

## The Influence and Illusion of China's New Left

The 2008 global financial crisis was a wake-up call for China's leadership about the potential limits of the free market system to achieve optimum development policy outcomes. The 30-year consensus among China's leadership has been that economic policy should be primarily market-centric and efficiency-first. However, there is now a growing divergence of opinion among Chinese intellectuals on whether China should continue this fundamental course.

There are two primary camps in the debate: pro-market and efficiency-first Rightists, who favor a continued emphasis on GDP growth, and the New Left (*xinzuopai*) camp, which places greater emphasis on building a social safety net and improving social equality. While the debate may appear at times to be academic to the untrained eye, Chinese intellectuals also serve as informal government advisers on policy issues, so their viewpoints can have a strong influence on Beijing. The influence of the New Leftists in particular appears to be growing, as members have published a number of best-selling books. Considering that the underlying goal of both camps is to preserve political and social stability in China, the stakes are high.

After the financial crisis, the New Leftists were quick to pronounce the death of the market-centric approach, and proposed with much fanfare the advance of "state capitalism" as a new development model that the Chinese leadership should adopt. Although the market-centric and efficiency-first doctrine has

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**C**hinese intellectuals now diverge on whether to continue a market-centric course.

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produced some glaring social inequities which require constructive policy attention, the solutions proposed by the New Leftists to strengthen state control over economic life unfortunately will not necessarily resolve the widening income gap and sense of social alienation felt by many Chinese left relatively behind by 30 years of runaway growth. While their objectives are laudable, the New Left's proposed solutions may indeed even exacerbate social stability issues.

Nevertheless, in addressing social discontent, the incoming Chinese leadership in 2012 may continue to tilt toward the New Leftist proposals and concentrate more on diminishing the income gap by fiat, rather than drawing on market-oriented reforms.

### **From Right to Left in China**

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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"<sup>1</sup> and "right liberals" (Rightists). The representatives of the Rightists include Zhang Weiyang, an economics professor at Peking University, and Zhu Xueqing, a history professor at Shanghai University. Politically, this group supports establishing a Western-style democratic regime, while economically it 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.

China's left-wing also includes two distinct sub-groups: the ultra-leftists (*jizuopai*) and the New Leftists. The ultra-leftists are distinctly more radical in their approach, and discredited, advocating a traditional Marxist view as interpreted by Mao Zedong. The New Left is the second and larger subgroup. It is important to note that the term "New Left" was not coined by anyone within this group, and many of the scholars would not characterize themselves as New Leftists. They are actually a loose grouping of intellectuals who have been tagged with this label by Chinese netizens and liberal "Rightist" scholars. The group's research interests differ and their detailed opinions on issues still vary, but they are alike in questioning the direction of China's reforms and in pinning the blame for new problems in China on the reforms themselves.

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,” a term mainly coined by Wang Shaoguang.<sup>2</sup> In

economics, they argue that the current economic reform should not only focus on boosting economic growth, but also on establishing a solid social safety net and enhancing social equity.

Chinese netizens associate a distinct third group with the New Leftists, one 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 (CASS); Zhang Hongliang, a professor at the Minzu University of China; and “Larry” Lang Xianping, an economics professor at the Chinese University of Hong Kong.

Historically, the New Left 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 goods and services produced by the private sector to openly compete on the market with products from state-owned enterprises (SOEs). The inability of SOEs to compete eventually compelled their massive restructuring and a subsequent dismantling of China's social welfare system, which was largely nation-based, in 1993. Workers in SOEs were laid off on an unprecedented scale, posing social inequality challenges inherent in the marketization process. Against this backdrop, Cui Zhiyuan, Gan Yang, and other New Leftists began in 1994 to question the Western model of large-scale capitalist enterprises, marking the outset of New Left thinking.<sup>3</sup>

From the beginning of the 1990s to 2002, with a leadership consensus that China should adhere to market reform, the New Left group was politically and academically marginalized. However, from 1993 to 2002, the marketization process did produce some serious inequitable side-effects, including a widening income gap, social dislocation, and other disparities. According to official statistics, in the 10-year period between 1993 and the end of 2002, layoffs in SOEs 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.<sup>4</sup> Due to the increasingly glaring social equity challenges, the viewpoints from the New Left

**The influence of New Leftists appears to be growing.**

group have gradually gained popularity, with many Chinese increasingly considering market reform to be an unnecessary evil.

