China’s New Leftists and the China Model Debate after the Financial Crisis

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July 2011

ISBN 978-0-89206-655-1
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ISBN 978-0-89206-655-1

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Executive Summary

In the wake of the 2008 global financial crisis, China’s leadership is now paying specific attention to potential limits of the free market system as a basis for achieving optimum policy outcomes. Meanwhile, the Chinese intellectual community is also embroiled in a fierce debate, with the pro-market neoliberals and the pro-equality New Leftists serving as the two primary camps in conflict, on whether China should continue its “market-centric and efficiency-first development model.”

The New Left is an academic camp in China arguing that economic policy should not only focus on boosting growth but also on establishing a solid social safety net and enhancing social equity as well. After the crisis, the New Leftists were quick to pronounce the death of the market-centric approach and propose with much fanfare the advance of state capitalism as a new development model that the Chinese leadership should adopt.

Against this backdrop, Charles W. Freeman III and Wen Jin Yuan conclude that though the market-centric and efficiency-first doctrine has produced some glaring social inequities that require constructive policy attention, the solutions proposed by the New Leftists of strengthening state control over economic life will not necessarily resolve the widening income gap and sense of social alienation felt by many Chinese left relatively behind by thirty years of runaway growth; indeed it may even exacerbate social stability issues underlying the justified concerns of the New Leftists. Nevertheless, in addressing social discontent issues, the incoming Chinese leadership in 2012 may continue to tilt the policy balance toward the New Leftists and concentrate more on diminishing the income gap by fiat, rather than drawing on market-oriented reforms.

1. The authors would like to thank the Chinese scholars who agreed to be interviewed for this report. We have respected their preference to remain anonymous and therefore do not cite them by name.
Introduction

The 2008 global financial crisis was a wake-up call for China’s leadership about the potential limits of the free market system as a basis for achieving optimum policy outcomes. The thirty-year consensus among China’s leadership has been that economic policy should be primarily market-centric and efficiency-first. There is now a growing divergence of views among Chinese intellectuals on whether China should continue this fundamental course, and the resulting debate illustrates a cleft of views in official policy circles.

There are two primary camps in the debate: pro-market, efficiency-first neoliberals or Rightists that favor a continued emphasis on GDP growth, and the New Left (xinzuopai) camp, which places greater emphasis on building up a social safety net and improving social equality. With the underlying goal of both groups being to preserve political and social stability in China, the stakes are high.

Though the public debate is ostensibly limited to the Chinese academic sphere, it is worth examining since a number of Chinese intellectuals also serve as informal government advisers on policy issues, and their viewpoints can have a strong influence on the decisionmaking process in Beijing. In addition, with a number of best-selling books published by Chinese New Leftists, this academic group is having a growing influence on the Chinese general public. Therefore, understanding the dynamics and perspectives of this increasingly influential debate is helpful to all those observing China’s economic and political future. This brief aims to do the following:

- describe the current academic spectrum in China, from the left to the right;
- articulate the ongoing intellectual debate in China between the New Leftists and the Rightists over what kind of economic development path the Chinese government should adopt after the crisis;
- provide an overview of the rising economic nationalism of the Chinese general public, fueled in part by the New Leftists after the crisis;
- analyze the Chinese government’s reaction to the crisis as well as the New Leftists’ possible political influence following the 2012 leadership transition in Beijing;
- analyze whether the policy initiatives proposed by the New Leftists could actually reach the goal of reducing the income gap and promoting social equality in China.

The Current Academic Spectrum of China: From the Left to the Right

The New Left

China’s left-wing academic group includes two distinct subgroups: the ultra-leftists (jizuopai) and the New Leftists. The ultra-leftists are distinctly more radical in their approach, advocating a traditional Marxist view as interpreted by Mao Zedong. Some jizuopai scholars continue to deify Mao and firmly believe that China is, and has been for some time, moving away from his visionary path in a way that is a fundamental betrayal of the country’s (and the party’s) appropriate goal. This group believes that China should restore Maoist-style authoritarianism, and the Chinese
government should reinstitute its control on everyday economic life and return to a centrally planned economic system. The flagship website of Chinese ultra-leftists is called “Red China” (hongsezhongguo). However, since Chinese leaders have pursued a pragmatic, open-door economic policy initiative with undeniable economic and popular success for nearly three decades, this left-wing subgroup has limited influence over the Chinese leadership circle or the public. The excesses of the Mao Zedong era are still widely remembered and rejected by most of the current leaders.

The New Left is the second and larger subgroup of the Chinese left-wing academic faction. Mainstream New Leftism is primarily composed of scholars who have spent considerable time studying or working abroad at U.S. and European universities, and were heavily influenced by the idea of postmodernism before coming back to China; members include Wang Hui, Wang Shaoguang, Cui Zhiyuan, and Gan Yang. This group believes that China should gradually move toward a political system based on “democracy with Chinese characteristics”; in terms of economics, they think the current economic reform should not only focus on boosting the economic growth but also on establishing a solid social safety net and enhancing social equity. Chinese netizens, perhaps unfairly, associate a distinct third group with the New Leftists that champions Chinese economic nationalism and proposes policies to enhance government control over everyday economic life. This group mainly includes Zuo Dapei, a research fellow in the Chinese Academy of Social Sciences, Zhang Hongliang, a professor at the Minzu University of China, and “Larry” Lang Xianping, an economics professor at the Chinese University of Hong Kong.

