Reforming the north-east - Rustbelt revival

A decade after an explosion of unrest in China's north-east, a remarkable recovery is under way

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Correction to this article

TEN years ago, thousands of workers from state-owned factories marched through bleak industrial cities in China's north-eastern rustbelt. The protesters filled streets with chants condemning official corruption and demanding better treatment. "We have a government of hooligans," read one of their banners. Back then the decaying north-east appeared to be one of China's most unstable regions. Today it is among the fastest-growing, and is relatively free of large-scale unrest. But officials still fret.

In early 2002, just as now, the Communist Party was getting ready for changes in its leadership later in the year. The labour unrest in the north-east, once a proud bastion of state-owned industry that had been ravaged since the 1990s by factory closures and millions of lay-offs, alarmed and embarrassed the party at such a sensitive political time.

The outgoing party chief, Jiang Zemin, was trying to promote a new catchphrase for the party called the "three represents", including the notion that the party represented "the fundamental interests of the majority". The workers who took to the streets in the spring of 2002, in the cities of Daqing, Fushun and Liaoyang were in effect saying that the party did not represent them and had indeed failed them.

Within a year of taking over from Mr Jiang, Hu Jintao launched a campaign to “revive the north-east”. It was an ambitious project for a region that had few of the advantages of the fast-growing Yangzi and Pearl River deltas, with their better-developed private sectors and ready access to investment and know-how from abroad, especially Hong Kong and Taiwan. Of the north-east's GDP, two-thirds was being produced by state-owned firms, many of which were loss-making, says Cui Wantian of Liaoning University (he thinks they now contribute less than 50%, compared with about 30% nationally).

Much work remains to be done, from the reform of state-owned enterprises (SOEs) to boosting social-security provisions. But a decade on, as Mr Hu and the prime minister, Wen Jiabao, prepare to step down, the party is likely to tout the north-east's revival as one of its successes. In 2006-09 the region's GDP (excluding Inner Mongolia, which extends into the north-east, but is not part of its industrial heartland) grew faster than that of the country's other three main economic regions, in the east, centre and west. It has outpaced national GDP growth every year since the late 1990s, with a markedly wider lead since 2008.

Demand in China for the north-east's products, such as machinery and chemicals, has helped. So too, as elsewhere in China, has huge state-led investment in new blocks of flats (see picture), factories and infrastructure. Liaoning province has also enjoyed an influx of foreign investment in areas such as electronics and car parts, led by businesses from nearby South Korea and Japan. Last year foreign direct investment in Liaoning increased by 17%, to $24.3 billion, after a 34.4% increase in 2010. One of the biggest foreign projects is a $2.5 billion chip plant opened in 2010 by Intel, an American firm, in Dalian. The Economist Intelligence Unit, a sister organisation of this newspaper, forecasts that by 2014 Liaoning will be the largest recipient of foreign investment in China.

Given the leadership's fixation on social stability, the past decade in the north-east will be recalled with some pride. In a speech in April 2002, published last year for the first time, China's then prime minister, Zhu Rongji, revealed his anxiety about how the protests that year appeared unusually well organised and co-ordinated. Since then the north-east has

seen strikes—most shockingly, in July 2009, a protest involving thousands of workers at a steel plant in Tonghua, in Jilin province, who beat to death a manager because of moves to privatise the factory. But big demonstrations have been relatively rare.

There are several possible explanations. One is that by the time Mr Hu and Mr Wen came to power in late 2002, the unpopular task of closing factories and laying off SOE workers in the north-east had largely been completed. In 2001 Liaoning, the north-east's wealthiest province, was chosen as a national pioneer of social-security reforms that transferred the burden of looking after former SOE employees to local governments instead of enterprises, which could rarely afford adequate severance pay, let alone pensions. Though people protested, billions of dollars in financial help from the central government for these reforms helped to cushion the shock.

Over the past decade, billions more have been spent clearing urban slums and building new housing for the poor, a project that officials say has benefited 6.5m of more than 100m people in the region. Compulsory demolition, even if it is aimed at creating better housing for the occupants, has long been a cause of small-scale unrest across urban China. The north-east's slum clearances, which officials intend to complete by 2015, have generated protests, too. Liu Ping of Shenyang Normal University says housing demolition contributed to an 80% rise in the number of complaints submitted to the government by north-easterners in 2003.

But in cities like Fuxin, about 150km (90 miles) west of Shenyang, the benefits are clear. Fuxin is one of several cities in the north-east that the government has particularly worried about because of its reliance on diminishing coal production. Some 40% of its inhabitants used to live in shantytowns clustered around mines, according to *China Daily*, a Beijing newspaper. Now, near a vast pit on the edge of the city, elderly residents sit near their new five-storey apartment blocks. They are former workers in the pit, Asia's largest opencast mine, which has been turned into a grim tourist attraction. Younger people have gone elsewhere to work, they say. “Only lazy people have problems”, laughs one who like his friends appears happy with the government-subsidised housing. Fuxin's economy grew by 16% last year.

Yao Fuxin, who was jailed for seven years on charges of subversion for his part in leading the 2002 protests in Liaoyang, suggests another reason for the north-east workforce's relative calm. Mr Yao calls it a “white terror” that keeps activists like him on a tight leash. Police guard his home and follow him on politically sensitive anniversaries. The same, however, is true of dissidents across China.

In the prosperous port city of Dalian last year a new form of protest emerged. Tens of thousands of middle-class citizens, galvanised by China's rapidly developing social media, took to the streets to complain about what they feared was the dangerous location of a chemical plant about 20km from the city centre. The government promised to move the plant, but work has reportedly resumed. Such middle-class protests could now create bigger headaches for officials in the north-east than the remnants of blue-collar dissent.