

Societal Control, the Second Political Service

Here is the thing. Usually, local governments have no trouble controlling social unrest. But when they do have trouble, it is best to have a central state-owned enterprise by their side.

A Chinese central government official, 2019

During a long conversation in spring 2015 with a private entrepreneur who owned a manufacturing company with several factories in China, the entrepreneur went on a venting session about why he immigrated to Singapore. He felt as if he did not have full control over his business success in China. “It’s so unpredictable,” he said.

My factories have the highest standards in the industry, and I was a *sun-zi* [grandson, a derogatory term to indicate someone is at the service of others unconditionally] to them [government officials]. But what do I get? They go back on their word to cover their own a**s. And I have this big belly [from dining], and my liver is on the edge of explosion [from drinking]. What is it all for?¹

His business may or may not have had the highest standards (his factories had experienced labor disputes and safety violations), but he took it to heart that the competitiveness of business does not guarantee success in China. The fall of his business started with a public protest against an industrial park that one of his factories was situated in. This protest did not hurt his business directly in that he did not lose buyers or suppliers, but it caused fallout between him and the local leaders whom he used to have a cozy relationship with.

¹ Interview 2015904L; all the quotes that follow are from the same source.

Manufacturing chemical products, his plant was located in an industrial park with a few other manufacturing plants, some owned by private firms and others by state-owned enterprises (SOEs). The entire industrial park shares a common wastewater treatment system that collects and treats all the plants' wastewater before it is released, following a basic pretreatment conducted by each plant. In 2017, a public protest took place, accusing the park of releasing untreated wastewater into the river, which had damaged the crops in nearby farms. Confident that his factory created substantial tax revenues and jobs for the city, and that his plant was just one of several in the park, among them three SOEs that were "like family of the government," he was sure that his business would emerge from the turmoil unscathed.

But he was wrong. Once the protest escalated, he quickly realized that the local government was going to offer his plant and that of another private company to the villagers. The government initially announced that the industrial park had met wastewater treatment standards, as proven by a real-time water monitoring system in the wastewater treatment plant. The pollution of the river, therefore, must have come from another hub of factories further upstream. But the villagers rejected this explanation, showing evidence of untreated wastewater coming out from underground "dark pipes" (*an'guan*) suspiciously near the industrial park. The government then changed strategy. They first promised the villagers they would investigate these dark pipes. After this, they asked all the factories in the industrial park to provide hush money to the protest leaders to defuse the situation. The two private companies agreed to pay, but they realized the SOEs were not doing the same. When the leaders of the protest refused the hush money, the government changed strategy again. They decided they needed to use force, as well as offering a head on a plate. The government sent in the special police to disperse the crowd and claimed that an investigation showed that the dark pipes came from the privately owned factories. The government suspended these factories' operations and ordered them to upgrade their pretreatment facilities. They also issued a harsh fine roughly equal to a year's revenue.

This private entrepreneur was infuriated. He was angry not because his factory did not have dark pipes (he never confirmed or denied this), but because when everyone else had dark pipes, including the SOEs, his plant had to take all the blame. He explained that these factories had dark pipes because the new standards for pretreated wastewater were unrealistic. Since 2013, the province mandated that the pretreated wastewater that exits factories must contain less than 60 mg/kg of total

nitrogen and total phosphorous, which is an exceptionally stringent requirement, almost as strict as the standard for effluent (treated wastewater). When these factories were built, prior to 2013, their pretreatment facility was set up to meet the old standard of 1,000 mg/kg:

To meet this new standard would mean that all the factories would each need to have a full wastewater treatment plant. No one has one. The whole point of having a single wastewater treatment plant for the entire industrial park is so that we don't need to invest in this facility ourselves. Tell me, how can any factory reach the new standard without a full wastewater treatment facility?

Therefore, he was certain that the two companies bearing the costs were selected because they were privately owned. He felt betrayed by the city leaders whom he had up until this point had a reciprocal relationship with.

