

Xi Jinping's China

Leninism Upgraded: Xi Jinping's Authoritarian Innovations

By Sebastian Heilmann

In order to cement Communist Party control and discipline, Xi Jinping has dismantled China's successful model of 'explorative governance' and latitude for local initiative. China's long-term success depends on whether he is willing to relax the reins after the 2017 Party Congress.

When Xi Jinping took power in 2012, he found the Chinese Communist Party (CCP) in a state of erosion. The CCP had lost its organizational hold and internal discipline. Formal command structures had been undermined by informal modes of exchange, resulting in endemic corruption. Political institutions were incapable of addressing the rapid developments in China's economy and society, disruptive technological changes, and a shifting global environment. On the whole, in the eyes of Xi Jinping, the CCP had become unfit to rule China. To overcome this predicament, political power would have to regain priority over market logic, with the party firmly back in charge and a strong leader at the helm.

Building from this realization, Xi has spared no effort to reorganize and strengthen the party's governance over the past four years, and has established a centralized leadership system that revolves around himself as the ultimate decision-maker. This however created a top-heavy decision process and a degree of inertia in policy implementation that may put the country's political and economic future at risk. Various scenarios are plausible for China's development in the coming decades, none of which include a transition to a competitive democracy.

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Xi's approach to governance, strongly influenced by Marxist dialectics, has mainly aimed to reconnect the party to its historic roots, while propelling it into the future.

Xi has reinforced Leninist-style hierarchies and party discipline, and started a relentless rectification campaign. He also set out to centralize political decision-making and reassert party control over the economy, society, media and the security apparatus. Bureaucracies in charge of discipline and surveillance, which had previously kept a lower profile, were mobilized and expanded to curtail organizational, political and ethical deviations within the party and state apparatus. A vehement anti-corruption campaign was launched that brought fear and feigned compliance back to the center of inner party life. Finally, the state security apparatus, which had been busy pursuing its own business operations (from arms exports to the operation of casinos in Macao), was reorganized to watch more effectively over Chinese and foreign organizations inside and outside China.

Tightening and modernizing party governance

Amidst all this repression, Xi also promoted a more creative type of Leninist restoration. In particular, to fulfill his vision of “top-level design,” he altered the mechanisms of the core executive organs of the party and government. The installation of a number of new Leading Small Groups is a primary example. These groups had traditionally been tasked with defining broad strategies (such as long-term development goals) or coordinating policy on narrowly defined issues (such as poverty alleviation).

The newly established or reorganized leading groups, many headed by Xi himself, were turned into centers of policy decision-making. The Leading Small Groups have become

Xi has reasserted Leninist-style party control over the economy, society, media and the security apparatus

parallel, leader-driven units whose meetings regularly precede and predetermine the formal decisions of the Politburo or its Standing Committee. They also serve to entrench virtually all key decision-making in the party center, at the expense of the government.

Perhaps Xi's most important innovations are the new ways in which the leadership interacts with and controls the public. The communicative element of power in today's digital society presents a major challenge to the Chinese party-state. Xi is determined to turn this challenge into strength. China's authorities have moved beyond censorship of undesir-

able content, employing sophisticated instruments to shape the online narrative. Refined algorithms have been set up to steer users towards officially approved websites and away from potentially subversive content. In addition, the propaganda apparatus has created new online formats to make the party line appealing to a broader audience. Finally, China's government is making advances in providing e-government services to its citizens, suggesting a degree of transparency or accessibility that stands in sharp contrast to the prevailing opacity of political and administrative procedures.

The leadership has also incorporated big data into its national security strategy. In a context where anything that might endanger the CCP's hold on power is considered a threat to national security, China is establishing a "Social Credit System" to monitor and rate all of its citizens' economic, communicative, and social activities. This is arguably the most ambitious Orwellian scheme in human history, seeking to establish an all-seeing state. And this comprehensive approach to security spreads wider: no business operating in China today can escape the dragnet that is built into current cybersecurity regulations. China's cyberspace is purposefully designed to be an essential component of the overall political control structure.

