in exports in 2009 did not hit all Chinese provinces with the same intensity; export-producing factories were concentrated overwhelmingly along China's long coastline. Guangdong Province as of 2008 alone produced nearly 30% of China's exports.¹³

Map 1 depicts the variation in export losses as a share of GDP and losses of industrial employment across China's provinces. Darker colors imply greater losses for both maps. Unsurprisingly, coastal provinces suffered the most from the sharp curtailing of demand for Chinese-produced goods in the rest of the world, as depicted in Map 1a using the share of export losses in 2009 as a share of 2008 GDP.¹⁴ Industrial employment losses bear a remarkable resemblance, with the vast majority of the losses concentrated along the coast in areas that dominate the export sector, as shown in Map 1b.¹⁵

[Map 1. Export and Industrial Employment Losses on China's Coast about here]

Tong summarizes the geographic distribution of economic harm:

In 2008, mainland China's top five most export-oriented provincial units were Guangdong, Fujian, Shanghai, Zhejiang, and Jiangsu, where exports amounted to 25-38 percent of industrial sales revenue. These regions were also among the worst performers in industrial activities for 2009. For example, while industrial employment declined by 0.1 percent nationwide, that in Guangdong and the three Yangtze River delta provincial units declined significantly more (by 3.8 percent in Guangdong, 6.5 percent in Shanghai, 3.3 percent in Zhejiang and 7.1 percent in

¹³ 28.3%, from the 2008 data, NBS 2011.

¹⁴ Xinjiang in China's far northwest also experience a steep drop in exports as the natural resources that it exports drop in price dramatically in 2009 compared to 2008.

¹⁵ Again, darker colors reflect greater employment losses. The industrial employment data come from the Statistical Yearbook of China (www.stats.gov.cn), in particular the "Main Indicators of Industrial Enterprises above Designated Size (by Region)" data series, which captures firms with over 5 million yuan in revenue. Other employment estimates exist, but these are likely to be accurate as the state is more aware of the activities of large firms than it is of smaller firms. Indeed, as state-owned firms are over-represented in the set of larger firms and are also more likely to be aided by the state through emergency loans (see below), these employment loss numbers reflect a small fraction of the total number of individuals who lost their jobs at some point during the crisis. The correlation between the export share of provincial GDP and the industrial employment losses in 2009 is 0.69.

Jiangsu). In contrast, provinces with the best performance in industrial growth in 2009 were mostly inland, especially in central China (such as Inner Mongolia, Anhui, Sichuan, Hunan, Hubei, and Jilin), which are significantly less export-oriented (Tong, 2012, p. 103).

The managers and owners of these coastal factories responded to the collapse of demand as enterprises do around the globe: they slashed the size of their workforce (Branigan, 2008). *Nanfangdushibao* reported that 117 bosses had fled the export-production mecca of Dongguan, Guangdong in September and October of 2008, leaving 20,000 workers without their back wages (Friedman, 2012, p. 464; *Nanfangdushibao*, 2008). In the fourth quarter of 2008, over 50,000 factories closed in Guangdong alone (K. W. Chan, 2010, p. 665).

Economic Crisis Sparks Instability

The economic crisis quickly sparked instability and represented a serious threat to the “harmonious society” that the Hu and Wen regime had attempted to achieve (D. L. Yang, 2006). The collapse of factory orders led to millions being laid off, factories shuttering, bosses stealing away in the middle of the night, and a myriad of protests centered in China’s factories and workshops. Tens of millions of Chinese lost their jobs during the twelve months of 2008. Kam Wing Chan suggests that this population was over 20 million (K. W. Chan, 2010). Using their own survey in the wake of the crisis, Huang et al estimated an even more terrifying figure: over 48 million laid-off Chinese (J. Huang et al., 2010).

Workers responded. Precise measurement of the number of incidents is spotty; even more complex is assessing the extent to which overall social stability was shaken as regime officials at the local and national levels had incentives to mask the true level of discontent. One available metric is the number of participants in officially registered collective labor disputes, which nearly doubled from 271,704 cases in 2007 to 502,569 in 2008.¹⁶

The boss of the largest dye factory in Shaoxing, Zhejiang ran off in October 2008 leaving behind more than 4000 workers and debts in excess of \$200 million.¹⁷ Suddenly deprived of their livelihoods, these workers and millions like them reacted strongly to real and perceived injustices as the image of the world as full of opportunities

¹⁶ China Labor Statistical Yearbooks. Various Years.