When the wolves [the public] come, they feed us to them. They never trouble the SOEs. SOEs and them [government officials] come from the same family [the Party-state]. But us [private firms], what are we to them? We are not family, we are servants. They know we cannot get back at them. And so I thought, to hell with it, I quit.

He refused to pay the fines and instead shut down his factory. A few months later, the local leaders offered to retract the majority of the fine and asked him to reopen the factory, but he declined.

His experience is not unique. Private companies often become scapegoats in state–society conflicts. But SOEs have their roles as well, even though this private entrepreneur did not get to observe it. SOEs are not just protected because they are “family” to local officials, but because they often bring in political support to local officials when dealing with public unrest. SOEs have more political capital than private firms, and their political capital goes beyond just political connections with government leaders that successful private firms also have. When the authoritarian state officials look at private firms and SOEs, they see different political capital that are useful in state–society conflicts. They strategically choose firms to help them manage the risks of social unrest, and in the process create a landscape of companies not entirely based on the companies' business competitiveness.

This chapter introduces the second political role of firms in China: societal control. In this book, I focus on the direct roles of firms in dealing with public protests, which is part of a wider range of societal control services provided by firms in China. For example, companies in internet, telecommunications, and financial sectors provide citizen surveillance

and tracking, as well as censorship for the state (King, Pan, and Roberts 2013; Huang and Tsai 2022); SOEs can provide employment in times of economic slowdown, crucial to maintaining social stability; and online shopping platforms had an unintentional stabilizing effect by distracting citizens from paying attention to security issues (Liu 2024). But the direct roles of firms in managing public unrest are not well documented and will be a focus of this book.

Similar to the first political role of firms, which involves providing contributions to authoritarian officials' careers, societal control creates an extra dimension of competition between private firms and SOEs, based on their differing political capital. Private firms are good scapegoats. They are the easiest type of firm to control and to punish, because they have a lower level of political capital. SOEs, particularly the large ones and those controlled by the central government, have high political capital and are better allies when the local government faces protests, even though these SOEs are also harder to control. But before we move on to discuss the political service of societal control and how it divides firms in the eyes of the state, I will explain what social unrest means to local officials in China.

PROTESTS ARE FINE, HIGH-PROFILE PROTESTS ARE NOT

The CCP is highly sensitive to protests and considers social unrest damaging to regime stability and legitimacy. To make sure protests are contained, the CCP includes social stability as a one-vote veto target (*yi piao fou jue*), a must-meet task in its performance evaluation of local officials. If local officials cannot contain protests, the resulting social instability will cancel out an official's otherwise outstanding achievements. However, while appearing strict on paper, no one is really certain how strictly this criterion is enforced. While there is a lack of study of the actual impact of social stability on local officials' careers owing to data limits, some scholarship finds that protests do not deter Chinese local officials from launching contentious economic policies (Cai 2008), and as long as protesters do not challenge the ruling party, the government will tolerate protests or even encourage protests to obtain information on local governance (O'Brien and Li 2006; Lorentzen 2013), or to push for policies otherwise resisted by political elites (O'Brien, Li, and Liu 2020; Deng, Yang, and Ma 2022; Ma 2022). These studies generate an indication that having protests alone does not really concern local government officials, otherwise they would do everything within their power to prevent protests from ever happening.

My interviews verify this implication from the literature. All the local officials I interviewed, except for one, were not very concerned about the breakout of mild and issue-specific protests. A city government official, for example, told me that surely no official likes to deal with social unrest, but it is not as threatening as people usually think. He explained, "Protests are everywhere. Everywhere. They are tests of a leader's ability." When asked whether that means having protests in one's jurisdiction will not necessarily hurt a leader's future, he stressed, "It's a test, you understand? They [the Party-state] never explicitly say that it's a test, but if one successfully dealt with collective actions, then it's great news for one's political future. Look at all the leaders high above, all of them had successful experience handling protests."² His view is resonated by other interviewees. Officials widely recognize that no one gets demoted solely because of social unrest in their jurisdiction. Rather, if an official is not a high-flyer, or is already on a downward path, or has made powerful political enemies, then being unable to "handle" social unrest could become a justification for sinking their career prospects.

