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Xi Jinping’s Political Gamble: Searching for a New Governance Model

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China’s drive to become a leading socialist power

The 19th National Congress of the Communist Party of China was held in Beijing from October 18 to 24. Xi Jinping used this occasion to establish his position as the father of China’s ascendancy to the position of being a great power, with the aim of putting himself on a par with Mao Zedong, the founding father of modern China, and Deng Xiaoping, the father of reformation in China and its open-door policy.

In his three-and-half hour presentation of the political report prepared by the CPC Central Committee, President Xi mapped out China’s grand goals in the run-up to the 2049 centenary of the PRC’s founding. Covering a 15-year period from 2020 to 2035, the aim of the first stage of these goals is to pursue shared wealth throughout the entire nation by significantly narrowing the urban-rural gap in living standards. Over the longer term, the country aims to become a global leader in terms of national strength and international influence as it approaches the middle of the 21st century.

It should be noted that Xi, who coined the phrase “socialism with Chinese characteristics for a new era,” clearly aspires to build a great “socialist” power. Indeed, in his speech, he stressed the supremacy of the communist party and declared that China will not imitate the Western political institution of liberal democracy.

China’s growing international presence as a force against democratization combined with Russia’s expansionism in the Ukraine and elsewhere stands in stark contrast to the eroding Western-led world order based on respect for open markets and democracy. In 1989, the prominent American political scientist Francis Fukuyama declared the victory of liberal democracy and the market economy over other systems, but now—nearly 30 years after the end of the Cold War—his optimistic prophecy of the “end of history” has never been more in doubt.

A pivot away from Deng Xiaoping’s model of governance

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The reformation and open-door policy championed by Deng Xiaoping yielded brisk double-digit economic growth for China year after year. According to estimates, China's GDP stood at 364.5 billion yuan when the reforms were initiated in 1978, while its per capita GDP was a mere 381 yuan. In around just thirty years, China's per capital GDP has climbed to 29,762 yuan, overtaking Japan in the GDP rankings and becoming the world's second largest economy after the United States. At the same time, however, political decay, widening income inequality, worsening environmental destruction and other such problems stemming from these reforms are becoming increasingly apparent.

The need for a systemic and comprehensive overhaul of the national strategy for tackling the side-effects of Deng Xiaoping's reforms had already been pointed out under the leadership of Hu Jintao, but special interest groups had obstructed policy agreement and paralyzed policymaking at the central level. As the saying that "policies formulated in Zhongnanhai [the former imperial garden in Beijing that now serves as the central headquarters for the Communist Party of China and the State Council of China] do not leave Zhongnanhai" suggests, centrally set policies for economic structural reform were not properly implemented at the provincial or local levels. Driven by an ominous sense that the survival of party rule was under threat, the Xi Jinping Administration shifted to a new governance model with the reconstruction of party organizations at its core.

With 4.5 million party organizations and 89 million party members, China is the world's largest communist country. During Xi's first term, new party organizations were set up not only in state-owned enterprises (SOEs), but also in private and foreign-owned enterprises. The infiltration of party organizations is prioritized among companies engaged in activities related to social media applications and web-based media that attract many young users, such as MoMo, Zhihu, Douban, Qingting FM, and Panda TV. Reportedly, around 90% of private enterprises and 70% of foreign-owned enterprises today have party organizations.

This stronger party leadership is expected to kill three birds with one stone by (1) ensuring communist rule; (2) helping the party to assert its authority and restore public confidence through anti-corruption campaigns and other such measures; and (3) strengthening the authority of the central government to allow it to carry out the policies that the Hu Administration could not.

During the remarkable economic growth that followed the adoption of reforms and an open-door policy by Deng Xiaoping, China consistently pursued the separation of party and business and the separation of party and government. The Xi Administration, however, is pursuing reforms and an opening up of the economy by rebuilding the communist party and strengthening its leadership in state affairs.

