

# Corruption scandal signals sharp differences in Chinese ruling elite

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Sharp factional differences within the top Chinese leadership over the direction of economic policy have erupted in the form of a corruption scandal—the largest in the country’s history—that has the potential to engulf Premier Wen Jiabao, who is closely aligned to President Hu Jintao.

News of the scandal first appeared in the *21st Century Economic Report*, a newspaper based in Guangdong province and owned by a Shanghai entrepreneur. The article on July 1 claimed that the premier’s son, Wen Yunsong, had received around \$HK7.36 billion (about \$US900 million) in shares under a false ID. A number of officials, including the son of the former chairman of the Securities Regulatory Commission, were also alleged to have received huge bribes.

According to the newspaper, the bribes were to obtain special approval for China’s second largest insurance company, Ping An, to be listed on the Hong Kong stock market. In addition, Ping An was seeking to avoid regulations limiting foreign ownership to 50 percent. A former director explained that the previous head of the state-owned company, Ma Mingzhe, stood to gain up to \$HK10 billion if the listing went ahead, making him one of the richest men in China.

During the 1990s, Ma, a former official in Shenzhen, transformed Ping An from a small company into a huge state-owned insurance giant that attracted large investments from foreign banks like HSBC and Morgan Stanley. He was only able to do so, particularly in the late 1990s when the company faced stiff competition, because of his connections to the state bureaucracy.

Last year Ma was formally removed from his post as company president. While the case was never made public, the allegation was circulated on the Internet that he had registered various joint stock companies in preparation for turning the \$20 billion state-owned

corporation into his own private business. Former Ping An employees have pointed to close connections in the past between Ma and various members of the premier’s family.

The allegations against the premier’s son in the *21st Century Economic Report* were reported on major Chinese websites, including the official Xinhua news agency and the *People’s Daily*. But within 24 hours, the reports had been deleted. No official investigation has been announced and the story has been all but dropped. Behind the scenes, however, the issue continues to reverberate.

According to the *Voice of America*, it was raised during an extended meeting of the Politburo Standing Committee in early July. Information regarding the affairs of Wen’s son was circulated to party leaders present. Then the Shanghai party secretary Chen Liangyu openly challenged the premier to take “political responsibility” for his economic policies.

Chen reportedly criticised the impact of investment curbs put in place in April to cool the inflated Chinese economy, saying they had badly affected the eastern coastal provinces, undermined Shanghai’s economy and threatened to retard national economic growth. A bitter argument broke out between Chen and Premier Wen that only ended when President Hu intervened. The threat to Wen was obvious: if his economic policies were not changed, the premier faced the prospect of being brought down by the corruption scandal.

Given the strict hierarchy of the Chinese Stalinist bureaucracy, it is unthinkable that a city party boss would challenge the premier without powerful backing. According to the Singapore-based *Straits Times* on July 10, former president Jiang Zemin expressed dissatisfaction with the premier’s economic measures

as early as May. The only member of the Politburo Standing Committee to publicly defend Wen's policies has been President Hu. The other members of the leading Communist Party body are all protégés of Jiang.

The economic restrictions were put in place amid fears that China's investment bubble was spiralling out of control. But the credit restrictions have had an immediate impact on local governments, real estate developers and entrepreneurs in eastern China, who have been cashing in on the speculative boom. Those opposed to Wen's measures argue that an economic slowdown will produce unemployment and social unrest. The tightening of bank loans has blocked the flows of credit to tens of thousands of small and medium private companies, which now employ millions of workers.

However, Wen and his supporters point out that the present growth rates, fuelled by a flood of foreign investment, are unsustainable. Not only has the economic frenzy led to serious shortages of power, coal and rail capacity, as well as property speculation and rising consumer prices, but the inevitable collapse of the bubble will have even graver social consequences than a "soft landing".

The dilemma facing the Beijing bureaucracy is underscored by the latest statistics. The growth in industrial production has continued to fall for four successive months and the increase in fixed asset investment slowed from 43 percent in first quarter to 35 percent. But Wen's measures have done nothing to reduce foreign direct investment, which reached \$34 billion in the first half of the year, an increase of 12 percent compared with the same period last year.

As the social and economic tensions sharpen, the factional power struggle in Beijing is likely to intensify. Hu and Wen were formally installed in power in 2002 but remain in a minority on the Politburo Standing Committee. Former president Jiang retained control of the powerful Central Military Commission and stacked the central party leadership with his supporters to ensure there would be no major policy changes.

While Hu and Wen have defended all the Stalinist bureaucracy's repressive measures, they have hinted at the need for limited political reforms to establish a social basis for the regime among layers of the middle class who have profitted from the investment boom in

the 1990s. Their critics point out that the last time this policy was tried—in 1989—the anti-government protests rapidly got out of control in Tiananmen Square and had to be crushed with military force.

Over the last month, Hu appears to have gone on the offensive against his opponents and appealed for public support for his policies. In a break with party tradition, he started publishing the agenda of the party's plenums to make them available for public debate. The next plenum due to take place in September will focus on the theme of "strengthening the party's ruling capability"—which is being interpreted as strengthening Hu's authority.

Last week Hu visited Shanghai, Jiang's power base, for the first time since he came to power, where he emphasised that "macroeconomic controls" were necessary and timely. The credit squeeze has, however, hit local business and government hard. According to the local press, 159 projects worth an estimated \$2.4 billion have been delayed, including several high-profile schemes such as an underwater tunnel and the second stage of a new deep-water port.

There are signs that Hu's supporters may be preparing their own corruption scandal to counter the factional assault on premier Wen and his policies. On July 26, an article appeared in the *China Youth Daily*—the official newspaper of the Young Communist League, Hu's main factional base—hinting that Jiang Zemin was responsible for several real estate development projects that involved the forcible eviction of local residents. This widespread practice has provoked public resentments and protests.

Both sides of the factional dispute in the ruling bureaucracy defend the interests of the tiny privileged layer of businessmen and officials who have reaped huge profits over the past decade. The differences revolve around the tactics to be employed in maintaining their precarious position in the face of the growing anger and hostility of masses of ordinary working people.



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