Therefore, while Chinese local officials are not concerned about having protests in their jurisdiction per se, they are careful to contain protests and prevent them from becoming high-profile protests that will attract attention from above. From interviews, I summarize three different but often related signs that a protest has become high profile and is potentially beyond a local government's control, thereby becoming a genuine risk to an official's political future.

The first sign is casualties. Casualties of either protesters or the police is a clear indicator that the local officials have failed to contain the protest, and that it has become high profile. Casualties, particularly deaths of protesters, can greatly damage regime legitimacy. It is also extremely difficult for local officials to hide casualties from the upper-level government, particularly in an era of social media. Casualties guarantee interference from the upper-level government, which is not welcomed by local officials.

The second sign is mobilization of the People's Armed Police (PAP). The PAP is a semi-police and semi-military organization overseeing domestic security. When a protest requires physical suppression, local governments will first resort to the local police and the local urban management forces (*cheng'guan*). If the protest continues to escalate and these local forces are no longer sufficient for suppression, local governments then mobilize the PAP. Using this paramilitary force requires a

² Interview 2016084827.

formal application of mobilization by the city government to the PAP's city headquarters, and such an application is always reported to the provincial government.³ Therefore, mobilization of the PAP signals large-scale protests that are impossible to hide from the upper-level government, and that can make city leaders look incompetent in containing protests within their jurisdiction.

The third sign is coverage of the protest in news media from beyond the city. According to a local official whose job was "maintenance of social stability," only when protests have a large scale and last a long time does it become difficult for the government to hide it from the news media, especially media from outside the city.⁴ Attracting journalists from provincial and national media means local leaders failed to contain a protest and created public chaos, which signals incompetence. Indeed, a small body of scholarship finds that local cadres put in a lot of effort to cover up local incidents and prevent them from escalating to the point of being in the national spotlight (Edin 2003; Baekkeskov and Rubin 2016; Lu and Xue 2016).

If one or more of these three signs are present in a protest, local leaders risk looking incompetent and apt to cause trouble for the upper-level government.⁵ Therefore, while protests themselves do not deter local officials from launching controversial projects or programs,⁶ local officials do have a strong incentive to prevent protests from escalating, to keep protests unnoticed, and to justify violent suppression when suppression becomes inevitable. This is to avoid being blamed by the upper-level government for provoking protests, while at the same time being unable to contain them. But how to achieve all of these goals? Local governments use different strategies, and a lot of them involve firms.

LOCAL GOVERNMENT STRATEGIES AGAINST PROTESTS AND FIRMS' ROLES

To make sure public unrest does not escalate into high-profile incidents, local officials use various strategies to defuse them. Common

³ Starting in 2018, local governments below the provincial level are no longer allowed to mobilize the PAP. They must get approval from the provincial government.

⁴ Interview 20170314.

⁵ Cai (2008) similarly identified casualties of protesters and media exposure as factors that might trigger national government intervention in a local protest.

⁶ This echoes the findings of Cai (2008) who found that public protests against economic policies do not deter local governments from adopting them.

strategies can be categorized as appeasement and suppression. Appeasement prevents protests from escalating, and suppression ends a high-profile protest. Appeasement includes persuasion and concessions. An example of persuasion includes dialogues with the public and promises to enhance monitoring and regulation of controversial projects. Common examples of concessions include temporary suspension of a controversial project, ordering factories to upgrade safety measures, and providing financial compensations or jobs to protesters. If these measures are not effective in preventing protests from escalating, then local governments use suppression to silence the public. Suppression often involves arresting and detaining leading activists, and harassment of protesters and their families. Echoing what other scholars observed (Cai 2008; Chen 2012; Heurlin 2016; Li 2019), suppression is typically not the first choice for local governments, because it can lead to greater societal dissatisfaction and consequently draw negative attention from the Party-state.

