

## Communist Totalitarianism with Chinese Characteristics: A Foundation for Understanding the Rationality of the Chinese Communist Party

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The aggressive and regressive changes in China in recent years have shocked the world. The sudden downturn of its economy in recent months has surprised perhaps even more, as it seems to contradict mainstream predictions not long ago. A primary reason these phenomena appear so unpredictable or incomprehensible is due to misconceptions about China's economy and polity. More fundamentally, it is because misunderstandings regarding the nature of China's institutions have persisted for decades among scholars, policy advisors, policymakers, and the media.

The most significant misconception about China is overlooking, mistakenly or deliberately, the nature of its fundamental institution's core: the Chinese Communist Party (CCP). This Party is intrinsically communist and totalitarian. Both in practice and as highlighted in its constitution, the CCP exerts complete control over every aspect of society, encompassing ideology, polity, and the economy. According to the Constitutions of both the Party and the State, the CCP's ideology is rooted in Marxism, Leninism, and Mao Thought. The principles of such ideology aim to overthrow the bourgeoisie, replace the bourgeois dictatorship with the dictatorship of the proletariat (or dictatorship of people's democracy), and eventually achieve communism. Mao's famous words, which Xi Jinping has emphatically echoed and enacted, "the Party leads everything, everywhere," capture the essence of the CCP accurately.

Under the CCP's total control, or leadership, the fundamental institution of the PRC (People's Republic of China) regime is communist totalitarianism. The reason for not referring to it as socialism is because socialism encompasses a wide range of divergent meanings. It spans from the liberal democracies of Scandinavia and Western European nations to the regimes of the National Socialist German Workers' Party (the Nazi party) and the

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communist totalitarian regimes. Consequently, using the term “socialism” in discussions about institutions can introduce considerable confusion. I also refrain from describing the CCP regime as authoritarian. This is because authoritarianism, too, covers a broad spectrum of autocratic governments. Moreover, typical authoritarian regimes are not ruled by a party that can ban all other parties and independent organizations, controlling every facet of society. Confusing a totalitarian regime with authoritarian regimes not only obscures understanding but can also misinform policy-making, as seen in popular claims suggesting that economic growth can naturally lead to democracy. In reality, what that claim reflected was the narratives that occurred in authoritarian regimes, such as South Korea and Taiwan before the late 1980s, which are categorically different from totalitarian regimes.

China, under the control of the CCP, was — and remains — a communist totalitarian state. Although there was a phase during reforms when it momentarily transitioned to an authoritarian regime. Given the magnitude of the Chinese economy and its military might, a deep understanding of communist totalitarian China is not merely academically significant. It also holds implications for the global economy, international relations, geopolitics, and the broader dynamics of war and peace worldwide.

In contrast to the concepts of socialism or authoritarianism, communist totalitarianism offers a comprehensive and accurate description of the institutional nature of such regime, including the PRC. Firstly, communism unambiguously reflects the ideology and practice of all communist parties, aiming at the total eradication of private property rights by force. This distinguishes it from all non-communist socialist and authoritarian regimes. Secondly, totalitarianism means total control of all facets of society by a singular, monopolistic party. Again, this is distinctively different from all non-communist socialist and authoritarian regimes. Although the term totalitarianism was not coined by Marx or Lenin, the blueprint of a totalitarian regime was long designed by Marx when he invented the concept of the dictatorship of the proletariat, which is the essence of what he defined socialism as the first stage of communism. Lenin was the first to materialize communist totalitarianism by creating the Bolsheviks and the Soviet Russia, the first totalitarian regime on earth.

Concretely, totalitarianism is a party-state institution where the Party exercises complete control in every conceivable dimension, which can be summarized as follows:

1. the state;
2. the armed forces;
3. the judiciary and police forces;
4. the economy;

5. the media;
6. ideology; and
7. data pertaining to every individual and society at large.

While the first six facets (as per Friederich and Brzezinski, 1956) have been consistently maintained in China since 1950, the seventh, pertaining to big data, has emerged as the latest modernisation of totalitarian control over the past two decades.

From the time Lenin founded the Bolshevik, the first communist totalitarian party, communist totalitarian parties across the globe have consistently incorporated the principle of the proletariat dictatorship into their charters and constitutions. These parties inherently function as dictatorial, secretive, and coercive entities. A hallmark of a totalitarian party is its drive to control and infiltrate every other institution, asserting dominance across all societal facets through methods of coercion and terror. The Bolsheviks in Russia, later known as the Communist Party of the Soviet Union (CPSU), set the precedent for this model. The CCP has since become its most expansive and persistent embodiment. Both the Bolsheviks and the CCP have maintained a strict policy against allowing any organization, political or otherwise, to operate autonomously, let alone to challenge their supremacy. The totalitarian nature of such parties is pivotal not only in understanding their domestic governance but also in gauging their approach in the international arena towards other nations.