¹⁷ (Barboza, 2009; J. Huang, Zhi, Huang, Rozelle, & Giles, 2010, p. 1) See also (中国劳工通讯, 2009).

evaporated overnight. Scenes like that one played out hundreds of times during the fall of 2008.¹⁸

In addition to accessing formal channels of registering complaints and filing labor disputes, workers directly challenged their lot. Friedman describes the riot of Kaida workers in Dongguan, Guangdong province:

In November 2008, the Hong Kong-owned Kaida toy factory was planning on terminating the contracts of several hundred of its workers. Management had made an offer on severance payments that workers were unsatisfied with, and which was likely below what they were legally entitled to. Unable to reach an agreement through informal negotiations, several hundred workers rampaged through the factory, smashing offices and other facilities. When the police turned up to try to control the situation, the scope of the riot expanded. A reported 500 people engaged in property destruction and smashed several police vehicles with as many as 2000 people observing (Friedman 2012, p. 466).

This was not a lone incident. Protests, riots, and other violent demonstrations exploded in coastal provinces over the course of 2008 (Sheridan, 2009). In Jiaozuo, Henan, workers from textile and cement factories disrupted traffic and blocked roads (RFA, 2008). Thousands protested in front of government offices in Dongguan when Smart Union, a major toymaker, shut down operations in October.¹⁹ Previously, such direct action tactics were largely the domain of China's Manchurian rustbelt workers in the north (Lee, 2007). Migrant factory workers of China's coastal sunbelt turning to such unofficial expressions of outrage to register their discontent boded poorly for the regime. Yet the crisis also led to an explosion in the use of official channels for disputes in Guangdong and other migrant destinations.

The distribution of these labor disputes maps almost precisely onto the areas of the country that were hit the hardest by the reduction in exports. The provinces that experienced severe export losses during the crisis also saw increases in collective disputes.²⁰ These two factors correlate at a very high level, 0.74. In Guangdong alone, nearly 200,000 workers filed collective labor disputes in 2008, accounting for nearly

¹⁸ (Guo & Huang, 2009). See also (Sheridan, 2009). Local governments scrambled to pay these back wages through every means possible to avoid further confrontations with the workers (Wong, 2008).

¹⁹ (Zhai & Leung, 2008). See also (南方都市报, 2008).

²⁰ As noted above, the number of collective disputants spiked in 2008 during the height of the crisis, whereas the number of employed dropped in 2009 (as the 2008 measure does not capture the full effect of the crisis). Data on collective labor disputants comes from the 2010 Labor Statistical Yearbook.

forty percent of the national total. Whereas in the prior 3 years, Guangdong had only held one quarter of China's disputing workers.²¹ The four provinces with the greatest increase in workers filing official complaints in 2008 were the industrial powerhouses of Guangdong, Zhejiang, Jiangsu, and Fujian. Alongside Guangdong's disputants increasing by over 135,000, each of these other three also saw over 10,000 more collective disputants than they had in 2007.²²

Thus, despite all of the efforts that the regime had put forward prior to the crisis to spread urbanization around the country and buoy its political stability, the country was still racked by outbreaks of protests, riots, and turmoil. These individual outbursts against particular factories or bosses were beginning to connect and perhaps coalesce into something even more dangerous for the regime. Due to the financial crisis and other difficulties, the Meifu Paper Products factory in Shenzhen, Guangdong dismissed hundreds of workers in November 2008.²³ Workers, who had not received wages for three months, protested against the firm but also the city labor department for failing to deliver on their promise of compensating workers. The protest attracted hundreds of local police, and the two sides clashed with both police and protestors injured. The protestors started throwing stones and eventually riot police with shields and helmets were called in to end the demonstration. The dozen protest leaders were arrested and, as often occurred, the city government has consequently agreed to pay the amount they owe the workers.

An even more explosive example of the dangers that erupted can be found in the connections between disputes amongst migrant workers in Guangdong and subsequent ethnic riots in Urumqi during 2009. After rumors of Han women being raped by Uyghur workers spread in the Early Light (Xuri) toy factory in Shaoguan, Guangdong, Han workers attacked the Uyghurs in their dormitory (Millward, 2009). The violence spilled into the streets ending with an official casualty list of two Uyghurs dead and 118 others injured.²⁴ Local police "later arrested a bitter ex-employee of the factory who had ignited the fight by starting a rumor that 6 Uyghur men had raped 2 Han women at the

²¹ The Labor Law change that had been put into practice also coincided with the Great Recession and likely increased the number of filings as well. Friedman argues that the number of disputes was affected by the crisis itself and legal changes (the labor contract law and labor dispute and mediation law, which "eliminated or greatly reduced the costs for workers to file a dispute" (Friedman 2012, p. 465)).

²² The pattern flipped in 2009, with the interior areas where migrants returned to having dramatic increases in disputants, particularly Chongqing, Hunan, and Jiangxi.