Both strategies, appeasement and suppression, are well documented in different contexts of protests (O'Brien and Li 2006; Cai 2008; Chen 2012; Li 2019; Ong 2022); however, the role of firms in these strategies has largely escaped scholarly attention so far. When protests are directed toward projects or programs that involve firms, local officials often ask these firms to provide political services in societal control. This is often done to deflect from or reduce blame of the government and thereby preserve the state's legitimacy, and sometimes to complement the government's lack of financial resources to use appeasement strategies.

Firms are not the only nonstate actors in China to help the state with societal control. Ong (2022) observed that the Chinese government outsourced violent repression to "thugs-for-hire" in land expropriation during China's rapid urbanization process, and utilized brokers, including those in civil society, to persuade the public to accept unpopular policies. Mattingly (2019) similarly observed that in rural China, civil society groups such as temples and lineage groups, play roles in coopting the public to advance controversial policies. Using firms for societal control is along the same lines as the state using these nonstate actors to deflect blame.

Both private firms and SOEs assist with societal control but do so in different ways. Private firms are good for appeasement strategies, and SOEs, especially large and powerful ones, are particularly helpful when suppression becomes necessary. The difference between the firms lies in their different levels of political capital.

SOEs versus Private Firms in Political Capital

The *political capital* of a firm can be loosely defined as the level of government support available to a firm. In the literature, political capital is often operationalized as political connections of a firm, measured by the firm owner's political positions, the number of board members with a political background, or a firm's expenditure on government relations. While these measurements are a great way to measure an intangible concept, they only reflect the amount of political capital of a firm at a certain point of time, and are less useful in capturing the reliability and stability of the firm's political capital, which depends not only on the number of political connections, but also a few other factors.

The reliability and stability of a firm's political capital are related to the firm's sector, size, and ownership types. Firms in sectors strategic to national and domestic security naturally enjoy higher levels of political capital, because the success of these sectors, such as energy, natural resources, and telecommunications, are tied to a country's stability, sovereignty, economic independence, or economic success. Firms of unusually large size, be they large in employment or assets that span a large section of society, also naturally enjoy higher levels of political capital. These unusually large firms, such as the recently bailed-out state-owned insurance companies and the Evergrande Group in real estate, have an outsized influence on economic stability, and their success and failure is tied to the country's systemic risk. They therefore tend to receive more government support in the forms of preferential treatment or bailouts during times of liquidity crisis.

Political capital also directly comes from firms' ownership types,⁷ which is the focus of this book. In China, both SOEs and private firms try to build a vast network of political connections. These connections can come from individual firm executive or board members' personal ties to government officials, their formal political affiliations, or their past political experiences (e.g. Li et al. 2008; Peng, Zhang, and Zhu 2017). These individually based political connections are built through exchange of interests between a firm and government officials. The weakness of this source of political capital lies in its volatility. Political connections appear and disappear based on individual-level changes in the firm and in the government. If the board member with the most valuable political connection leaves the company, or if the government officials connected to

⁷ A meta-analysis of the literature on political connections of firms indirectly supports this view. It shows that state ownership has independent effects from political connections on firms' business strategies (Tihanyi et al. 2019).

the company are reposted to a different locality, then these political connections risk disappearing.

Private firms have a rather unidimensional source of political capital in most sectors: political connections with a specific set of individuals. This makes their political capital quite volatile in nature. SOEs, extensions of the state's economic function, have ties not only with individual state officials, but also with the state as a whole. SOEs are almost always connected to a set of politicians in power, and therefore their political capital does not depend on individual politicians to the same degree and consequently does not fluctuate as much as that of private firms. Private firms, except for those in strategic sectors and those that are too big to fail, tend to have individual-centered, lower level of political capital than SOEs. SOEs, in general, have a more stable and higher level of institutionally based political capital. In the eyes of the state, then, private firms are better scapegoats when using appeasement strategies, and SOEs are better allies when using suppression in response to social protests.

