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The Political Economy of Xi Jinping's Political Rollback*

Yi-Feng Tao

When Xi Jinping had just come to power in 2012, the world expected that he would continue the development trajectory of economic liberalization and political institutionalization set in motion by Deng Xiaoping. However, when the National People's Congress abolished the presidential term limit in the Chinese Constitution in March of 2018, it suddenly became clear that Xi had chosen to "roll back" from Deng's policy line in nearly every aspect of the Chinese Party-state system. How does one explain Xi's sudden departure from Deng's policy line? In comparison with the resurgence of other authoritarian regimes of the 1960s and 1970s in Latin America and East Asia, this paper argues that the cause of Xi's political rollback lies in the exhaustion of the previous development model. More specifically, the exhaustion of export-led growth in the mid-2000s had made the existing distributive coalition unsustainable. The power struggle within the political coalition therefore intensified and finally led to Xi's monopoly over political power. The argument of this paper will proceed through four parts. It will begin with a literature review of comparative authoritarianism with a particular focus on the impact of a development crisis on the survival of political coalitions. It is followed by an analysis of the contributions of China's export-led growth to the sustainability of the political coalition during the eras of Jiang Zemin and Hu Jintao. Then, it will explain how the exhaustion of export-led growth led to a power struggle within the political coalition and how through a re-orientation of the development model, Xi has gradually concentrated power into his own hands. Finally, it will discuss the theoretical implications of China's case.

Keywords: China; political economy; Xi Jinping; bureaucratic authoritarianism; coalition politics.

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*According to the Cambridge Dictionary, a rollback means "an occasion when the influence of particular laws, rules, etc. is reduced. In finance, it means a reduction of prices, costs, taxes, etc., especially so that they return to a previous level." Here, we use this term for its implication as an institutional *undo* to indicate Xi Jinping's attempts to return China's political system to the Mao's era.

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論 When Xi Jinping had just come to power in 2012, the world was expecting that he would continue the development trajectory of economic liberalization and political institutionalization set by Deng Xiaoping. When the National People's Congress amended China's constitution to abolish the presidential term limit in March 2018, however, it suddenly became clear that Xi was gradually rolling back from Deng's trajectory almost in every aspect of the Chinese Party-state system: the concentration of power from collective leadership into a single dictator, tighter party control over the government and society, a larger economic role for the state over private sectors, and China's choice of more assertive and aggressive roles in international politics.

This raises the question of how to explain Xi's sudden departure from Deng's policies. Political Scientist Elizabeth C. Economy has named this "China's Third Revolution" (Economy, 2018), while Economist Nicholas Lardy has called it "The State Strikes Back" (Lardy, 2019). George Magnus, also an economist, has described it as the rise of "red flags" and explains it in his work, *Red Flags: Why Xi's China is in Jeopardy* (Magnus, 2018). The majority of these works are devoted to describing how Xi Jinping has rolled back from the political and economic trajectories set by Deng, yet relatively little effort has been devoted to explaining why Xi chose to make such a big U-turn. They seem to imply that the rollback derives from Xi Jinping's personal ambitions or ideology and attempt to persuade him and other Chinese leaders to get back on the "right track." In contrast, there are other China hands who do not see Xi's actions since coming to power as a U-turn. They believe that Xi's "Chinese Dream" is the one that has been widely shared by China's political elite for generations and that had not been aggressively pursued beforehand merely due to China's relative weakness. It has been observed that since it was established in 1949, the People's Republic of China (PRC) has been in a "hundred-year marathon" to restore the "China Order" in the world (Pillsbury, 2016; Wang, 2017).

Between the two opposing explanations of Xi's personal factors and general Chinese nationalism, there are scholars who would put Xi's rollback in the context of the political process. For example, David Shambaugh was likely the first to point out that China had gone down the "wrong" track and provide an explanation of the related political process. Shambaugh argues on several occasions that China has been turning away from the liberalization track since 2008 and 2009 when the rejection of political reforms became mainstream among the top leaders. Shambaugh argues that after rejecting political reforms, China has shifted into a pattern of "atrophy" that will lead to economic stagnation and political repression (Shambaugh, 2008, 2015, 2016a, 2016b). But why does China need political reforms in the first place? How did the choice of top leaders to reject them lead to the rollback? These are the questions this paper intends to investigate.

By comparing this case with the resurgence of authoritarian rule in several developing countries in the 1960s and 1970s, this paper argues that the origin of Xi's political rollback lies in an exhaustion of the previous development model. Specifically, the exhaustion of export-led growth in the mid-2000s made the existing political coalition unsustainable. The power struggle within the political coalition therefore intensified and finally led to Xi's monopoly over political power. The argument will proceed as follows: it will start with a literature review of comparative authoritarianism with a specific focus on the impact of a development crisis on the survival of political coalitions. It is followed by an analysis of the contribution of China's export-led growth to the sustainability of its political coalition in the post-Tiananmen era and its exhaustion since the mid-2000s. Then, it will explain how the exhaustion of export-led growth has led to a power struggle within the political coalition and how through a re-orientation of the development model, Xi has gradually concentrated power into his own hands. In the conclusion, some theoretical implications will be drawn from the analysis.