From a historical perspective, the New Left group started to coalesce when China initiated its integration into the world economy. With the deepening of China's market reform in the late 1980s, the Chinese leadership opened the price system in 1988, allowing the commodities produced by the private sector to openly compete on the market with products from the state-owned enterprises (SOEs). The inability of SOEs to compete with the private sector eventually compelled the massive restructuring of SOEs and the dismantling of the social welfare system in 1993. Hence, workers in the SOEs were laid off on an unprecedented scale, posing a challenge of how to solve the rising social inequality problem accompanying the marketization process. Against this backdrop, Cui Zhiyuan, Gan Yang, and other New Leftists began to question the Western model of large-scale capitalist enterprises in 1994, marking the outset of the New Left group thinking.

3. The most recent activity of jizuopai features challenging the constitutionality of the draft of the property law while arguing that it is against the doctrine of public ownership in communist China.
4. The website contains a lot of articles that attempt to popularize the "Red Culture" and defend the legitimacy of the Cultural Revolution.
5. “Democracy with Chinese characteristics” is a term coined mainly by Wang Shaoguang, a political scientist at the Chinese University of Hong Kong.
6. Given the current political atmosphere in China, scholars do not want to be tagged with any academic group labels. Therefore, the term New Left was not coined by anyone within this group, but by the liberal scholars and Chinese netizens. Many of these scholars, such as Song Hongbin and Lang, would not identify themselves as members of the New Left. However, liberal scholars and Chinese netizens still regard them as members in the New Left camp. As a result, the New Left scholars are actually a loose group of intellectuals, who are being tagged with a specific academic group label by the Chinese netizens, and liberal scholars, whose research interests differentiate from one another, but who all question the direction of China's reforms and pin the blame for new problems on those reforms. As far as the academic circle is concerned, even for many scholars regarded as members of the New Left, their detailed opinions on Chinese issues still vary.
From the beginning of the 1990s to 2002, with a consensus within the Chinese central leadership circle to stick to the path of market reform, the New Left group was, to a great extent, marginalized politically and academically. However, from 1993 to 2002 the marketization process did generate many by-products, which included a widening income gap and a growing problem of social inequality. According to official statistics, in the 10-year period between 1993 and the end of 2002, layoffs in SOE and urban collectives amounted to 63 million jobs, with the biggest losses taking place after 1997, while increased urbanization resulted in millions of rural peasants pouring into cities, seeking poorly paid temporary jobs. In recent years the New Left’s views have gradually become popular with the Chinese people, who are increasingly dissatisfied with the current economic development path and seek alternatives to solve the inequality problem arising from the market reform.

The Rightists

Chinese scholars in the right-wing academic group generally believe in pro-market and efficiency-first neoliberalism. This group includes two subgroups comprised of “left liberals” and “right liberals” (Rightists). A representative of the left liberal group is Qin Hui, a history professor from Tsinghua University, whose view is that the New Leftists’ view of building up the social safety net and the Rightists’ position of facilitating China’s marketization process and promoting the economic freedom are not incompatible. However, according to Qin, without the establishment of a free democratic regime and laws to protect human rights in China, social equality and economic freedom cannot be achieved. Therefore, though Qin values both economic freedom and social equality, he proposes that the political reform necessary to switch China into a democratic regime should be initiated before advocating social equality.

The representatives of the Rightists include Zhang Weiying, an economics professor at Peking University, and Zhu Xueqing, a history professor at Shanghai University. On the political front, this group supports establishing a Western-style democratic regime. Economically, the group argues for capitalist-style economic reforms and China’s opening up. In their view, the reforms and necessary policies to move China into a Western-style market economy should be done promptly and efficiently.

The Intellectual Debate in China after the Financial Crisis

Following the global financial crisis, mainstream New Leftists, represented by Wang Hui, Wang Shao-guang, and Cui Zhiyuan, did not sharply criticize the Chinese government’s policy. Some of them involved themselves in an extensive public debate on what the China economic model is or should be.

On Utopia (wuyouzhixiang), the flagship website of the New Left academic group, Wang Hui, the leading scholar in that camp, did not openly make any speeches or publish any articles relevant to the current financial crisis and what the Chinese government should do. However, Wang Shao-guang had a limited, but important response. He argued in his article “Thinking about the Finan-

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8. Ibid.
10. Some Western observers have likened this to a search for a “Beijing consensus” to contrast with the long-established “Washington consensus” that many rushed to discredit in the wake of the financial crisis.
cial Crisis from a Cultural Perspective and Evaluating the China Plan” that the Chinese govern-
ment should pay specific attention to the land circulation problem in China’s rural areas after the
financial crisis.11 He said many workers employed by the export companies along the coast were
laid off and had to return to subsistence farming in their hometowns in rural areas. Once there,
they found the plots available for cultivation had been reassigned to other economic activity. In his
analysis, if the workers do not even possess a small piece of land that they can make a living from,
the financial crisis might eventually devolve into social turmoil and a “nationwide political crisis.”12

Wang also pointed out that the workers returning to their villages might very well propel the
development of rural areas. “These workers will bring back to their home villages the new tech-
nology, new ideas, and a new life style,” he noted. “This might fundamentally transform China’s
economic regime.”13

