

# Shanghai pension scandal: a factional struggle erupts in China's leadership

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A corruption scandal involving pension funds in China's largest city, Shanghai, highlights the immense economic, social and political tensions brewing in the world's fastest growing capitalist economy.

The affair began in early August when the central authorities sacked Zhu Junyi, director of the Shanghai Municipal Labour and Social Security Bureau, which supervises the city's pension funds. Zhu was accused of lending 3.2 billion yuan (\$US400 million) from pension funds to a private toll road company, Fuxi Investment Holding Co. The company used the funds to help bid for the operation of a Shanghai-Hangzhou expressway.

Fuxi's chairman, Zhang Rongkun, was also detained. Zhang is a typical example of China's new wealthy elite. Through his connections with Shanghai party bosses, Zhang—just in his early 30s—rose from obscurity and amassed a fortune of \$605 million. Last year, *Forbes* magazine ranked him as China's 16th richest man.

Three executives of the state-owned Shanghai Electric Group, the country's largest power equipment maker, were also arrested over the scandal. Fuxi is the second largest shareholder in the group.

On August 25, the Chinese state media reported that the Beijing leadership had sent more than 100 investigators to probe the corruption case, said to be the biggest in Shanghai in decades. It allegedly involves the illicit use by Shanghai officials and businessmen of large sums from the city government's 10 billion yuan (\$1.25 billion) social security funds for real estate speculation and other business ventures.

Qin Yu, the governor of Shanghai's Baoshan district, is being investigated for breaching Chinese Communist Party (CCP) "discipline". Local property developers, as well as finance company executives, have been questioned over their links to pension funds.

The probe may engulf the Shanghai party boss, Chen Liangyu, and even senior CCP Politburo members in Beijing. Qin was Chen's secretary in 2002. Just before Qin's fall, Chen held a conference of Shanghai officials on August 15, stressing "party discipline", in an attempt to distance himself from the scandal and save his career. Chen warned officials not to engage in nepotism and corruption.

This public scandal, however, is not primarily about corruption in Shanghai. The entire bureaucratic machine in China is riddled with corruption and nepotism from top to bottom. Corporate

executives regularly collude with government officials to use profitable state enterprises as private property or engage in outright theft of public funds. Every year, the central leadership arrests and punishes thousands of corrupt officials to placate public anger over growing social inequalities.

Pensions are a particularly sensitive issue. Throughout China, the inadequacy of pensions—together with housing and health care—is a major social grievance of working people. Even in the economically developed Shanghai, the pension fund deficit skyrocketed from 700 million yuan (\$88 million) in 2000 to 4 billion (\$502 million) in 2002. There has been a wave of protests and petitions by Chinese retirees, objecting to their plight and the heavy financial burdens on their children.

Behind the scandal, however, is a political purpose. President Hu Jintao is seeking to exploit popular anger to undermine his rivals in the so-called "Shanghai gang" of predecessor Jiang Zemin, who retained significant influence by planting his loyalists in key posts before partially retiring in 2002. The real target of the scandal is probably not in Shanghai but in Beijing. Jiang's key protégé—Huang Ju, a CCP Politburo Standing Committee member—has a younger brother in Shanghai who had business connections with Zhang's real estate development.

As a result of Jiang's influence, the Shanghai party machine, until now, has not been touched. Yet rumours have been rife about the criminal activities of the city's wealthy elite and party bosses. Like officials elsewhere, they put public money into fledging projects to enrich themselves or boost local economic expansion. Such activities, legal and illegal, have encouraged the frenzied growth of fixed asset investment in China, creating overcapacity, real estate bubbles and the danger of serious financial crises.

As the Hu leadership has tried to stem "economic overheating" in recent years, local party bosses such as Shanghai's Chen—with the backing of Jiang Zemin—undermined government economic controls in order to protect their cronies and local business interests. Now it appears Hu is moving against his rivals in Shanghai as well as sending a sharp warning to other provincial and local authorities to toe the line on economic policy.

The scandal is conveniently timed to coincide with the lead-up to the CCP Central Committee plenum in October which Hu may use to place more of his supporters in the central leadership. More significantly, it could help Hu undermine the "Shanghai gang" at the key 17th party congress next year, which could decide the crucial issue of his successor. Hu is due to retire around 2012.