The ideology, operational mechanisms, and institutions of totalitarianism distinguish it fundamentally from any traditional autocratic regime that human history has encountered, including all contemporary authoritarian ones. A hallmark of totalitarianism is its relentless secular-religious fervour paired with unparalleled brutality. From the October Revolution, through World War II and the Cold War, totalitarian regimes have exhibited an unyielding drive to expand both domestically and internationally, often at an immense human cost. Communist regimes are responsible for the victimization of approximately 100 million people, with a staggering majority of this toll being Chinese (Courtois, "Introduction," in Stéphane Courtois et al., *The Black Book of Communism: Crimes, Terror, Repression*, Harvard University Press. p.15.). Given its inherent nature, the ongoing 'New Cold War', instigated once again by communist totalitarianism, will be no exception.

Right after WWII, von Mises commented that all the endeavours to stop totalitarianism in the last sixty or eighty years "failed utterly." Shortly after Mises' remark, communist totalitarian regimes seized control of over one-third of the world's population, with China comprising the largest portion. Following the collapse of the Eastern Bloc totalitarian regimes in 1989, these nations embarked on diverse political transformations. How-

ever, the understanding of totalitarianism remained superficial, as Mises had concerned. In particular, understanding of the nature of the Chinese Communist regime has been even more superficial, at the best, so much so that it was confused with authoritarian regimes, like those in South Korea or Taiwan.

With this misconception, Deng Xiaoping's famous quote, "Hide your strength, bide your time," was misinterpreted as merely concealing material strength, rather than masking the true intent behind the Lenin-Deng's New Economic Policy (to be explained next). Fuelled by support from advanced democracies and a previously successful reform (to be explained later), China's nearly four-decade-long rapid growth not only sustained its communist totalitarian regime but also established China as the largest, most enduring, and potent totalitarian regime in history. While its threats to democracy have been recently felt, the underlying cause of this threat is yet to be fully grasped. Von Mises' warning from almost eight decades ago remains pertinent today.

The question is: what has made China more resilient than other communist totalitarian regimes? Among advanced democracies, there was a reasonably good understanding of the threats posed by communist totalitarian regimes during the Cold War. However, the perception of the Chinese communists differed, a fact underscored by an intellectual misjudgment traceable as far back as the late 1930s. Since then, many prominent intellectuals, including Sinologists and journalists, have viewed the CCP not as a true communist entity but as a nationalist party cloaked in communist rhetoric. Some even portrayed the CCP as a liberal party striving for freedom and democracy. The CCP's deceptive tactics — evident in the 1930s-1940s, the 1970s, and the post-Mao reform era — bolstered this misperception, solidifying the belief that the CCP isn't genuinely communist. This misconception has deeply influenced several US government decisions concerning the CCP over many decades. From the decisions in the 1940s, like the withdrawal of support for the KMT during its civil war against the CCP, which culminated in the KMT's defeat by the late 1940s, to more recent times. This erroneous perspective forms the crux of the "getting China wrong" paradigm in both policy and investment decisions.

### HOW CHINA ESTABLISHED A SOVIET REGIME

Marxism-Leninism, also known as Bolshevism, which represents the ideology and organizational structure of communist totalitarianism, was entirely alien to the Chinese. Initiating a communist movement in China without significant external influence would have been improbable. It was the Bolshevik agency, the Comintern (Communist International), that introduced communist totalitarianism to China, starting in 1921. Within

just a decade, the Chinese Communist Party (CCP), operating as a branch of the Comintern, founded the Chinese Soviet Republic. In fewer than two more decades, the CCP forcibly seized control nationwide and established the People's Republic of China (PRC).

When the Comintern arrived in China, only a select few Chinese were even familiar with the names associated with such an ideology and organization, let alone its underlying theories and nuances. In stark contrast, thousands of Chinese reformists and revolutionaries had been influenced by the West and Japan, directing their energies towards constitutional reform and the republican revolution. Additionally, the Comintern was failing to instigate a global revolution, with the exception of its success in China. Beyond the steadfast support from the Comintern, encompassing ideology, finance, and military aid, the rapid ascent and eventual dominance of communist totalitarianism in China are deeply rooted in its fundamental institutional components.