The Politics of Coalitions under Authoritarian Rule

Contrary to the predictions of modernization theory, authoritarian regimes in the 1960s and 1970s were set up one by one through military coups in the most highly modernized countries in Latin America. Among the critics of modernization theory, Guillermo O'Donnell's *Modernization and Bureaucratic-Authoritarianism: Studies in South American Politics* started a new theoretical endeavor to understand the resurgence and survival of authoritarian regimes in highly modernized countries (O'Donnell, 1973). According to O'Donnell, "bureaucratic authoritarianism" is a *structural response* to socioeconomic problems that have specifically emerged at a relatively advanced stage in the modernization process. He invented this concept with the intention to conceptually distinguish this regime type from the more traditional authoritarian states with politically passive populations as well as the populist ones which activate the population in a controlled manner. By definition, it is an "exclusionary system" to "encapsulate" social groups who demand for more participation in the policymaking process. As stated by O'Donnell himself:

> "[B]ureaucratic-authoritarianism is a system of political and economic exclusion of the popular sector. Its central characteristic is that it emerges after a substantial degree of

industrialization has been achieved, and also after, and to a large extent as a consequence of, substantial political activation of the popular sector." (O'Donnell, 1977)

"Exclusion" is the key for the rise of bureaucratic authoritarianism. According to O'Donnell, 1977 bureaucratic authoritarianism is a functional response to a political and economic crisis caused by the mismatch between the growing political weight of the popular sector (lower-middle- and working-class groups) and the exhaustion of import-substitution industrialization (ISI). The exhaustion of the "easy" stage of import substitution causes economic problems such as inflation, balance-of-payments crises, and a reduced ability to respond to popular demands. Increasingly powerful technocrats in both the public and private sectors attribute these economic problems to the political activation of popular sectors and form a coalition with the armed forces for a military coup.

This functional explanation was later revised by several generations of comparative political scientists. For example, Remmer and Merkx (1982) pointed out that some countries such as Colombia and Venezuela did not see their democracies collapse despite facing the same economic crises at a relatively advanced stage of modernization. Im (1987) found that bureaucratic authoritarianism could emerge in countries like South Korea. Experiencing rapid export-led economic growth, it still set up a bureaucratic authoritarian regime (the BA regime) without the exhaustion of import-substitution industrialization in 1971 (Im, 1987). These examples appear to demonstrate that the "elective affinity" between the exhaustion of ISI and the rise of the BA regime cannot be taken for granted. The stories or theories of the *political process* for the rise of the BA regime are missing in O'Donnell's original theory for its rise.

As the focus of the debates about the rise of the BA regime gradually shifted to the political process, a new wave of authoritarian regime breakdowns began in the early 1970s, from Southern Europe to Latin America and then around the world. Together with a group of the most prominent comparative political scientists, O'Donnell started a new paradigm for the study of regime transition. This new paradigm takes political regimes, both democratic and authoritarian, as a set of game rules that can be overturned or sustained contingent upon the strategic interactions of the political elite (O'Donnell & Schmitter, 1986). Under this new paradigm, there is no "electoral affinity" between regime types and the stages of modernization, and regime transition from either authoritarian rule or democracy could happen under any circumstance. The window of opportunity for regime transition opens as long as there is a dissonance within the ruling bloc (Huntington, 1991; Linz & Stepan, 1996; Przeworski, 1991).

Affected by the process-centered school, political economists have also become more relaxed about the effects of economic and social structures on regime types while still focusing on how economic and social conditions affect the resources of the contending actors and the stakes of their negotiations in the transition process. In *The Political Economy of Democratic Transition*, for example, Haggard and Kaufman (1995) studied how economic crises affected existing political alignments and resulted in authoritarian withdrawals in many Latin American and East Asian countries.

Research into the durability of authoritarian regimes has made great progress in the 21st century. Following a ground-breaking study of Geddes (1999) on the effects of institutions on the durability of authoritarian regimes, many researchers have employed quantitative and qualitative methods to study how different institutions incentivize political elites to maintain authoritarian rule (Brownlee, 2004; Levitsky & Way, 2012; Smith, 2005). While being sophisticated in method and rigorous in theory, these studies seldom speak in detail on how an authoritarian regime rewards supporters, punishes defectors, deters challengers to its rule, adjusts to internal or external crises, and evolves over time.

We find that an approach that views the authoritarian regime as a political coalition does a better job in bridging the gap between endogenous institutions and exogenous structural changes. The coalition approach sees authoritarian rule as a self-enforcing coalition. "Self-enforcing" means it is strong enough to prevail against external challengers while no members have an incentive to defect. Such coalitions give regime supporters an incentive to perpetuate a mutually beneficial status quo and can credibly punish internal defectors as well as external challengers. As the coalition is self-enforcing, the ruling coalition will use authoritarian institutions such as patronage, ethnic favoritism, co-option, and ideological division as tools to retain power (Pepinsky, 2008).