Former President Jiang Zemin was installed by the late “paramount leader” Deng Xiaoping after the brutal 1989 crackdown against anti-government protests by workers and students in Beijing’s Tiananmen Square. The massacre was a signal to international capital that the Beijing regime would use any means to suppress working class unrest. The result was a flood of foreign investment that accelerated China’s “market reform”.

Shanghai was at the centre of this process. In the 1980s, China’s economic opening up was largely limited to “Special Economic Zones” in the south. Jiang promoted Shanghai—his factional base—as a showcase of the new “reform” agenda. The city rapidly emerged as China’s business and financial capital, attracting billions of dollars of foreign funds. Jiang’s eldest son became one of the most powerful entrepreneurs in Shanghai. The surrounding Yangtze Delta region also flourished through foreign investment, exports and private business. Other coastal provinces and major cities followed suit.

The “Shanghai model” was one of high investment rates, surging exports and a new entrepreneurial elite that provided the link between transnational corporations and the party hierarchy. Its adoption also led to the growth of grotesque social inequality, which was accompanied by endemic official corruption, falling rural incomes, severe pollution and mass lay-offs from state enterprises. The appalling social conditions produced a wave of protests by Chinese workers and poor farmers.

As a future heir nominated by Deng Xiaoping in 1990s, Hu succeed Jiang in 2002 from a different factional background—that of the Communist Youth League. The leadership transition was not a smooth process because the two factions had tactical differences over how to maintain the party’s grip on power in the face of deepening social tensions.

At his last party congress in November 2002, Jiang’s so-called “three represents” theory was adopted. It encouraged private businessmen to join the CCP as part of efforts to cultivate support among the new capitalist elite. Jiang also retained the chairmanship of the powerful Central Military Commission and installed a number of protégés in the new leadership to ensure that Hu would not have full control.

The factional differences have focussed on the official verdict on the 1989 Tiananmen protests as a “counter-revolutionary rebellion”. Jiang and the layer of bureaucrats who carried out Tiananmen massacre fear that Hu might bow to popular pressure and revise the official attitude to the events on 1989. Jiang and his faction could find themselves blamed or even prosecuted for the murder of innocent civilians.

More fundamentally, the differences over Tiananmen Square reflect a debate in ruling circles over the means for dealing with social unrest. Jiang has always opposed any concessions to demands for basic democratic rights and defended the use of brute force to crush opposition to the regime. While no less ruthless, Hu has sought to create a new social base for the regime among middle class layers, offering minor political reforms to head off calls for democratisation. Jiang only handed over his military post to Hu in 2004 after the latter agreed to retain the 1990s policy of rapid economic growth and tight social control.

However, the problems confronting the regime have only

worsened. High rates of economic growth have generated investment bubbles, while surging exports have produced sharp trade tensions with the US and Europe. Rising energy consumption has driven China into every corner of the globe for oil and gas, leading to conflict with other powers. At the same time, industry is increasingly unable to absorb the growing unemployed army of millions of workers and rural migrants. The rapid aging of the population is also threatening to undermine China’s competitiveness as a source of cheap labour.

Under these pressures, Hu has called for a shift from heavy dependence on investment and exports to domestic consumption. In order to maintain overall economic stability, Hu’s government has forcefully shut down many development projects across the country at expense of sections of business. The “anti-corruption” campaign in Shanghai is part of these efforts to rein in speculative investment.

The problem for Hu is that the economic processes unleashed in the 1990s have an objective logic and have created substantial material interests within the bureaucracy and the new corporate elite. These elements will resist any curbing of their activities and their relations with foreign investors. Purges confined to groups of local officials will have little impact on the deep-rooted social and economic contradictions.

Moreover, confronting growing social unrest, Hu fears that an open factional conflict in the regime will rapidly produce political instability. So Hu’s faction resorts to scandals and backroom manoeuvres, while maintaining the façade of unity. While Jiang’s faction is under siege in Shanghai, the former president is being made a state icon along with Mao Zedong and Deng Xiaoping. Last month Jiang’s “selected works” were published to coincide with his 80th birthday.

It would be absurd, however, to image that such petty political intrigues can prevent an eruption of the social and economic crisis, for which no section of the venal bureaucratic elite has any solution.



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