²³ Original reporting from the RFA (Radio Free Asia, 2008).

²⁴ The others injured were of unspecified ethnicity (Millward, 2009, p. 350).

work site.”²⁵ Yet this was not the end, as images depicting much greater violence with more killed, mostly Uyghurs, circulated (Millward, 2009, p. 350).

On July 5, the violence spread to the Xinjiang Uyghur Autonomous Region on the far side of China. A thousand people marched to People’s Square in Xinjiang’s capital, Urumqi, calling for further investigation into the events in Guangdong, before the demonstration was put down (Cliff, 2012). Riots then broke out around the city, mainly in Han-dominated areas, with nearly 200 killed according to a State Council white paper (Xinhua, 2009). Han counter-protests and riots spread on July 7th with a city leader speaking “sympathetically” with the crowds (Millward, 2009, p. 354). The stability in the region remains precarious despite central government funds being lavished to provide for social stability and further economic development in the region (Cliff, 2012).²⁶ Uyghurs, numbering in the dozens to hundreds, remain “disappeared,” and crackdowns persist, according to Amnesty International (Amnesty International, 2012). The incidents “seriously undermined the national unity, social harmony and stability” according to the China Institute of International Studies, a think tank associated with the Ministry of Foreign Affairs (Guo ji wen ti yan jiu suo (China Institute of International Studies), 2011, p. 322).

All manner of acts of frustration, resistance, and violence emanated from the shock of the crisis. I argue the regime weathered the storm as discontent that was engendered by the recession was *structured, dispersed, and reduced* to allow the regime to sail through relatively unscathed. First, the status quo coming into the storm structured the political geography in favorable ways for the regime. In addition to the spread out city system, of critical importance was the structuring of individual migrants’ beliefs about their position within the political and economic system, namely that migration was viewed overwhelmingly as a temporary economic phenomenon and not a permanent departure from the rural interior. Second, the *hukou* system and the geographic pattern of fiscal stimulus encouraged millions of individuals—specifically those individuals harmed by the crisis and so prone to inciting instability—to disperse from coastal urban centers to the smaller cities, towns, and villages of the interior. Third, the economic stimulus package offered a lifeline to businesses to keep running—reducing the number of workers left jobless by the crisis—and employment possibilities to the unemployed and

²⁵ (Wong, 2009). But only Zhu, the spreader of the initial rumor, was arrested for a week after the incident (Millward, 2009, p. 351).

²⁶ Interestingly, both the initial incident in Shaoguan and the government response are related to migration policy. The initial Uyghurs working in Shaoguan ended up there because of government subsidies (Watts, 2009). Cliff claims “the massive injection of funds into Xinjiang and the paired assistance program are intended to make the region attractive to Han and accelerate cultural change in Xinjiang. That means privileging Han people and Han ways of doing things” (Cliff, 2012, p. 104).

subsequently providing jobs to them through various government investment projects. The stimulus directly improved their economic prospects and also protected the regime's image of shepherding economic development successfully.

How Discontent Was Structured

China's system of migration restrictions contributed to its political stability throughout the economic crisis because it shaped people's lives in fundamental ways: most importantly, where they worked and what happened when they were laid off.²⁷

First, China has very low levels of urban concentration (Au & Henderson, 2006). This structured discontent as the millions of laid-off workers were laid off in dozens to hundreds of cities, towns, and factories around the country rather than clustered in one of a handful of locales. Like gunpowder spread across a field and set alight, sparks may arise but not explode.

Second, the discontent tended to be channeled into siloed demonstrations, along the lines of "rightful resistance" (Lorentzen, 2013; O'Brien & Li, 2006). The regime's pattern of prior behavior—cracking down on cross-coalition activities, but exercising comparative restraint against particularistic aggrieved groups—channeled individuals to follow those well-worn protest archetypes. That collective action was taking place at all, however, shows the extreme nature of the situation. While there is some evidence that such demonstrations were beginning to transgress the normal boundaries as seen above, such conventions insulated the regime in the immediate aftermath of factory closures.

Third, migrants were temporary, not permanent, residents of the localities in which they found themselves. This temporary status reduced their attachment to the communities they lived in and so lessened the chances of cross-cleavage alliances with workers or other groups in the communities in which they had worked (Nelson, 1976; Solinger, 1995). When the migrants who staffed these factories were let go, they faced a stark set of choices. In some cities, as many as 80% of migrant workers live at their places of employment in dormitories and when laid-off, their income and housing could be cut off.²⁸ No welfare programs helped these migrants smooth their incomes as

²⁷ Other policy choice and institutions were also important to China's ability to avoid instability due to the crisis. The *hukou* system is the focus because of its centrality in China's policy framework. The pause in the appreciation of the RMB that began in the summer of 2008 and continued throughout the duration of the crisis also had stabilizing effects domestically.