In regard to accounting for the effects of exogenous factors on coalition formation, the coalition approach usually employs an axiomatic model to conduct an analysis of the dynamics in the equilibrium games of the coalition. In order to make the model as inclusive as possible, it begins from a very simple and general puzzle — how is it possible for a few rulers to exert control over a much larger population without that population's consent? As parsimonious as the axiomatic model can be, it treats the coalition as a dynamic equilibrium that is constantly adjusting according to the changes of subgroup endowments within and without the coalition. The model predicts the changes of the coalition through assigning different values to different groups to show the changes in endowment among them (Acemoglu, Egorov, & Sonin, 2008; Pepinsky, 2008). Figure 1 shows how the coalition approach can do a better job to bridge the structural changes with endogenous institutions.

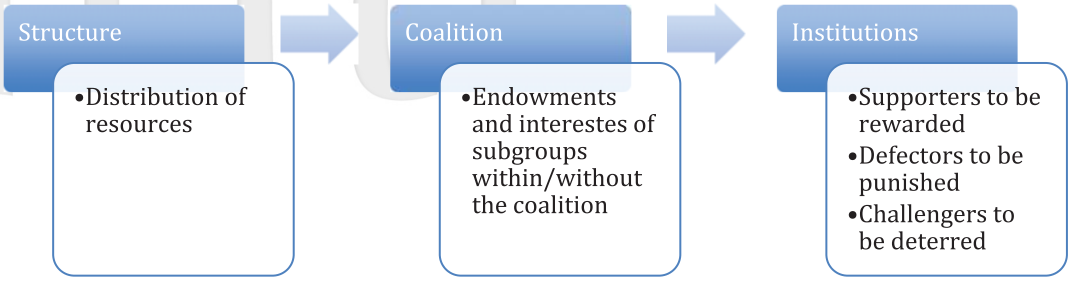


Figure 1. Authoritarian rule as a self-enforcing coalition.

However, treating coalition formation under authoritarian rule as a result of the evolution of spontaneous equilibrium seems to unintentionally imply a bottom-up voluntarism and thus ignore the repressive nature of authoritarian institutions. Therefore, in order to highlight the top-down repressive characteristics of authoritarian rule, this paper reforms the coalition model with the authoritarian ruler as the main actor behind coalition formation and institutional change.

As shown in Figure 2, authoritarian rule in normal times is self-enforcing when it can extract stable resources from the external environment to maintain a distribution coalition by rewarding supporters, punishing defectors, and deterring challengers. The exogenous structural changes lead to changes in the resources available for extraction. As long as changes in external resources render the coalition to be no longer self-enforcing, the ruler must choose which subgroups to be included or excluded. The reformation of the political coalition may cause tentative disorientation and even conflict between coalition subgroups. It is a complicated and uncertain process that can result in either limited liberalization or the resurgence of hardening authoritarianism.

To summarize this section of the literature review, there was no "elective affinity" between the exhaustion of the ISI and the rise of the BA regime. A political

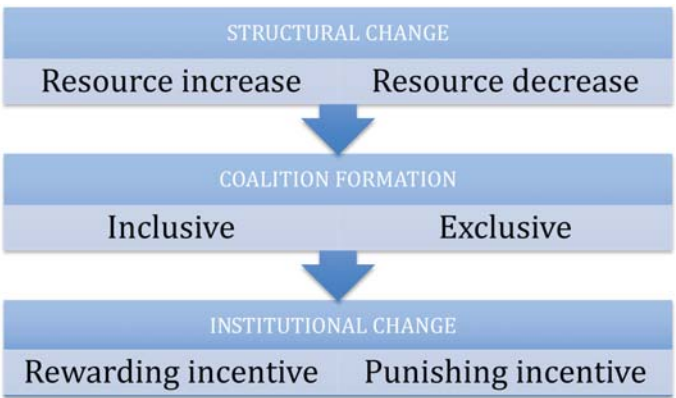


Figure 2. The authoritarian ruler's choice of coalition reformation and institutional change in response to the structural change.

regime — authoritarian or democratic — should be seen as a self-enforcing political coalition that is put into question when exogenous structural changes open the possibility for coalition reformation. Economic crises as one kind of exogenous structural change may trigger coalition reformation. During the uncertain reformation process, authoritarian rulers include some subgroups of the coalition and exclude others, sometimes even making institutional changes to enhance the chance of their own survival. The new coalition may become more exclusive in total and more authoritarian than before as it did in the cases of Argentina and Brazil in the 1960s. However, it can also become more inclusive in total and set on the track of liberalization and finally into the process of democratization, as in Brazil and Mexico after the 1980s foreign debt crisis and Indonesia after the 1997 Asian financial crisis.

Export-Led Growth and Its Exhaustion in China's Coalition Politics

From the perspective of the coalition approach, China's idiosyncratic path of socialist transition can be seen as a result of an unwillingness among China's leaders to break down the Party-state's ruling coalition of distribution. The partial market liberalization that began in rural China in the 1980s and later opened up for the export-manufacturing industries in coastal enclaves in the 1990s accumulated an enormous number of financial resources, channeled through the state financial system, to maintain the survival of the Party-state coalition of distribution. Although Prime Minister Zhao Ziyang had already introduced a series of institutional changes for Coastal China in the late 1980s to follow Taiwan and South Korea's earlier export-led industrialization, China's export-led growth did not take off until 1993 when the Vice Prime Minister Zhu Rongji launched a series of financial reforms to stabilize domestic prices and sharply depreciate the renminbi (RMB).