The China Model Debate—Viewpoints from the New Left Side

Though the New Leftists did not extensively criticize Beijing’s reaction to the crisis, some of them
did participate in the China model debate. For example, Wang Shaoguang stated in his article “The
Problem of the Notion—Small Government and Big Society” that the notion of small government
and big market is fundamentally flawed and argued that the Chinese government should further
expand to become “efficiently operated.”14

In “Invisible Hand Paradox and the Current Financial Crisis,” Cui Zhiyuan heavily criticized
the Washington consensus.15 He quoted Columbia University economics professor Joseph Sti-
glitz, who has contended that consensus is advice developed countries give to developing ones;

11. The land circulation problem occurs because local authorities possess the right to take and have
leases on land. According to the Rural Land Requisition Law, if a piece of land contracted by a farmer is
under requisition as urban land, compensation is based on the original annual income derived from the
land. Since agricultural products are priced extremely low, a farmer would receive very little compensation.
Once the local authorities own the land, they may sell it to the highest bidder. Compensating farmers only
costs tens of thousands of renminbi (RMB), while developers would pay tens of millions for the land. The
difference becomes income of the local authorities.

Meanwhile, the current criteria the Chinese central government uses to evaluate the achievements
of local authorities are GDP and annual fiscal income. As long as the provincial government achieved
rapid growth and the annual fiscal income ranked high during a local official’s three-year term, his or her
achievements would be recognized by the central government. Once construction starts on land that has
been requisitioned, every stage contributes to GDP growth. Consequently, buying rural land for low prices
and selling it high has become a good way for many local authorities to improve achievements and increase
fiscal income. (See “China’s Overheated Real Estate Market and Its Impact on Financial Stability,” China
Articleid=1457&languageid=1.

12. Wang Shaoguang, “Jingrong Haixiao De Wenhua Fansi Yu Zhongguo Fangan,” [Thinking About the

13. Ibid.

com/Article/Class17/201103/219956.html.

15. Wu Ming, “Cui Zhiyuan Fang Tan: Kan bujian de Shou Fanshi de Beilun Yu Dangqian Jinrong
“Do as we say, not as we do.” Cui also supported the decision from China’s State-Owned Assets Supervision and Administration Commission of the State Council (SASAC) to encourage SOEs to increase the stock holdings of the listed companies they controlled. In his view, the Chinese government’s decision indicates “the state-owned assets are still an active and stable force in China’s capital market.”

The fiercest criticism of the current China model is from the subgroup in the New Left academic clique that arouses economic nationalism and emphasizes strong domestic control of the economic life in China, represented mainly by Zuo Dapei, Zhang Hongliang, and “Larry” Lang Xianping.

Regarded as a nonmainstream Chinese economist by China’s netizens, Zuo is gradually gaining popularity with the general public through speeches and articles published in journals and cyberspace. According to him, China’s current pro-market economic development model is a blunder since the financial crisis has already illustrated “the bankruptcy of the privatization idea”; he points out that the advanced Western economies all have had to nationalize their major banks, thus proving that in the current world, China still needs the SOEs to serve as the “pillar of the economy.” Zuo further proposed that the Chinese government should fundamentally alter China’s industrial structure. The country should no longer rely on the export sector to drive the economic growth. Instead, the government should adopt trade protectionism and import substitution to support the development of China’s infant industries—mainly high-tech, manufacturing, and military. This would help establish an economic system “independent from the western world.” As for financial markets, Zuo argued that the government should centralize all international transactions in China’s financial market, forestalling private capital inflows to the country and augmenting the issuance of more government bonds to gather enough money to buy out foreign-owned enterprises in China, in order to salvage its economic sovereignty.

Corresponding to Zuo’s view is that of Zhang Hongliang, who supports economic nationalism. Zhang concluded that the financial crisis originates from the fallacious economic and financial policies of the United States, but he asserted that developing countries such as China have suffered the most. He made the case that the current international economic regime is a colonial economic arrangement, in which China produces commodity products for the United States to purchase and consume. To fundamentally alter this unequal arrangement, Zhang suggested that developed countries should cooperate with the developing countries rather than merely “exert a dictatorship over developing countries.”

**Counterarguments from the Rightists’ Side**

Although the global financial crisis has been seen in China to some degree as the failure of a laissez-faire economy, the liberals, especially the Rightists like Zhang Weiying, responded

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16. Ibid.
17. Ibid.
19. “The western world” mainly refers to advanced economies such as those of the United States, Canada, Australia, and western European countries.
potently to the sharp criticism from the New Leftists. Zhang argued that the cause of the current crisis is not that the U.S. financial system itself is problematic but that the U.S. Federal Reserve interfered too much in the financial market. In his explanation, Zhang explained that the Federal Reserve adopted the wrong policy of keeping the interest rate low and “credit easing.” In his opinion, market signals were ignored and distorted by the Federal Reserve so that those who were actually not qualified for housing loans successfully borrowed money from banks and mortgage companies. “After the interest rate signal was perverted by the Federal Reserve, the pricing mechanism failed to function properly,” noted Zhang. “Therefore, the current crisis has nothing to do with the United States’ financial system itself, but is the problem of the visible hand.”

Moreover, Zhang argued that China itself is partially responsible for the breakout of the crisis. According to him, if China opens its capital market earlier and allows the exchange rate to float, the appreciation of RMB would force China’s export companies to pay attention to research and development and upgrade the quality of their products, rather than merely relying on low-cost labor and the undervalued RMB to support the export sector. “China’s not fully-opened capital market actually amplified the crisis,” commented Zhang.

