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Minxin Pei

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CHINA: FROM TIANANMEN TO NEO-STALINISM

Minxin Pei

Minxin Pei is Tom and Margot Pritzker '72 Professor of Government and George R. Roberts Fellow at Claremont McKenna College. His books include China's Crony Capitalism: The Dynamics of Regime Decay (2016).

In 1989, as the Cold War between the Soviet Union and the United States was nearing its end, the world was on the cusp of what was supposed to be the golden age of economic globalization and political democratization. And indeed, over the course of the three decades that followed the fall of the Berlin Wall, globalization and democratization did make significant strides. Recent years, however, have seen each of these trends suffer potent reverses, to the point where we are now witnessing globalization unwind as authoritarianism makes a comeback.

Were there to be a line-up of suspects who might plausibly be held responsible for reversing globalization and democratization, the People's Republic of China (PRC) would surely be in it. This may seem obvious now, but that does not mean it was predictable. As jubilant Germans took sledgehammers to the Wall in November 1989, the PRC was just five months past a grave regime crisis that had culminated in the Tiananmen Square massacre of early June.

Few could have anticipated how rapidly China's power would grow, or could have foreseen the globe-spanning consequences that would flow from the rise of an economic superpower ruled by a sophisticated and ruthless one-party dictatorship. Fewer still could have predicted that strongman rule would return, complete with a revival of neo-Stalinism. Instead of leading an autocratic regime to liberalize itself, Chinese economic modernization seems to have done nothing but strengthen that regime and give it the means to exert an ever-expanding influence abroad.

Now that China seems to have replaced the defunct USSR as the greatest geopolitical threat to Western democracies, a bothersome question is how the West could have gotten China so wrong. Clearly, West-

ern analysts were too quick to assume that economic development and technological progress would promote freedom and democracy in dictatorships. Successive U.S. presidents expressed their faith that China's economic progress would promote forces destined to undermine the Chinese Communist Party (CCP) rule. As Bill Clinton confidently said in 1997, "it will become increasingly difficult to maintain the closed political system in an ever more open economy and society." Three years later, his soon-to-be-successor George W. Bush told Boeing aircraft workers that "trade with China will promote freedom. . . . Once a measure of economic freedom is permitted, a measure of political freedom will follow."¹

Focusing on the West's excessive optimism, however, does not explain why China has morphed from a potential partner into a geopolitical foe. In trying to grasp why post-Mao Zedong China's four decades of rapid economic development—arguably the most spectacular for a large economy in world history—have produced outcomes so unfavorable to democratic prospects, we must look first at the strategy and policies of top Chinese leaders. It is their calculations and intentions, far more than the deeds of external actors, that have set China's trajectory in the post-Cold War era. With hindsight, we can see how the goals and inherent limitations of Deng Xiaoping's economic-reform program not only made it hard for economic development to drive political liberalization, but also contributed to the return of neo-Stalinist rule under Xi Jinping.

The Economic Foundations of One-Party Rule

Deng (1904–97), who led China from 1978 to 1992 and launched its economic revolution, stands indisputably as one of history's great modernizers. Yet complex and conflicting impulses drove his policies and the strategic thinking behind them. Keenly aware of how disastrous Mao's 27-year rule had been—with its wars, the failed Great Leap Forward and ensuing mass famine, and the chaotic Cultural Revolution—Deng understood that a fundamental shift was needed to save the CCP. Only by dropping class struggle and perpetual revolution and embracing economic development could the party-state regain the support of the Chinese people. For Deng, however, abandoning communism and taking up capitalism in the economic realm was only the means to a political end: continued one-party rule by the CCP. The ultimate goal of preserving the CCP's political monopoly imposed strict limits on how far economic reform, political liberalization, and friendlier relations with the West could go. As Deng himself declared, reforms would have to observe "four cardinal principles"—"the socialist path, the people's democratic dictatorship, the leadership of the CCP, and Mao Zedong Thought and Marxism-Leninism."

