

China's Social Capital Deficit

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The past quarter century has brought unprecedented growth to China's economy, which now significantly influences global prices and regional economies. China is the world's largest recipient of foreign direct investment (more than US\$60 billion in 2005) and in March 2006 surpassed Japan to become the holder of the world's highest reserves of foreign currency: US\$853.7 billion. But this rapid growth, propelled by investment in infrastructure, has stretched the economy in key sectors and fostered social instability. Policy analysts in China have been warning the government that growth needs to proceed more slowly in the future and be driven more by the domestic consumer market.

Since June 2003, recognizing an urgent need to regain economic and social equilibrium, Chinese leaders have called for a shift to a "people-oriented" development strategy that promotes social development and environmental protection in addition to economic development. Taking a cue from the new approach, Chinese policy advisors have focused more research attention on social concerns such as the public health system, including HIV/AIDS and drug use prevention, and the problems of farmers and migrant workers. China's 11th Five-Year Program (2006-2010) reflects recognition that major social issues are hampering the growth of the consumer market in particular and the further development of the economy and society in general.

Surprisingly though, there has been little attention in Chinese policy or academic circles to the potential for solving China's social problems by building up its meager reserves of social capital, defined as social values, networks, and institutions that promote trust and cooperation. This is the "glue" that holds both market and society together. International analysts and commentators, by contrast, rediscovered the importance of social capital or "social cohesion" residing in voluntary associations in sustaining any economy following the Asian financial crisis of the late 1990s. There has been growing consensus that sustaining human and economic development requires social capital, which can be viewed as a kind of "stock" of human connections based on a shared sense of community.

The International Monetary Fund held a conference in 1999 to discuss a "second generation" of economic reforms, during which social capital was a major topic of discussion. In conjunction with the Asian Development Bank, the World Bank held a consultation in 2000 on promoting "social cohesion and conflict prevention," concluding that this was the paramount policy priority in Asia. As a consequence, World Bank projects, including those in China, have sought to foster social capital through grass-roots "community-driven development" rather than top-down government-run projects.

Yet when first visiting China in 2003, Francis Fukuyama, a prominent social capital theorist, discovered little awareness of his work there, even though he highlighted the importance of social capital for China's future over a decade ago. Chinese interlocutors in academia and the media focused on his "end of history" thesis regarding the Cold War "victory" of liberal capitalism, but had no knowledge of his thesis linking social capital and trust. Similarly, great attention is paid in China to Samuel Huntington's views on cultural competition in international affairs, but none to his argument (presented

in *Culture Matters*) that culture is central to economic development. Only by late 2003 were translations of classic studies of social capital (Bourdieu, Colman, and Putnam) being published. Surveys by Beijing University's Center for Volunteering and Welfare, in four major cities earlier that year found that even scholars and officials working in the nonprofit, nongovernmental third sector have very little understanding of the sector's scope, scale or functioning in the larger economy and society.

China's lagging attention to social development theory may be due in part to the fixation on ensuring social "unity and stability," a static concept unsuited to the reality of China's rapid, unceasing social change. To some extent, the export-driven development strategy has been substituting transnational financial and social capital—overseas Chinese networks—for domestic financial social capital. This will now change with the decision in 2002-2003 to strengthen the domestic market as the primary engine of future growth. China will need to build up its meager reserves of social capital to make this happen.

Giant with Feet of Clay—Account Indicators

While there is no consensus yet on how to measure or generate social capital or how to apply it to development, broad indicators of a country's social capital account would include levels of membership in civic associations as well as levels of public trust. Third-sector (nongovernmental, nonprofit) expenditures and employment rates are also used to measure a country's stock of social capital. A 1999 study by The Johns Hopkins University found that the combined expenditures of the nonprofit sectors (excluding religious organizations) in 22 countries averaged 4.6 percent of their combined GDP. Scholars at Tsinghua University found that in China the figure was 0.46 percent, much lower than in South Korea (4.86 percent) or Australia's (3.3 percent). China's rate may not be much higher today, since the numbers of nongovernmental organizations (NGOs) were deliberately reduced between 1998 and 2002. Clearly, there is much room for China's third sector to grow and contribute to the economy and society.

High levels of social capital in other countries correlate with a widely shared public morality that extends virtues like truth telling, dependability, and reciprocity to all, not just among personal in-groups. Though measurement instruments used elsewhere in the world have not yet been adapted for use in China, there is a widespread sense in the urban public that Chinese society lacks a public morality of honesty and trust.