Legitimacy of the communist regime under Xi Jinping

The ideological coherence of communism in China ebbed after the implementation of reforms and the opening up of the country. Generally speaking, the communist regime was said to claim legitimacy from its victorious resistance against the Japanese in World War II and the wealth it generated through remarkable economic growth. With China's economic slowdown having become the "new normal," the Xi Administration has stealthily switched the communist regime's sources of legitimacy to harmony in society and harmony with nature.

In his presentation of the political report at the National Congress, Xi pointed out that the principal contradiction facing Chinese society in this new era is the population's ever-

growing desire for a better standard of living in the face of unbalanced and inadequate development. The report also included a pledge to eradicate rural poverty by 2020 and identified the development of a safety net and a medical insurance system as challenges that need to be addressed. Notably, the Xi Administration is pressing forward with an environmental policy to build a “beautiful China” through the rigorous implementation of environmental regulations and measures. Toward this end, Xi has announced that China will establish regulatory agencies to manage state-owned natural resource assets and monitor natural ecosystems. In doing so, he has committed the state to strengthening law enforcement in order to curb pollution emissions.

Essentially, the Xi Administration has, in the midst of declining economic growth, sought legitimacy for the communist party through the pursuit of harmony in society and harmony with nature.

Will the Chinese model prove successful?

China has boasted that, compared to a democratic system, an authoritarian system is better suited to distributing resources and nurturing infant industries in developing countries. Xi Jinping says that, in this respect, the Chinese model provides a new option for developing countries.

The future resilience of communist rule in China will depend on how successful Xi is in his fresh bid to strengthen the power of the party, wipe out corruption, build the world’s leading military force, and further reform and open up the economy.

As a part of the country’s economic reforms, Xi is restructuring and bolstering state-owned enterprises, a job left unfinished by the Hu Administration. The restructuring of Central SOEs is being proactively pursued primarily in the manufacturing, energy, ITC, and chemical industries in order to concentrate state-owned assets in areas that are vital to national security and enhance their competitiveness.

Meanwhile, Xi is endeavoring to let the market play a decisive role in resource allocation and push ahead with market-oriented reforms. More discretion is being given to China’s pilot free-trade zones, where negative lists are being eagerly introduced.

The reinforcement of the party leadership is being combined with the decentralization. In this ongoing decentralization process, Li Keqiang is taking the lead in simplifying the administrative review procedure.

Despite all of this, Xi’s governance model for consolidating communist rule by strengthening the party leadership while pursuing further reforms and the opening-up of the economy entails great risk. Propaganda that relies on nostalgia for traditional culture and the party’s victorious resistance against the Japanese in World War II may whip up Chinese nationalism and destabilize relationships with neighboring countries.

Xi has declared that market liberalization is the priority for his second term, but the true priority is to reinforce the party leadership. Effective measures have not yet been introduced to address the property bubble, debt overhang, and other problems left behind by the Hu Administration.

Supply-side reforms that rely on party leadership, administrative orders, and state intervention are at odds with a market-oriented approach. As the example of Shanghai’s

pilot free-trade zone suggests, the ongoing economic reforms cannot yield tangible results without judicial independence and political reform. The government’s tight capital control helps to stabilize the Chinese yuan, but at the same time hampers the internationalization of the currency.

Stronger party leadership may succeed in delivering the harmony in society and harmony with nature required to legitimize communist rule, but the increasingly rigid Leninist political system is blocking any deepening of the market economy. If the party leadership is undermined, the ongoing downward delegation of authority may lead to a sudden loss of a unifying force in the country. Indeed, Xi has played a risky gambit with an unpredictable outcome.

Given the growing tendency for the United States, until recently the leader of the world order, and other Western countries to adopt a more inward-looking stance, Japan has an important role to play in the world today. In response to the maritime expansion of China, Japan needs to bolster its defense of the Ryukyu Islands and strengthen both bilateral and multilateral security agreements, including the US-Japan alliance. Most importantly, Japan should seek a more stable relationship with China by taking advantage of the Xi Administration’s move to improve relations now that it has consolidated its own power base. Furthermore, Japan should lead the world with a more proactive policy toward China by encouraging it to press on with its policy of opening up and to adopt genuine market-economy mechanisms, while at the same time exerting pressure to safeguard free speech and the human rights of the Chinese people.

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