

Soviet Reform and the Prospect of Sino-Soviet Convergence

The theory of convergence, which had its heyday in the early 1960s, postulated that the logic of economic development was so compelling that in the course of industrialization capitalist and socialist systems would become more and more alike, overriding the disparate political structures that had hitherto distinguished them and rendered them incompatible.¹ Implicit in this projection was the assumption that the structural isomorphism engendered by economic modernization would also have positive political spin-offs:² If conflict between the two socio-economic systems could be attributed to their antithetical ordering principles and sharply contrasting class structure, any diminution of these differences could only be viewed as helpful. Convergence, in short, implied community. How has history dealt with these two hypotheses (viz., modernization implies convergence, convergence implies compatibility)?

In the two or three decades since convergence theory was first articulated, the evidence has been mixed. The two systems have shared certain trends, such as pervasive bureaucratization; the capitalist countries have become more like the socialist in their provision of welfare and (in some cases) their attention to some form of planning, while the socialist countries have become more like the capitalist in their allocation of material incentives and increasing reliance on market allocation. Nevertheless, the two systems continue to be differentiated by many of the same basic structural features that distinguished them at the outset (e.g., political pluralism vs. single-party dictatorship, market vs. plan). And they have hence remained international rivals in principle, albeit not incapable of cooperation when it appeared to be in their mutual interest.

This paper attempts to resuscitate convergence theory amid empirical circumstances that appear, at least *prima facie*, somewhat more promising. If convergence theory foundered on the intractability of the political structures in which the socio-economic system remained caged, the theory would appear to have better chances for confirmation if the cases being examined also had identical political structures. In the case of the Peoples Republic of China (PRC), not only did the revolution emerge from a traditional socio-cultural system broadly similar to the Russian (both were large, economically underdeveloped agricultural empires administered by centralized bureaucracies and led by a hereditary autocrat), but the post-revolutionary political apparatus superimposed following liberation was essentially identical to the Soviet structure upon which it was

1. See Alfred G. Meyer, "Theories of Convergence," in Chalmers Johnson, ed., *Change in Communist Systems* (Stanford, Calif.: Stanford University Press, 1970), pp. 313-42; also Zbigniew Brzezinski and Samuel Huntington, *Political Power USA/USSR* (New York: The Viking Press, 1964); John H. Kautsky, *Communism and the Politics of Development: Persistent Myths and Changing Behavior* (New York: John Wiley, 1968); and Peter C. Ludz, *The Changing Party Elite in East Germany* (Cambridge, Mass.: M.I.T. Press, 1972).

2. The political implications of detente have been examined in Hisahiko Okazaki, *A Japanese View of Detente* (Lexington, Mass.: D. C. Heath, 1974).

patterned. The elites who imposed this structure shared general ideological outlooks as well as the specific objective of modernization without the alleged inequities of capitalism. They fully expected their duplicate structures to assure a sense of socialist community between them, and they further expected their developmental paths to converge in the course of modernization and the eventual realization of communism.

The assumption of this article is that if two countries have convergent political systems they are more likely, *ceteris paribus*, to have amicable bilateral relations than if they do not. This assumption might appear to be belied by the fact that early Sino-Soviet solidarity disintegrated even though it was based on explicit modelling. Yet this was an artificially imposed isomorphism, a Galatea–Pygmalion relationship in which emulation implied self-abnegating subordination and dependency. Surely a convergence voluntarily arrived at, without sacrifice of sovereignty, would in contrast facilitate implicit mutual understanding and more ready agreement? Should not shared structures, shared ideologies, shared goals be expected to promote cooperation?

The following discussion will focus on two questions. First, what has been the reciprocal impact of reform efforts in both countries? Second, what are the implications of convergence on the newly emerging Sino-Soviet relationship?

The Impact of Reform

In view of the fact that Chinese reform has already achieved a dramatic increase in production while the Soviets as yet have far less to show for their efforts (in terms of economic outputs), the likelihood that the USSR might be influenced by Chinese reform efforts seems greater than vice versa, at least for the foreseeable future. Accordingly, we begin our analysis with this prospect, before turning to the possible impact of the Soviet experience on Chinese reforms.