These institutional components have been repeatedly present throughout history and many bear similarities to those in Soviet Russia. I refer to these crucial institutional components as institutional genes, which were pivotal in shaping institutional evolutions. These institutional genes align with the incentives of the individuals who play significant roles in institutional evolution, including reforms and revolutions. Consequently, they often are repeatedly reproduced under new names in different contexts, driven by the self-interest of key players of major historical events.

Marxism, especially its theory advocating the complete eradication of private property rights and the governance of society through the violent dictatorship of the proletariat, provides the foundational blueprint for communist totalitarianism. Yet, this blueprint in isolation proves insufficient in establishing a functional regime, as highlighted by its inability to spark successful revolutions in all advanced nations. To truly realize the communist totalitarian ideology, the integration of specific institutional genes conducive to such a regime is imperative.

The foundational institutional genes of Soviet Russia, inherited from the Russian Empire, comprise:

1. The Russian imperial institution. By weakening all independent elements, it maintained near-total control over society for centuries. It laid the groundwork, providing a social foundation for communist totalitarian control by neutralizing potential challenging social forces.

2. The caesaropapist nature of Russian Orthodoxy and the Russian Orthodox Church. These entities deeply permeated Russian society, steering its spiritual life in allegiance to the Tsar. As an institutional gene, they facilitated the conversion and mobilization of the vast populace into com-

mitted totalitarian secular religious followers. This institutional backbone enabled the Bolsheviks to exercise successful ideological control

3. A tradition of covert, violent political organizations that held unwavering control over their members through stringent discipline and intimidation. Their main goal was power acquisition through aggressive means. Some of these entities self-identified as political terrorist organizations, like Narodnaya Volya (People's Will). They set the organizational precedents and principles that the Leninist party later adopted.

Compared with the three institutional genes foundational to the creation of the Soviet communist totalitarian regime, China had two predominant ones: the absolutist imperial institution and secretive political organizations. Foremost, the Chinese imperial institution was more autocratic, sophisticated, and had a much longer history than its Russian counterpart. China's system was more absolutist, devoid of a landed aristocracy. Additionally, both the examination/teaching mechanism and the judiciary were integral elements of the imperial bureaucracy, all under the ultimate authority of the emperor. Furthermore, China's secret political organizations boasted a longer history and more intricate structures than those in Russia. For instance, the nationwide organization known as the Brotherhood was pivotal in establishing the grassroots and military wings of the CCP.

However, China did not possess institutional genes comparable to Russian Orthodoxy and lacked any equivalent. Additionally, the Chinese populace was largely unacquainted with Marxism. Before 1919, Chinese media and public opinion were predominantly antagonistic towards the Bolshevik's October Revolution. Given these circumstances, the role of the Comintern, serving as a communist totalitarian missionary agent, became indispensable for the founding and growth of the CCP, as well as in cultivating the missing component of the essential institutional gene in China.

Led by Lenin and Trotsky, and later by Stalin (though the nominal leaders of the Comintern were their subordinates), the Comintern served as the headquarters of the CCP and the Chinese communist revolution for the CCP's first twenty years. It was the Comintern that sought out and organized Marxist-Leninist study groups in China. Building on these groups, the Comintern established and financed the CCP, selected its leaders and key cadres, and directed the CCP's revolutionary strategies and policies. One of the most fundamental strategies was the united front, which remains a cornerstone of the CCP's strategy to this day.

An essential part of the united front strategy at that time was to forge a Comintern-led CCP-KMT (Kuomintang) coalition, with CCP members joining the KMT on the Comintern's instruction. The aim of this Comintern-designed strategy was to penetrate the KMT and bolster the newly born CCP, hastening its move to seize power and establish a communist to-

talitarian regime. The initial steps included reorganizing the KMT into a Bolshevik-type party and establishing/financing the Whampoa Military Academy, which served as both a military training centre and a political power base intended to be controlled or, at the very least, influenced by the Comintern. The academy was marked by its Soviet-style systems, staffing structures, and curricula. Military instructors were primarily Soviet Russians, and it had a party department reminiscent of the Soviet army. The Comintern also demanded the strategic placement of CCP members within the academy, thereby tipping the balance of power in the CCP's favour. The CCP cadres, such as Mao Zedong and Zhou Enlai, occupied key positions in the Academy.

