Divisions over economic policy at Chinese National People's Congress

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This year's sessions of the National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC), which started on March 10, have been dominated by tensions within the regime over how to deal with a faltering economy and emerging social conflicts.

Premier Wen Jiabao set next year's growth rate at 7.5 percent—the lowest target since 2004. For years, Wen had set the goal at 8 percent, regarded as the minimum needed to generate enough jobs to stave off rising unemployment and social unrest. Although the actual growth rates over the past decade have exceeded 8 percent, the lower target of 7.5 percent indicates that the government is preparing for a slowdown. The official growth estimate for this year is 8.5 percent, down from 9.2 percent last year and 10.4 percent in 2010.

The regime is confronting the prospect of a significant downturn, driven by the worldwide economic turmoil, notably in its crucial export markets of Europe and America. At the same time, the huge stimulus package that Beijing adopted in 2008 during the global financial meltdown has produced new contradictions, ranging from unstable property bubbles to yawning local government debts.

The regime's dominant factions have responded by moving to privatise the remaining state-controlled sectors. Under the banner of battling "monopolies" and "super profits," they seek to consolidate the current de facto control of these assets in the hands of "the princelings"—the children of senior bureaucrats. These offspring are already presidents or CEOs of major state corporations. Their aspirations are in line with a World Bank report, "China 2030," which last week called for the break-up of state companies in strategic sectors and easier entry for private and foreign firms.

In an opposing camp are those who insist that state protection and support, including subsidies, remain essential. They demand barriers against "foreign capital," while urging stronger action to combat similar protectionist measures against Chinese companies operating overseas. This "new left" faction has dressed up its economic nationalism with references to the operation of "neo-imperialism in China."

The majority Chinese Communist Party (CCP) leadership is seeking to set the official agenda before President Hu Jintao hands power to the "fifth generation" of leaders led by Vice President Xi Jinping and Vice Premier Li Keqiang at the 18th party congress later this year.

Xi is regarded as a leading representative of the "princelings." He is backed by the pro-business "Shanghai faction" headed by former President Jiang Zemin and former Premier Zhu Rongji, who presided over the last major pro-market restructuring in the 1990s. Li, on other hand, is the chief protégé of the current leadership of Hu and Wen. Their "Communist Youth League" grouping has been attempting to balance between the "Shanghai faction" and the "new left," which emerged in the mid-2000s.

Addressing the NPC, Premier Wen called for reduced dominance of "state capital" in areas such as banking, energy, telecommunications, education and healthcare. This course was endorsed by major private entrepreneurs at the NPC, such as China's second richest man, Zong Qinghou (worth $10.7 billion last year). Zong, the chairman of the beverage giant Hangzhou Wahaha Group, criticised the government for becoming a "monopoly company that invests in everything."

Zong praised the president-in-waiting: "I figure that when Xi Jinping comes to power, he'll encourage the development of private enterprises." As the CCP secretary in Zhejiang from 2002-07, Xi presided over the rapid growth of private sector firms, including Hangzhou Wahaha and Geely Holding Group, now China's largest private auto company.

The owners of such businesses—closely connected with Western corporations—hope to profit from the break-up of the state-owned joint stock companies established from the carved-up nationalised industries in the 1990s. Of the top 500 companies in China, the state has a majority stake in 316. Their operating revenues equal more than 70 percent of the country's $7.5 trillion gross domestic product. The seven so-called monopolised sectors, such as telecommunications and petrochemicals, employ 28.3 million workers.

The "new left" tendency represents layers who seek to establish global corporations with state support. Haier, for instance, became the world's largest home appliances manufacturer in 2009, overtaking LG and Whirlpool. Huawei ranks as the world's second largest mobile telecommunications equipment supplier, slightly behind Ericsson.

One of the "new left's" chief political standard bearers is Chongqing municipal CCP secretary Bo Xilai. Bo was regarded as a major contender for the new nine-member Politburo Standing Committee. At the same time, he is also a "princeling." His father Bo Yibo was purged in 1967 by Mao Zedong as a leader of the "capitalist roader" faction, then rehabilitated by Deng Xiaoping in the 1980s.

After Bo became Chongqing secretary in 2007, he expanded medical and pension insurance coverage, and provided free meals to 1.3 million "left-behind" children of migrant workers. That spending was only possible while the economy grew at 15 percent and government revenue rose 30 percent a year.

A layer of "new left" academics has praised the "Chongqing model" as an alternative to the sweatshop exploitation that depresses consumer markets in export-led coastal regions. In reality, Chongqing grew quickly due to a 10-fold increase in foreign investment under Bo.

Chongqing, one of the heavy industrial centres built up in 1960s and 70s, is now home to China's largest collection of auto joint-ventures between state companies and foreign multinationals, making 2.5 million automobiles a year. That expansion was made possible by a long-standing policy to force transnational corporations to form joint-ventures, allowing Chinese state firms to modernise their technology.

Bo's reputation suffered a political blow last month, however, when his top lieutenant, former police chief Wang Lijun, apparently sought asylum in Chongqing's US consulate, claiming to have evidence of Bo's corruption. After Wang was reportedly taken by state security agents to Beijing for investigation, another misfortune struck Bo just as the NPC opened. A former deputy chairman of the Chongqing People's Congress Standing Committee committed suicide. Bo denied rumours that, as a result, he had resigned from the Politburo.

While these events remain murky, they bode ill for Bo's prospects of rising to the top leadership. The subterranean factional struggle is likely to continue in the lead-up to the CCP congress. Judged on the "scandals" that have emerged so far, it seems the "new left" is losing ground.

One thing was agreed by all at the NPC: the regime is heading for a confrontation with the working class. The NPC approved an 11.5 percent rise in this year's internal security budget to $US111 billion—higher than the military budget of $107 billion—in order to expand the police-state apparatus in preparation.