## **The Chinese Intellectual Debate after the Financial Crisis**

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While Chinese banks and institutions were far less exposed to risky assets than many others, the financial crisis had an immediate negative effect on demand for Chinese exports and thus threatened China's economic trajectory significantly. China did recover quickly, largely as a result of a dramatic, carefully-targeted stimulus package, but confidence in the sanctity of international markets as the star to which China should hitch its wagon was badly damaged. The extent to which the Chinese government should expose itself to the vagaries of international markets as opposed to a policy of careful direction of capital to state-favored projects and industrial policymaking—the erstwhile “China model”—became the subject of much debate in the wake of the crisis.

### **Viewpoints from the New Left**

Some New Leftists, while refraining from open criticism of Beijing's reaction to the crisis, participated extensively in the debate over the “China model” (a development model focused on heavy state investment and control over key industries) that raged afterward. On Utopia.com (*wuyouzhixiang*), the flagship website of the New Left academic group, Wang Hui, the leading scholar in the camp, did not publicly address the Chinese government's response to the financial crisis. However, Wang Shaoguang, a professor of political science at the Chinese University of Hong Kong and another major scholar in the camp, had a limited but important message. He argued that the Chinese government should pay specific attention to the land circulation problem in China's rural areas after the financial crisis.<sup>5</sup> He stated that many workers employed by export companies along the coast were laid off and had to return to their hometowns in rural areas, often returning to subsistence farming. 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 from which to make a living, the financial crisis might eventually devolve into social turmoil and a “nationwide political crisis.”<sup>6</sup>

Wang also pointed out that the workers returning to their villages might very well propel rural development: “These workers will bring back to their home villages the new technology, new ideas, and a new life style. This might fundamentally transform China's economic regime.”<sup>7</sup> He also argued that the notion of a small government and a big market is fundamentally flawed, and that the Chinese government should further expand to become an “efficiently operated” government.<sup>8</sup>

Cui Zhiyuan, a professor of public policy at Tsinghua University, heavily criticized the Washington Consensus, the 10-point plan to overcome economic crises in developing countries promoted by Washington-based institutions such as the International Monetary Fund, the World Bank, and the U.S. Treasury Department. He quoted Columbia University economics Professor Joseph Stiglitz that the consensus is advice given to developing countries by the developed countries: "Do as we say, not as we do."<sup>9</sup>

The fiercest criticism of the current China model is from the subgroup in the New Left academic clique that focuses on economic nationalism and emphasizes strong domestic control of economic life in China, represented mainly by Zuo Dapei, Zhang Hongliang, and "Larry" Lang Xianping. Regarded as a non-mainstream 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 advanced Western economies all have had to nationalize their major banks, thus proving that in the current world, China still needs SOEs to serve as the "pillar of the economy."

Zuo further proposed that the Chinese government fundamentally alter China's industrial structure, no longer relying on the export sector to drive economic growth. Instead, the government should adopt trade protectionism and import substitution to support the development of China's infant industries—mainly in the national high-tech, manufacturing, and military sectors. This would help to establish an economic system independent from advanced economies such as those of the United States, Canada, Australia, and Western Europe. As for financial markets, Zuo argued that the government should centralize all international transactions in China's financial market, forestalling private capital inflows into the country and augmenting the issuance of more government bonds. This would gather enough money to buy out foreign-owned enterprises in China to salvage the country's economic sovereignty.<sup>10</sup>

Corresponding to Zuo's view is Zhang Hongliang, another New Leftist who supports economic nationalism. Zhang concluded that the financial crisis originated from U.S. economic and financial policy missteps, but asserted that developing countries such as China have suffered 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 developing countries rather than merely "exert a dictatorship" over them.<sup>11</sup>

### **Counterarguments from the Rightists' Side**

Although the global financial crisis has been seen to some degree in China as the failure of *laissez-faire* economics, Rightists such as Zhang Weiyong, a professor at the Guanghua School of Management at Peking University, responded ferociously to the sharp New Leftist criticism. Zhang argued that the cause of the current crisis is not that the U.S. financial system is fundamentally flawed, but rather that the U.S. Federal Reserve interfered too much in financial markets. In his opinion, the Federal Reserve kept interest rates too low and provided excessive cheap credit. Further, market signals were ignored and distorted by the Fed so that those who were not qualified for mortgages and home equity loans successfully borrowed money from banks and mortgage companies. He stated, "After the interest rate signal was perverted by the Federal Reserve, the pricing mechanism failed to function properly. Therefore, the current crisis has nothing to do with the United States' financial system itself, but is the problem of the visible hand."<sup>12</sup>