²⁸ For the estimates dormitories housing 80% of workers, see (A. Chan & Wang, 2004, p. 638). As for a national total, different estimates put 1/3 to 2/3 of Chinese migrant workers living in dormitories owned and operated by their employers (Yusuf & Nabeshima, 2008, p. 8) and (Miller, 2012, p. 18).

social services like unemployment benefits tend to be restricted to local *hukou* holders (Kam Wing Chan, 2010, pp. 359–60). Official unemployment numbers increased only slightly, from 4.0% to 4.3% during the crisis, implying an addition of 600,000 unemployed urban *hukou* holders (K. W. Chan, 2010, p. 667). Yet the number of migrants who were laid off is orders of magnitudes larger, with estimates ranging from 20 to 48 million people (K. W. Chan, 2010; J. Huang et al., 2010). This differential treatment further undermined potential working class solidarity between migrants and non-migrant urban laborers.

How Discontent Was Dispersed

The temporary status of migrants also had a second and even more critical effect: it induced migrants to return to the countryside when the economic opportunities vanished in the cities. Without employment documents and income, obtaining the permits required to stay outside of their *hukou* jurisdiction became an unaffordable option for millions of migrant workers. These discontented migrants dispersed to the countryside.

The *hukou* system shaped migrants' responses to the crisis, creating economic incentives for migrants to return to the smaller cities of the interior and countryside, scattering the jobless millions rather than leaving them massed in coastal megacities. When employment opportunities vanished in coastal factories, between twenty and forty million migrant workers returned to their *hukou* jurisdiction rather than pay the costs to remain as temporary residents in urban areas (J. Huang et al., 2010). The normal level of unemployment of migrants in urban areas is very small. Those unable to find work return to their hometowns as they are ineligible for urban social assistance (K. W. Chan, 2010, p. 667). Like an insurance policy, the political benefits of the *hukou* system of migration restrictions to the regime became obvious in times of trouble. The economic cost or premium for this insurance is the perpetuation of inefficiencies in labor and rural land markets (F.-L. Wang, 2005). I claim that migrants grudgingly dispersed from their coastal workplaces and that this dispersion lowered the chances of large-scale, regime-threatening collective action. Below, I establish (1) that migrants by the millions had already left coastal factory towns early in the fall of 2008, (2) that they did so reluctantly and were not happy to return to their hometowns and villages, (3) that wages dropped in coastal areas despite the exodus, further indicating the severe collapse in labor demand by employers in those locales, and (4) that their expectations about the employment situation on the coast led to only the most employable to try their luck again as migrant laborers in coastal factories.

In late 2008 and early 2009, a wave of migrant workers left their urban, coastal places of employment and returned to the Chinese countryside. The prominent Chinese

news magazine *Caijing* surveyed migrants beginning in September 2008 and found that they (nearly 5 million) had already returned to their villages due to lack of economic opportunities (H. Chang et al., 2009a, 2009b). Thousands of people were leaving Guangdong every day in the fall of 2008 (Hurst, 2012).²⁹

When Chen Xiwen, deputy director of the Central Rural Work Leading Group, announced that 20 million migrant workers stayed in their home villages following the Spring Festival holiday and did not venture back to the country's manufacturing zones, the magnitude of the displacement shocked many (*People's Daily*, 2009). Unofficial estimates confirm or exceed this number (Huang et al 2010). These figures suggest that without the *hukou* system, twenty million migrants might have mobbed shuttered factories in coastal provinces, searching for work. These millions, looking for a roof over their heads and a way to earn a wage, could have together directed their anger against the regime, either its local or central manifestations.

These returnees made real concessions in leaving their coastal places of employment. Most clearly, this can be seen in their abandonment of pensions to which they had paid in for years. Migrants could close out social security accounts and receive back their own contributions of around 8% of wages, but local governments would keep the employer contribution component, which was much larger—20% of wages.³⁰

Despite the loss of workers, wages were falling on the coast, as they were throughout China. The migrant hub of Shenzhen reduced its wage guidance for the first time in 11 years in 2009, to a level around 4% lower than it had been in 2008 (*Shenzhen Daily*, 2009). Based on survey data, wages fell on average by 7% in the South and declines exceeded 20% in the North.³¹

Many migrants chose not to try their luck again and look for work on the coast, and those that did tended to be the “best and brightest,” consistent with migrants perceiving a difficult job market following the Great Recession. Surveys of migrant workers in coastal areas found evidence that many did not return to the provinces where they had

²⁹ This figure comes from an interview with a senior official conducted by Hurst. Given the aggregate numbers of mass migration and Guangdong's share of the total migrant employment, this is likely a very conservative estimate. Likely tens of thousands of individuals were leaving Guangdong on a daily basis at the height of the employment crunch.

