China’s market “reform” accelerated after Bo Xilai’s removal

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15 May 2012

The Chinese Communist Party (CCP) leadership is stepping up its pro-business market “reform” measures in the aftermath of its removal of Chongqing party secretary Bo Xilai. Bo had been considered a candidate for the CCP’s top body, the Politburo Standing Committee, but was suddenly stripped of his post in Chongqing in March, then arrested on murder and corruption allegations.

The affair exposed deep divisions within the Chinese ruling elite. Bo’s so-called “Chongqing model” of economic development—featuring limited social spending measures, and government policies favouring state-owned industrial enterprises—was regarded by some layers within the elite as an alternative to the more openly pro-market measures promoted by President Hu Jintao and Premier Wen Jiabao. With Bo’s removal, the “Chongqing model” is being rapidly junked.

Bo’s replacement as Chongqing party secretary, Zhang Dejiang, is calling on the provincial government to learn from the “Zhejiang Experience”, the eastern coastal Zhejiang province where privately-owned businesses were promoted under the leadership of Xi Jinping, now Chinese vice president. Several large privately-owned conglomerates, including China’s largest private car producer Geely Holding, emerged in Zhejiang under Xi, who governed the province between 2002 and 2007. Zhang also served as Zhejiang party chief between 1998 and 2002.

The new Chongqing party leadership reportedly met with local business leaders in April and is now reaching out to investors from Hong Kong, including Cheung Kong (Holdings) and Hutchison Whampoa, conglomerates owned by Asia’s richest man, Li Ka-shing.

The shift in Chongqing forms part of a wider drive by the Chinese government to attract more international investment. The worsening crisis in Europe and continued instability in the global financial markets is threatening to significantly slow China’s export-dependent economy, pushing unemployment higher and raising the spectre of social and political unrest directed against the CCP regime and the capitalist interests that it represents.

Premier Wen Jiabao recently held talks with European business and political leaders, emphasising that China was “sticking to the market-oriented reforms”, which he called the “perpetual power” behind the country’s development. During the China-US Strategic and Economic Dialogue held earlier this month, Beijing agreed to allow foreign investors to own up to 49 percent of Chinese securities firms—up from the previous 33 percent restriction of foreign ownership—as part of several steps in recent months to further open up China’s financial sector. Opening up previously protected sectors of the economy is a central part of the government’s drive to boost investment.

As part of Premier Wen’s campaign against “state monopolies”, aimed at breaking the dominant position enjoyed by giant state-owned firms, the Supreme People’s Court issued a new regulation last week allowing individuals to sue for losses caused by “monopolistic behaviour.”

The campaign against Bo and the “Chongqing model” has been supported in international financial circles. Last week HSBC's chief China economist Qi Hongbin declared that Guangdong province—under Deng Xiaoping, the first to carry out "reform" measures to restore capitalism—provided a model for other regions of China to follow. The HSBC economist complained, "Chongqing is at least a decade behind Guangdong in terms of reforming state-owned enterprises."

Qi concluded: "To sustain China's rapid growth it is essential to sharpen competitiveness and speed up productivity growth. This will require reforms that could shrink the role of government and let the market take a leading role in allocating resources. The fall of Bo Xilai in Chongqing shows Beijing is committed to its long-held practice of market-oriented reform and recognises the private sector's importance in driving the economy."

The privatisation of additional state-owned enterprises in Chongqing and other provinces will result in another layer of the CCP bureaucracy converting these assets, which are in many cases already controlled by children of senior party figures, into their fully fledged private property.

Bo publicly postured as a defender of working people against private capitalists, but in reality represented a section of the bureaucratic-corporate elite who enriched themselves at the expense of the working class.

By promoting the region's enormous pool of cheap labour, Bo attracted significant foreign capital, including a major notebook computer production base for Hewlett-Packard and a multi-billion chemical project of the German giant, BASF. Ford, meanwhile, is turning Chongqing into its largest automobile production base outside of Michigan. At the same time, Bo ensured that he and his family accumulated enormous personal wealth.

Bo's "Chongqing model" was a variant of the pro-market economic program advanced in the late 1970s. China joined the World Trade Organisation in 2001, but did not fully open up its domestic economy and instead promoted the growth of "national champions", especially among the 120 largest state-owned conglomerates. International investors and transnational companied were permitted to only own minority stakes in these sectors. Western capital tolerated these limitations in the Chinese market only because super profits were being accumulated in the country's vast manufacturing sweatshops.

The deepening economic crisis, however, is driving demands for the Chinese government to privatise, deregulate, and expose every part of the economy to the global financial markets. The new restructuring measures will devastate the Chinese working class. Workers confront greater pressures for productivity speedups, wage cuts, while there will be mass layoffs as the remaining state-owned firms, which still employ tens of millions of workers, are sold off.