China: Two Economic Models and the Ideological Divide in Chongqing

May 5, 2012

Summary

The new Party secretary for China's Chongqing municipality, Zhang Dejiang, has called on Chongqing to develop a more robust private sector using the "Zhejiang Experience," an economic model used in Zhejiang province, where Zhang previously served as Party secretary. Zhang's statement comes as Chongqing works to secure continued foreign and private investment in the wake of the March 15 ouster of its former Party secretary, Bo Xilai.

Zhang's statement may represent a departure from Bo's "Chongqing model," which utilized state-led investment to stimulate the economy and improve social welfare and served as a potential model for China's inland development. Given Chongqing's recent exemplification of leftist economic and political policies, abandoning the Chongqing model could signal Beijing's determination to put the country on a different economic path.

Analysis

Geographically, Chongqing is an ideal setting for economic experimentation. With 28 million residents, it is populous enough to serve as a testing ground for Beijing's policies before they are implemented nationally. However, it is sufficiently isolated such that the results of those experiments can be contained if Beijing chooses to do so.

Chongqing's ideal characteristics help explain the events that took place after Bo became Party secretary in 2007. Though Chongqing had been a key destination for state-driven growth since its separation from Sichuan province in 1997, the municipality evolved into something more under Bo's leadership: an experiment that brought centralized economic management together with a leftist social program. Bo used massive amounts of central funds to stimulate growth in Chongqing while simultaneously working to close
the wealth gap. During this time, Beijing's response to the Chongqing model changed from caution to quiet endorsement to apparent rejection.

Beijing originally appointed Bo to Chongqing in part to remove him from the capital and isolate him from his power base in northeast China. But Bo used the distance and relative autonomy of Chongqing to cultivate an unorthodox populist persona that he hoped would bolster his chances of gaining a seat on the Politburo Standing Committee. In the process, he came to represent China's burgeoning neo-left, a loose grouping that gained popularity in Chinese academic and political debates in the late 1990s. Bo was an opportunist willing to use atypical methods to build his own political and financial fortunes, but for many in Chongqing and beyond, he became a symbol of a different kind of Chinese politician. He spoke out on behalf of China's ordinary people and had a conspicuous public profile in a political system where stoicism and uniformity are the rule -- for example, Bo mandated the recital of nationalist songs as part of his "red campaign."

Given the popular support for Bo's policies, Zhang's statement suggests more than a localized economic policy change. By calling on Chongqing to cultivate a more dynamic private economy of the sort that brought relative prosperity to coastal provinces like Zhejiang throughout the 1980s and 1990s, Beijing is making a political statement: Bo's Chongqing model is on the decline. Beijing wants to replace the Chongqing model with an approach that encourages, rather than squeezes, small- and medium-sized private companies. While this approach is not unprecedented in China, the decision to publicly experiment with it in Chongqing, a major center for leftist political and economic policies in recent years, is a significant blow to Bo's state-driven economic model.

**Economic Models and Ideological Division**

Zhang's push for Chongqing to learn from the Zhejiang Experience and begin testing Beijing's nationwide effort to encourage private enterprise over massive state-owned enterprises (SOEs) reflects the ideological divide between China's left and right. While the Communist Party of China agrees that maintaining Party control is imperative, there has always been substantial disagreement among internal party factions over how to best preserve that control. In many ways, these divisions go back to the late 1950s, when Party leaders first began to question the limits of Mao Zedong's collectivization policies and the Soviet-style command economy. Against Mao's leftist policies, which equated social equality with a state-controlled economy, this new critique was labeled "rightist." When Mao died and Deng Xiaoping came to power in 1978, he began to redirect the country's economic course toward greater private enterprise, and what had been called the "rightist" economic and ideological model started to gain traction.

But the 1989 Tiananmen crackdown changed the way in which the Party thought of the economy. The Party realized how politically destabilizing insufficient control of private enterprise could be when coupled with the difficulties of controlling the provinces. It rapidly consolidated control over the economy, preparing for a centrally directed development model with two phases. The first phase, which began with the Jiang Zemin era in the 1990s, sought to use the productive powers of coastal economies while maintaining strict control of the stock exchange, financing and foreign investment. The second phase, which began with current President Hu Jintao, then co-opted the growing wealth of the coast to fund SOE-directed infrastructure development in the interior. The hope was that inland provinces would eventually rise out of poverty and participate in the private enterprise-led coastal economy.

Thus, the contemporary notions of right and left in China began to take shape in 1989 and were crystallized when Hu took power and began to shift Beijing's focus from the coast to the interior. In the Chinese context, "right" refers to economic decentralization, private enterprise and strong foreign participation in the economy, while "left" refers to highly centralized state investment-driven growth. The terms of debate derive from Chinese communist nomenclature: Right refers to those who accept some degree of social inequality as a temporary consequence of economic development. The left strives for equality, even at the expense of huge debt, wasteful SOEs and little transparency.
Chongqing represented an extreme iteration of the leftist stance. Rather than contradicting Hu, Bo took his economic policies a step further and combined them with a populist social program; and for a time, it worked. Under Bo, Chongqing's gross domestic product grew faster than China's, and the municipality became a major destination for foreign direct investment. At the same time, Bo managed to close the wealth gap somewhat, boosting rural wages even faster than the cities.

But developing Chongqing required massive fixed investment from the state at the cost of severely restricting the city's private economy. Domestic consumption was high because of Bo's social welfare initiatives, but the small- and medium-sized companies that catapulted cities like Shenzhen and Wenzhou were stifled. As Bo and the Chongqing model grew in popularity, they became less appealing to a central Party leadership faced with real consequences of unbridled government spending: debt, corruption and waste.

**The Party's New Orientation**

Zhang Dejiang is a strong candidate for appointment to the Politburo Standing Committee in October; his appointment as Party chief of Chongqing likely is temporary. This means that he is not in a position to make the Zhejiang Experience a reality at his new post. Rather, Beijing appointed him to alleviate growing private and foreign investor anxiety and to act as a mouthpiece for the Party. While he may not be able to accomplish much, his rhetoric is significant because it reflects the Party's orientation after Bo's departure.

Of course, neither the Zhejiang Experience nor the Chongqing model is an actual policy prescription from Beijing; they are approaches rather than concrete policies. But because Zhejiang refers to an economic strategy counter to Bo's, Zhang's invocation of Zhejiang is significant because it could signal that China's left is losing ground in the ongoing debate over the country's economic future.