During the reform era, in the absence of rule of law and suppression of voluntary associations, there has been an explosion in the use of *guanxi*—functioning as private social capital—for personal and family advancement. These particularistic ties tend to inhibit the accumulation of public social capital for the common good of the nation. The common public perception in China has changed from approval of building *guanxi* relations of affection (i.e., ties among family and friends) as a necessity for survival, to moral disapproval of today's instrumentalist *guanxi*, tainted by commercialization and abuse of official authority by special interest groups at the expense of the public. China may be approaching a stage of development in which such "crony capitalism" may constrain advance to the next level of international economic competition.

General indicators of a social capital deficit include the following:

Low-Trust Authoritarian Culture. China lacks a tradition of a strong public culture, an autonomous social sector, and public-benefit philanthropy. Weak cohesion of traditional Chinese society resulted from the family-clan orientation, which inhibited trust outside circles of kinship and personal acquaintance. Philanthropy was targeted at family lineages and hometowns. Social organizations were dependent on vertical ties to patriarchal authority. Under communist “neo-traditionalism,” dependency was transferred to the state bureaucracy. In the Mao era, the party took control of all economic and social functions, even at the expense of government organs. Maoist terror during the Cultural Revolution (1965–1975) reinforced the traditional “insiders versus outsiders” mentality, and “enemies of the people” were hounded to death. Almost all NGO institutions were banned and their staff badly treated. Trust, even within the nuclear family, all but disappeared, devastating China’s stock of social capital.

China’s highly conformist culture, reinforced by the Maoist legacy and current authoritarian institutional structure, poses an obstacle to the development of civil society and the social capital that results from voluntary association. Ordinary Chinese people are hesitant to join or support any NGO without explicit state endorsement, worrying that involvement could invite trouble as long as “nongovernmental” may be interpreted as “antigovernment.” Thus, people who take the lead in the work of nonprofit organizations tend to be lone pioneers, and lack both the public support and the experience needed to build and sustain institutions.

Weak Philanthropic Tradition. There is a deficit of humanitarian values throughout society stemming from decades of class struggle mentality coupled with the current un-tempered pursuit of short-term material gain. These are combined with a weak cultural and institutional basis in China for philanthropy outside of family-clan channels or state patronage mechanisms. The government’s control over society weakens a community sense of ownership, and a lack of transparency in the nonprofit sector makes the public suspicious of donating funds or volunteering time for fear of irregularities.

During the SARS crisis in 2003, government fear of social instability led to tight restrictions on the involvement of nonprofit organizations. Only a few national-level government-run nonprofits were allowed to accept donations and to work with the health ministry to aid victims. Thus the anti-SARS effort lost valuable volunteer hours and skills as well as channels for communicating information. Similarly, in the wake of the 2004 tsunami disaster, only the China Red Cross was allowed to solicit donations from the Chinese public, and donation stations were run by government officials, who orchestrated “mandatory voluntary” contributions from state agencies, companies, and state-run social organizations. Unusual levels of media coverage, however, generated unprecedented popular interest and compassion among the Chinese people about the plight of their Asian neighbors. Notably, many individuals and businesses donated money directly to the embassies of the countries involved, deliberately sidestepping China’s official agencies.

Moral Corrosion. The lack of integrity (*chengxin*, literally “honesty and trustworthiness”), especially in education and medicine, has been a hot topic in China for the past five years, fueled by scandals over cheating on college entrance exams in 2001 and 2004, illegal school fees totaling 1.7 billion *yuan* for 2002–05, and the March 2006

dismissal of an assistant dean at a prestigious university because he plagiarized his thesis and falsified his U.S. credentials. The Chinese are disgusted with their “culture of lies” that fuels a plague of fake products, poisonous food, counterfeit currency, nonpayment of loans and taxes, contract abnegation, and stock market “gambling.” Of course, the scale of the problem is most evident in illegal land or financial deals, such as in the case of the government trader who bet on the price of copper in London in 2005 and left the state to cover hundreds of millions of dollars in losses.

The disease starts at the top. Official corruption is routinely near the top of complaints in public opinion polls and, despite annual anticorruption campaigns, is not diminishing. China had a rating of 3.5 (with 10 being “highly clean”) by Transparency International from 1999 to 2002, with a dip downward to 3.4 in 2003 and 2004, and 3.2 in 2005. The Chinese media reports rough estimates that dishonesty and lack of trust cost China the equivalent of US\$72.5 billion annually between 1980 and 2000, at least 4 percent of annual GDP. This percentage must surely be greater in recent years as the scale of corruption has grown.

Commercialization and transnational “*guanxi* capitalism,” whereby members of the political elite abuse personal connections to steal public assets, has produced a trust deficit of crisis proportions. The poor example set by the elites has inspired an all-out grab for short-term gains at whatever cost, and the corrosion of public confidence has produced mistrust of everyone and everything, including charitable giving. There is a perverse dynamic still at work in which individuals use social networks to bias implementation of central directives via tactics that in turn undermine progress toward effective rule of law. The state’s attempt to co-opt new economic and intellectual elites by expanding the boundaries of the privileged power elite fosters reliance on special relationships, rather than on formal legal institutions that apply laws fairly to all.