As shown in Table 1, both inward Foreign Direct Investment (FDI) and export have grown rapidly since 1993. Through the state banking system's foreign reserve control, foreign investors and exporters had been required to sell all foreign currencies to the state banking system and contribute to the spectacular accumulation of China's official foreign reserves. While China was barely able to manage a surplus in the 1990s, in one decade it had surpassed Japan to become the government holding the largest foreign reserves in the world in 2006. China's foreign reserves continued to grow, reaching US$400 billion in 2014. The huge amount of foreign reserves not only serves as the symbol of China's rise in the global economy but also provides the high-power

Table 1.
The Growth of FDI, Exports, and Foreign Reserves in China (100 Million USD)

	1990	1997	2001	2004	2007	2010	2012	2016	2018
Inward FDI	35	453	469	606	748	1,057	1,196	1,260	1,350
As % of GDP	0.97	4.71	3.50	3.10	2.11	1.74	1.15	1.13	0.99
Export	533	1,424	2,436	5,612	9,561	13,962	19,592	15,880	21,356
As % of GDP	14.77	14.81	18.19	28.70	26.93	22.94	18.77	14.26	15.69
Foreign Reserves	111	1,399	1,212	6,099	15,282	28,473	38,430	30,105	30,727
As % of GDP	3.07	14.55	15.84	31.19	43.05	46.78	36.82	27.03	22.58
As % of M2	3.47	12.74	11.19	19.87	28.28	26.56	19.22	12.90	11.13

Source: *China Statistical Yearbook 2019* (National Bureau of Statistics of China, 2019).

base money for its domestic money supply. In the mid-2000s, China's foreign reserves reached almost half of its GDP and 30% of its domestic money supply (M2).

The money supply has grown in the form of lax state bank lending to maintain the Party-state coalition of distribution. As the so-called twin engines of China's growth, exports and investment were in fact the combination of two totally different sectors. While the export sector was mostly composed of foreign enterprises and small-medium private enterprises, the investment sector was generally dominated by state-owned enterprises (SOEs) and local governments. The export sector manufacturing consumption goods for global market was highly outward-looking, market-driven, and efficient. The investment sector enjoyed a monopoly, and government protection in non-tradable sectors such as infrastructure and real estate development was typically inward-looking, politically driven, and inefficient. Channeled through the tightly controlled state banking system, capital accumulation in the export sectors of the "workshop of the world" had helped to support the proliferation of the Party-state distribution coalition in the form of an expansion of the investment sector. These twin engines of growth were in fact grounded on the single engine of exports. However, the ratios of China's foreign reserves both to its GDP and M2 began to decline in the mid-2000s, indicating the exhaustion of export-led growth and its contribution to the ruling coalition of investment distribution.

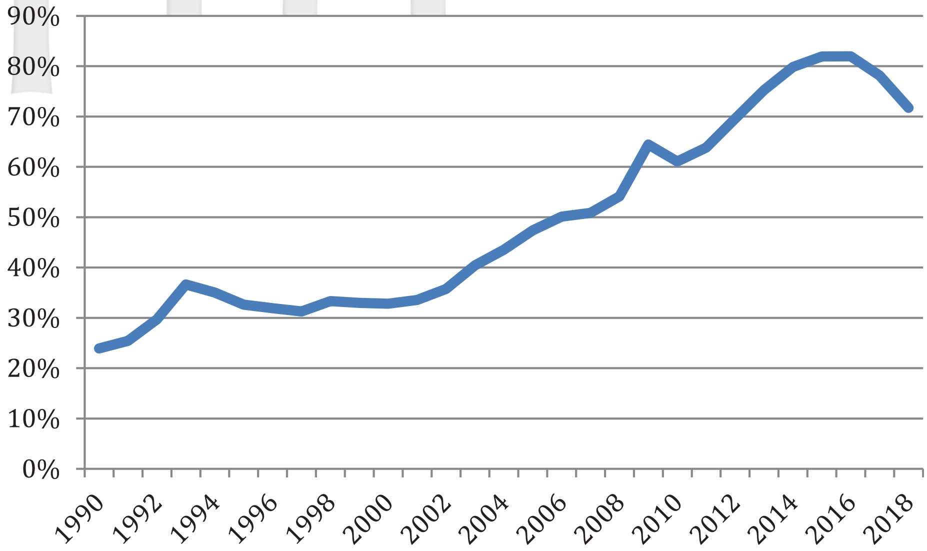
China's export-led growth peaked in the mid-2000s when its exports reached almost 30% of its GDP. Since then, they have declined rapidly to about 15%. Measured by the current account surplus while accounting for growth in imports and outward tourism, they have declined even more dramatically from 10% of GDP in 2007 to 1.4% in 2017. The exhaustion of export-led growth since the mid-2000s is very apparent, and there are several factors that have led to it. First, the exhaustion of population dividends and the resulting sharp rise of the real wage were the most important factors for the decline of labor-intensive manufacturing exports. From 2005 to 2016, China's real wage increased three times. Labor costs in China have become higher than in many developing countries. Second, weak demand from Western countries after the 2008 global financial crisis was also another important factor for the decline in exports. The stagnation of both global GDP and global trade since 2008 has had a definite effect on China as the world's largest exporter. Third, partially in response to the protectionism of Western countries, the RMB has gradually appreciated against the US dollar from RMB 8.3 to US$1 in 2003 to RMB 6.1 to US$1 in 2014, an appreciation of 27%.