When it comes to policy suggestions for the Chinese government, Zhang argued that the government should not try to rescue the state-owned enterprises but should allow the market to adjust itself, because a bailout would distort the ability of the market to correct for poor economic choices and prevent routine structural adjustment.

In contrast to Zuo Daipai’s view of issuing government bonds and redeeming the foreign-owned enterprises, Zhang proposed that the government should continue market reform and allow private companies to openly compete with publicly owned enterprises and foreign-owned companies on the market. Though both the New Leftists and the Rightists criticize China’s current export-oriented economy, Rightists such as Zhang argue that the government should deepen the reform in China’s financial market and allow the exchange rate to float. Moreover, in opposition to suggestions of the New Leftists that state-owned enterprises should reduce their exposure to public markets, he proposed that the government should confer part of SOE stock holdings to Chinese citizens, stating that “it will greatly increase the consumption power of the citizens, boost domestic consumption and reduce the income gap accordingly.”

As far as New Leftists’ view of restricting private foreign capital inflows is concerned, Hua Min, a Rightist from the School of Economics at Shanghai Fudan University, refuted this burgeoning New Left view. Hua argued that investment is still one of the primary engines for China’s economic growth. Therefore, it is to China’s benefit to offer preferential tax treatment to multinational companies to attract private capital inflows.

23. Ibid.
24. Ibid.
25. Ibid.
26. Ibid.
Zhang, Hua, and other mainstream Rightist economists are heavily attacked by the New Leftists sensitive to questions of economic sovereignty. For instance, on Utopia, Zhang's view that China should be partially responsible for the crisis was criticized by some New Leftists as coming from “a traitor of China” and “Henry Paulson’s pitbull.” They decried Zhang's idea that the Chinese government should give part of the stock holdings of publicly owned enterprises to the Chinese citizens as “trying to destroy China’s economic sovereignty and national power.”

Conspiracy Theory and the Rising Economic Nationalism in China after the Financial Crisis

One of the theories popular in China about the causes of the financial crisis is that it is the result of a conspiracy between politicians, bankers, and multinational corporations in the United States whose real intention is to contain China and forestall its rise. Former Wall Street financial analyst Song Hongbin and Larry Lang wrote and published several books articulating and popularizing this conspiracy theory among the Chinese general public.

In New Imperialism in China I, published in January 2010, Lang analyzed several case studies, including the 2009 decision of the U.S. government to impose discriminatory tariffs on tires made in China, and the conflict between the United States and China over agriculture concerns. He concluded that those cases are all conspiracies led by either the U.S. government or multinational corporations in order to gradually control and eventually destroy the Chinese economy.

After the book proved to be a bestseller, Lang subsequently wrote New Imperialism in China II, published in May 2010. In this book, he argued that Greece's debt crisis is a conspiracy produced by Goldman Sachs. Meanwhile, he repeatedly used the term “new imperialism” to explain the current problems of China's economy. According to Lang, China unknowingly is facing domination from new imperialistic countries such as the United States. He further opines that the recent pressure from the United States to push China to appreciate its currency is a conspiracy. He states that the Japanese yen crisis of the 1980s and the Asian financial crisis in 1997 were both produced by the United States; now the United States is repeating with China what it did to Japan thirty years ago. The goal is to force China to open its financial market and complete the last step of a financial war.

Just before the May 2011 U.S.-China Strategic and Economic Dialogue, Lang published an article, arguing that the Chinese government should not open the nation's capital market and allow the Wall Street to “invade into China in the form of joint-ventures.” Otherwise, he contends, the United States will control the Chinese economy.

28. Paulson made similar arguments on China’s responsibility earlier this year.
31. Ibid.
In *New Imperialism in China I*, Lang specifically analyzes China’s corn and cotton industries as two major case studies. According to him, the United States subsidizes its domestic corn industry very heavily, and therefore it gains a comparative advantage on its price over China. U.S. multinational firms such as Monsanto have begun to invade China’s economy through foreign direct investment—setting up branches in Guangxi Province and selling their seeds directly to farmers. Lang opines that the seeds will breed crops of transgenetic corn, a type that is genetically modified to have desirable traits. If China allows these seeds to be planted throughout the country, Monsanto—along with other multinational companies—will gradually control China’s corn/maize industry.

He argues that foreign multinationals are using the same strategy to control China’s cotton industry. Lang points out that since China joined the World Trade Organization in 2001, four major multinational corporations (Cargill, ADM, and Bunge from the United States, and Louis Dreyfus from France) began to control the soybean, wheat, and sesame industries, using their large economies of scale to achieve preferential price competition.

Finally, Lang says Walmart is invading China by controlling and gradually restructuring the nation’s manufacturing supply chain through vertical integration.

Against this backdrop, he concludes that a force of “New Imperialism” is subtly invading China’s market under the noses of the government. Ultimately, this market penetration will cause China’s economic sovereignty to decline.

A more comprehensive version of this conspiracy theory is developed in another best-selling book *China is Not Happy*, published in March 2009 by a group of New Leftists from the economic sovereignty wing that stresses the independence of the Chinese economy and provokes the trend of economic nationalism in China.