³⁰ (K. W. Chan, 2010, p. 666). Migrants would need to work in a particular city for at least 15 years for their accounts to vest and thus be able to keep their employer contributions as well. (Chan 2010, 666). On the details of the pension system of workers, (Tian & Ma, 2008) and (Chan 2010, p. 666n16).

³¹ (J. Huang et al., 2010, p. 6). They posit that this is primarily due to labor market fragmentation due to the *hukou* system. They also do find that more migrants leave the south than the north.

been employed.³² The Sun-Yat Sen Center for Urban Studies surveyed nearly 3000 migrants in Guangdong consistently over a number of time periods. In 2009, only 800 of those 3000 were located in the province. Those that were found were the most educated and productive workers, signifying migrants' expectations of employment opportunities decreased. As such, the average qualifications of migrants improved, while less exemplary workers decided to stay in the countryside.³³

Migrants who had been living and working in coastal cities dispersed to their villages but also to cities in the interior, such as Zhuzhou in Hunan where migrants became the largest group of job-seekers as the crisis deepened (Hurst, 2012, p. 121). This reverse migration continued despite the fact that wages were substantially lower in the interior (Hurst, 2012, p. 123).

Why did millions of unemployed migrants choose not to return to coastal factories, nor to congregate in China's largest cities, but to scatter across a million villages, townships, and cities in China's interior? First, they had a place in the countryside. The inability to sell off one's rural land allocation due to the lack of land privatization became an asset rather than a liability, for both migrants and the government (Oi, 1989, 1999). Land became, as a prominent scholar of Chinese urbanization put it, a "social safety net" for migrants: "if the state allowed the selling of rural land, it would be letting them sell their social security."³⁴ Migrant workers might not have had wages or government assistance checks, but they did have land allocated by their villages. With a roof over their head and land on which to grow food, at least they would not starve. Second, those who returned home for the Spring Festival holiday knew that without paying fees or locating new employment back along the coast, their urban prospects were tenuous at best. Rather than pay to travel to the coast in hopes of finding work, they chose to remain closer to home. At least two-thirds of the 25 million strong population of "long-term" laid-off migrants returned to their villages, with more than half returning to agriculture and over ten percent not looking for work outside the home (Huang et al 2010, p. 8).

How Discontent Was Reduced

The regime also instituted a massive Keynesian stimulus program to keep the economic dynamo of the country running. The shape of the stimulus benefited export firms on the coast in the short-run and rural employment possibilities in the long-run. Its principal purpose was to stabilize the political economy of China by giving jobs to

³² Interview 2010010701.

³³ Interview 2010010701.

³⁴ Interview 2010010701.

the jobless and decreasing discontent. The geographic components of the stimulus are critical for understanding its effects on dispersion. China's prompt and aggressive counter-cyclical fiscal response directed state funds to projects around the country. The largest component of the fiscal stimulus targeted investment in high-speed rail, electricity grid development, and other transportation infrastructure (B. Naughton, 2009d). The majority of this spending and associated employment has been located in rural areas.³⁵ Financial stimulus in the form of loans to urban employers accompanied the rural spending. In this way, the geographic spread of the stimulus aided in the dispersal of the discontented.

An abrupt shift in migration patterns matched the timing and geographic focus of the stimulus. The stimulus package reduced the short-term number of unemployed workers. By doing so it also soaked up labor supply, keeping wages from collapsing further and allowing domestic consumers to continue to be able to afford products produced by their fellow citizens. The state stepped in to provide demand, filling in the gap caused by the collapse of external demand for goods produced in China. This short-term, Keynesian response, in both its size and direction, was critical in reducing potential discontent in China's coastal metropolises.

The massive economic stimulus package, announced in November 2008, was initially estimated at 4 trillion yuan, nearly 600 billion USD.³⁶ This fiscal response was paired with a financial one, where banks were encouraged to provide loans to firms and local government investment vehicles to help them through the troubled waters. Although the broad strokes of China's response to the crisis have been established, the geographic distribution of stimulus funds has received far less attention. Whereas one might have expected the government to direct aid to the coastal exporters who bore the brunt of the economic downturn, the Chinese central government instead sent much of its fiscal stimulus toward interior provinces to encourage employment there, fearing unrest both by the newly unemployed along the coast as well as by those who had already returned to their homes in the interior. The financial stimulus, on the other hand, was directed to urban employers and helped enterprises avoid bankruptcy to circumvent even larger urban unemployment problems.