Both international and local economists have long advocated that China should gradually transform its role in the global economy from "the workshop of the world" to "the market of the world." The export-led growth model suitable for median countries like South Korea and Taiwan cannot sustain a country of China's size. With a population of 1.4 billion people, China must sooner or later rely upon the expansion of its domestic consumption market as its engine of growth. The RMB's appreciation since 2004 was partially aimed at this re-orientation of its growth model. However, for the expansion of China's domestic consumption market to serve as the growth engine for China and even for the world, it will also be necessary for China to launch a series of structural reforms to make its domestic market a rule-based playground for enterprises of ownership of all kinds, to stop the favoritism of central and local governments in protecting their own SOEs, and to alleviate regional disparity and income inequality. All these reforms require a certain degree of political reform to enhance the rule of law and reduce the role of political distribution in the economy. This in turn would prompt a radical change in the vested interests in the Party-state coalition of distribution that have been thriving since the mid-1990s.

The 2008 global financial crisis provided a perfect excuse for the Chinese leadership to postpone this much-needed economic transition. In the name of mitigating the shock of the global financial tsunami, a proactive fiscal stimulus program combined with generous financial support from the state banking system was introduced by the State Council in 2008. The Party-state coalition of distribution was thus not only able to survive but also able to prosper with another round of spectacular expansions to debt-financed investment.

Coalition Reformation and Xi's Political Rollback

The proactive stimulus program successfully launched a strong economic rebound in 2009 and 2010, but the momentum for the investment spree did not simply



Source: *China Statistical Yearbook 2019* (National Bureau of Statistics of China, 2019).

Figure 3. China's fixed asset investment/GDP.

stop after the rebound was accomplished. As shown in Figure 3, China's pre-2008 fixed asset investment had already increased faster than its GDP growth but never reached 50% of its GDP. Since 2008, fixed asset investment was always higher than 50% of GDP and once even reached 80% of GDP around 2014. The investment boom was largely financed by the even more dramatic growth of domestic debt. Between 2008 and 2017, outstanding debt in China skyrocketed from 148% of GDP to over 300% (Shih, 2017). This is higher than the debt in the United States and the majority of developing countries. The largest debt accumulators were local governments and the SOEs under their supervision. Through certain "Local Government Financial Vehicles" (LGFVs), they had aggressively borrowed via various legal and illegal financial platforms to finance a reckless expansion of investment. Most of this money went to redundant forms of infrastructure such as fancy bridges or useless tunnels.[1] It has been estimated that the debt the LGFVs managed to accumulate during the decade accounted for 200% of China's GDP. The second largest debtors were Chinese households, who fervently took out mortgages in order to keep up with a seemingly unstoppable rise in real estate prices in cities all over the country. These are estimated to account for 60% of GDP (Magnus, 2018).

[1]China has built hundreds of dazzling new bridges in the last decade that include highest and the longest bridges in the world. Many of these have fostered debt and corruption while their economic benefits are unclear. See Buckley (2017).

This nationwide investment spree in infrastructure and real estate development created a financial boom in China. On the surface, regular Chinese citizens viewed these marvelous newly constructed buildings and bridges as a symbol of the country's rise. In reality, it was a debt-financed investment bubble that required increasingly higher costs to maintain and anticipated no profitability in the foreseeable future. The increasing cost of this debt-financed investment spree was reflected by a decline in the efficiency of investment. One way to observe this decline is to measure how many *yuan* of investment are needed to create one *yuan* of GDP. From 1978 to 2006, it was estimated that two-four *yuan* were needed to create one *yuan* of GDP. In 2015, it was estimated that as much as nine *yuan* were needed to create one *yuan* of GDP (Magnus, 2018, p. 74). On top of the decline in efficiency, the investment spree euphoria also contributed to the spread of corruption among government officials. According to Minxin Pei's systemic studies, corruption had become more serious in both scale and frequency since the 2008 investment expansion of the Party-state coalition (Pei, 2016).

When Xi Jinping came to power in 2012, economists generally believed that the current debt-financed economic growth was unsustainable. There were high expectations in China and abroad for long-awaited market-oriented reforms to redirect the economy toward a new development model centered on the expansion of the domestic consumption market. Xi Jinping's choice of Liu He as the prime architect of his new plan for the economy had buoyed hopes that the market reforms delayed by the Hu Jintao administration would finally be enacted. As a Harvard-trained economist and the organizer of the Forum of Top 50 Chinese Economists, Liu He has been widely considered as a liberal-minded reformer. He was therefore seen as the best person to draft the blueprint for Xi's economic reforms when they were announced at the 3rd Plenum of the 18th Party Congress in November 2013.[2]