Despite a certain theoretical uncertainty, the Chinese have proceeded with a clear set of priorities, beginning with the vast agricultural sector before addressing industrial reform, and moving much more boldly in economics than in politics. It may be useful to provide a thumbnail sketch of the nature of the Chinese reforms before examining their bilateral consequences. The three main facets of Chinese reform efforts are the so-called *production responsibility system*, the shift from *central planning to markets*, and the *policy of opening*. The production responsibility system (PRS) involves the division of property into two components, ownership and control, and redistributing the latter without formally conceding the former. The shift from plan to market entails a shift from “command” planning to guidance planning, giving the market substantial autonomy while interceding to correct undue volatility or distributive imbalance with fiscal and monetary levers. The policy of opening to the outside world is designed to facilitate Chinese integration into international commodity, capital, technology, even service markets, primarily through the promotion of trade and foreign investment.

The Soviets have always evinced great interest in Chinese industrial reforms. Aside from the fact that for ideological reasons they have always deemed industry a hallmark of socialism, the Soviet industrial sector makes a more significant contribution to GNP (and to employment) than does the Chinese, and industrial growth has declined markedly over the past two decades.³ Ironically, Chinese reforms in this area have been

3. Between 1923 and 1955, Soviet economic growth averaged more than 4 percent annually, albeit at the cost of a very high savings rate to offset the low productivity of capital. According to US estimates, Soviet GNP growth declined to 2 percent from 1957 to 1985; by 1985, Soviet economic output was only 55 percent

fairly cautious, compared to agriculture. Beginning with experiments with enterprise autonomy under Zhao Ziyang and Wan Li in the early 1980s (in Sichuan and Anhui provinces, respectively), reforms have gone on to replace government deduction of enterprise profits with tax collection, more recently adopting the contract system (in which a management team is given a short-term lease to run a factory, disposing of any surplus beyond the agreed-upon quota on the market), provision for bankruptcy or merger in consistently loss-making enterprises, and authorization to raise capital by selling stock shares. More dramatically successful than these reforms of the still sluggish state-owned heavy industrial sector⁴ has been the growth of the collective and private sectors, both of which operated outside the plan; without governmental encouragement beyond the license to exist, both have grown much more rapidly than the capital-intensive state sector (*vide infra*).

The Soviets have followed all these developments with initial misgivings but (in the wake of high Chinese growth rates) increasing interest. Since 1965 (particularly in 1972, 1979, and 1984), the Soviets have conducted cautious experiments in many of these areas. Andropov, during this brief tenure, introduced a number of conservative reforms designed to reinforce the work ethic (curtailing absenteeism, enforcing sobriety), plus a modest attempt at decentralization (in 1983–84 enterprise managers were encouraged to take more local initiative, but given little with which to exercise that initiative), which succeeded at least temporarily in arresting the decline of production in most industrial sectors (excepting petroleum). Since Gorbachev's accession in March, 1985, reform efforts have accelerated. In June 1987, the Law on Socialist Enterprise, a CPSU Programmatic Resolution (published July 1), was approved by the Central Committee, which attempts to set forth a reasonably comprehensive agenda for industrial reform for the remainder of this decade. This document envisages a "radical reorganization of economic management," which would make factory managers autonomous in operational decisions, responsible to workers' councils, accountable for their firms' profits and losses [*khozraschot*]; firms could lose money or even go bankrupt if they failed to compete effectively, and workers could be laid off (though the term "unemployment" was still eschewed). This law came in force on January 1, 1988, initially applying to 60 percent of all enterprises and embracing the remainder in 1989. Five-year plans superimposed by the central ministries have been abolished; the state issues "orders" to the factories (initially covering some 80 percent of output) to ensure the production of essential items, but no longer issues detailed plans. For the rest, each enterprise drafts its own plan for the year, and is expected to make its own arrangements with suppliers and retailers. Enterprises can no longer count on State budget subsidies, but must finance their operations from bank credits, which must be repaid with interest, or else their enterprise will face closure. A fixed proportion of the profits must be remitted to the State, and the enterprise may use the rest for wages and bonuses, investment and expansion, worker housing, and so forth.

that of the American and declining. The economy recovered smartly in 1986 with a 3.9 percent growth rate, to Gorbachev's undoubted satisfaction. But the following year, Soviet Net Material Output (a key Soviet measure of the economy) grew by only 2.3 percent (according to CIA estimates, GNP grew by 0.5 percent)—the worst performance since World War II, with the exception of 1979. United States Congress, Joint Economic Committee, Subcommittee on National Security Economics, *Gorbachev's Modernization Program: A Status Report* (Washington, DC: Government Printing Office), March 19, 1987; also see *Christian Science Monitor*, August 1, 1988.

