Economic turmoil heightens infighting in Chinese regime

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The volatility of Chinese stock markets, underlined by yesterday's 8.5 percent plunge in the Shanghai Composite Index, along with many signs of China's economic slowdown are exacerbating factional infighting within the Chinese Communist Party (CCP) regime which has rested on high levels of growth.

A lengthy article in the *New York Times* last weekend entitled "Fading economy and graft crackdown rattle China's leaders" highlights the degree to which global capitalism is dependent economically on China and concerns in ruling circles in the US over the danger of political turmoil in Beijing.

The article points out that since taking over as president in 2013, Xi has alienated sections of the Chinese bureaucracy through his crackdown on corruption which has claimed a number of "tigers" or top-level officials. Most recently Zhou Benshun was abruptly removed last month from his post as party chief of Hebei Province, one of the country's most populous, on "suspicion of serious violations of party discipline and the law."

Also in July, retired general Guo Boxiong was detained and stripped of his party membership. Guo, who had close connections to former presidents Jiang Zemin and Hu Jintao, is the highest-ranking military figure to fall in Xi's purge. In June, Zhou Yongkang, a member of the CCP's top Politburo Standing Committee and the country's former security chief, was jailed for life on charges of corruption. Zhou was the most senior CCP bureaucrat to be imprisoned since the trial and conviction of the Gang of Four in the 1980s.

The most significant aspect of the *New York Times* article is that it had access to unnamed, high-level sources within the CCP apparatus, including "an adviser to senior party and government leaders" and "an editor at a party media outlet". Such a briefing to the US newspaper of record, which must have been cleared at top levels, would have been unthinkable not so long ago and is a reflection of the intensity of the inner-party wrangling.

Both the adviser and the editor explained that a number of party elders had privately urged Xi to focus more on boosting the economy—an implicit criticism of his government's economic management and also of his anti-corruption campaign that was targeting some of their protégés. "Right now, the economic situation is not good, so the core of the party's work should be shifted more toward the economy," the adviser said, paraphrasing the message.

Xi's anti-corruption purge, however, is intimately connected to the economic policy orientation of the government. Xi's installation as CCP general secretary in 2012 coincided with moves to strip Bo Xilai, former Chongqing party boss and protégé of Zhou Yongkang, of his party membership and positions. Bo had been an outspoken advocate of the so-called Chongqing model and the protection of the country's largest state-owned enterprises (SOEs) so as to transform them into "national champions." Zhou was closely connected to China's giant state-owned energy corporations and a number of his associates have also been targeted in the anti-corruption drive.

Neither Zhou nor Bo was opposed to the program of capitalist restoration in China over the past three decades. But they were regarded by Xi and Premier Li Keqiang as an obstacle to the government's economic agenda of privatising SOEs, liberalising the financial and banking system and further opening of the economy to foreign investors. These policies were detailed in the *China 2030* report, co-authored with the World Bank and with which Li was closely associated.

While no obvious moves have been made against Xi, the economic turmoil in China is clearly weakening his position. Two recent editorials in the state-owned media hit back openly at criticism coming from party elders without naming anyone. The CCP's central organ, the *People's Daily*, bluntly warned retired leaders on August 10 to "cool off" and accused "some leading cadres" of hampering the government and "undermining party cohesion." A second editorial on the CCTV website last week described resistance to the government's agenda of pro-market reform as "beyond what could have been imagined."

More fundamentally, the economic slowdown and share market falls in China are undermining the legitimacy of the regime itself. Having all but abandoned its socialist posturing, the legitimacy of the CCP has increasingly rested on the maintenance of high levels of economic growth as well as the whipping up of Chinese nationalism. The Chinese bureaucracy as a whole is deeply fearful of social unrest, above all of the working class, and has long regarded 8 percent growth as necessary to prevent rising unemployment. Currently the government is struggling to achieve the current target of 7 percent. The policy adviser told the *New York Times* that concerns over social unrest prompted the CCP Politburo last month to approve the 2 percent currency devaluation and other economic measures.

With the eruption of the 2008 global financial crisis, Chinese exports plunged, leading to the loss of 23 million jobs. The government only restored growth through a massive stimulus package and expansion of credit, which far from boosting productive activity, fuelled speculation in property and more recently, in shares. Both of these speculative bubbles are collapsing, most spectacularly with plummeting share prices. The Shanghai Composite Index has fallen by about 38 percent since its peak in June.

The CCP has encouraged investment in shares and property as a means of seeking to establish a base of support among sections of the middle class. Substantial financial losses among these social layers will only add to the political instability.

Beijing-based commentator Chen Jieren told the *New York Times*: "Everyone understands that the economy is the biggest pillar of the Chinese government's legitimacy to government and to win over popular sentiment. If the economy falters, the political power of the Chinese Communist Party will be confronted with more real challenges, social stability in China will be endangered tremendously, and Xi Jinping's administration will suffer even more criticism."

The close attention being paid to Chinese politics by the *New York Times* and other media indicates concern in Washington. The aim of the Obama administration's "pivot to Asia" against China has been to ensure continued US hegemony in Asia and the subordination of the Chinese regime to American interests. However, the prospect of political instability in Beijing, particularly if it triggers a movement of the Chinese working class, is the last thing that the ruling classes, both in the US and China, want.