While Liu He himself once mentioned that the Chinese Communist Party (CCP) must be "a ruling party rather than a revolutionary one," these sentiments were not shared by Xi. In fact, the CCP elite had already shared the view that the CCP must strengthen rather than reduce its political control even before Xi's inauguration to the top leadership. They drew lessons from the French Revolution in the late 18th century

[2]The Forum of Top 50 Chinese Economists was a think tank organized by Liu He. Aimed at discussing economic issues and giving reform advice to the government, the forum includes Wu Jinglian, Mao Yushi, Zhang Weiying, Fan Gang, Lou Jiwei, and Yi Gang — nearly every prominent liberal economist in China. For seven positive comments on Liu He from the Western and Chinese scholars and practitioners, see Davis and Wei (2013).

as well as the collapse of the former Soviet Union in 1991, finding consensus on both the dangerous nature of political liberalization and that "people are hard to please. If you give them a little liberty, they will ask for more."[3] The CCP elite collectively agreed not only that the Party should remain in power, but that it should also return to the revolutionary era of Mao Zedong in some form.

In retrospect, Xi made it clear from the beginning that he would protect the CCP from collapse by restoring the traditional Leninist disciplines. As early as December of 2012, Xi told Party insiders that China must heed the "deeply profound" lessons of the Soviet Union collapse. Xi believed that the reason for the collapse was that "their ideals and convictions wavered." He told them:

> "Finally, all it took was one quiet word from Gorbachev to declare the dissolution of the Soviet Communist Party, and a great party was gone... In the end nobody was a real man (竟無一人是男兒), nobody came out to resist." (Buckley, 2013a)

When the outside world was still preoccupied with what sort of reform message the upcoming 3rd Plenum of the 18th Party Congress would propose, the Party itself had already gone through a series of intensive ideological campaigns to restore the "ideals and convictions" that Xi thought of as crucial for its survival. Through a series of compulsory study sessions across the country, rank-and-file Party cadres were organized to study Xi Jinping's edicts, watch documentary films, and criticize dissidents and external rival forces. As revealed later in a memo called Document No. 9, the Party Center identified "seven perils" (*qi bu jiang*, 七不講) whereby China's Western rivals intended to infiltrate the Party's ideological sphere.[4]

While Liu He and most liberal Chinese economists might believe in the market economy in principle, they have been elitist and even authoritarian when it comes to politics. Believing in a "top-level design" (*dingceng sheji*, 頂層設計), Liu He pinned

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[3]Before he came to power, Xi Jinping's most important political ally Wang Qishan was already calling for government officials to read Alexis de Tocqueville's *L'Ancien Régime et la Révolution*. From 2011, it had become a nationwide movement for officials of all ranks to find lessons from the book. Although Wang had misunderstood the book's message, the lesson that he intended for CCP cadres to acquire was that *people are difficult to satisfy*, as the French Revolution took place as a direct result of political reforms undertaken by the House of Bourbon. At the same time, it is said that Xi Jinping had also carefully studied the causes of the collapse of the Soviet Union, finding an answer in Gorbachev's political reforms. In 2013, Xi Jinping mentioned this lesson continually in his internal talks with the CCP leaders. The CCP even organized study sessions for local cadres in which they viewed a six-part documentary on the Soviet Union's collapse. See Page (2013) and Buckley (2013a).

[4]The seven perils, including "Western constitutional democracy," "universal values," "civil society," "freedom of the press," "civil participation," "neo-liberalism," and "nihilist" criticism of the Party's past were seen as a scheme of Western peaceful evolution intended as an attack on the Party. The campaign quickly evolved into nationwide movement against constitutionalism and civil society. Very soon, all seven perils had become taboo and disappeared from China's public sphere (Buckley, 2013b).

all the hope of his market-oriented economic reforms on Xi Jinping's strong will.[5] Unfortunately, liberal Chinese economists appear to have been blind to the fundamental contradiction between market-oriented reforms and a return to Mao's party discipline. Immediately following the 3rd Plenum of the 18th Party Congress that presented the blueprint for economic reforms, the Leading Small Group for the Deepening of Reform (*quanmian shenhua gaige lingdao xiaozu*, 全面深化改革領導小組) was set up in the Party Center to carry out the top-down implementation of reforms at the end of 2013. The State Council under the leadership of the Premier had been in charge of economic affairs since Deng Xiaoping's reforms in the late 1970s. This new Party institution headed by Xi Jinping was seen as an extraordinary institutional arrangement for an extraordinary purpose — to carry out economic reform through "top-level design." In reality, it had caused a considerable amount of policy inconsistencies[6] and institutional conflicts between the Party Center and the State Council.[7]

In the absence of political reforms, Xi Jinping promised a "Chinese Dream," or "the Great Rejuvenation of the Chinese People," making use of nationalism to distract from popular discontent. It is therefore not surprising to see more statist economic projects under Xi Jinping's Chinese Dream. In the 3rd Plenum of the 18th Party Congress, Xi also launched the One Belt One Road Strategy, later renamed as the Belt and Road Initiative (BRI). This ambitious strategy involved multidimensional goals for China's global role in the 21st century. One of its goals was to find overseas markets for China's SOEs with overcapacity in the construction of infrastructure. In

[5]"Top-level design" comes from scientific arenas such as systems engineering, integrated circuit design, and telecom networks theory, where the top-level design indicates the master design into which the more detailed subdesigns are integrated. The term was first mentioned in Xi Jinping's "suggestion" to the Party for the 12th Five Year Plan. It was generally believed to be Liu He's idea to indicate an implementation plan for top-down economic reforms. Given the fact that market-oriented reforms had all been stocked during the Hu Jintao era, many economists believe that the "top-level design" could be a quick fix for China's economic reforms. For more details, see Naughton (2012).