4. As recently as August, 1988, a survey indicated that 17 per cent of the 6000 major state enterprises were still unprofitable, losing US\$1 billion in the first six months of that year.

Although the Soviet collective sector is miniscule in comparison to the Chinese, a new law on cooperatives was passed by the Supreme Soviet on May 26, 1988 (to come into effect July 1), giving cooperatives legal parity with state enterprises. The number of cooperatives has hence mushroomed from 3000 in January to some 20 000 by the end of 1988, employing a still modest 0.4 percent of the national work force. Their proliferation has been inhibited somewhat by the continuing prohibition against hiring labor—though non-members may now be included under a “labor contract,” so long as minimal pay standards are met. In view of the fact that Soviet industry faces a labor shortage (as opposed to the Chinese labor surplus) and an aging population in industrially advanced regions,⁵ as well as the historical Soviet penchant for economies of scale, the cooperative and private sectors seem less likely to expand vigorously than has been the case in China.

In all of these Soviet reforms, the influence of the Chinese “model” is evident. Countervailing trends are however also visible. Although the overall thrust is in the direction of decentralization, Soviet reformers have also set in motion certain centralizing tendencies. Thus a small number of industrial superindustries are scheduled to be created similar to those operating in the GDR; so far such organs have been established in agriculture, machine building, and energy development.⁶ In August, 1986, the Soviets also introduced a new and much larger “basic management unit,” called the “All-Union Scientific Production Association” (VNPO), apparently patterned after the East German kombinat. The Soviets also retained Stalinist budgetary priorities in their 12th five-year plan (1986–90), with strong emphasis on the heavy industrial sector that is most compatible with command planning (perhaps because this was still early in Gorbachev’s “education.”)⁷

Chinese agricultural reforms have been more conspicuously successful than industrial reforms (at least up till the record 1984 harvest). Under the PRS, a *de facto* decollectivization occurred, as the 55 000 people’s communes that formed the organizational basis for Chinese agriculture for three decades were eliminated outright and individual family households leased plots with extensive use rights. Chinese peasant income doubled in less than a decade (1978–1984), grain production increased by 4.9 percent per annum over the same period (compared to 2.1 percent from 1957 to 1978), and output of other crops grew even more rapidly; by 1987 statistics released by the State Statistical Bureau disclosed that the gross value of agricultural output was the highest (in absolute terms) of any country in the world. Until early 1986 the Soviets focused on the drawbacks of the PRS; since then its success has been conceded, but the Soviets have been hesitant in emulating it. Gorbachev’s first attempts at rural reform consisted of institutional changes, i.e. the creation of a new superministerial State Agro-Industrial Committee (Gosagroprom). One of the first to refer favorably to the Chinese agricultural reforms was pro-reform sociologist Tatyana Zaslavskaya, who referred to the “collective responsi-

5. David Lane, “The Societal Dimension,” in Curtis Keeble, ed., *The Soviet State: The Domestic Roots of Soviet Foreign Policy* (London: Royal Institute of International Affairs, 1985), pp. 25–42. In the 1970s, the total Soviet labour force was 155 million, which represented an increase of 24 million over the previous decade, but in the 1980s, it will have increased by 8 million. On the other hand the number of retired workers is slated to increase: there are 37 million at present, and this number will swell to 80 million by the end of this century. The rate of population growth is now two and a half times as great in Central Asia as in the Slavic republics.

6. Cf. Marshall I. Goldman, *Gorbachev’s Challenge: Economic Reform in the Age of High Technology* (New York: W. W. Norton, 1987).