Since the Chinese general public paid so much attention to these best-sellers, the debate between New Leftists and Rightists is no longer confined to academic circles. According to a survey conducted by the popular Chinese website *Sina Finance*, 69.5 percent of the 19,069 respondents agree that the authors of *China Is Not Happy* raise many important issues on China’s domestic and foreign affairs, and China’s leaders should use their recommendations as references during the decisionmaking process.33 Only 21.4 percent note that the authors’ viewpoints are too extreme and should not be considered seriously.34 On Douban, another popular website in China, the majority of the readers also regard Lang as an “experienced and knowledgeable economist that discloses the U.S. conspiracy.”35

34. Ibid.
The Chinese Government’s Reaction to the Crisis: Taking Some of the New Leftists’ Concerns Seriously

As economic nationalism becomes more popular with the general public, some New Leftists expect that the government will interfere more with the economy, building up one that is more independent from western influence after the financial crisis. Given some of the recent policy trends toward developing China’s innovative ability and pulling back on financial market reform, one can argue that the Chinese government has taken some of the New Leftists’ opinions seriously.

The Rightists, represented by Zhang Weiying, propose that the Chinese government stick to the path of market reform, reduce governmental interference in economic life to the lowest level, and allow market adjustment to correct for economic challenges. However, nearly all of the policies the authorities adopted after the crisis are anti-market.

China’s leadership in Beijing issued a stimulus package plan in November 2008, totaling 4 trillion RMB. Of this amount, 1 trillion was already spent for the Sichuan earthquake reconstruction. According to a revised plan in March 2009 on how to use the remaining 3 trillion, 50 percent was to be invested in transportation and power infrastructure, 12 percent in rural village infrastructure, 13 percent in affordable housing, 12 percent in technological innovation, 7 percent in environmental protection, and 5 percent in health and education.36 In sum, based on the plan, the stimulus package went primarily into the infrastructure sector.

The State Advances as Private Industry Recedes

Due to the characteristics of the stimulus package, state-owned enterprises became the biggest winner in this crisis. According to Barry Naughton’s analysis of China’s stimulus package, it can be classified into three components. First is an investment plan totaling 4 trillion RMB. Second is a funding mechanism, that is, the central government only funded a moderate portion of the investment plan and unleashed a flood of credit for increased investment, mainly through the banking system. The third is an industrial policy aimed at industrial restructuring.37

Although China’s Premier Wen Jiabao announced immediately after the investment plan was issued that the government would “promote open competition in the market and encourage private capital and private enterprises to cooperate with the local government to fight against the crisis,” various kinds of research done at the grassroots level in cities and towns show that small and medium-sized private enterprises gained little from the 4 trillion. Instead, funds for infrastructure projects were mainly contracted to the state-owned enterprises.38 This outcome is clearly the opposite of the suggestion provided by Zhang Weiying that the investment plan should lean toward the private companies instead of investing money inefficiently into SOEs.

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37. Ibid.
As far as the new industrial policy is concerned, the state council ordered the National Development and Reform Commission (NDRC) to develop a series of ten adjustment and revitalization plans in 2009, targeting ten different industries: iron and steel, automotive, textiles, equipment, shipbuilding, electronics and information, lighting, petrochemical, nonferrous metals, and logistics. Encouraging mergers and acquisitions, and making the enterprises larger and stronger are the main focuses of the plans. The state-owned enterprises with the most capital and resources therefore benefited the most. The detailed explanation of the plans openly lists the “leading enterprises” that the government decided to offer the strongest support, and these enterprises are mainly large-scale state-owned enterprises.39

With the implementation of the stimulus package, the market share of Chinese state-owned enterprises continues to swell while the share of private enterprises continues to diminish. Recently, Wang Haibo, a research fellow at the Chinese Academy of Social Sciences, stated that based on figures from the National Bureau of Statistics, the market share of private enterprises decreased sharply from 2008 to 2009.40 He further opined that the market share of the state-owned enterprises should at most compose around 20 percent of the overall share. Therefore, promoting the development of private enterprises in China is of the utmost importance.41

China’s Indigenous Innovation Policy

One of the most important recommendations the New Leftists made to the Chinese government is that it should lead the process of upgrading the country’s industrial structure and facilitating technological innovation. The central government—often called the Beijing authority—appears to take this recommendation seriously because it has initiated the so-called “indigenous innovation policy” or program.

Back in February 2006, the state council issued both “The Guiding Principles of Program for Mid- to Long-Term Scientific and Technological Development (2006-2020)” and a notification about a number of accompanying policies on implementing the indigenous innovation program. The notification required that improving indigenous innovation should be made the most important aspect of all work related to science and technology, and that the promotion of this innovation be carried out through tax incentives, financial support, and technological investment, etc.42 Hence, indigenous innovation becomes a national strategy mounted by the Chinese government to enhance the development of technological innovation in domestic firms so they could eventually have the ability to produce high-tech products and no longer rely on the research and development accomplishments of foreign firms.

In April 2010, the Chinese Ministry of Science and Technology, the NDRC, and the Ministry of Finance jointly issued the “2010 Notification Regarding the Development of Determining

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39. Ibid.
41. Ibid.
Indigenous Innovation Products,” which identifies products in six high-tech industries—computers, telecommunication installations, modern office equipment, software, new energy, and energy-saving devices—as indigenous innovation products. According to the initiative, domestic companies that manufacture these products through their own technological innovation would receive preferential treatment in the government procurement process. This aroused harsh criticism from foreign companies that said it discriminated against foreign-invested enterprise (FIE) products. However, the government stood behind the policy. As of November 2010, twenty-two provincial and municipal-level governments had released at least sixty-one separate indigenous innovation catalogs, indicating that the Beijing authority had ordered an efficient implementation of this policy initiative down to the provincial and municipal-level governments. Although Vice Premier Wang Qishan told U.S. officials at the Joint Commission on Commerce and Trade in December 2010 that the Chinese government would not tie innovation goals to government procurement efforts, there has been no corresponding rescinding of local and provincial catalogs.