The Bolshevik party was a secretive political organization. Hence, the institutional genes of a secretive political organization are vital for such a party to thrive in any setting. From the outset of establishing the CCP, the Comintern directed it to either recruit from or collaborate with China's pre-existing secret societies and bandits, such as the Brotherhood Society and the Red Spear Society. One of the intentions was to use these groups as a springboard to develop the CCP's military forces. Leveraging a temporary alliance with a local branch of the Brotherhood Society, which had secured the Jiang-Gang-Shan Mountain area as their stronghold, the CCP established its first primary military base. However, the local leaders of the Brotherhood Society were subsequently eliminated. It was here that the Chinese Soviet Republic was founded in 1931, with Mao as its leader. During this period, all decisions concerning the CCP's leadership and strategies were mandated by the Comintern.

Among all the top leaders of the CCP, Mao was unique in that he was never trained in the Soviet Union, nor did he ever visit the country. However, the support of the Comintern was indispensable for his steady ascent within the party ranks, since his involvement in the 1st National Congress of the CCP, which the Comintern organized and financed. After two decades, Mao eventually became the CCP's first true leader with the backing of Stalin and the Comintern. The Comintern was strategically dissolved by Stalin in 1943, at a time when the Soviet Union urgently sought aid from the US and the UK to combat the Nazi invasion. It was only after this time that the CCP evolved into a fully independent communist totalitarian party. Nonetheless, the guidance, military, and financial support from Stalin and the Soviet Union were always crucial to the CCP's growth.

In addition to the political, military, and financial support from the Soviet Union, the success of the united front deception strategy, originally designed by Lenin, subsequently advocated by Stalin at various junctures, was pivotal for the CCP. The strategy bolstered support from the Chinese populace and weakened the US government's backing of the KMT. Employing this strategy, the CCP portrayed its nature as non-communist, non-

Soviet, and framed its objectives as being in pursuit of national strength, freedom, and democracy. In rural regions, they pledged private land ownership during their land reforms, while hiding the violent nature of these from journalists. Misguided Western journalists and sinologists, in conjunction with testimonies from top CCP leaders, began to view the CCP and its regime as the beacon of hope for China. Domestically, this perception earned the CCP the support of multiple democratic parties, a significant portion of the peasantry, urban residents, university students, and professors. Internationally, it prompted a shift in US policy towards China. All these factors proved instrumental in aiding the CCP's ascendancy to power through a civil war.

Since WWII, US military support to the Republic of China, commonly viewed as support for the KMT, had been of paramount importance. Due to fundamental misunderstandings about the nature of the CCP and its regime, and misjudgements about China's situation, the US decided to cease military and financial support to the KMT in 1946. This decision had catastrophic consequences, aiding in the KMT's defeat in the civil war.

#### **CREATION OF COMMUNIST TOTALITARIANISM WITH CHINESE CHARACTERISTICS: REGIONALLY DECENTRALIZED TOTALITARIANISM (RDT)**

Building on China's inherent institutional genes, the introduction of communist totalitarian structures from the Soviet Union was swift and impactful. Strengthened by the transfer of a substantial number of surrendered Japanese armed personnel and their equipment from the Soviet Red Army to the Chinese PLA, the already well-established CCP rapidly seized control over the entirety of China by 1949. This resulted in the creation of the PRC, a direct successor to the Chinese Soviet Republic established in 1931.

Subsequently, massive and extensive aid from the Soviet Union poured into China, facilitating a rapid and complete replication of Soviet systems and institutions. Upon the CCP's request, communist totalitarian doctrines and practices were imported to China more systematically, accompanied by an influx of Soviet experts and resources. This entailed the introduction of the Soviet Constitution, laws, propaganda mechanisms, ideological oversight, a centralized planning system, state ownership of all means of production, bureaucratic distribution of resources, bureaucratic governance, and management of state-owned enterprises. Such a methodical integration of institutions was instrumental in forging communist totalitarian institutional genes in China, second only in importance to Party building (described as the lifeline of the Party by Lenin). The widely prop-



agated official motto in the 1950s, “Today’s Soviet Union is tomorrow’s China,” aptly captured China’s trajectory of that era.

To transform China into a communist totalitarian state, certain prerequisites were necessary, including the nationalization of all properties, control over the judiciary, the police, and all organizations across sectors such as education, media, and culture. Like in the Soviet Russia, sheer brutality is indispensable to achieve these in China. The use of coercive force was partly due to resistance from property owners and intellectuals, but also because creating terror is inherently required to propagate the communist totalitarian ideology and to govern the regime. The inseparable tie between coercive dictatorship and communism has been explicitly and repeatedly articulated in theory and in policy by all communist leaders like Marx, Lenin, Stalin, and CCP leaders Mao and Liu.