7. See Philip Hansen, “The Economy,” in Martin McCauley, ed., *The Soviet Union Under Gorbachev* (London: Macmillan Press, 1987), pp. 97–118.

bility family contract system” as a model of what might be done when discussing reforms in Soviet agriculture.⁸ Soviet peasants have been encouraged to expand their private plots, which account for less than four percent of a total farm acreage but produce up to half its potatoes and a third of its meat and dairy products. There has been no move as yet to phase out the state and collective farms [sovkhoz, kolkhoz], though their financial independence has been expanded (e.g., they may now sell up to 30 percent of their harvest to urban markets and cooperatives rather than to the state). Experiments have been launched with the brigade system and a contract responsibility system popularly known as the ‘link’ (*beznyadnoye zveno*, similar to an early progenitor of China’s family PRS), consisting of a team of farm households who agree to produce a given output while the collective supplies the needed material inputs. In 1988 the Gosagroprom approved new regulations authorizing land to be leased to private groups and individuals for up to 50 years. Agricultural machinery, now owned by state and collective farms, will be either leased or sold to the new private entrepreneurs. Farmers may hire labor, so long as wages are not lower than those paid by adjoining state enterprises.

It is too early to say how widely these new regulations will be implemented but they seem likely to be opposed by existing raion (district) party secretaries, whose power bases are directly threatened. As indicated by the prior history of the ‘link’, the Soviet bureaucracy has become highly effective at thwarting policies perceived to be inimical to its corporate interests.⁹ The preferred form of non-state unit has hitherto been the cooperative, an autonomous unit of up to 50 farmers (or workers in the industrial or service sector) who agree to share the proceeds of their work. First authorized in August, 1986, some 14000 cooperatives (most of them relatively small-scale) were set up within the first year; a draft law published in March, 1988, extended new rights to them.¹⁰ It is too early to assess the results of these changes; advance indications are that the laws passed in 1986 and 1987 are being implemented rather unevenly.

Although the PRS has been the jewel in the crown of Chinese agricultural reform, there are several conceivable reasons for Soviet misgivings about plunging in. Nationality issues are much more salient in a nation in which the dominant nationality has dwindled to about 52 percent of the population (in China, minorities make up only about 7 percent of the population, and are situated for the most part in remote and strategically marginal regions). *De facto* decollectivization may well be avoided because of fear of loss of political control in such regions, given that several non-Russian republics, where latent nationalism remains potent, are predominantly agricultural in their economic structure. In traditional agricultural regions, Russian family farms (kulaks) had been barely established following dissolution of the pre-revolutionary estates when Stalin collectivized the land, and several generations have since grown inured to collective institutions. In those areas in which large-scale resettlement has taken place, on the other hand—about 140 million acres of “virgin lands” were added to cultivation between 1950 and 1960, increasing total Soviet croplands by more than 38

8. *Izvestiia*, June 1, 1985, p. 3; *Pravda*, October 25, 1984, p. 5.

9. The brigade contract system was one of the few experiments authorized in the New Agricultural Program in 1982. Based on Zaslavskaya’s findings in Altai, the May 1982 CC Plenum decided to extend the experiment to all collective farms. But the state farms refused to participate, and the bureaucracy was unenthusiastic. Goldman, *Gorbachev’s Challenge*, note 6, p. 59; see also Alec Nove, “Soviet Agriculture: Problems and Prospects,” in David Dyker, ed., *The Soviet Union under Gorbachev: Prospects for Reform* (London: Croom Helm, 1987), pp. 91–106.

10. *New York Times*, March 20, 1988, pp. 1, 5.

percent—the farmers had no original title to the land, so to redistribute land into family responsibility plots would be as artificial as the current organization of ownership. Agricultural machinery is extensively used in these vast and marginally productive regions, and the subdivision of fields might adversely affect economies of scale. Finally, the CPSU's cumulative success in socializing the Soviet citizenry to "socialist" values should not be underestimated. Public opinion polls (as well as other less systematic indicators) do show, in contrast to the climate of opinion in the Chinese countryside, a lack of enthusiasm for any major shift in the agricultural incentive system in the USSR, suggesting that Gorbachev cannot count on popular pressure to bolster his calls for change.¹¹

