Corruption allegations hit Chinese premier on eve of Communist Party congress

John Chan
1 November 2012

Less than 10 days before the key 18th Chinese Communist Party (CCP) congress opens on November 8, CCP factional struggles took a dramatic turn last Friday, with Premier Wen Jiabao suddenly facing allegations of corruption.

The *New York Times* published a lengthy article detailing corporate and regulatory files from 1992-2012, showing that Wen's family had a fortune of $2.7 billion. His wife, son and other family members are engaged in business activities, including in the banking, jewellery and telecommunications sectors.

The *Times* wrote: "… the family's ventures sometimes received financial backing from state-owned companies... At other times, the ventures won support from some of Asia's richest tycoons… The holdings include a villa development project in Beijing; a tire factory in northern China; a company that helped build some of Beijing's Olympic stadiums, including the well-known 'Bird's Nest'; and Ping An Insurance, one of the world's biggest financial services companies."

Beijing immediately blocked the *New York Times* web site. Foreign Ministry spokesman Hong Lei denounced the report, saying it aimed to "blacken China and has ulterior motives."

Three days before the *Times* published its exposé, a US-based Chinese dissident site, *Boxun*, published an article on October 23 predicting an attack on Wen. It said that "a conservative faction" had fed detailed information on Wen's family to "a number of American mainstream English-language media" to undermine Wen's political standing before the party congress.

Wen took the unusual step of personally responding to the allegations, hiring two lawyers to threaten legal action against the *Times*. They issued a statement insisting that "the so-called 'hidden riches' of Wen Jiabao's family members in *The New York Times*' report does not exist." They also claimed that Wen "never played any role in the business activities of his family members."

The scandal surfaced only days after Chinese prosecutors formally announced they would place former CCP politburo member and Chongqing party secretary Bo Xilai under investigation for crimes and corruption. The National People's Congress expelled Bo last week, stripping him of immunity from criminal prosecution.

There is widespread anger in the Chinese working class over high-ranking officials using their political influence to enrich their families. The *New York Times* exposé on Wen adds further uncertainty over who will emerge as the new CCP leadership after the congress.

The murky factional tensions inside the CCP are exploding into public view. As the Young Communist League (YCL) faction of Wen and current President Hu Jintao prepares to put Bo on trial, Wen faces similar allegations to those that brought down Bo: taking "huge bribes" and using his position to let relatives make "huge financial gains." The CCP's Shanghai faction, headed by former President Jiang Zemin, appears to be benefitting from the scandals.

Apart from Vice President Xi Jinping and Vice Premier Li Keqiang, the rest of the nine-member Politburo Standing Committee, China's highest-decision making body, will step down at the party congress. Xi is expected to succeed Hu as CCP general secretary and president of China, while Li will inherit the premiership. Xi was a compromise candidate between the YCL and Shanghai factions, while Li is the YCL's main representative.

A few potential lists of the new Politburo Standing Committee leaked anonymously to Hong Kong or Western media suggest that the Shanghai faction is gaining an upper hand against the YCL faction. Moreover, Jiang—who had not seen for years—recently appeared in public.

However, Hu's YCL faction also seems to be trying to extend its influence. Former Hong Kong chief executive Tung Chee-hwa told CNN that Hu would retain the powerful chairmanship of the Central Military Commission, suggesting the YCL faction would continue to control the armed forces.

In its internecine battles, the CCP is balancing between the competing interests of its various corrupt factions and its fear of opposition from below. As the global economic slump batters China's economy, the regime fears a possible eruption of working class opposition, particularly if there is a sudden surge in job cuts. The exposure of Wen, supposedly a liberal figure fighting corruption through "political reform" of the bureaucracy, threatens to discredit the entire regime.

Nonetheless, the CCP is planning a new series of reactionary, free-market reforms that are also exacerbating its internal tensions. On October 21 Reuters interviewed five government policy advisers who claimed to have received orders from Wen's State Council to work out proposals for "painful structural reform."

While none of the advisers agreed to provide details, the reforms apparently aim to vastly reduce the state's role in the Chinese economy. This would especially affect the 100,000 remaining state-owned enterprises that have preferential access to bank lending and state contracts. The measures would also reduce strategic restrictions on foreign involvement in key sectors in China, such as finance.

Other reforms included allowing the market to determine the costs of bank credit, land and natural resources, which are still owned and allocated by the state to companies it owns or to which it is connected. These changes are line with a joint report by the World Bank and the State Council published in February, shortly before Bo's removal.

The outbreak of factional conflicts inside the CCP reflects the deepening crisis of the global capitalist economy. The relative peaceful coexistence between the CCP's rival factions in the 2000s was rooted in China's export-led economic expansion. China's economy quadrupled in size from 2001 to 2011, thanks to exports to debt-driven consumer markets in America and Europe. There were huge and easy profits, based on the super-exploitation of tens of millions of workers as cheap labour.

In addition to dampening tensions between the CCP factions, the economic boom meant that Western finance capital placed fewer demands for the CCP to hand over a greater share of profits made in China. It was willing to share them with the CCP's parasitic "red aristocracy."

The bureaucracy has become ever more deeply divided, however, since the 2008 Wall Street crash signalled the end of easy, export-driven growth. A bitter struggle is emerging over how to re-divide the Chinese economic pie, amid rising pressure from Western finance capital—including political pressure from Washington's aggressive military "pivot to Asia," which is largely directed against China.

Factions like the YCL argue that the "red capitalists" who administer state-owned enterprises should be able to treat them as their own private property. The CCP factions who falsely claim to be "left," like Bo, or the "conservatives" associated with the Shanghai faction, fear that their main advantage in their relations with international capital—namely, state protection of key economic sectors—will be undermined by further free-market reforms.

All factions of the oligarchic CCP regime are deeply corrupt, which is an inevitable product of the restoration of capitalism since 1978. The "princelings," or children of senior CCP figures, dominate China's emerging private equity industry, as Western finance capital uses them to make connections and gain influence in state-owned firms. The CCP elites then take these firms through initial public offerings (IPOs) in Hong Kong or on the New York stock markets, making huge profits.

In 2006 Wilson Feng—the son-in-law of Wu Bangguo, currently the second-ranking official in the CCP hierarchy—helped organise the biggest IPO in history: $19 billion for the Industrial and Commercial Bank of China. Wu is a leading figure in the "Shanghai gang."

What all CCP factions agree upon is the need for attacks on the working class. To maintain profitability, millions of jobs in the residual state sector are to be slashed, as during the massive privatisations in late 1990s under Jiang. Millions of private-sector workers, especially in export industries, will face demands for speedup in production and for even lower wages, to maintain China's competitiveness against other cheap-labour exporting countries.