Having said that, a significant hurdle the CCP encountered stemmed from their previous coalition partners and their promise of establishing a coalition government with other parties, a commitment made in the 1940s. This promise not only persuaded the US to halt support for the KMT, but it also convinced democratic parties to back the CCP during the war. However, in 1949, the CCP reneged on its commitment to a coalition government. Instead, they pledged to offer high-ranking positions to leaders of these parties as compensation.

As part of the efforts to establish the PRC government, the CCP convened the inaugural meeting of the Chinese People’s Political Consultative Conference (CPPCC) that year, which acted as a *de facto* parliament. They then used the CPPCC to pass a *de facto* constitution known as the Common Programme. This document declared the CCP as China’s sole legitimate ruling party, with democratic parties participating, *i.e.*, holding guaranteed high-ranking government positions, in governance.

Yet, just a few years later, the CCP further reneged on this promise. With the introduction of the PRC Constitution in 1954 — drafted under the guidance and supervision of Stalin and his legal experts — the stipulations of the Common Programme were set aside. The multi-party CPPCC, which had once nominally functioned as a legislative body, was officially relegated to an advisory role. Consequently, the once participatory democratic parties were reduced to mere symbolic entities, and their leaders were stripped of their prominent roles within the PRC government.

By repeatedly breaking promises and laying the groundwork for more extensive nationalization of properties, the CCP anticipated resistance from property owners, democratic parties, and their constituencies, especially intellectuals. Therefore, they deemed it necessary to instil fear within society to suppress potential dissent. Drawing inspiration from their Soviet counterparts, almost immediately after establishing the PRC, the CCP launched the Suppression of Counterrevolutionaries Campaign, followed by

the Anti-Rightist Campaign in 1957. The former campaign resulted in the deaths of over half a million individuals in just a few months. Meanwhile, the latter purged over half a million intellectuals (notably, by international standards, China's pool of qualified intellectuals was considered less than one-tenth of this number) by official figures. Some historians believe the actual number purged extends into the millions.

From this period onward, allegiance to the Party line and unwavering loyalty to its leadership became the norm in China, at least in public discourse, paving the way for an encompassing personality cult. The atmosphere of pervasive fear established during these campaigns has left an indelible mark, inherited by successive Chinese generations. This deeply-rooted fear has integrated itself into the country's institutional genes, turning self-censorship into an essential survival mechanism for everyone in China.

Up to this point, the PRC had become a full-fledged communist totalitarian state as the CCP had taken control of every facet of China's society, from material to mindset. The party-state dominated all resources and organizations; a state-ownership-based central planning system was in place and operational, and pervasive terror had been instilled in the populace. In essence, China had become akin to the Soviet Union, though with a more underdeveloped economy.

However, unlike its Eastern European communist counterparts, China deviated its way of governing on its economy from the Soviet-style communist totalitarian model and transitioned into a totalitarian regime with Chinese characteristics beginning in 1958. This shift was marked by Mao's initiation of the Great Leap Forward (GLF) and the Cultural Revolution (CR) from 1966 to 1976, both of which were grounded in Mao's firmly established, unassailable power. At the cost of no fewer than 40 million lives, these brutal transformative campaigns shifted China's institution to regionally decentralized totalitarianism (RDT).]

However, unlike its Eastern European communist counterparts, China diverged from the Soviet-style communist totalitarian model in its economic governance and transitioned to a totalitarian regime with Chinese characteristics in 1958. This shift was highlighted by Mao's launch of the Great Leap Forward (GLF) from 1958 and 1961, and the Cultural Revolution (CR) from 1966 to 1976. Both campaigns were rooted in Mao's firmly established and unchallengeable authority. At the expense of no fewer than 40 million lives, these intense transformative campaigns transformed China's institution to regionally decentralized totalitarianism (RDT).

The RDT embodies a communist totalitarian system that integrates a distinctly Chinese modality of local governance, drawing on institutional genes inherited from imperial China. From 1931 to 1957, China fused the Soviet Union's totalitarian institutional genes with its indigenous structures. Thereafter, the venerable Chinese imperial institutional genes, which

had facilitated the governance of the Chinese Empire via the devolution of administrative responsibilities to local bureaucrats for over two thousand years, merged seamlessly with this newly crafted communist base. Through the devolution of administrative tasks and resources to various strata of local party-state agencies, the CCP sought to provide heightened incentives for these officials to proactively implement the strategic mandates articulated by the central leadership.