Moreover, Zhang argued that China itself is partially responsible for the breakout of the crisis. According to him, if China opened its capital market earlier and allowed the exchange rate to float, the appreciation of the renminbi (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 Beijing, Zhang argued that the government should not try to rescue SOEs, but should allow the market to adjust itself. Government bailouts would distort the ability of the market to correct for poor economic choices and prevent routine structural adjustments.<sup>13</sup>

In contrast to Zuo Daipei's view of issuing government bonds and redeeming 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. Though both the New Leftists and Rightists criticize China's current export-oriented economy, Rightists such as Zhang argue that the government should deepen the reform of China's financial markets and allow the exchange rate to float. Moreover, in opposition to New Leftist suggestions that SOEs should reduce their exposure to public markets, he proposes that the government should confer part of the stock holdings of SOEs to Chinese citizens, stating that "it will greatly increase the consumption power of the citizens, boost domestic consumption and reduce the income gap accordingly."<sup>14</sup>

Another Rightist, Hua Min of the School of Economics at Shanghai Fudan University, recently refuted the burgeoning New Left view which favors

restricting private foreign capital inflows. Hua argued that investment is still one of the primary engines for China's economic growth, and therefore it is to China's benefit to offer preferential tax treatment to multinational companies to attract private capital inflows.<sup>15</sup>

Zhang, Hua, and other mainstream Rightist economists are heavily attacked by the New Leftists who are sensitive to questions of economic sovereignty. For instance, on Utopia.com, Zhang's view that China was partially responsible for the crisis was criticized by some New Leftists as coming from "a traitor of China" and "Henry Paulson's pit bull." They decried Zhang's idea that the Chinese government should give part of the stock holdings of publicly-owned enterprises to Chinese citizens as "trying to destroy China's economic sovereignty and national power."<sup>16</sup>

### **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 more independence from western influence. Given some recent policy trends toward developing China's indigenous innovative capacity, and pulling back on financial market reform, one can argue that the Chinese government has already taken some of the New Leftists' opinions seriously.

Beijing issued a stimulus package plan in November 2008, totaling four trillion RMB. Of this amount, one trillion was already spent for the Sichuan earthquake reconstruction. According to a revised March 2009 plan on how to use the remaining three trillion, 50 percent was to be invested in transportation and power infrastructure, a quarter into rural village infrastructure or affordable housing, and the rest in technological innovation, environmental protection, and health and education.<sup>17</sup> In other words, based on the plan, the stimulus package went primarily into infrastructure.

#### **The State Advances as Private Industry Recedes**

Due to the characteristics of the stimulus package, SOEs became the biggest winners after the financial crisis. Although Chinese Premier Wen Jiabao announced immediately after the package 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 research at the grassroots level in cities and towns shows that small and

**State-owned enterprises became the biggest winners after the financial crisis.**

medium-sized private enterprises gained little from the Chinese stimulus. Instead, funds for infrastructure projects were mainly contracted to SOEs.<sup>18</sup> This outcome is clearly the opposite of the suggestion from Rightist Zhang Weiying that the investment plan should lean toward private companies instead of investing money inefficiently into SOEs.

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 10 adjustment and revitalization plans in 2009, targeting 10 different industries.<sup>19</sup> Encouraging mergers and acquisitions, as well as making the enterprises larger and stronger, are the main focuses of the plans. The SOEs with the most capital and resources therefore benefited the most. The detailed explanation of the plans openly lists the “leading enterprises” to which the government decided to offer the strongest support, mainly large-scale SOEs.<sup>20</sup> With the implementation of the stimulus package, the market share of Chinese SOEs continues to swell, while the share of private enterprises continues to diminish.

### **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 China’s industrial structure and facilitate technological innovation. The Beijing authority appears to take this recommendation seriously because it has initiated the so-called “indigenous innovation policy” or program.

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

**Pursuing indigenous innovation has become a national strategy mounted by the government.**

number of accompanying policies on the implementation of 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 promoting indigenous innovation should be carried out through measures such as tax incentives, financial support, and

technological investment.<sup>21</sup> Hence, indigenous innovation became a national strategy mounted by the Chinese government to enhance the development of technological innovation in Chinese domestic firms. The government hopes these firms can eventually produce high-tech products and therefore 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 Indigenous Innovation Products,” which identifies products in six high-tech industries—computers, telecommunication installations, modern office equipment, software, new energy, and energy-saving products—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 caused foreign companies to harshly criticize the plan as discriminating against foreign-invested enterprise (FIE) products, but the Chinese central government did not alter the techno-nationalist objectives behind the policy.