China’s twelfth five-year plan—released in March 2011—also focuses on upgrading the country’s industrial structure and promoting indigenous innovation. In this plan, transforming the economic model is one of the most important tasks for the Chinese government in the next five years. The plan requires the shipping, automotive, electronics, and other important industries to focus on technological innovation, and declares that the government will propel the development of strategic emerging sectors, such as information technology, biotechnology, and alternative energy sectors. Qian Junliang, an analyst at Watson & Band, predicted that the transformation put forward in the twelfth five-year plan “is unlikely to be completed through the market itself. Instead government’s macroeconomic measures must play an important role in the transformation of the economy. Financing, tax preference, as well as more legal and economic stimulation measures will be taken to encourage innovation.”

China’s Banking Crisis in the Foreseeable Future

As far as China’s banking sector is concerned, the government has reinforced its control over the state-owned banks since the crisis, another major proposal advocated by the New Leftists. Since the central government only funded a moderate portion of the stimulus package’s investment plan, local governments must make up the rest with matching funds. In recognition of this as well as the fact that local government revenue is limited, the central government approved a special program of extra long-term, concessional interest rate bank loans to provide paid-in capital for the investment projects. In the first half of 2009, total RMB bank loans outstanding increased by a whopping 7.4 trillion RMB, with nonfinancial businesses getting more than 90 percent of the total. Moreover, during 2009 and 2010, the new RMB bank loans issued was 54.5 trillion RMB, a 71

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46. Barry Naughton, “Understanding the Chinese Stimulus Package.”
percent increase over a two-year period, from an estimated total of 37.8 trillion RMB by the end of 2008. According to a Chinese scholar, more than half of the medium- and long-term bank loans go to infrastructure projects. “The majority of the commercial banks in China are state-owned banks. These banks are now following the command from the central government to ease credit to fund the infrastructure projects,” noted the scholar. “Nobody knows whether these long-term loans will be paid back in the future or not. Therefore, the current anti-market action would probably result in the central government bailing out the banks one more time in the future.”

China’s Rightists have long emphasized reforming China’s banking system and making it more market-oriented. For instance, Zhang Weiying argues that to reform the banking system, the lending process needs to be more transparent so small and medium-sized private enterprises can have ways to finance their business and compete with state-owned enterprises. However, the current financial crisis hinders the process of reforming the banking system: banks again have to follow instructions from the central government when issuing bank loans and rely more on the government to be their lender of last resort.

Meanwhile, in order to help local governments catch up with matching funds, the central government has allowed them to issue corporate bonds. According to a scholar from the Shanghai University of Economics and Finance, almost half of the new corporate bonds are issued through special vehicles formed by local government, with the funds received going to stimulus-related infrastructure projects. “The financial crisis may foster the development of a larger corporate bond market,” the scholar said. “However, the market itself would be unhealthy since the local governments are distorting market signals.” This is not the kind of pro-market development favored by Rightist intellectuals.

Looking Down the Road: Will the New Leftists Have a Greater Influence on the Government’s Decisionmaking Process in the Future?

In order to have a strong influence over the 2012 administration of the central leadership, the New Left clique has already taken steps to incorporate famous scholars who have some influence over China’s leaders, often called Zhongnanhai, into their camp.

On Utopia there is a special column for Liu Guoguang, a famous economist working as the special advisor at the China Academy of Social Sciences in Beijing and one of the old-generation economists in the country, or “jingchengsilao.” In 2009, he published several articles on the

51. Barry Naughton, “Understanding the Chinese Stimulus Package.”
52. Telephone interview, Aug. 6, 2009.
53. Zhongnanhai refers to the central leadership compound in Beijing.
54. Jingchengsilao refers to four famous old-generation economists in Beijing. The other three are Xiao Zhuoji, Li Yining, and Wu Jinglian. These economists are believed to have strong influence over the Zhongnanhai’s decisionmaking process. Among them, Liu Guoguang’s view is regarded as leaning toward the New Left.
current global financial crisis and how to pursue the correct China model. In “China’s Performance in the Current Global Financial Crisis and the Model of Socialism with Chinese Characteristics,” Liu pointed out that the reason the nation was not as severely affected by the crisis as western countries is because in the current model, the government still preserves some Socialist arrangements, and the economic regime is not absolutely market-oriented. In many important industries, the major force is still state-owned enterprises, he stated. “Moreover, the government accumulates huge amounts of foreign reserve and maintains big government bureaucracies to regulate the overall economy. Therefore, in the global financial crisis, China’s Central Government has enough money and good institutional arrangements to quickly adopt correct policies to pull the economy out of the crisis.” Therefore, he concluded, though China could allow private enterprises to coexist (with SOEs) in the economic regime, the central government should stick to the path of “pursuing the China Model of socialism with Chinese characteristics”; that is, let the state-owned enterprises be the major force in China’s economic regime.