Marketization does not necessarily entail political liberalization, but it does presuppose two essential freedoms: the freedom for prices to fluctuate according to supply and demand, and the freedom of agents to purchase, own, and market commodities (i.e. some measure of privatization). Both countries have undergone an evolution in their approach to the satisfaction of these two prerequisites. Concerning the first, in addition to the semi-privatization of agricultural (and, more recently, industrial) property in the form of leaseholds, China has legalized¹² private enterprise (denounced and curtailed as the "tail of capitalism" under Mao) in the service, commercial, and even industrial sectors. The private sector has quickly become the most rapidly expanding of the three forms of ownership (state, collective, and private), followed by the collective sector.¹³ More than 80 percent of the restaurants, repair shops, and service outlets set up since the Cultural Revolution ended in 1976 are privately owned. Although most are small-scale affairs, they have been growing in size from an initial limit of seven or eight employees to several hundred. As these collective and private ventures rely on their own sources of finance capital and set their own prices, their vigorous expansion has eroded the State's ability to control the economy.¹⁴ Price reform in the still dominant public sector was however postponed until the "second stage" of urban reform was introduced in October, 1984. The freeing of retail prices then snowballed (many price hikes were unauthorized), triggering inflation, which had the effect of reducing living standards for a fifth of China's 200 million urban dwellers;¹⁵ this in turn induced a restoration of price controls, and in early 1987 China temporarily suspended efforts to free prices. In June, 1988, a more determined effort was made to free urban food and commodity prices, but this set off an inflation unprecedented since before liberation. The official estimate for the first ten months of

11. G. I. Shelev, "Sotsial'no ekonomicheskii potencial semeinogo podiada," *Sotsiologicheskie Issledovaniia*, April, 1985, pp. 16–20; as quoted in Goldman, *Gorbachev's Challenge*, note 6, p. 190; see also Marshall Goldman and Merle Goldman, "Soviet and Chinese Economic Reform", in *America and the World 1987/88* (New York: Pergamon Press, 1988), pp. 551–74.

12. Constitutional amendments to this effect were passed at the Seventh National People's Congress in March 1988: Article 10 legalized introduction of a free market in land-use (lease) rights, Article 11 gave legal protection to private enterprises, and Article 13 gave the right to inherit private property (including lease rights).

13. Between 1978 and 1985, the private sector has grown spectacularly, from 180,000 to 11.64 million units (still representing less than 1 percent of total industrial output value). *Far East Economic Review*, November 20, 1986, pp. 68–9. China's collectively owned industries, employing about 15 per cent of China's labor force but representing some 30.5 percent of total industrial output, grew by about 30 percent in 1985, 16.7 percent in 1986, and 22 percent in 1987—well ahead of the state sector.

14. Whereas state budgetary allocations had accounted for 90 percent of all capital-construction investment in 1957 and 83 percent in 1978, by 1984 the state budget's share of investment had fallen to 54.4 percent, dropping further (to 40–45 percent) in 1985.

15. *The New York Times*, September 6, 1987, p. E2.

the year was 17 percent, but unofficial estimates put it closer to 50 percent. The inflation precipitated bank runs and stockpiling of consumer commodities. As a result, reform for China has been indefinitely postponed. Still, the Chinese theoretical commitment to marketization has increased over time: whereas in the early 1980s the theoretical ideal was an economy in which the plan would remain dominant, supplemented by markets (Chen Yun's "bird in cage" model), the formulation at the Thirteenth party Congress (October–November, 1987) was that the State would manage the market (through various fiscal and monetary levers), while the market would guide the individual firm—a formulation tantamount to market socialism.

With regard to privatization, from an initial position of explicit hostility to the market¹⁶ Gorbachev's position has undergone considerable evolution. Beginning May 1, 1987, the Soviet Union has permitted citizens to operate small restaurants, tailor shops, taxis, and other private businesses (a total of 29 kinds of enterprises are included), thereby bringing this underground economy into the moonlight of legality. At this writing, regulation remains relatively stringent—the owners must register with local authorities, must quit their jobs in state enterprises, cannot hire labor and must obtain their supplies from Gosstab (the official state supplier) and not from other private traders. With regard to price reform, Gorbachev has been uncharacteristically circumspect. According to the "Basic Principles" adopted at the June, 1987, Central Committee Plenum, the Soviets have resolved to encourage private and cooperative activity, a labor market, the abandonment of annual plans, and a shift from command to indicative planning (in which the authorities manage only important variables of national importance, leaving operational decisions to lower levels). But after announcing at the plenum that "a radical reform of the pricing system is a most important part of the economic overhaul," Gorbachev was dismayed to see evidence of consumer stockpiling. The problem of price reform was hence postponed until after 1991.