³⁵ The stimulus continued pushing the interior's economic growth as had been a priority since the Jiang era Develop the West program.

³⁶ It is clear now that the actual size of government-directed funds greatly exceeds this 4 trillion figure. The massive increase in commercial loans that has taken place in China in the past year is in large part the banking system being directed by different levels of government to fund investment projects in order to keep the economic growth machinery running (World Bank, 2012). Discussed below.

China's economy began to suffer acutely from the crisis beginning in September 2008, at the same moment that the gears behind the global financial system ground to a halt. The central government did not receive the official September statistics from the bureaucracy until well into October, as collecting and analyzing the data is time intensive (Orlik, 2011). By early November, it became clear that China's economy had been hit by the economic crisis, and a meeting of leading economic officials was held in Beijing (Xinhua, 2008). From this meeting came the first announcement that the state planned to increase investment in the country and protect economic growth with a 4 trillion yuan economic stimulus package.

The 4 trillion figure was initially the only information offered about the program's size or structure. In addition to the public announcement, the meeting produced a private intra-Party document, Central Document 18. Although it has yet to be released, summaries have emerged, and show that the central government sought to dramatically increase its own expenditures in the fourth quarter of 2008 (Barry Naughton, 2012). In particular, the central government planned to allocate an additional 100 billion yuan for investment in the fourth quarter, roughly 1.5% of national quarterly GDP. The speed of the government's response to the crisis was also crucial. After the effects of the downturn became apparent in mid-October, by the 10th of November the central government pledged to spend 100 billion yuan in 45 days. To put the resources to use in an effective manner required local governmental participation. Central Document 18 was released to local government party branches around November 10. The next day, provincial governments met to discuss the policy and propose projects for central investment (大众日报, 2008).

Were the locations harmed by the crisis also where the center directed funds? The stark difference between the pair of maps depicting the coastal areas harmed by the crisis (Maps 1a and 1b, see above) and those showing the locales where fiscal stimulus was directed (Maps 2a and 2b) requires a negative reply. Systematic data on programmatic spending by province for the stimulus are challenging to find. Data are currently available for one component of the stimulus package: local government bonds.³⁷ While the 1995 Budget Law forbid Chinese local governments from issuing public bonds, the stimulus package removed that barrier but allowed the center to determine the number of bonds that local governments could sell (Map 2a) (Liu & Chen, 2005).

[Map 2. Location of Fiscal Stimulus in China about here]

³⁷ The data for the map come from the Ministry of Finance and the NBS. The depicted data is the ratio of official local debt to 2008 provincial GDP, in percentage terms.

Map 2b shows the variation across provinces of investment, another proxy for fiscal stimulus funds. These maps show clearly that despite the fact that the global financial crisis hurt the coast (Map 1a and 1b), controlling for local GDP, the center preferred to direct resources to the interior (Map 2a and 2b).³⁸ The contrast between the location of the economic harm and the spending by the regime to mitigate the downside political risks associated with that harm is striking.

While lauding the employment-generating projects of the stimulus package, experts cautioned that doing so might not be enough as job losses mounted in the export economy.

While the number of jobs created by the massive infrastructure projects will be considerable, it is equally important to stem the decline arising from the export sectors, Cai Fang, a labor economics specialist with the Chinese Academy of Social Sciences in Beijing, said yesterday.

“The stimulus projects for infrastructure nationwide will bring in a huge army of laborers and I’m sure a large number of migrant workers will return to construction sites for new work,” said Cai, who is also a member of the Standing Committee of the National People’s Congress (J. Li & Cui, 2008).

Following this line of advice, in addition to the fiscal stimulus, the regime also dramatically opened the flood gates in the financial sector and pushed banks to grant loans to companies to help them through the worst of the crisis. This financial stimulus was even larger than the 4 trillion RMB stimulus plan. Emergency loans to aid SMEs totaled some 6 trillion RMB.³⁹ The geographic distribution of these loans is tilted towards extant operations that are overwhelmingly in urban areas.

The stimulus’ fiscal transfer of funds to interior provinces is consistent with the regime’s overall strategy of shaping the geography of economic. The regime pursuing development in the interior of the country is consistent with many explanations: attempting to combat rising inequality at both the individual and regional levels by providing opportunities for employment in the interior, reducing the regime’s

³⁸ Fixed asset investment (FAI) increases dramatically across China due to the stimulus, but regional patterns are stark. For the first half of 2009, “with FAI in eastern, central and western regions increasing by 26.7%, 38.1% and 42.1% respectively.” (Economist Intelligence Unit, 2009, p. 5).