In the economic realm, these limits meant keeping a significant part

of the economy under state ownership. Over the last four decades, the party-state has given up control over a large swath of the economy, mostly in manufacturing and services, but has maintained state-owned

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enterprises (SOEs) that dominate or even monopolize such crucial sectors as financial services, telecommunications, energy, automotive production, and transport. The CCP has reaped incalculable benefits from its grip on the economy and unlimited access to the coffers of SOEs. These remain abysmally inefficient, even after forty years of economic reform. Yet in round terms, they still account for at least a fifth of China's total industrial output, employ one in

seven urban workers, and receive 80 percent of net bank loans.² Aside from its SOE assets, the party-state owns vast wealth in land and natural resources. In 2018, the Chinese Academy of Social Sciences, an official think tank, estimated that the 2016 net value of state-owned assets was 118 trillion yuan (or US\$16.5 trillion).³

These immense resources form the economic foundation of one-party rule. They allow China's rulers to buy their supporters' loyalty with perks and high-paying jobs; underwrite a large and increasingly sophisticated repressive apparatus; and make it possible for the elite to settle its internal conflicts through pork-barrel politics. This is why no Chinese leader has dared to confront the last bastion of socialism, the giant SOEs. After Xi Jinping came to power in 2012, he even pledged to make these inefficient behemoths "stronger, better, and bigger."⁴

China's economy, however, pays a heavy price for the Communist Party's privileges. One estimate says that without the wealth-destroying SOEs, China's rate of economic growth would have been two percentage points higher each year from 2007 to 2015.⁵ And purely economic losses may not be the worst part, for this hybrid economy is a hotbed of corruption. The CCP's control of so much land, natural resources, and capital allows its officials to enrich themselves by colluding with one another and with private businesses. As a result, autocratic state capitalism and its twin—autocratic crony capitalism—have dominated China's economic landscape, poisoned its domestic politics, and caused tensions with foreign trading partners.⁶

The return of strongman rule can be traced to crony capitalism, while the breakdown of cooperative relations between China and the West is an inevitable consequence of state capitalism. The spread of corruption within the regime created circumstances that an aspiring strongman could exploit in order to destroy his corruption-tainted rivals and

consolidate power. Abroad, China's state-capitalist model required neo-mercantilist policies, including protectionism, subsidies, and violations of intellectual-property rights, that eventually caused a backlash from trading partners, especially the United States.

If the paramountcy of Deng's political goal limited how far his economic reforms could go, his inability to institute genuine and enforceable political reforms paved the way for the eventual return of a Mao-like figure such as Xi, who has been undoing Deng's legacies with relative ease. Deng's resistance to substantive political reforms stemmed from both his personal interests and his ideological aversion to constitutionalism and democracy. At the personal level, implementing reforms that could foster competition within the Party and constrain top leaders would have compelled him to limit his own power. Even after retiring from the Politburo in 1987, Deng held on to the chairmanship of the Central Military Commission (making him commander-in-chief of the Chinese military) and retained ultimate decision-making authority.

Ideologically, Deng believed that China would be able to modernize only under the leadership of the CCP, which could mobilize the necessary resources and avoid the nettlesome obstacles posed by democratic politics. In his mind, democracy appeared as a bringer of renewed chaos and a threat to economic modernization.⁷ His determination to preserve the CCP's political monopoly, his personal political interests, and his ideological beliefs greatly constrained the type and extent of political reform.

Deng worried about the danger of gathering too much power into one pair of hands, as well as the risk of a power struggle over the question of who would succeed him, but he took only half measures in response to these concerns. His reforms to political procedures were vague, declaratory, and difficult to enforce. The age limit for senior leaders, for instance, was informal and often manipulated to suit these leaders' political needs. The presidency of the People's Republic was term-limited, but this is a largely symbolic position. The posts that brought the greatest power, those of military chairman and CCP general secretary, had no term limits. In March 2018, Xi easily did away with the presidential term limit. It was written into the constitution, but the National People's Congress (NPC), China's rubber-stamp parliament, can amend the basic law, and the NPC is firmly under CCP control.

Key documents adopted under Deng's aegis, such as the "Several Principles on Political Life in the Party" (1980), spelled out the norms of collective leadership, the rights of CCP members, and the requirements of inner-Party democracy. Yet as in the cases of the term and age limits, Deng's reforms all hinged on top leaders' willingness to impose rules on themselves. When factional strengths were more or less equal, as they were under presidents Jiang Zemin (1993–2003) and Hu Jintao (2003–13), rival groups of insiders shared an interest in observing the largely informal rules. Once this fragile inner-regime power balance came under

challenge after Hu's retirement, the informal rules were hardly enough to stop Xi from vanquishing his rivals and restoring strongman rule.

In retrospect, Deng might have had better odds of instituting more durable reforms had he been willing to introduce independent third-party enforcers to guard against the return of a Mao-like figure. But that would have required genuinely liberalizing or even democratizing reforms, such as empowering civil society, granting greater press freedom, introducing limited political competition, and making courts more independent and powerful. These, of course, would have breached the "four cardinal principles" and undermined the CCP's monopoly on power, so such reforms were never tried.