China's "open door" policy (*kaifang zhengce*) is designed to facilitate Chinese integration into world markets, and has had a quite dramatic impact on both trade¹⁷ and investment.¹⁸ The policy of opening has been subject to spontaneous pressures to include cultural as well as commercial opening (as in the out-migration of some 40,000 Chinese students for study abroad, or the internal penetration of tourists, electronic entertainment, and "spiritual pollution") and to include domestic as well as international opening (as in recurrent attempts to revive a "hundred flowers" atmosphere in

16. In a major policy speech in mid-1985 to a private meeting of high-level Eastern European economic planners, Gorbachev pronounced himself opposed to such reforms as had been introduced in Yugoslavia or the PRC. "Many of you see the solution to your problems in resorting to market mechanisms in place of direct planning," he said. "Some of you look at the market as a lifesaver for your economies. But comrades, you should not think about lifesavers but about the ship. And the ship is socialism!"

17. China's total trade with the rest of the world as a percentage of GNP has risen from an average of 2.62 percent per annum in 1950–76 to 5 percent in 1980, to 8.31 percent in 1982–84. Whereas average GNP growth in 1982–84 was 10.6 percent, the rate of growth for total trade was 18.7 percent. He Hinhao, "Exploit the Role of Foreign Trade and Accelerate the Rate of China's Economic Development," *Guoji Maoyi* [International trade], no. 5 (1982), as trans. in *Chinese Economic Studies*, vol. XVI, no. 4 (Summer, 1983), pp. 37–50.

18. As soon as joint ventures were approved in China, there was immediate response. In 1980 there were two joint ventures and one wholly owned foreign enterprise; by mid-1987 the number had grown to over 7800 Sino-foreign joint ventures and wholly owned foreign businesses. In addition, China has established 277 enterprises outside China. There are also 130 wholly-owned foreign enterprises in China. *Beijing Review*, July 6, 1987, p. 23; and April 10, 1987, p. 20.

the cultural and political arenas). The authorities have tended to react ambivalently but on the whole restrictively to such generalizing tendencies.

Like the Chinese, the Soviets have expressed interest in integrating their economy into the world market, increasingly lauding "interdependence" and an "international division of labor." The ratio of Soviet imports to GNP, less than 1 percent in the 1930s and about 3 percent in the mid-1960s, climbed to roughly 5 percent by the beginning of the 1980s. In September 1986 it was decided to facilitate trade by vesting more than 20 ministries and competent departments as well as 70 large enterprises with the power to deal directly with foreign traders, thereby removing monopoly control from the Ministry of Foreign Trade. Since that time the Soviet Union has voluntarily begun to cooperate with the Organization of Petroleum Exporting Countries (OPEC), and applied for official membership in the General Agreement on Tariffs and Trade (GATT), the International Monetary Fund, the World Bank, and other international financial organizations. The Soviets have in turn committed themselves to make the ruble convertible with CMEA currencies by 1991 and with Western currencies by the late 1990s. To attract foreign technology and earn hard currency, the Soviet Union has offered Western investors up to 49 percent ownership of joint ventures, a form of cooperation previously rejected in principle. By April, 1988, some 300 offers from Western concerns had been received (only about 20 of which the Soviets are seriously considering), signaling an interest comparable to that in the opening of the China market. In his Vladivostok speech Gorbachev proposed to take a leaf from the Chinese Special Economic Zone experience and open that closed city to international investment and trade; the same proposal has been eagerly taken up in the Baltic states. From refusing to recognize the EEC (European Economic Community) the Soviet Union has switched to a position of encouraging formal relations between the EEC and CMEA.¹⁹

Just how successful Soviet overtures for inclusion in the world market will be under current circumstances remains an open question. The import demand is there, given Soviet interest in Western technology (as indicated by their intense involvement in industrial espionage), not to mention continuing agricultural shortfalls. But balance of payments constraints may impinge sharply, even if the upward surge in arms sales to the Third World (the USSR's most lucrative source of foreign exchange) continues. Soviet hard currency earnings, their preferred way of financing exports, surged with world oil and gold prices after 1973, only to plateau at the end of the 1970s when prices sagged. The prognosis is that the Soviets will be able to hold hard currency earnings at their present level over the next decade, using natural gas exports to offset a drop in oil exports. In case of an imbalance of trade, will the Soviets turn to Western credit markets? Faced with an enormous internal deficit, they perhaps would be well advised not to entertain the prospect of large foreign debts. In the past, the Soviets were put off by American failure to deliver Most-Favored Nation treatment (or rather, linkage of this concession to unacceptable demands on Soviet emigration policy), and by recurrent embargoes in response to Soviet military initiatives in the Third World.²⁰

Even if this bid for inclusion in the international economy fares better than during the Brezhnev détente, the Soviets may have to compete with socialist systems under their nominal patronage. Since the early 1980s, Soviet subsidies to Eastern Europe have

19. See Yang Wenda, "New Trends in the Development of Soviet Economic Relations with the West," *Guangming Ribao*, January 22, 1987, p. 4, as trans. in *FBIS-China*, February 3, 1987, pp. C1-C2.