During the GLF, the newly established RDT governance structure supplanted Soviet-style central planning with regional competition. However, regional competition evolved into an exaggerated contest among local bureaucrats vying to report grain outputs, resulting in the largest man-made famine in history. Close to 40 million perished due to aggressive and coercive procurement strategies.

Following on from this, the CR, which began shortly after the abrupt conclusion of the GLF, further entrenched and bolstered the RDT regime. In the process of reinforcing the RDT, almost the entirety of the party-state bureaucracy, particularly at higher levels, was decimated. Over 100 million individuals, notably intellectuals and party-state officials, were purged. As a direct consequence of the GLF and CR, China was reduced to one of the world's poorest nations. By 1976, its per capita GDP had fallen to levels even below the African average.

### **RDT AS THE INSTITUTIONAL FOUNDATION OF THE ECONOMIC REFORM**

To understand the post-Mao reform, it is pivotal to know that the beginning of the reform is the ending of the CR, and the institutional foundation of that reform is the institution evolved from the CR, the RDT. In addition to institutions, the devastation of the CR shook the legitimacy of the CCP, or at the very least, the legitimacy of the party line. This gave rise to active political dissent, with participants ranging from ordinary members of the public to the highest echelons of the CCP leadership. With a popular backing, following the coup d'état in 1976, several weeks after Mao's death, the reform was initiated to save the Party by re-establishing the legitimacy of the CCP and the party line was changed from class struggle to economic development.

To comprehend the post-Mao reform, it's essential to recognize that the reform's inception is the end of the CR, and the institutional foundation for this reform is the RDT, which evolved from the CR. Beyond institutional structures, the widespread devastation of the CR significantly undermined the CCP's legitimacy, or at a minimum, the credibility of the party line. This erosion of legitimacy spurred active political dissent, involving a spectrum of participants from the general populace to the uppermost tiers of

the CCP hierarchy. Bolstered by popular support, substantial changes were made following a coup d'état in 1976, just weeks after Mao's demise, aiming to restore the CCP's legitimacy and control. Consequently, the party line shifted its focus from class struggle to economic development, for saving the regime.

Political dissent both catalysed the drive for reform and posed challenges to the totalitarian system. Deng Xiaoping had to ensure that no challenges emerged under the pretence of reform as the goal of the party to reform was to preserve the regime, not the other way around. In 1979, before implementing any nationwide reform measures, Deng proclaimed the Four Cardinal Principles of the communist totalitarianism: upholding socialism, the dictatorship of the proletariat, the leadership of the CCP, and Marxism-Leninism coupled with Mao Zedong Thought. The Four Principles have been so fundamental throughout the reform era that they were formally enshrined in the CCP's Constitution in 2007, and their emphasis has been intensified under Xi's leadership since 2013.

Given the objective of the reform, it was imperative for it to resonate more with other communist models than with 'bourgeois liberalization' (a term used by Deng). In fact, the CCP sought to emulate the market socialist reforms of Eastern Bloc communist nations, especially those of Yugoslavia, Hungary, and Czechoslovakia. However, while all the market socialist reforms in the Eastern Bloc nations aimed at preserving the regime, which required the dominance of state ownership, they all ultimately failed due to the 'Soft Budget Constraint (SBC)' issue, as identified by Hungarian economist Janos Kornai. China was no exception in its state sector reform.

In contrast, China did not have to replicate the reforms of its Eastern Bloc communist counterparts in their entirety, although they all shared the same goal. This is because China's RDT institution functioned differently, whereas classic totalitarian regimes served as the institutional foundation for reforms in Eastern Bloc communist countries. This institutional difference provided distinct incentives for party-state bureaucrats during China's reform process. Instead of implementing detailed top-down reform instructions, the Chinese subnational party-state agencies proactively competed with each other to meet the targets set by the central authority.

During most of the reform era, the primary objective for local authorities was economic growth. The inherent regional competition within the RDT framework afforded the regime both flexibility and adaptability. Stemming from grassroots initiatives fueled by this regional party-state rivalry, China experienced extensive, albeit unintentional, privatization without complete legal endorsement (the Chinese government refrains from using the term "privatization" to describe their reforms). This approach to privatization set China's reforms apart from those of the Soviet Union and

the Eastern Bloc, and arguably preserved the Chinese communist regime. Key examples include land reforms, the establishment of special economic zones to lure foreign investment, the privatization of smaller state-owned enterprises, and notably, the swift emergence of de novo private firms. As a result, the private sector thrived, becoming the linchpin of the Chinese economy. It now employs over 80 percent of the workforce and has given rise to multinational non-state-owned enterprises. Such progress, which directly challenges communist tenets, would have been unthinkable in the Soviet Union.