The Golden Age of Autocratic Crony Capitalism

For all the flaws in Deng's reform strategy, he succeeded remarkably in his project of modernization under one-party rule. In the 1980s, he relied mostly on liberal reformers such as Hu Yaobang and Zhao Ziyang to open a pathway. Even after the Tiananmen crackdown in 1989, Deng managed to fight off a conservative counterattack and to revive economic reform with his historic tour of southern China in 1992. By all accounts, the years from 1992 to 2012 were a golden age for the CCP.

Tiananmen and the USSR's fall forced the CCP regime to seek a new survival strategy. Rallying to Deng's call, the Party jettisoned its ideological hostility to capitalism and embraced the model of autocratic economic modernization. Fortuitously, the passing of the older generation of revolutionary leaders at about this time was accompanied by the development of a balance of power within the regime. This balance, though frail, would make collective leadership possible for two decades. During those years, power-sharing deals sustained elite unity, as did an implicit agreement among top leaders not to use anticorruption campaigns as a tool of political purges. The ruling elites shared the spoils and carved out fiefdoms in which they and their supporters could enrich themselves.

Pragmatism and an aversion to risk guided foreign policy. Deng's successors followed his advice to keep a low profile while building national strength. They managed U.S. relations with extraordinary caution and avoided any conflict that could jeopardize trade. The 9/11 attacks, the War on Terror, and the Bush administration's disastrous invasion of Iraq distracted Washington as China continued to narrow the gap between itself and the world's sole superpower. Between 2000 and 2010, China's economic output, measured in dollars, shot from 13 to 40 percent of U.S. GDP, representing perhaps the most rapid shift in the relative balance of power in a century.

This economic "miracle" had less to do with the purported superiority of one-party rule than with the entrepreneurship of the hardworking Chinese people, plus a host of fortuitous factors and developments.

China was reaping the benefits of its so-called demographic dividend in the form of its vast labor pool of young, healthy, and relatively well-educated workers. Globalization brought comparative advantages in labor-intensive manufacturing and allowed China to rapidly increase its share of external markets. In December 2001, with U.S. support, the PRC became a member of the World Trade Organization. Practically overnight, China had become an export juggernaut.

The CCP, mindful that the regime's performance-based legitimacy rested on a continuation of rapid export-led growth, removed barriers to foreign direct investment in the early 1990s and greatly liberalized domestic markets as well. In the middle of the decade came reforms to the tax and exchange-rate systems. As the 1990s ended, moribund small and medium-sized SOEs were being liquidated. The investment-driven growth model was delivering spectacular results.

It was during this golden age of autocratic crony capitalism, however, that the seeds of the post-Tiananmen order's destruction were being sown. The combination of state capitalism with an autocracy that was turning into a giant patronage machine bred rampant corruption. The political consequences were far-reaching. Ordinary people responded to all the self-dealing, pilferage, and dishonesty with enormous resentment. Within elite circles, meanwhile, the vast proceeds of corruption were used to build factions and advance careers (bribing superiors for promotions became widespread). A situation in which so many important people have so much to hide is ripe for exploitation by a clever and ruthless player.

The CCP's post-Tiananmen decision to cultivate Chinese nationalism as another source of legitimacy has succeeded beyond the Party's expectations. For the cause of liberty, nationalism's rise has been a calamity. The younger generations know practically nothing about the Party's ill deeds: Mao's catastrophically failed Great Leap Forward at the end of the 1950s and the ensuing Great Famine that killed millions; the violent trauma of the Cultural Revolution that the "Great Helmsman" unleashed in 1966 and that ended only with his death ten years later; even the Tiananmen Square Massacre. Yet official propaganda claiming that only the CCP can make China great and that the West will not want to see a strong and powerful China is widely heard and believed. Chinese nationalism, the Party's ideological ally against liberalism, later became the centerpiece of Xi's plan for the "great rejuvenation of the Chinese nation."

Behind all the Party's schemes and methods for stopping challenges to its power lurks its ultimate weapon—repression. To be sure, mass terror has not been a regime feature since Mao, and the widespread use of violence against opponents has been restricted to crises (Tiananmen and the Falun Gong crackdown ten years after that) and to ethnic minorities in restive areas (Tibet and Xinjiang). But the foundations of totalitarian social control and political repression have remained intact. The CCP retains control over most of the media; the secret police and

their informers keep watch over dissidents and potential regime foes; and the Leninist organizational structure characteristic of the party-state is embedded at all levels of Chinese society. In the post-Mao era, the party-state's repressive totalitarian apparatus has mostly been switched off, but the fearsome machine remains functional and its "on" switch is within reach. This is why, not long after Xi's rise to the top, the regime had little trouble reimposing social control and ratcheting up repression to its worst level since the death of Mao.