Private Firms Are Better Scapegoats, and SOEs Better Allies

Scapegoat is a role almost exclusive to private firms. The lower political capital of private firms makes them especially dependent on good relations with local governments for business success, and that gives the local governments power to control private firms. When protests happen, and if the target projects are funded or carried out by private firms, local governments can have the private firms shoulder the blame for protests. Specifically, local governments can punish private firms with fines or suspend operations, have the private firms pay for online censorship services to prevent the spread of information about the protest, and provide monetary benefits or employment opportunities to protesters. By having private firms execute these strategies, the local governments can distance themselves from the source of protests, deflect blame from both the public and the upper-level government officials to private firms, establish an image of an impartial regulator, and not bear responsibility for any negative social consequences.

Local governments cannot easily use SOEs as scapegoats for two reasons. First, SOEs, particularly local SOEs, are commonly considered by the public to be a branch of the government. Blaming protests on them, therefore, cannot effectively isolate local officials from the responsibility for protests. While in theory local governments can achieve blame deflection with nonlocal SOEs, it would be risky to do so because these SOEs

are backed by other, and often higher-level, governments. To blame an SOE owned by a different and often higher-level government could introduce conflicts between governments, which might aggravate the situation and attract negative attention from higher-level officials. Second, local governments have difficulties getting SOEs to agree to be scapegoats for local governments. With their higher political capital and less dependence on any single local government, it is much harder for local governments to coerce SOEs against their will. Some powerful SOEs, particularly those directly controlled by China's central government, can even exhibit an equal, if not dominating, position in dealing with local governments.

A business dinner I observed illustrates the power balance between central SOEs and city government officials in China.⁸ The dinner was arranged by a central SOE representative to host local government officials to discuss a public infrastructure deal of 10 billion yuan. The SOE had been cultivating this deal in the city for a year. The SOE representative said to a city official over dinner:

A deal this big matters. We have invested in it and given your top men [city leaders] the fair amount [of bribes]. If our top men [SOE leaders] get disappointed ... you never know, you see these car accidents happen all the time. Some deals are just so big, that we need to take them seriously.

This scenario of course does not imply this SOE would necessarily proceed with some unspeakable plan, nor does it suggest this is how all SOEs routinely conduct business in China, but the fact that this representative did not mind using threatening language to local government officials in front of others says a lot about the power balance between central SOEs and local governments. It would be hard to imagine a private firm or a weaker SOE doing the same.

But the same reasons that make SOEs unsuitable as scapegoats make them ideal allies for local governments. SOEs possess high political capital, which, despite making them harder to control, also makes them valuable during high-profile protests. SOEs, particularly those controlled by higher-level governments, can bring in extra support from higher-level governments if a protest escalates into a high-profile one. And better yet, it is easier to justify suppression when it involves an SOE. Using force to suppress public unrest, particularly unrest against a project built or operated by private firms, could make local governments look as if they are "protecting" business interests, which could invite corruption

⁸ Observation 20157631108.

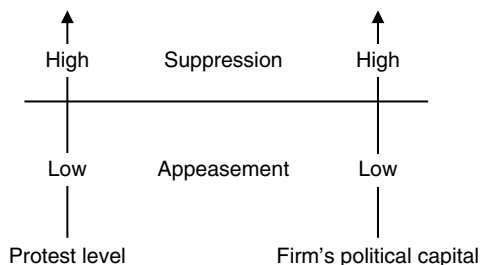


FIGURE 3.1 Government strategy against protests and preferred firm type

investigations from above. This risk is much smaller if a local government is working with SOEs to suppress protests against SOE projects. A city official explained: “Both of them [private firms and SOEs] pay up [bribes] to local officials. But if any investigation happens, bribes from SOEs seldom get mentioned.”⁹

This political logic affects how local governments select partners in launching projects. Sometimes, local leaders anticipate high-profile protests around controversial projects, but they still want to launch the projects for various reasons. In situations like this, SOEs can help local governments better justify the decision to launch controversial projects, especially if these decisions might later be questioned owing to the occurrence of high-profile protests. SOEs help pave the way for these projects from the very beginning, including siting decisions, feasibility reports, and getting environmental evaluation approvals. And later, if suppression is needed, SOEs can help local governments influence investigation outcomes and exempt local officials from responsibility. All of these functions come from SOEs’ stable and institutionally rooted political capital, and it is very difficult for private firms to compete on these dimensions, which involve negotiation with and cooperation from various levels of government and various government agencies. I describe these dynamics in detail in Chapters 6 and 7.