If China had stuck to a classic communist totalitarian model, wherein reforms were designed and directed in a top-down manner like its Soviet counterparts, the CCP would not have allowed such developments of private sector either. However, under the fierce regional party-state competition facilitated by the RDT regime, some local officials released the potential of the private sector to revive their local economies, a strategy that was subsequently emulated by others. Such developments were rapidly reached to the point that the private sector became indispensable to the Chinese economy, thus, the CCP had no choice but to recognize its legal status in the Constitution.

This inadvertent transformation cultivated and advanced a measure of social pluralism, encompassing private enterprises, civil society organizations, independent media channels, and varied viewpoints in the social sciences and humanities. Propelled by the swift growth of the private sector, China's economy sustained extended periods of high growth. Demonstrating more adaptability than Soviet-style totalitarianism, China's totalitarian system effectively rejuvenated, morphing into a somewhat milder authoritarian governance, aptly termed as regionally decentralized authoritarianism (RDA). The RDA and its consequential economic prowess garnered international acclaim. Yet, many likened it to the authoritarian governments of Taiwan and South Korea before the 1990s, neglecting the inherent dangers and latent challenges of its communist underpinnings.

### **WHY DID THE CCP MADE A U-TURN? AND WHERE IS TOTALITARIAN CHINA HEADING**

After witnessing China's remarkable economic growth over several decades — a growth many labeled as a miracle — a common prediction in the West has been that China would automatically transition to democracy as its economy matured and its middle class expanded. However, this perspective overlooked a critical point: such a shift is exactly what the CCP has perpetually been cautious of and resolutely forbidden. The Four Cardinal Principles, articulated by Deng Xiaoping in 1979, were specifically devised to shield against the anticipated danger of this so-called 'peaceful

evolution', whether that threat emerged from events like the Tiananmen Demonstrations or from the adoption of capitalism based on private property rights. Notably, thwarting "peaceful evolution" — in other words, blocking any movement or endeavor towards liberalism and pluralism — has been a core tenet of the CCP since the 1960s when Deng held the position of General Secretary of the CCP Central Committee.

In 1982, at the outset of China's reform era, Deng clearly articulated that the essence of the imminent reform was Lenin's New Economic Policy — a temporary semblance of liberalization designed to ensure the survival of the communist totalitarian regime. Faced with a choice between spurring economic growth and preserving its power, the CCP's stance has always been unambiguous. The Party has consistently and proactively clamped down on any entity or movement it deemed a menace to its power. Beyond the campaigns to counter "bourgeois liberalization" in both 1983 and 1986, Deng's uncompromising crackdown on the Tiananmen Square protests in 1989 stands as an indelible testament to his unwavering commitment to these Principles.

Facing the indispensable role of the private sector in the Chinese economy and the emergence of limited societal pluralism associated with it, CCP leaders have grown increasingly concerned that these developments might jeopardize their totalitarian rule, despite the economic salvation. Since 2013, with an acceleration after 2017, the CCP has pursued efforts to regain complete and direct control over various sectors, intensifying its crackdown on dissidents. All private companies, including those funded by foreign investments, as well as non-state organizations, are now mandated to establish Party cells. There have been attempts to cultivate a Mao-style cult of personality, albeit fruitlessly. The Party has also increased its demands for direct control over businesses, universities, and research institutes.

Retaining power is paramount in communist totalitarianism, which ultimately seeks to eradicate private property. Without a thriving private sector, however, the sustainability of the Chinese economy is jeopardized, particularly given the constraints imposed by the RDT institution on Chinese society. The Lenin-Deng New Economic Policy (NEP) thus acts as a temporary solution during times of survival challenges. This dilemma in decision-making is one all CCP top leaders face, reminiscent of the quandary Soviet leaders encountered when deciding to end the NEP. Therefore, as the regime solidifies its economic strength and confidence, attempts to curtail and eventually phase out private firms are to be expected.

'The East is rising, and the West is declining' — Xi Jinping's sentiment mirrors Mao's famous motto, 'the East wind prevails over the West wind'. The current CCP leader genuinely sees communist China as superior to the West and believes that the party-state's authority and the state sector

surpasses that of the private sector. Bolstered by this confidence and aiming to prevent peaceful evolution or a color revolution as well as to extend the regime's influence on the world order, the CCP has initiated measures both domestically and abroad. The most notable crackdown against the private sector targeted China's leading e-commerce companies by design. Behind these actions lies a strategic rationale. Drawing from the Lenin-Deng NEP principle, the party must always control the 'commanding heights of the economy.' However, the emerging 'commanding heights' of the new economy, particularly e-commerce and e-finance, slipped from the party's grasp. This was largely due to the CCP's oversight during the sector's nascent stages. But this must be corrected at whatever the cost.