[6]In retrospect, all the inconsistency and contradictions are related to the idea of "top-level design" — that is, to implement market reform through enhancing the control of the Party-state. The contradiction has already been revealed in the *Decision* of the 3rd Plenum of the 18th Party Congress. In the *Decision*, many market observers felt heartened when they found the statement that "we must ensure that the market has a *decisive role* in the allocation of resources." This wording had never appeared in any CCP official document before. However, in the same document, we also find calls for "unswervingly consolidating and developing the public economy, persisting in the dominant position of public ownership, giving full play to the *leading role* of the state sector, continuously increasing its vitality, controlling force and influence." What if the market *decides* not to let the state sector to play the *leading role*? How should this contradiction be reconciled? (Kroeber, 2016, Chap. 12; Lardy, 2019, Chap. 1).

[7]The institutional conflicts between the Deepening Reform Leadership Small Group at the Party Center and the State Council went public in the end of 2015 with a series of commentary articles authored by the so-called "authoritative personage" (*quanwei renshi*, 權威人士) published in *People's Daily* to criticize Premier Li Keqiang's reform policies and launch debates over L-shaped or U-shaped growth. See Naughton (2016) for details.

May 2015, China's State Council launched "Made in China 2025" (MIC 2025), a program which identified 10 priority industries for the state to make a large-scale top-down push in the coming decade to transform China from a labor-intensive manufacturing powerhouse into a technology-advanced industrial superpower in the world. Both the BRI and MIC 2025 promised a more statist orientation for China's economic future. At this point, the "advance of the state sector and retreat of the private sector" (*guo jin min tui*, 國進民退) became a norm in the Chinese economy.

This return to the party discipline of Mao Zedong made Liu He's "top-level design" implementation of market-oriented reforms to lead nowhere after the 3rd Plenum. The sole achievement of economic reforms was a "deleveraging" of the debt-burdened economy. Deleveraging financial policies resulted in a stagnation of resources for the ruling coalition of distribution in general. Nonetheless, the BRI and MIC 2025 ensured that some groups in the coalition could continue to receive generous support. In the context of this paper's authoritarian coalition model, the changes in external resources no longer allowed the existing coalition to be self-enforcing. Xi Jinping had to choose which subgroups in the coalition were to be included and excluded. He decided to cut resources for all groups in the coalition except those involved in the BRI and MIC 2025 — the focal projects of his Chinese Dream endeavor. The reformation of the coalition caused anxiety among those who were excluded. In 2015, a stock market meltdown was followed by capital flight. The sudden shrinking of foreign reserves from US$400 billion to US$300 billion within one year prompted the Chinese financial authorities to tighten the capital control via draconian measures.[8]

Xi Jinping and Liu He saw the stock market collapse and capital flight as a reprisal from their political rivals rather than the result of market correction. Identifying the economic shocks as a national security problem, they decided to "rescue" the stock market and foreign exchange market with direct state intervention. Their response caused even more panic in the market. Their combative mentality intensified power struggles between the included and excluded subgroups in the new ruling coalition. Throughout 2016 and 2017, intense drama was constantly playing out on the political stage, with the detentions, kidnappings, indictments, and suicides of prominent fund managers, the CEOs of SOEs, military leaders, and members of the CCP Politburo.[9] It ended up with the further concentration of political power in the Party

[8]Since 2015 and 2016, Chinese financial authorities have tightened up capital control to a degree that their own financial officials have complained. See Zhou (2019).

[9]While it is hard to study these events systemically, a collection of the cases before the establishment of the Financial Stability and Development Committee in late 2017 can be found in Magnus (2018, Chap. 4).