Figure 3.1 shows the comparative advantage of private firms and SOEs in assisting state officials with societal control. With lower political capital that largely derives from political connections with individual government officials, private firms are more likely to agree to shoulder the blame for unpopular or failed projects, pay for appeasement strategies, and be publicly shamed and punished. In the eyes of the government, therefore, they are better at defusing a protest before it escalates into a high-profile one.

⁹ Interview 201903220443.

SOEs, particularly large and powerful SOEs owned by China's provincial or central governments, are better political allies when controversial projects invite large-scale public opposition. With higher levels of political capital that are not only individual-based but also institutionally-based, SOEs can bring in extra political resources to help local officials avoid blame from the upper-level government. However, by selecting a more powerful political ally, local governments must give up more control over the project and the firm.

This difference in firms' political capital creates another playing field for SOEs and private firms to compete in China, particularly over projects that might invite high-profile protests. The effect of protests on business mostly manifests in the long run. If a business operation that invites protests belongs to private companies, then it is more likely for the government to use the private companies as a scapegoat and impose both reputational and economic losses on these companies. But if the business belongs to SOEs, then local governments are more likely to align with the SOEs and impose less punishment on the SOEs. In the long run, this differential treatment could lead private firms to either exit the sector or merge with SOEs to better protect themselves.

In some sectors, high-profile protests might even lead to business "competition" at the stage of business entry into a sector. This is particularly true for sectors that require special government approval beyond regular business licenses to start a business, such as Paraxylene chemical plants and nuclear power plants, or sectors that depend on government contracts such as waste treatment and wastewater treatment. In these sectors, local governments need to consider the potential impact of high-profile protests before a business even starts, and approval or selection of firms becomes a complicated decision that goes beyond the business competitiveness of firms. Local governments could favor a certain ownership type over others depending on the estimated chance of high-profile protests. If local officials do not think high-profile protests are likely or if they are confident that they can prevent protests from escalating into high-profile ones, then they may prefer firms with lower political capital that are easier to control and to expropriate. If local officials believe high-profile protests are likely, then they may prefer firms with higher political capital.

While the overall number of protests in China has decreased since the mid 2010s, the use of suppression has nonetheless increased (Chen 2020). This suggests that those who do mobilize protests are more likely to escalate them into high-profile protests. Under these conditions, we should expect that in sectors prone to high-profile protests – such as mining,

hazardous manufacturing, nuclear energy, waste incineration, and wastewater treatment – SOEs, especially the large and powerful ones, will have an advantage over private firms.

Using firms for societal control, the second political service described in this book, thus also creates changes in the landscape of firms in a sector. Private firms and SOEs carry different roles in providing this political service. SOEs are better allies of the state in the presence of high-profile protests, and private firms are better scapegoats. When local governments anticipate high-profile protests, they prefer to work with SOEs. When local governments anticipate regular protests, they are more likely to work with private firms. In Chapters 6 and 7, I test this mechanism with the solid waste treatment sector where “not in my backyard” protests tend to happen, particularly against waste incinerators. Because companies in the solid waste treatment sector often work with the government in public–private partnerships and local governments actively select firms for the sector, firm difference in political capital shows clearly from the very beginning of setting up a business. Chapter 6 describes how private firms and SOEs in the solid waste treatment sector contribute to societal control in different ways, as well as the correlation between high-profile protests and firm preferences of the local government. Chapter 7 uses multiple case studies to examine the underlining mechanism and explains how protests gradually changed the landscape of companies in this sector.