Under the guise of regulation, nearly all of China's leading non-state-owned e-commerce platforms — including Alibaba, Tencent, Didi, JD.com, Baidu, Meituan, and TikTok — became targets of the CCP. The purge executed by the CCP proved to be highly effective. In 2017, the total valuation of the Chinese e-commerce sector was on par with its US counterpart. However, by 2022, the combined market value of all these Chinese e-commerce companies had plummeted, amounting to less than the valuation of Apple alone, and this disparity continues to grow. Given that e-commerce is an essential infrastructure of the entire Chinese economy, weakening this sector has ramifications for the national economy. Consequently, a further decline in overall economic performance in 2023 should come as no surprise to those familiar with the purges.

The other profound issues plaguing the current Chinese economy include the collapsing Chinese real estate sector and mounting debt, particularly among Chinese local authorities. These challenges directly stem from state ownership and the SBC syndrome associated with it, as previously discussed. Since all land in China is state-owned (with the ultimate control rights of the so-called collectively owned agricultural land residing with the state), it provides local authorities the legitimacy and means to address their financial woes by selling and leasing land use rights within their jurisdictions. Leveraging their complete monopolistic position on the supply side, local authorities have inflated land prices, resulting in significant real estate bubbles over several decades. While the bubble's eventual burst is inevitable, the factors precipitating the current collapse — low demand and a declining population — stem from the state's monopolization of resources, excessively heavy tax burdens (which, in practice, often exceed official guidelines), and decades of stringent nationwide birth control policies.

The real estate bubble, formed under the total state ownership of land, has a unique feature that distinguishes it from market economies based on private property rights. This distinguishing feature is the escalating leverage due to the SBC syndrome associated with state ownership. As

sub-national governments do not face bankruptcy under any circumstances, they remain unconcerned about the repercussions of borrowing. Furthermore, they have been encouraged or even urged by the central authority to devise ways to amplify their investments and accelerate growth. In such an environment, they have amassed tens of trillions in bank loans, using land as collateral, since the Global Financial Crisis. This not only elevated the leverage of both the Chinese government and the entire economy but also structured the majority of the debt as pro-cyclical mortgage loans. When the market faces a downturn, as is currently the case, and the value of land collateral decreases, such loans can lead to consequences more severe than high leverage from long-term and medium-term bonds.

Driven by its ideology and its institution, communist totalitarian regimes anywhere inherently seek the relentless expansion of power, both domestically and internationally. Overlooking its fundamental characteristic and expecting the economic development of such a regime to naturally transition to democracy or framing the threat of a totalitarian power as a mere “Thucydides Trap” among major powers (Allison 2015), is misleading. Policies based on misconceptions about such regimes can thus be counterproductive.

It’s noteworthy that under certain conditions, particularly when faced with economic hardships, communist ideologies and totalitarian systems can operate effectively for a limited period. During these phases, communist totalitarian regimes might harness a potent ability to rally and mobilize resources through methods like incitement, ransom, and terror. Yet, it’s essential to grasp that such eras are ephemeral, typically culminating once the nation reaches a middle-income economic status. In fact, no communist totalitarian regime has transitioned to an advanced economic stage, even if some have attained superpower status due to sheer population size. Projecting the future capabilities of a totalitarian regime based merely on its historical growth is a recurring oversight, reminiscent of miscalculations during the Cold War. History has consistently shown that the majority of totalitarian regimes, including those deemed superpowers, have faced deterioration, decline, or even collapse when their reforms faltered, their grip on society slackened, or when their ideologies were effectively abandoned in practice.

On the one hand, the institutional genes of totalitarianism seem to be making a full return in China, adopting new techniques for absolute control. On the other hand, emergent institutional genes, such as private property rights, private enterprises, non-state organizations, and universal values of human and property rights, coupled with the demand for the rule of law and constitutional governance, as well as the dissemination of social sciences, have become integrated into Chinese society. The inherent self-interest of individuals, along with the motivation drawn from a globally connected



world, has fostered the emergence and resilience of these new institutional genes. The tug of war between these contrasting institutional genes will inevitably shape China's trajectory.

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