As of November 2010, 22 provincial and municipal-level governments had released at least 61 separate indigenous innovation catalogs,<sup>22</sup> 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 committed to U.S. counterparts at the December 2010 Joint Commission on Commerce and Trade that his 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.<sup>23</sup> 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.”<sup>24</sup>

### **China's Banking Crisis in the Foreseeable Future**

As far as China's banking sector is concerned, the central government has reinforced its control over state-owned banks since the crisis, which was another major proposal advocated by New Leftists.<sup>25</sup> 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.<sup>26</sup> Moreover, during 2009 and 2010, new RMB bank loans totaled 26.7 trillion, a 71 percent

increase over a two-year period, from an estimated 37.8 trillion RMB in existing loans by the end of 2008.<sup>27</sup> According to a Chinese scholar, more than half of the medium- and long-term bank loans go to infrastructure projects.<sup>28</sup>

**The current financial crisis has hindered the process of reforming the banking system.**

China's Rightists have long emphasized reforming China's banking system and making it more market-oriented. For instance, Zhang Weiyong argues that the lending process needs to be more transparent so small and medium-sized private enterprises have a means to finance their business and compete with SOEs.<sup>29</sup> However, the current financial crisis has hindered 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 local governments to sponsor the issuance of corporate bonds.<sup>30</sup> According to a scholar from the Shanghai University of Economics and Finance, almost half of new corporate bonds are issued through special vehicles formed by local governments, with the funds received going to stimulus-related infrastructure projects: "The financial crisis may foster the development of a larger corporate bond market. However, the market itself would be unhealthy since the local governments are distorting market signals."<sup>31</sup> This is not the kind of pro-market development favored by Rightist intellectuals.

### **Will the New Leftists Have Greater Influence?**

In order to have a strong influence over the administration of the central leadership in 2012, the New Left clique has already taken steps to incorporate famous scholars who have some influence over the Zhongnanhai leadership circle into their camp. On Utopia.com, there is a special column for Liu Guoguang, a famous economist working as the special advisor at the China Academy of Social Sciences (CASS) in Beijing and one of four famous old-generation economists in the country, or "*jingchengsilao*."<sup>32</sup> In 2009, he published several articles on the current global financial crisis, including one in which he argued that China was not as severely affected because the government still preserves some socialist arrangements in the current model and the economic regime is not absolutely market-oriented. Thus, although 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 SOEs be the major force in China's economic regime.<sup>33</sup>

In another article, Liu acknowledged the progress China has made in the past 30 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.”<sup>34</sup>

Apart from incorporating famous scholars, New Leftists also have actively established 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, has mounted new left-leaning policy initiatives. In 2008, he started the Five Chongqing program, which includes “Livable Chongqing,” “Healthy Chongqing,” “Convenient Chongqing,” “Forest Chongqing,” and “Safe Chongqing.”<sup>35</sup> “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” focus on “restoring forest coverage” and “enhancing the safety of the city,” respectively. These efforts mirrored campaigns that 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 have distinct New Left overtones.

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 that model.<sup>36</sup> Responding to Rightist criticism that the expansion of the state will crowd out private enterprises, Cui states that, based on his fieldwork in Chongqing, the private sector also benefits from the increased value of state-owned assets. 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*).”<sup>37</sup>

Several other leading New Left scholars, such as Wang Shaoguang and Larry Lang, also highly commend the Chongqing model. Wang created the phrase “Socialism 3.0” to summarize it, arguing “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

**New Leftists could use Chongqing as a successful experimental model.**

could serve as an example for all Chinese cities and its experience could easily be generalized to at least other inland areas. With the New Leftists seizing upon

Bo's ideas to propose a fundamental shift away from the market-oriented policies favored by Rightists, it is quite possible that New Leftists will use Chongqing as a successful experimental model to further popularize their policy suggestions.<sup>38</sup>

According to some political analysts in Beijing, some signals indicate that Bo's Chongqing model is increasingly attractive to the Zhongnanhai leadership circle. Xi

Jinping, the likely heir to the Chinese presidency in 2012, went to Chongqing in December 2010.<sup>39</sup> Some other ranking members of the Chinese Communist Party, such as Wu Bangguo, He Guoqiang, and Li Changchun, all 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 have not publicly endorsed the Chongqing model. However, there is a reasonable possibility that Bo will be appointed in the next administration as one of the nine members of the Politburo Standing Committee, China's de facto power organ with final decisionmaking powers on crucial domestic and international issues. New Leftists' influence on the central leadership will depend, at least in part, on that potential appointment.