The Hong Kong crisis that began in March 2019 has put the Party's willingness and capacity to suppress domestic dissent to the most difficult test since Tiananmen. Although the crisis was triggered by an extradition bill that Beijing's handpicked Hong Kong chief executive had proposed, the protest quickly went beyond just this one threat to the liberty and safety of Hong Kong's citizens and mushroomed into a broad-based movement demanding greater democracy in the former British colony. The special status of Hong Kong as China's critical conduit to the global economy and the site of the Party's much-touted "one country, two systems" experiment has constrained Xi's freedom of action.

The crisis could have been peacefully settled through compromise, but Beijing steadfastly rejected this option. Instead, apparently at the central government's behest, the Hong Kong authorities began using more force, turning East Asia's commercial hub into a battle zone between protesters and police. Meeting in late October, the Party's Central Committee unveiled a plan to reassert control over the restive city. Among other things, Beijing will tighten its grip on Hong Kong's government by changing the ways in which the chief executive and other major officials are chosen, and will beef up local police capabilities. Most worrisomely, the Party declared that Hong Kong must pass a national-security law that almost certainly will criminalize a wide range of "antigovernment" activities and dramatically restrict civil liberties. To go with these harsh measures, there is to be a campaign of "patriotic education" targeting the city's young people and civil servants. Despite the Chinese Communist Party's threats, however, the people of Hong Kong have remained unbowed. In late November, they showed their defiance by voting prodemocracy candidates into 388 of 452 contested district-council seats. It was a humiliating defeat for the Party. Unless it backs down, a final cataclysmic showdown with the prodemocracy forces in Hong Kong may be hard to avoid.

The Dynamics of Dictatorship

While the prosperity on display during the heyday of autocratic crony capitalism gave the impression that the CCP had become a remarkably adaptable and resilient leviathan, the truth was that the self-destructive dynamics common to dictatorships were still at work. The sharing of

spoils and power as a means of keeping the peace within the Party led to a system of patronage taking root. Each faction had its patch of turf and its network of bureaucrats and business cronies. Meritocracy was largely a myth. Preferment and promotions, even in the military, came from factional wheeling and dealing or were simply bought with bribes.

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The law of the progressive degeneration of dictatorships was making itself felt. According to this rule, each generation of elites in an unfree regime is more venal, cynical, and grasping than the last. The revolutionary founders may have had a genuine (indeed fanatical) commitment to certain ideas, but succeeding generations climb the ranks looking for power and perquisites. Believing in

little, these opportunistic elites go through the motions of party work, but their power-sharing arrangements and need to spread around spoils lead to shorter, fixed times in office and an urge to grab as much loot as possible while there.

In the Chinese case, evidence of regime degeneration abounds. Consider the area of economic reform. The most difficult and most radical reforms came in the 1990s, shortly after Deng's southern tour. By Hu Jintao's time, few reforms of note were taking place. Since Xi came to power, economic reform has actually gone into reverse despite his rhetorical commitment to it.⁸ Meanwhile, corruption and decadence have continued to spiral, with CCP elites raking in astronomical sums. An extreme example is the late General Xu Caihou, who was the vice-chairman of the Central Military Commission in charge of appointments and promotions. In 2014, investigators found a literal ton of cash (in yuan, dollars, and euros) stashed in the basement of his Beijing mansion alongside a cache of gold bars, jewelry, and jade art objects.⁹

Pervasive misdealings inside the Party made it vulnerable to a purge that doubled as an anticorruption drive. The atmosphere of corruption can leave even innocent officials exposed. A potential strongman can gain instant public support by vowing to clean out the rot. In trying to defend itself, an entity as faction-ridden as the CCP regime faces a dire collective-action problem. Personal enmities, lack of trust, and tight surveillance made it all but impossible for rival factions to band together against the strongman. Xi became the CCP chief in late 2012, and met little resistance as over the next seven years he sent to jail 42 members of the Party's Central Committee (about 11 percent of the total). He also incarcerated a former Politburo Standing Commit-

tee member who had been in charge of internal security, and lodged charges against 71 generals, including both vice-chairmen of the Central Military Commission.