This big data-enabled, IT-backed authoritarianism has the potential to put China on a path towards an entirely new, potentially totalitarian future; while also providing precedents and tools to other authoritarian regimes. This is not just warmed-over traditional authoritarianism; it is a new digital Leninism.

Design flaws in 'top-level design'

In a system where the main objective is to secure the one-party state's survival, the re-tooling of institutions and governance procedures so far has been quite successful. Discipline, defined as strict adherence to the party center's orders, has basically been restored, and some of the most egregious trespassers among high-ranking cadres have been prosecuted. Most importantly, by centralizing decision-making at the top, the leadership has reasserted its capacity for unified action and long-term policy agendas—two crucial advantages in the intensifying competition with Western democracies.

However, the practical disadvantages of this rigid party-centered system are also becoming increasingly apparent. The renaissance of "hard authoritarianism" has thrown out of balance the relation between the party and other actors in government, the economy and society—with

consequences that may hurt China's future development.

For one, the system of top-down policy-making has created an avalanche of overambitious or unrealistic projects. These range from swiftly turning China's mediocre national soccer team into a world champion, to establishing costly infrastructure corridors along the continental and maritime "Belt-and-Road," regardless of financial returns. Most problematically, sweeping policies—such as those outlined in the 2013 Third Plenum reform agenda—are essentially un-implementable due to conflicting goals or the stiff resistance of vested interests. The blame for implementation failure is routinely put on Premier Li Keqiang and the government bureaucracies. The true causes of failure, though, are ill-conceived and overly abstract policy formulation, and a lack of understanding for administrative realities on the ground.

So far, Xi has demonstrated that he is brilliant at making the party hierarchy work for his purposes. But he might underestimate the powerful influence of informal rules, incentives and interests on China's vast government bureaucracies tasked with putting the party center's policies into practice. So far at least, the decentralized, explorative approach pursued under Deng Xiaoping and Jiang Zemin appears to have resulted in more effective policy formulation and implementation than Xi Jinping's "top-level design."

Economic policy confusion

A particularly vexing problem is that the clarity of economic policy-making has deteriorated under the current system, which prioritizes political goals over economic ones.

The confusing interventions into the stock market following the June 2015 crash are a case in point. The market rout did little harm to China's real economy, but it damaged the credibility of Chinese policy-makers abroad. As a result, the international narrative about China has turned from one of steady success to one of impending crisis. Over the past year, policy-makers and regulators have demonstrated time and again that they lack the direction, consensus and instruments to effectively deal with the growing risks in China's financial and fiscal systems. The clumsiness of financial regulators and their apparent inability to control China's surging levels of debt has increased the actual and perceived risk of a systemic financial crisis in the near future.

Another striking example of policy drift is the lagging pace of state-owned enterprise (SOE) reform. Rather than requiring its SOEs to become more competitive, the Xi administration has continued to protect state

Local government paralysis

Local policy pilots, 2010-16



Author research, Gavekal Data/Macrobond

behemoths from domestic and foreign competition. It even promoted the merger of public giants into even larger monopolistic organizations—a stark reversal of the state sector reorganization undertaken by former Premier Zhu Rongji after 1998, which stressed competition. Today's SOEs once again appear to function as the business arms of the party, free from profit orientation, market competition and corporate governance.

Finally, top-level design has also stifled decentralized initiative at lower levels of government. The end of the previous approach of flexible, explorative governance has resulted in outright paralysis in local administrative action and policy implementation. Chinese data show a sharp decline of pilot projects at the subnational level after 2012, indicating that there is no appetite for local experimentation in the absence of official approval from Beijing. Most strikingly, a plethora of new experimental Free Trade Zones have turned out to be non-functional. They lack the capacity for policy innovation that was characteristic of the vibrant experimental zones during the Deng and Jiang eras.

What the future holds

Taking into account these new features of China's political and economic system under Xi Jinping, three main scenarios emerge for China's future: a return to explorative governance, institutional ossification under an

ever more repressive security state, or a loss of central control. The one outcome we can confidently rule out is an evolution towards more democratic governance.