³⁹ (Friedman, 2012, p. 467) citing China Daily: (“Exporters get sops to fight crisis - People’s Daily Online,” n.d.; X. Wang, 2009) Although it is unclear if the 6 trillion figure is really correct: Caixin puts the total 2009 debt at only 5 trillion. (P. Li, 2010).

perceived dependence on a small number of coastal economic zones for its GDP, and improving the chances of maintaining low-skill manufacturing jobs while allowing richer areas to move up the value chain.

China's construction of an "Industrial Transfer Zone" in the interior province of Anhui explicitly mentioned these reasons. The official Xinhua News Agency report announcing the zone begins: "China's government has approved plans to build its first national-level industrial transfer zone to encourage the relocation of low-end industries from coastal regions to inland areas" (Xinhua, 2010). Interviews revealed a similar story in a tentative agreement between the province he represents and the central government to implement an experimental policy regarding the transfer of various "illegal factories" to legal status.⁴⁰ The central government would forgive unpaid back taxes and wipe away prior illegal status if the factories underwent renovations in the next three years. Old factories that declined the opportunity to renovate would be destroyed, and the valuable land on which they stood would be used by new factories or other development projects. By destroying one-story factories and replacing them with more capital-intensive production facilities, the agreement would facilitate the movement of labor-intensive industries from this coastal province to interior locations akin to the Industrial Transfer Zone noted above.

In sum, the Great Recession destroyed demand for Chinese made goods and for the labor that produces them. Yet the sudden emergence of tens of millions of unemployed workers did not lead to the kind of large-scale urban protests that ousted dictators in Tunisia and Egypt in early 2011. Those tossed aside by factories shuttering in the wake of the crisis were not concentrated in the capital city or indeed in any large metropolis but were instead scattered across the country.

Conclusion

How did the CCP and China's economy survive such a serious economic shock as the Great Recession without significant political instability? This paper has argued that China's successful navigation of the turbulent waters of the past few years rests on two factors: a strong Keynesian fiscal stimulus package and a *hukou* system of managing urbanization. The former provided jobs directly and through cheap credit to local governments and firms, both large and small. The distribution of central stimulus funds, focusing on the interior of the country rather than the more directly affected coastal provinces, speaks to the regime's continuing determination to spread migrant

⁴⁰ I learned of this agreement before it became official and agreed to describe it anonymously until it is formally announced as government policy. "Illegal factories" in this case are those that were set up prior to the current approval process through early reform era agreements with local governments.

populations widely throughout the country. The *hukou* system incentivized unemployed migrants to go back to their many villages and small, inland cities rather than remain concentrated in coastal cities where organized, large-scale protests would be more likely to damage social stability. The regime's existing institutions and policy responses structured, dispersed, and reduced discontent arising from the Great Recession, allowing China to avoid the troubled waters that the global financial storm riled up.

Finally, the analysis shows the difficulty of assessing the mechanisms of nondemocratic regime survival. In addition to the short-term response, longer-term measures also played a role, as they have in other contexts (Pepinsky, 2009; Slater, 2010). Nondemocratic resilience implies an ability to withstand challenges—which the Great Recession clearly was for the CCP. Yet normal, annual macro-economic indicators point to both 2008 and 2009 being years of continued strong growth in China, in large part because the regime's rapid and effective response to the crisis dampened the dive and generated a quick return to economic growth. The Arab Spring demonstrated again that regimes can be toppled quickly with tipping points and information cascades taking place both in the citizenry and amongst the elite (Acemoglu & Robinson, 2005; Boix, 2003; Kuran, 1991; Lohmann, 1994; Masoud, 2011; Schraeder & Redissi, 2011). As the threats that regimes face increasingly evade detection at the country-year level of analysis, our studies of them too need to dive deeper into the data.

