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Why so nervous?

By Dr. Doris Fischer,  
*German Development Institute /  
Deutsches Institut für Entwicklungspolitik (DIE)*

# The Current Column

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## Why so nervous?

*Bonn, 9 May 2011.* We have recently been receiving conflicting signals from China: not long ago the country was seen as a rock in the turmoil of the global financial crisis, everyone was talking about China's growing importance in the global economy and global policy, and then the Chinese government suddenly shows a lack of confidence in its reaction to the award of the Nobel Peace Prize to Liu Xiaobo, detains journalists and lawyers and offends German cooperation partners by arresting the internationally celebrated artist Ai Weiwei. Is there any consistency in all of this?

Yes, but only if the major objectives of Chinese policy are taken into account: political and social stability on the one hand, economic development on the other. Both objectives are based on a broad societal consensus: with the introduction of the reforms in the late 1970s the majority of the Chinese population wanted to leave behind some 150 years of war, civil war and 'permanent revolution' – in short, chaos (luan) – along with the associated deprivations and the humiliation of economic underdevelopment.

There is a constant tension between "stability" and "development". Economic and social development may, of course, contribute to stability, just as stability is generally conducive to economic development. To strike a balance between the two objectives is the underlying logic of Chinese policy. But development entails change, whereas stability always means inertia. And sticking to the old ways may impede economically and socially necessary changes. Economic changes and developments may, on the other hand, necessitate major political and societal adjustments.

Since the reforms began, the balance between the two main objectives of Chinese policy has been at serious risk on two occasions: in the late 1980s and the late 1990s. In both cases, wide-ranging economic reforms aimed at safeguarding economic development were imminent. In both cases, the reforms were highly controversial. Today China again is at a crossroads, and an internal debate on the right way for the future rages: China is seeking nothing less than a new growth model.

A glance at the past two crises, which were resolved in completely different ways, reveals a common factor: the critical role played by academics for social and political stability. The protest movement in 1989 arose from the dissatisfaction of academics with their situation. They had found that other groups in society were benefiting from the country's economic development, while they (professors, students, journalists, etc.) were not. The movement began by demanding the abolition of the corrupt dual-track (market/plan) system and gradually expanded into a broader protest movement. As the protests continued, more and more groups in society expressed their solidarity with the academics. After the movement had been smashed, the academics were identified as the instigators of the instability, and some were severely punished.

The crisis in the late 1990s, triggered by privatisations and the effects of the Asian financial crisis, affected primarily the employees of state-owned enterprises and indirectly the whole economy. But in this case the academics did not emerge as potential ringleaders. They were now among those who had gained from the process of reform: many occupations requiring a university education were now well-paid, having been systematically upgraded since 1992. The government also introduced private home ownership in the late 1990s. This proved to be a clever move that concentrated the energies of the new middle class on real estate investments and home decoration. The academics already formed part of the economic and social elite and had a considerable interest in social stability. Political upheavals would have threatened their prosperity as much as the political establishment's.

And what is the situation today? Why is the Chinese government reacting so nervously to its few obvious opponents? Can it no longer be certain of the support of the middle class? Not entirely: for one thing, there is the economic situation. Initially, the global financial crisis was handled well by China. But for some months now, inflation has been rising, and major reforms of the financial and monetary system could be needed. Agreement on

this has yet to be reached. Hence the crisis, again of external origin, is accompanied by a broad debate on the Chinese economic model. The most important questions are how to increase consumption and how to replace labour-intensive production with knowledge-based industries and services as the Chinese economy's main competitive factor. In addition, the question of how to manage the transition to an ecologically sustainable economy is controversial. These are elementary economic policy issues similar in their implications to the reforms undertaken in the late 1980s and 1990s.

And again the academic middle class plays a significant role. Does it still see itself as having gained from economic development and so advocate political and social stability? Or might it become an opposition force, able to unite the discontent among the peasants and workers? Some seem to think that the prosperity they gained is at risk. This is partly because of the underlying economic model, but more so because of the failure of the legal system to protect that prosperity. In the 1990s a tacit agreement was reached: prosperity in return for loyalty to the political and social system. Today, on the other hand, a growing number of voices are calling for a functioning legal system

that protects the rights of the individual against the state. It is not clear how widespread these views are. Evidently widespread enough to worry the government and cause it to take strong countermeasures, with every seemingly arbitrary arrest likely to underscore the individual's feeling of powerlessness, even if he is comparatively prosperous. A safety valve, like the earlier introduction of home ownership, has yet to be found by the government.

In these circumstances, the recent developments in North Africa and the Middle East are probably playing into the Chinese government's hands: while Tunisia may have attracted some sympathy, the latest developments in Libya, Syria, etc. are more likely to have demonstrated to potential troublemakers in the ranks of the academic middle class what is at stake for them. If faced with the choice between stability and chaos, the majority of the Chinese people, and most definitely the middle class with its academic leanings, will today again opt for a delay in reforms. And as long as that is the case, the government need not be overly concerned about local protests by workers and peasants calling the system as a whole into question.



Dr. Doris Fischer  
*German Development Institute /  
Deutsches Institut für Entwicklungspolitik (DIE)*