Scenario 1: Back to explorative governance

It is reasonable to expect that the current system—a centralized party and security state that thrives on tight control of key economic actors, aggressive industrial policies, anti-Western ideology and aspirations to regional hegemony—will prevail beyond the 2017 Party Congress. Yet in the medium term (between 2020 and 2025) China’s worsening economic outlook—including rapidly increasing risks in the real estate and financial markets, and mounting debt levels despite slowing growth—will force the leadership to make adjustments to the current, rigid approach to governance.

In its modified form, the “Xi system” may retain its centralized character with respect to domestic political and societal control as well as foreign and security policy. In terms of economic policy and regulation however, Deng’s proven exploratory methods may well re-emerge to allow for more flexible reactions to novel domestic and international challenges.

In this scenario, a strengthened private sector could push for overdue reforms of state-controlled oligopolies and a reorganization of SOEs. A loosening of the state’s grip on the economy would result in progressive decentralization, opening up spaces for self-organization and a more pluralistic society. China’s approach to international cooperation may fluctuate, but the leadership’s willingness to cooperate with the US in the Asia-Pacific could prevail, capping China’s military ambitions.

This eventual softening may already be built into the current model. In line with Communist Party tradition, Xi’s leadership is likely to pursue the current hard course as part of an extended (but finite) period of rectification and reorganization. As soon as it deems the “clean-up” to be completed, and feels safe enough at the levers of power, the party center may relax some of the rigid controls currently in place.

Scenario 2: Security state and institutional ossification

China’s development could also take a less pragmatic direction. Should Xi try to seek a third term as CCP General Secretary beyond 2022, a strong-man system will be in place.

In this scenario, an ossification of the current system would result in deepening political paralysis and a loss of economic dynamism. The climate for domestic and international investment would deteriorate sharply

as a consequence of political hardening. Uncertainty and tension within the central leadership would cement the concentration of power in a single leadership figure. Decision-making would rely more on the whims of a strong man than on unified action by a collective party leadership. Such a strong leader, however, would need to secure the continuing support of oligarchies within the party center, security organs, military headquarters and state enterprises.

Selective domestic repression as well as nationalism and populism would play an even bigger role in this scenario than in today's "Xi system". The leadership could seek to distract attention from domestic troubles by stirring up regional conflicts or by engaging in military adventurism. All-out strategic rivalry with the United States would not only fuel a costly arms race, it would also create a de facto state of war in cyberspace. With China pursuing narrowly self-interested and disruptive foreign policies, decision-making in key multilateral institutions would be blocked, preventing progress on issues such as trade policy and financial governance.

The one option off the table: China's evolution towards a Western style democratic constitutional state

Scenario 3: Loss of central control

A third and final scenario could see Xi Jinping's leadership suffering a backlash due to domestic economic difficulties, intra-elite strife and/or foreign policy disasters such as serial defaults of large-scale overseas projects, or skirmishes in the South China Sea demonstrating US military superiority. These setbacks would lead to an erosion of the CCP's authority and to a power vacuum similar to that in post-Communist Russia during the 1990s.

The CCP leadership would disintegrate into feuding groups while many ordinary members would abandon the party. The emergence of oligarchic and mafia-like structures would cause a fragmentation of political power on the regional level, the emergence of a chaotic pluralism, and political strife that could well turn violent. The economic slump would provoke capital flight and a withdrawal of foreign investors. Finally, a loss of central civilian control over the military would create risks of maverick military action and nuclear proliferation.

This very disruptive scenario appears unlikely today, but should not be ruled out. The risk of systemic collapse is higher in China's rigid party-state than in weak-looking yet structurally more elastic systems with

regular democratic turnover. China's system of government is particularly vulnerable to abrupt economic shocks (such as a real estate bust or a steep decline in the exchange rate) or a visible foreign policy failure (such as unsuccessful foreign projects or a striking demonstration of weak military capability). A system that derives its legitimacy from economic performance and nationalist pride cannot afford to disappoint popular expectations in these areas.

Scenario impossible: competitive democracy

Whichever scenario plays out, one option seems fully off the table: China's gradual evolution towards a Western style democratic constitutional state. The political leadership under Xi Jinping and large parts of Chinese society currently display zero appetite for transforming the party-state into a liberal competitive democracy. We should therefore prepare ourselves for a less welcome, and potentially nasty, evolution of the Chinese political system.