In another article, Liu Guoguang acknowledged the progress China has made in the past thirty years. However, he also pointed out that as far as equal distribution is concerned, the central government’s policy should switch from “letting a small group of people get rich first” to “worrying more about social equity.” Moreover, Liu proposed that during the market orientation process, the central government should use its power more frequently on “adjusting and planning the overall economic life.”

Apart from incorporating famous scholars who have some influence in the Zhongnanhai leadership circle into their camp, the New Leftists also actively establish ties with senior-level officials in the Chinese government, particularly those who appreciate their theoretical framework and are adopting policies aimed at enhancing social equality. Bo Xilai, the party secretary of Chongqing, an inland Chinese municipality with the political status of a province, mounted new left-leaning policy initiatives. As soon as he arrived there in 2008, he started the Five Chongqing program, which includes “Livable Chongqing,” “Healthy Chongqing,” “Convenient Chongqing,” “Forest Chongqing,” and “Safe Chongqing.” “Livable” and “Convenient” focus on municipal government funding for the construction of affordable housing and transportation infrastructure. “Healthy” targets “providing affordable health care to every Chongqing citizen as well as enhancing the spiritual health of citizens.” “Forest” and “Safe” aim to restore forest coverage and enhance the safety of the city, respectively. These efforts mirrored campaigns Bo conducted when he was mayor of Dalian in the mid-1990s and governor of Liaoning Province in the early part of the last decade. However, the scale and ideological tenor of these new efforts has distinct New Left overtones.

As far as the spiritual health is concerned, Bo has reinterpreted the Communist culture as “serving the people” (Wei Renmin Fuwu) and tried to restore the traditional Communist Red culture as a solution to not only Chongqing’s social problems, but also to national problems, ranging

56. Ibid.
from serious corruption, deteriorating social safety net systems, and an increased feeling of social alienation.\(^59\) He supports expanding state-owned enterprises so their market profits could fund the Five Chongqing program.\(^60\)

Since Bo’s policy initiatives mainly benefit less well-off groups of society, he is regarded by the majority of the people in Chongqing as an upright official. Cui Zhiyuan summarized Bo’s policy initiatives as the “Chongqing Model,” and now dedicates himself to promoting and generalizing the model he named.\(^61\) Responding to criticism from the Rightists that expanding the state will crowd out private enterprises, Cui states that based on his fieldwork in Chongqing, with the increase of the value of state-owned assets, the private sector also benefits from the process. He argues that in Chongqing, “it’s not the state crowding out private enterprise…In fact, the state and the market develop hand in hand (guo jin min ye jin).”\(^62\)

Several other leading New Left scholars, such as Wang Shaoguang and Larry Lang, also highly commend the Chongqing model; Wang created the pithy phrase “Socialism 3.0” to summarize it.\(^63\) He argues, “As China has already entered the stage of moderate prosperity, it is exploring Socialism 3.0. Among other pilot programs conducted across the country, Chongqing stands out as a prominent case” since “Chongqing is an inland rather than a coastal municipality,” suggesting that it could serve as an epitome of all Chinese cities and its experience could easily be generalized to at least other inland areas.\(^64\) With the New Leftists seizing upon Bo’s ideas to propose a fundamental shift away from the market-oriented policies proposed by the Rightists, it is quite possible that the New Leftists will use Chongqing as a successful experimental model to further popularize their policy suggestions.\(^65\)

According to some political analysts in Beijing, some signals indicate that Bo’s Chongqing model is increasingly attractive to the Zhongnanhai. Xi Jinping, the likely heir to the Chinese presidency in 2012, went to Chongqing for a visit in December 2010.\(^66\) Some other ranking members of the Chinese Communist Party, such as Wu Bangguo, He Guoqiang, and Li Changchun, have gone to Chongqing for visits either in the second half of 2010 or in the first half of 2011.

Chinese President Hu Jintao and Premier Wen Jiabao have not publicly endorsed the Chongqing model. However, there is still a possibility that Bo will be appointed one of the ranked members of the Politburo Standing Committee in the next administration, and the New Leftists’ influence on the central leadership will depend, at least in part, on that.\(^67\)

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60. Ibid.
64. Ibid.
65. Ibid.
67. The Politburo Standing Committee is China’s de facto top power organ, in which all nine ranked members have the final decisionmaking powers on crucial domestic and international issues.
Li Keqiang, a ranked member of the committee, is widely seen as one of China’s future leaders and the likely premier in the new administration of 2012. Some believe he would prioritize social equity over market reform and economic efficiency. When Li was the Communist Party secretary in Liaoning Province, he was well-known for his efforts to raise local residents’ standards of living, including the policy initiative of guaranteeing one member of each household in Liaoning a job. “Government officials who graduated with a law school degree are different from those who graduated with an economics degree,” stated a scholar from Fudan University. “The former usually care more about social equality rather than efficiency.”

Promoting Social Equality through Increasing State Control over the Economy: Myths and Realities

Many anticipate the next Chinese administration’s policy direction will reflect the New Leftists’ concerns for peasants, social justice, and welfare issues. However, even if the New Leftists exert strong influence on the next administration, their goal of increasing state control over the Chinese economy will not necessarily solve the problem of rising social inequality and alienation. After the 2008 financial crisis, despite the fact that the Chinese government invested a huge amount of money in infrastructure, the income level has not gone up proportionally in response. The average income level of Chinese city residents was 17,175 RMB in 2009 and 19,109 in 2010. Adjusted for inflation, the average income level only increased by 7.8 percent from 2009 to 2010, while the GDP increased by 10.3 percent during the same period.