Social Tensions. There is widespread concern in China over the violent crime rate, the rapid growth of organized crime, and large-scale outbreaks of social tension and destruction. In the countryside, the majority of conflicts are related to exorbitant fees and taxes extorted by officials and to competing claims to land or water rights. In the cities, property disputes and unemployment are involved. Petitioners with few channels of redress resort to mass demonstrations and strikes, as well as to bombings and suicide. According to a Rand Corporation study of official police reports, there were 60,000 incidents of public protests in 2003 escalating to 80,000 in 2005, with the government in many instances deploying paramilitary troops to control the disturbances. Both the scale of protests and the level of violence is increasing, stretching police capacity—and willingness—to respond. Nearly 100,000 exasperated farmers rioted in November 2004 in Sichuan Province, and the government brought in 10,000 troops to quiet the disturbance. The next month, nearly 50,000 migrant workers rioted in Guangdong.

Income disparities will likely surge through 2010, due to the economic reforms required for World Trade Organization (WTO) compliance. Marriage and family relations suffer from these social and financial tensions. Yet there is little counseling or training in values and techniques fostering tolerance, mutual respect, and nonviolent conflict resolution. Only in the commercial sector, in which dispute resolution is a growing field, and in the legal-judicial sector, with its mediation program, are there some

new measures to augment political education campaigns and police campaigns to deal with extreme situations.

Spiritual/Ideological Contention. The crisis of public trust goes hand in hand with crises of belief and identity. As Chinese one Internet author put it, “Today old-fashioned virtue and moral character have practically died with the new modern world, but new virtue and morality have not been birthed We cast out our belief in God as ‘superstition’ but have found nothing new to replace it.” The Communist Youth League scrambles to help parents and youth wrestle with the moral pressures of academic competition and consumer culture. Even the so-called “winners” who are competing successfully in China’s reform era are experiencing a kind of vertigo from the stress of rapid change. China’s young urban professionals struggle with a sense of paralysis over life choices amid conflicting demands and opportunities posed by traditional family values, requirements of the state, and the highly competitive work environment. According to Chinese university studies of the rapid growth of religion in China, faith is no longer the preserve of ethnic minorities, uneducated women, and the elderly. Many “yuppies” and even prominent celebrities are seeking a moral compass in religious faith and community.

Access to the diverse global market of ideas fuels competition among proponents of alternate moral prescriptions and social philosophies, as they seek to define the common good. China’s national identity is being contested indirectly, which is highly distressing to the central party-state as it seeks to maintain its monopoly as moral arbiter and to marginalize competing moral authorities. The campaign to “modernize Marxism” begun in early 2005 flies in the face of internal polling of Party members wherein the majority considered the effort hopeless.

NGOs and Social Reform: A Risk Worth Taking?

In contrast to the terror of the Mao era, new levels of civility, trust, and cooperation have surfaced over the past twenty years. The demise of the ration system and the availability of more products and services—food, housing, education, transportation, and so on—has lessened the cutthroat nature of social relations. The Chinese people are developing networks of trust based on extended family, hometown, or school ties, as well as professional and recreational associations no longer restricted to the work unit. With the growth of private and foreign enterprise, and especially with the rapid development of the service sector, positive business values focused on serving the consumer have begun to influence other sectors as well.

Chinese society in general is making a comeback with the return of the middle class, as documented for the first time in a 2002 study by the Chinese Academy of Social Sciences. With a 20 percent increase per year, there may be over 400,000 members of the middle class in 2006. Their networks and voluntary associations are planting the seeds of a renewed civil society, trying to blossom and grow in very thin societal soil and discouraging regulatory environment.

The government’s greatest opportunity to generate social capital in China is to loosen the current quotas and other measures that restrict nonprofit organizations and to proactively promote this sector’s growth. As with the earlier economic reform, the first

step in social reform has been the retreat of the state, which was signaled in 1997 by the stated goal of achieving a “small government, big society.” This goal reflected the government’s recognition that the balance in the state-society relationship was shifting rapidly, and that the revival of third sector organizations was well under way.

Government-organized nonprofit organizations have proliferated, providing an umbrella of legitimacy for thousands more private associations that are springing up. By the end of 2003, there were 332,000 civic organizations registered with the Ministry of Civil Affairs, nearly half of them membership associations (“social organizations”) for professions or trades and the others private NGOs (“noncommercial enterprises”) in education, health, culture, science and technology, sports, labor (job placement), and legal aid. But these may represent only a tenth of the total actual NGOs, estimated at 3 million in 2005 by the Tsinghua University NGO Study Center.