20. See David Dyker, "Soviet Industry in the International Context," and Alan H. Smith, "International Trade and Resources," in Dyker, *Soviet Union*, note 9, pp. 75-91 and 106-125, respectively.

steadily declined, and there has been a concurrent deterioration of terms of trade with the Soviet Union, motivating these countries to look elsewhere for trade partners.²¹ The Eastern European countries—most of whom are already affiliated in some way with GATT and the IMF—have always been closely linked to Western markets, even though several of them (viz., Poland, Yugoslavia, Hungary) were hurt by petrodollar loans in the 1970s and are saddled with large debts. Now that Soviet interest in joint ventures has legitimized such undertakings, East European countries are beginning to compete for the limited pool of Western investment capital. For example, on January 1, 1989, Poland put into effect a new law permitting joint ventures wholly owned by the foreign partner, going well beyond terms the Soviets are prepared to offer.

While it is fair to say that theory has followed rather than led reform in both countries, both have endeavoured to revise Marxism–Leninism to facilitate modernization. The Chinese again seem to have a substantial head start, with the concept of a “socialist commodity economy” that does not borrow from the sparse prognoses of classical Marxist texts concerning the future socialist economy, but places Chinese socialism in the category of commodity economies along with capitalism, therefore subject to the same universally valid laws (as outlined in *Capital*) governing any economy under conditions of shortage. Thus Chinese reform theory envisages an economy of independent but interacting commodity producers (be they private, semi-private, or public) who decide in relative autonomy on the production and exchange of commodities and who are subject to pressure to improve efficiency via the “law of value.” State planning regulates not the firm, but the market, through various fiscal and monetary mechanisms; the party’s role should be limited to ideological suasion.

The Soviets, from a position of relative macrotheoretical underdevelopment, have also begun more recently to reconceptualize the framework of socialism. Despite opposition from conservatives such as E. Bugaev, a movement has been afoot to re-evaluate the New Economic Policy of the 1920s, with its legitimation of the market and small private enterprise, and in this connection Bukharin and Rykov, two prominent Bolshevik supporters of the NEP later executed in the purge trials, were politically rehabilitated in January, 1988. In a speech to the Central Committee the following month, Gorbachev called for an updating of those elements of communist doctrine that were outdated and calcified.²² Whether such rethinking is drawing the two countries closer together is uncertain, but it is noteworthy that key Soviet reformers are confident that it will. “I am deeply convinced that Gorbachev has already launched the country on a path of reform comparable to that of the Chinese,” said Feodor Burlatskii, of the Central Committee’s Academy of Social Science. “But here the obstacles will be greater because there is a group within the political leadership who will struggle against the reform.”

21. To alleviate the impact of energy price rises in the 1970s, the USSR agreed to provide oil and gas to CMEA members at a price that would only gradually catch up with the prices other countries were paying on the world market. Eastern Europe is thus estimated to have received an implicit Soviet subsidy amounting to US\$5.8 billion in 1974–78, about \$11.6 billion in 1979, \$17.8 billion in 1980, and \$18.7 billion in 1981. The average subsidy for 1982–84 is however estimated to have dropped to \$12.1 billion, reaching \$10–11 billion in 1984. Michael Marrese and Jan Vanous, *Implicit Subsidies and Non-Market Benefits in Soviet Trade with Eastern Europe* (Berkeley: University of California Press, 1982).

22. *New York Times*, February 19, 1988, p. 1.