Meanwhile, household income as a share of national income is also declining. According to a report published in March 2011 by the Carnegie Endowment for International Peace, household income represents 50 percent of China’s GDP, one of the lowest shares ever recorded. Michael Pettis, a senior associate in Carnegie’s Asia program, wrote, “The result of these policies was very rapid growth, but it came at the expense of increasingly misallocated investment—which had to be extremely high to make up for the declining impact of household consumption—and greater domestic imbalances.” The Chinese household consumption as a share of GDP indeed has also declined dramatically in the past decade, from 46.4 percent in 2000 to 36 percent in 2007, and farther down to 35.1 percent in 2009.

Yao Yang, an economics professor from Peking University, stated something similar a month earlier. “Whereas governments in most advanced democracies spend less than eight percent of government revenue on capital investment, this figure is close to 50 percent in China… Residential income as a share of national income is declining, making the average citizen feel poorer while the economy expands.”

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72. Ibid.
The major problem here is that a lot of investments through China’s state-owned enterprises are inherently inefficient. According to a paper published in 2009 by Giovanni Ferri, head of economics and mathematics at the University of Bari in Italy, and Li-Gang Liu, chief economist for greater China of BBVA’s research unit, although the SOEs they analyzed contribute around 25 percent to China’s GDP, they receive about 65 percent of all loans issued from Chinese banks. The scholars concluded, “If SOEs were to pay a market interest rate, their existing profits would be entirely wiped out… SOEs are still benefiting from credit subsidies, and they are not yet subject to the market interest rates.”74 In other words, without access to cheap capital fed by the Chinese banks, many SOEs would struggle to survive.

Pettis noted that the artificially low interest rates transfers wealth from net savers, mainly households, to net users of capital, mainly large manufacturers, real estate developers, infrastructure investors, and various government entities.75 He anticipated that as much as 5 to 7 percent of GDP was transferred from household depositors to banks and borrowers in this form every year.76 This trend feeds the friction between average citizens and net capital users.

Seth Weissman, an economics professor at the National Defense University in the United States, said, “China’s state-owned banks are feeding wasteful investments since they are not lending to companies that make the wisest investment decisions. Instead, the investment goes to those SOEs that have nepotic connections with local governmental officials.”77 The easy access to cheap loans, lack of accountability, and corruption problems probably have diverted the SOEs from the progress of contributing to social welfare and enhancing social equality. According to a report from Nanfangzhoumo (Southern Weekend magazine), in 2010 the average income level of employees in CNOOC Limited, China’s largest state-owned producer of offshore crude oil and natural gas, was 386.7 thousand RMB per year, while at other large state-owned enterprises, such as China National Coal Group Corp., China Huadian Corp., and China Guodian Corp., the average income level of employees was approximately 100 thousand RMB per year. By stark contrast, the average income level of employees in Chinese private enterprises was only around 20.76 thousand RMB per year in 2010.78 The statistics above seem to show that the SOEs contribute to the widening rather than the diminishing of the average income gap in China, therefore feeding the social inequality problem.

Some of the New Leftists focus on reestablishing China’s economic sovereignty. However, it seems that the increase of state control over the economy and large infrastructure spending has not generated significant positive national interests. According to research done by Huang Yasheng, a professor at the Massachusetts Institute of Technology’s Sloan School of Management, from 1989 to 2002 the per capita GDP grew at a real rate of 8.1 percent a year while Chinese personal

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76. The borrowers here are mainly state-owned enterprises.
income per capita averaged only 5.4 percent a year in growth.79 Huang further stated that Chinese personal income grew fastest during the 1980s and then slowed down dramatically during the 1990s, whereas GDP growth remained unaffected. “These trends in Chinese personal-income growth correlate closely with different types of economic and political policies,” he noted. “When China was moving in a more liberal political and policy direction, personal income grew very fast. When market reforms slowed and China was pursuing more statist policies, the growth of personal income slowed down.”80

Moreover, counter to the Chinese government’s expectations, the recent advance of the state economy after the financial crisis did not successfully promote interprovincial-level commerce through the ongoing establishment of the national highway system. With a severe inflation problem and a growing wage increase, the rational decision of Chinese firms is to move some of the supply chain into the inland market. However, the central government still has difficulty pushing this process by fiat. Indeed, there is increasing evidence that parts of the supply chain previously located on the Chinese coast are shifting to neighboring, wage-competitive countries, rather than to China’s interior, putting more pressure on the already wide income gap.

In sum, with a widening of the income gap and a severe problem of social alienation, the market-centric and efficiency-first doctrine might not be the best way for China to develop its economy in the long run. As Joshua Cooper Ramo argued in his report The Beijing Consensus, the sustainability of an economic system will rely, at least in part, on an even distribution of wealth, and should involve a commitment to innovation and constant experimentation of potential alternative development paths.81 However, in order to formulate a feasible alternative, the New Leftists need to develop more concretely a plan on how to solve the social inequality problem. The current plan of increasing state control over the economy, as well as boosting the national spirit and cohesion of the Chinese general public, probably will not generate the ideal outcome. In fact it will feed into the problem.

80. Ibid.
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China’s New Leftists and the China Model Debate after the Financial Crisis

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July 2011