Even in a stale and corrupt regime, the rise of a strongman is not inevitable. Xi benefited from crucial contingencies. His skill at navigating them, however, is not in doubt. His key opportunity was created by the rivalry between Jiang Zemin and Hu Jintao. Xi became the Communist Party boss of Shanghai—and the frontrunner in the contest to succeed Hu as paramount leader—in 2007 after Hu toppled the existing Shanghai boss, who was being touted as one of the candidates whom Jiang might back for the top job once Hu retired. Going into the Seventeenth Party Congress in October 2007, Jiang and Hu remained stalemated over the succession, and Xi was able to come to the forefront as a “safe choice” and compromise candidate. A few months before Xi took his final step to the top in November 2012, his bitter rival Bo Xilai, the Party boss of Chongqing, fell in a corruption and murder scandal. Even after Xi’s formal installation as CCP general secretary in late 2012, the Jiang and Hu factions might still have united against him, but they never did. It appears that Hu, embittered by his decade of infighting with Jiang, decided to get the last laugh by watching Xi destroy Jiang’s patronage network.

Had China been a middling power, regime degeneration and the return of strongman rule would have been tragic for its people, but inconsequential for the world. Four decades of rapid economic growth, however, have made China a behemoth, and the persistence of one-party rule has turned it into an illiberal behemoth with global reach. Before Xi, it was led by a risk-averse collective leadership; pragmatism and an awareness of internal fragilities constrained Beijing’s ambitions even though CCP elites persistently saw the West as posing an existential political threat.

Now that China has reverted to neo-Stalinist rule, the stage is set for both domestic political regression and geopolitical confrontation with Washington and its allies. A new cold war between China and the United States seems to have just begun. We do not know how it will play out. Much depends on what the CCP does. A prudent return to the pragmatism and strategic caution of the pre-Xi era could give the Party more staying power in this open-ended conflict.

Will that be the course chosen? The history of strongmen in power suggests otherwise. Their need to maintain an aura of authority and infallibility is not conducive to self-correction. Thus the 66-year-old Xi will in all likelihood press on with his signature policies, perhaps even demanding redoubled efforts from the Party. At home, the regime will continue to rely on constant purges, intensifying social controls, campaigns of ideological indoctrination, and the manipulation of Chinese nationalism. State capitalism, centered on the preservation of SOEs,

will persist. The economic reforms that China needs to offset losses from U.S.-China economic disengagement are likely to go unmade. Precious resources will be poured into an arms race and the cultivation of a network of illiberal regimes. The story will likely end badly for the CCP. It is doubtful that Deng had this scenario in mind when he tried to revive the Party's fortunes after its near-death experience in 1989 and the USSR's fall in 1991. Yet this outcome has been made more than likely by Deng's choice of seeking to use economic modernization for the preservation of one-party rule.

NOTES

1. John M. Broder, "Clinton Defends Engagement with China," *New York Times*, 25 October 1997; www.nytimes.com/1997/10/25/world/clinton-defends-engagement-with-china.html. For excerpts of then-presidential candidate George W. Bush's speech to Boeing workers, see "In Bush's Words: 'Join Together in Making China a Normal Trading Partner,'" *New York Times*, 18 May 2000, www.nytimes.com/2000/05/18/world/in-bush-s-words-join-together-in-making-china-a-normal-trading-partner.html.

2. There is no official data on the SOEs' share of China's economy. Most estimates place it at around 25 to 30 percent of GDP—somewhat higher than my own cautious estimate of 20 percent. According to official data, return on assets in 2017 was only 3.9 percent for SOEs, compared with 9.7 percent for private firms. See "Are State-Owned Enterprises Reformable?" Economist Intelligence Unit, 18 December 2018; and Nathaniel Taplin, "How China's SOEs Squeeze Private Firms," *Wall Street Journal*, 7 February 2019.

3. The Chinese state's share of the nation's net worth in 2016 was estimated at 27 percent. "China's Assets and Liabilities in 2018" [in Chinese], *Economic Reference News*, 27 December 2018, http://dz.jjckb.cn/www/pages/webpage2009/html/2018-12/27/content_49527.htm.

4. "Xi Jinping: Confidently and Self-Assuredly Build Stronger, Better, and Bigger State-Owned Enterprises" [in Chinese], Xinhua, 4 July 2016, www.xinhuanet.com/politics/2016-07/04/c_1119162333.htm.

5. Nicholas R. Lardy, *The State Strikes Back: The End of Economic Reform in China* (Washington, D.C.: Peterson Institute for International Economics, 2019), 80.

6. Minxin Pei, *China's Crony Capitalism: The Dynamics of Regime Decay* (Cambridge: Harvard University Press, 2016).

7. Deng Xiaoping, *Selected Works of Deng Xiaoping* (Beijing: Renmin Chubanshe, 1983), 301.

8. See Lardy, *State Strikes Back*.

9. Zhong Xian, "Xu Caihou Was Inspected Inside: 1 Ton of Cash in a Mansion Housed in Jade," *Phoenix Weekly*, 16 March 2015, [in Chinese], http://finance.ifeng.com/a/20150316/13554851_0.shtml.