Table 2.
Timetable for the Politics of Xi's Rollback

2011–2012	Wang Qishan recommends CCP officials read Alexis de Tocqueville's *L'Ancien Régime et la Révolution*
2012/11	The 18th Party Congress
2012/11	Xi Jinping first mentions the "Chinese Dream" (*zhongguo meng*,中國夢) when he leads seven PBSC members to view the exhibits called "The Road to Rejuvenation" (*fuxing zhi lu*, 復興之路)
2012/12	Xi Jinping first describes Gorbachev's political reforms with the phrase "nobody was a real man" (*jing wu yiren shi naner*, 竟無一人是男兒), decrying the collapse of the USSR
2013	CCP officials are required to attend a series of compulsory study sessions to read Xi's edicts, watch documentary films, and learn the seven perils (*qi bujiang*, 七不講) to purify their ideology
2013/04	The CCP issues Document No. 9 (*jiuhao wenjian*, 九號文件) to warn of the seven perils of Western peaceful evolution
2013/11	The 3rd Plenum of the 18th Party Congress to announce a blueprint for economic reform, set up the Leading Small Group for Deepening Reform (*shenhua gaige lingdao xiaozu*, 深化改革領導小組), and to introduce the One Belt One Road policy (*yi dai yi lu*, 一帶一路)
2014	China deals with the debt of Local Government Financial Vehicles SOE reforms
2015	A stock market meltdown Capital flight and capital control
2015/05	"Made in China 2025" (*zhongguo zhizao 2025*, 中國製造 2025) is introduced
2015/11	"Supply-side structural reforms" (*gongji ce jiegou gaige*, 供給側結構改革) are introduced
2016–2017	Deleveraging and capital control Financial scandals in several big financial companies
2017/10	The 19th Party Congress
2017/11	The Financial Stability and Development Commission (*jinrong wending fazhan weiyuanhui*, 金融穩定發展委員會) is established
2018/03	The constitutional amendment to end presidential term limits was established

and Xi Jinping himself in the 19th Party Congress in late 2017. The NPC's constitutional amendment to abolish the presidential term limit in March of 2018 was the perfect closure to a series of institutional changes in a reshuffled authoritarian coalition. Table 2 summarizes the major political and economic events between 2012 and 2018.

In Levitsky and Way's recent study of African single-party authoritarian states, it was found that in the face of crisis, ideology is better than patronage to enhance elite cohesion — and, consequently, regime durability — because it can help to raise the cost of defection and provide leaders with the tools to maintain unity and discipline (Levitsky & Way, 2012). As the debt-financed investment spree was unsustainable and a reformation of the ruling coalition was inevitable, emphasis on ideological purity and party discipline may have helped Xi to punish defection and maintain unity in the reshuffled ruling coalition. Although it may not be economically rational for China to return to Maoist ideology and tighten party control over the market and society, it is politically rational for Xi and his political allies to harden authoritarian institutions to enhance elite cohesion.

Conclusion

In this paper, we endeavor to provide a political economic explanation for Xi Jinping's political rollback since his rise to power. In accordance with the coalition approach in comparative authoritarianism, we argue that the post-Tiananmen ruling coalition of debt-financed state investment was formed in the mid-1990s when export-led industrialization became China's primary growth engine. Channeled through the state banking system, the foreign reserves accumulated by export-led growth became the major source for the expansion of debt-financed state investment as well as the survival of the Party-state ruling coalition. The ruling coalition operated smoothly in the form of resource distribution through the collective leadership in both the Jiang Zemin and Hu Jintao eras. As the export-led development was exhausted in the mid-2000s, debt-financed investment expanded even more recklessly after the global financial crisis in 2008. Without the support of foreign reserves earned from export sectors, the investment spree became increasingly inefficient and was unsustainable, as was the ruling coalition of distribution.

When Xi Jinping came to power in late 2012, economists at home and abroad all had long advocated for a re-orientation of China's economic development from the expansion of debt-financed investment to an expansion of the domestic consumption market. Nonetheless, Xi Jinping and his political allies believed that it was even more important for the CCP to return to the ideological discipline of Chairman Mao in order to protect itself from a collapse of the kind experienced in the Soviet Union. Instead of making progress in political liberalization and the rule of law to accommodate the development of domestic market institutions, Xi Jinping and his economic advisor Liu He decided to rely upon a "top-level design" to implement the reform blueprint laid out in the 3rd Plenum of the 18th Party Congress. As a result, Xi and Liu could achieve little other than an increase in financial discipline in investment-hungry SOEs and local governments. While the overall financial resources had been largely reduced by a "deleveraging policy," ambitious state investments were launched for the BRI and MIC 2025. Xi's nationalistic projects became the new criteria to determine which coalition subgroups were to be excluded or included. The reformation led to power struggles, market panic, and capital flight. In response, Xi and his allies appealed for further ideological purity and party discipline to enhance elite cohesion and the survival of the regime by allowing the collapse of collective leadership.

In retrospect, a majority of economists have suggested that it may have been economically rational for Xi Jinping to choose political and economic liberalization to build the institutional foundation for the expansion of the domestic consumption market as China's next growth engine. However, it appears that the CCP leadership from the very beginning had perceived political liberalization to be dangerous. Constitutionalism and the rule of law have been seen as schemes for Western hostile forces to subvert the CCP. Instead, the leadership would rather maintain a statist approach and concentrate their exhausted financial resources into priority industries in the hope of stimulating economic growth through top-down government investment.

Just like the rise of bureaucratic authoritarianism in the 1960s and 1970s, Xi Jinping's political rollback was triggered by the exhaustion of a previous development model. With the institutional tools of a Leninist Party at hand, however, Xi's response was distinctive in that he could make use of ideological purity and party discipline to punish defectors and deter challengers. According to Levitsky and Way's (2012) study, ideology is better than patronage for a dictatorship to maintain elite cohesion and regime durability. We may expect that with the help of ideological purity and party discipline, Xi's political rollback may survive longer and better than the bureaucratic authoritarian regimes of the 1960s and 1970s. At the same time, China will be forced to bear higher and higher economic and political costs as the rollback continues.

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