New or revised regulations being negotiated and drafted are intended to sort out and redefine the different types of organizations, and add both detail and transparency to the registration process. But drafts so far still provide only minimal incentives for tackling the major hurdles to registering. For example, new regulations in 2004 highlighted the growing importance of public-benefit operational foundations, and yet most of the 936 existing foundations were “re-registered” by the state after they held back their voluntary participation.

Government policy still falls short of what is needed to support its goal of creating a “harmonious society,” which was highlighted at the National People’s Congress early in 2005. To NGOs on the receiving end of policy, the phrase appears to be a cover for cutbacks in state funding, without adequate tax incentives for donors or protection for genuine autonomy in decision-making. The model being piloted in Shanghai’s Pudong District, where the government contracts with NGOs for services, may be simply another way of delegating responsibility while retaining authority.

Registering a private nonprofit organization in China, both for Chinese and international groups, remains a formidable and frustrating task. The dual management system requires not only state registration and auditing, but also intrusive supervision by line agencies. For example, a press conference by the Ministry of Civil Affairs in March 2005 announced a campaign to enforce more accountability among private non-profits. Despite positive words about the value of these organizations, the campaign actually hinged on government inspections at all levels aimed at banning organizations that failed to meet standards by December. No training was offered, nor encouragement provided for efforts by NGOs to set up mechanisms within the sector for voluntary self-discipline. Because of the difficulties, many third-sector organizations forego the registration process altogether or operate as for-profit entities subject to taxation, even though they perform tasks typical of nonprofits.

Development of the third sector is a natural and essential component of China’s commitment to building a consumer economy that can drive future growth. Marketization produces resources that lie outside government control, making it possible for nonprofits to exist and develop with less dependence on the government. Continued downsizing in government organizations necessitates financial independence for many currently public institutions (including universities, museums, orphanages, and hospitals). Most such institutions are already required to recover some of their costs from user charges, sideline activities, and public fundraising. Hundreds of thousands will become fully private by the

end of the decade, under current state plans. In the process, 20 to 30 million state employees will join China's third sector or seek jobs elsewhere, according to estimates by the Beijing University Center for Volunteering and Welfare.

The State's Dilemma

The "people-oriented" development strategy of 2003 reflects lessons learned from the failed cover-up of SARS. This official rethinking provides an opening for policy options that encourage the accumulation of social capital. However, the needs and interests of voluntary nonprofit organizations that could help fill the gap remain far down on the government's list of priorities for positive policy or legislative attention. These organizations remain instead a target of suspicion as potential sources of political opposition.

There is still a strong tendency to rely on vertical command systems to mobilize social capital to counter corruption or promote ethics. These campaigns are often personalized, as with President Hu Jintao's "eight shoulds and should nots," aimed in part at ensuring a polite welcome for Olympics 2008 visitors. (Hu promotes the pursuit of science over ignorance, hard work over laziness, mutual help versus gain at the expense of others, honesty over profit-seeking, discipline versus lawlessness, and plain living over luxury.) Former President Jiang Zemin had earlier set forth a goal of "rule by morality" as well as "rule by law." Media reports on the resulting "citizen ethics-building campaign" spoke of a five-year plan to create a "national ethical code to help social construction" and required mandatory citizen involvement. Such efforts using periodic top-down state campaigns can be helpful, but have diminishing impact in the absence of an independent media and judicial system to place external constraints on officialdom. Educated citizens express annoyance at being lectured over small sins when huge official corruption scandals are covered up.

The literature on social capital, moreover, suggests that only *voluntary* social activity can build rich and lasting social capital, as people experience self-direction and self-fulfillment, learning new skills in the process. Fukuyama pointed out ten years ago that social engineering has reached a dead end. The factors most relevant to true quality of life lie beyond what national governments can affect. The state can act negatively to undermine civil society but cannot act positively to promote the strong bonds of special solidarity or the moral fabric that underlies community. These cultural factors will form key criteria of international stratification in the future.

In China, there is a "missing middle" of organizations effectively linking informal social networks to formal institutions. State policies and regulations are still designed to limit and control such associational activities, redirecting them to state purposes, rather than to encourage the proliferation of start-ups and the creative social entrepreneurship that would allow the nonprofit sector to contribute greatly to progress.

A turnaround in official attitudes and policies could unleash the potential in the nonprofit sector to contribute new humanitarian values, attract funds for development, generate employment, and narrow the gap between rich and poor. Growth in the stock of public social capital would help create the modern large-scale private corporations and private nonprofit organizations needed to compete in the international market, which Chinese planners have decided must fuel future growth. Developing the third sector is

essential for addressing the difficult challenges China now faces, and in turn could ease the transition to more democratic political institutions, increasing the chances for peaceful change as nonprofits play a stronger role in mediating between state and society.

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