Li Keqiang, a ranked member of the committee, is widely seen as one of China's leaders-in-waiting and the likely premier in the new administration of 2012. Some believe he would prioritize social equity over market reform and economic efficiency.<sup>40</sup> Li and Wang Shaoguang both graduated from Peking University's law school in 1977.<sup>41</sup> 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. A scholar from Fudan University noted that "Government officials who graduated with a law school degree are different from those who graduated with an economics degree. The former usually care more about social equality rather than efficiency."<sup>42</sup>

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### **Can State Control Promote Social Equality?**

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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 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 a huge amount of infrastructure investment into China's public sector, the income level has not gone up proportionally in response. The average income level of Chinese city residents in 2009 was 17,175 RMB, and 19,109 in 2010. Adjusted for inflation, the average income level only increased by 7.8 percent from 2009 to 2010, while GDP increased by 10.3 percent during the same period.<sup>43</sup>

Meanwhile, household income as a share of national income is also declining. According to a March 2011 report published by Michael Pettis of the Carnegie Endowment for International Peace, "Currently household income represents 50 percent of China's GDP, one of the lowest shares ever recorded. 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." Chinese household consumption as a share of GDP has also declined dramatically in the past decade, from 46.4 percent in 2000 to 36 percent in 2007, and further down to 35.1 percent in 2009.<sup>44</sup>

Echoing Pettis' view, Yao Yang, an economics professor from Peking University, stated that, "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."<sup>45</sup>

The major problem is that a lot of investments in China's SOEs are inherently inefficient. According to a 2009 paper published 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 Banco Bilbao Vizcaya Argentaria's (BBVA) research unit, in analyzing a sample of Chinese enterprises, they found that although SOEs contribute around 25 percent to China's GDP, they receive about 65 percent of total 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."<sup>46</sup> In other words, without access to cheap capital fed by Chinese banks, many SOEs would struggle to survive.

Pettis noted that artificially low interest rates transfer wealth from net savers, who are mainly households, to net users of capital, who are mainly large manufacturers, real estate developers, infrastructure investors, and various government entities.<sup>47</sup> He anticipated that as much as five to seven percent of GDP was transferred from household depositors to banks and borrowers (mainly SOEs) in this form every year. This trend feeds the friction between average citizens and net capital users.

**SOEs widen the average income gap in China, feeding social inequality.**

Seth Weissman, an economics professor at the U.S. National Defense University, stated “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 nepotistic connections with local governmental officials.”<sup>48</sup> The easy access to cheap loans, lack of accountability, and corruption probably have diverted SOEs from the goal 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 386,700 RMB per year, while at other large SOEs—such as China National Coal Group Corporation, China Huadian Corporation, and China Guodian Corporation—the average income level of employees was approximately 100,000 RMB per year. By stark contrast, the average income level of employees in Chinese private enterprises was only around 20,760 RMB per year in 2010.<sup>49</sup> The statistics above seem to show that SOEs widen rather than diminish the average income gap in China, therefore feeding social inequality.

Some New Leftists focus on reestablishing China’s economic sovereignty. However, increasing 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 Sloan School of Management at the Massachusetts Institute of Technology, per capita GDP from 1989–2002 grew at a real rate of 8.1 percent a year, while Chinese personal income per capita grew by an average of only 5.4 percent a year. 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. Huang noted that “These trends in Chinese personal-income growth correlate closely with different types of economic and political policies. 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.”<sup>50</sup>

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### **The Illusion of State Intervention**

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In sum, with a widening income gap and a severe problem of social alienation as well as a positive pilot project in Chongqing, the ideas of China’s New Leftists are positioned to have a greater influence in Beijing’s new 2012 leadership and

beyond. 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.<sup>51</sup> China's New Left appears to many to offer that sustainability so widely craved in Beijing.

To formulate a feasible alternative, however, New Leftists need to more concretely develop a plan to solve the social inequality problem. The current map 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 an ideal outcome. Declining household income and inefficient as well as corrupt SOE investments cast doubt on the wisdom of going further down the path laid out by China's New Left. In fact, based on the results since the financial crisis, these ideas seem to be exacerbating the problem. While the goals of China's New Left may be laudable, their ability to accomplish their objectives has not yet been demonstrated. Only time will tell what lessons China's new leadership has taken from initial experiments in Chongqing and after the financial crisis.

## Notes

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