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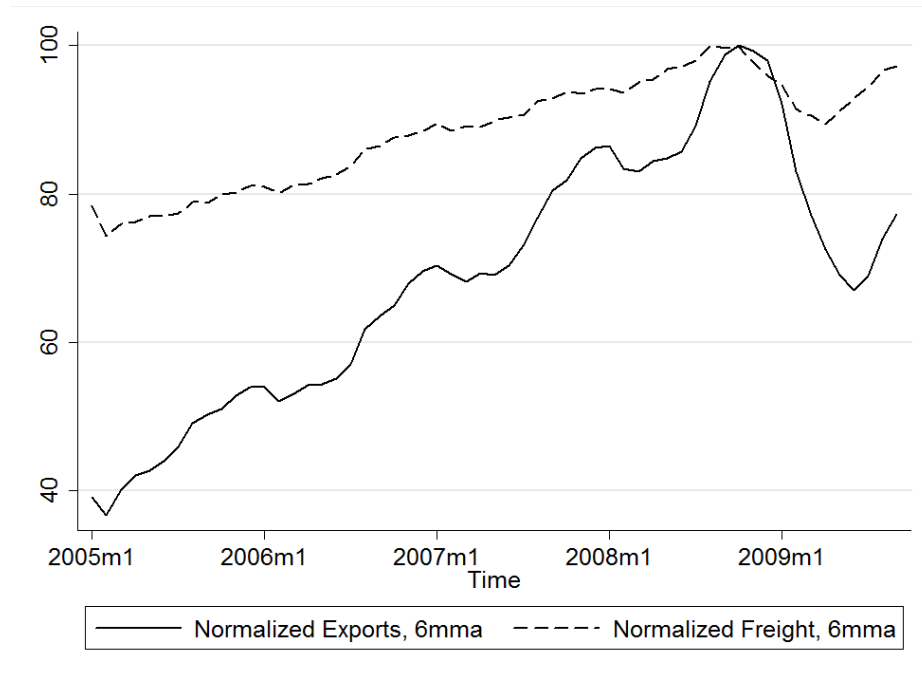
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Figures

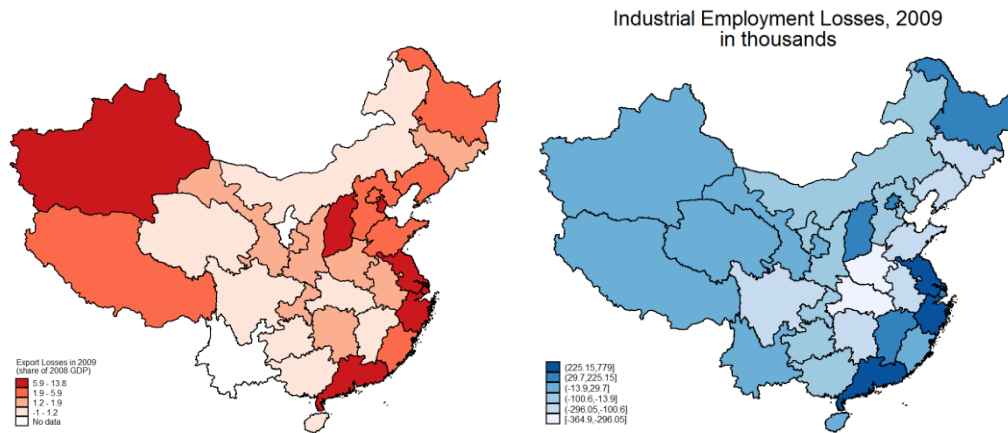
Figure 1. Exports and Rail Freight Collapse during the Great Recession



Map 1. Export and Industrial Employment Losses on China's Coast

Map 1a: 2009 Export Losses as a Share of 2008 GDP

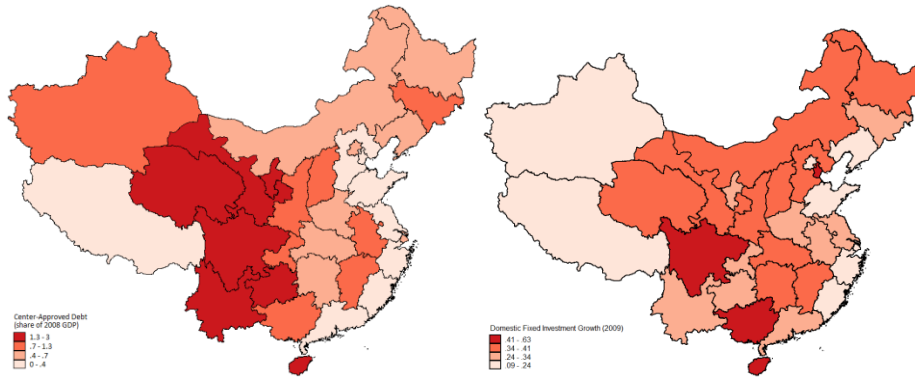
Map 1b: Industrial Employment Losses in 2009



Map 2. Location of Fiscal Stimulus in China

Map 2a. Distribution of Stimulus Funds – Provincial Infrastructure Bonds

Map 2b. Domestic Fixed Investment Growth (2009) ⁴¹



⁴¹ Fixed asset investment (FAI) increases dramatically across China due to the stimulus, but regional patterns are stark. For the first half of 2009, “with FAI in eastern, central and western regions increasing by 26.7%, 38.1% and 42.1% respectively.” (Economist Intelligence Unit, 2009, p. 5).