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How Xi Jinping Undermines China

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"We shall proceed with reform and opening up without hesitation," China's President Xi Jinping told his country's top leaders in August 2014 during a symposium marking the 100th anniversary of the birth of former leader Deng Xiaoping. At the time, this pledge appeared sincere. Since taking office in March 2013, Mr. Xi had consistently advocated a reform agenda intended to continue the economic restructuring and national revitalization that Deng had started in 1978. Now, two years later, and despite his consolidation of power, Mr. Xi's reforms are mired in a morass of bureaucratic hurdles and official foot dragging.

The problem is that Mr. Xi's agenda is self-contradictory. It at once calls for deepening reforms and the rule of law while demanding strict conformity with party orthodoxy. This recipe, which can be called reform without opening up, has failed to produce results.

True, China's anticorruption campaign has taken down hundreds of thousands of officials within the Communist Party. But it has yet to be institutionalized, sending a powerful signal to elites that it remains politically motivated, a cudgel wielded against the president's rivals. Many of those who might be affected, therefore, are simply waiting for the heat to die down or are actively working to thwart official investigations of their malfeasance.

Meanwhile, the once-enthusiastic Chinese public has been shocked by the extent of official graft, and for good reason. In 2013, an estimated 180,000 officials were disciplined for corruption. In 2014, the estimate was 232,000. Last year, the figure topped 300,000.

Economic reforms have also stalled. Despite strong high-level support at the outset, the initial excitement over the Shanghai Free Trade Zone has faded, shrugged off as anachronistic by many foreign firms seeking access to the entire Chinese market. Similarly, Beijing's measures to liberalize currency trading and capital markets have been reversed.

When markets crashed last summer, authorities intervened by purchasing equities, pressuring traders not to sell, increasing lending and infrastructure-investment spending, tightening regulations on capital outflows and depreciating the Chinese currency. Although this temporarily halted the market's decline, it also chilled investment and exacerbated capital outflows. To pump up the market, China is now moving about 2 trillion yuan ($299 billion) of its people's pensions from low-risk, low-yield government bonds into riskier securities, including equities.

The results are hardly reassuring. Between March and June, China's currency fell 3% against the dollar, its largest quarterly fall on record. By July, China's foreign-exchange holdings were down to about $3.21 trillion, off by about 20% from their June 2014 peak of $4 trillion. They remained steady in August.

Reforms have been stillborn because China's "opening up," initiated by Deng in 1978 and reaffirmed by Premier Zhu Rongji in the 1990s, is under threat. Restrictions on information flows on the internet and social media, known officially as "internet sovereignty" or "governance of cyberspace with Chinese socialist characteristics," have become more pervasive, more difficult to surmount and more effective at silencing dissent. This trend will continue under the new cybersecurity law slated for approval later this year.

Moreover, an already-approved nongovernmental-organization law, which will take effect in January, has put a chill on Chinese cooperation with foreign organizations and stigmatized that cooperation by placing it under the purview of the security services. At a time when international coordination among NGOs and transnational networks has reached its apex, it has never been more difficult for foreign NGOs to work with their Chinese counterparts.

Other elements of this tightening include a new counterterrorism law that requires foreign-technology firms to hand over sensitive data to Beijing. Visa restrictions have become more onerous on foreigners. And there has been an increase in anti-Western, anti-liberal and anti-Japanese attacks in the official press. The word "sensitive" is now regularly used at academic conferences to preclude discussion of inconvenient topics. Chinese women are being warned not to date foreigners, for fear they are spies hunting for state secrets.

Another important reason for the lack of progress is the autocratic methods and Maoist tactics used to advance reform. Mr. Xi has called on "every branch and every member" of the Communist Party to enforce a yearlong political campaign to study his speeches, ensure "strict party management at the grassroots level," "consolidate Party members' Marxist positions and ensure that the entire Party maintains a high degree of ideological and political consistency." But this isn't Mao's China, and many local cadres either ignore the slogans or deride them in private.

As enthusiasm fades and obstacles arise, the momentum of Mr. Xi's campaign-driven reform strategy has proved short-lived. Today, many Chinese still believe that China's rise can only continue through "opening" and effective reforms. But the country's current strategy runs counter to this approach and harkens back to an earlier era of politically driven policy. As such, it is likely to continue provoking resentment and opposition, from party members and domestic interests as well as foreign businesses and NGOs that feel unreasonably constrained in an increasingly hostile, nationalistic China.

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