All things considered, Soviet *perestroika* seems increasingly derivative from the Chinese reform tradition that Khrushchev ironically first inspired. Yet there are several limiting conditions that seem likely to inhibit any wholesale application of Chinese reforms to the Soviet Union. Among these is the distinctive Soviet national experience. Whereas the Chinese revolution arose in a country victimized by Western imperialism, the Soviet Bolsheviks inherited a successful European imperialist tradition, which they (after some rhetorical flights) have not only perpetuated but extended, and this unconquered past returns to haunt them. As a result the hurried reforms from Khrushchev's thaw and the Prague Spring to Gorbachev's *perestroika* have inevitably threatened the Party's control (today, for example, there is unrest in Armenia/Azerbaijan, the Baltic republics—not to mention strikes in Poland, a march commemorating the 1968 invasion in Prague, and anti-Romanian protests in Hungary) and have raised the prospect that history may repeat itself.

The Soviet party-state bureaucracy and the "military-industrial complex" is larger and more deeply entrenched than the Chinese. Both nations endured great traumas in the course of their development, but whereas for the Soviets the Great Purge extinguished (or at least severely dampened) any propensity toward disobedience of authority, China's Great Proletarian Cultural Revolution gave full rein to a populist anarchism still lurking beneath the surface, leaving the bureaucratic apparatus relatively weak and demoralized. Finally, there is the question of national pride. To "learn from China" involves a reversal of the Sino-Soviet relationship of the 1950s with painfully ironic overtones that the Soviets may prefer not to advertise. Whereas the USSR may have an objective interest in learning those things that might facilitate its own economic revival, it also has a continuing interest in maintaining its claim to leadership over the communist bloc and its ideological avant-garde position *vis-à-vis* other socialist countries. Still, the fact that Soviet reformers have begun encouraging such innovations as the PRS, or the Special Economic Zones, without any effort to conceal their national provenance, suggests that considerable progress has been made toward overcoming this barrier.

A second limiting factor is in the fact that even granted a commitment to reform, the Soviets have more than one optional "model". While it is true that the Soviets closely follow Chinese reforms, they also invest relatively substantial resources into the investigation and analysis of the Eastern European reform experience: within the "Committee for Cooperation in the Area of Planning" (in the Council of Ministers) is a standing work group to evaluate the reform experiments in economic and social areas.²³ The Soviet Union is of course involved in the institutions of the CMEA, which monitors (in the course of regulating) the economic systems of Eastern Europe. The "Institute for the Economics of Socialist World Systems," currently under the leadership of Academician Oleg Bogomolov, comprises the largest institution for the study of Eastern Europe in the world.²⁴ In 1981 a "Commission for the Study of the Experience of the Socialist Countries" was established within the State Planning Committee (Gosplan), for the purpose of observing and assessing the economic activities of the Eastern European systems. There are also frequent other opportunities to "exchange experience," e.g. at the beginning of June, 1985, a three-day conference of prominent

23. Interview with O. Bogomolov, in *Borba*, July 16, 1984, as quoted in Hans-Hermann Hoehmann, *Wirtschaftsreformen in anderen sozialistischen Laendern: Modell oder Herausforderung fuer die Sowjetunion?* (Cologne: Bundesinstitut fuer ostwissenschaftliche u. internationale Studien, no. 27, 1986).

24. Bogomolov, *ibid.*

Soviet and Hungarian economists was held in Moscow to discuss the economic reforms in their two countries.

The Eastern Europeans, whose reforms antedate the Chinese experience by several decades, may hence be viewed as potential competitors with the PRC for intellectual leadership of the bloc. The Eastern European model may be subdivided into two basic subtypes: the Yugoslav–Hungarian variant, to which Jaruzelski has also (so far unsuccessfully) committed the Poles, which emphasizes marketization and market-compatible planning; and the East German and (more cautiously) the Czech, Romanian, and Bulgarian model, which strives for a more efficient centrally planned economy (CPE), emphasizing plan-compatible reforms. The Chinese model most closely approximates the Yugoslav–Hungarian variant.²⁵ Unfortunately, the Eastern European economies exemplifying this model, after a number of years of respectable or even vigorous growth, have more recently been languishing. Hungary has had zero economic growth from 1985 through 1987, an inflation rate of 7–8 percent per annum, and an adverse trade balance; Yugoslavia, with a 200 percent rate of inflation and \$21 billion foreign debt, is hardly a shining economic star. East Germany's economic performance has on the other hand outstripped that of the Soviet Union and the rest of Eastern Europe for the past two decades, actually matching that of West Germany over the past 25 years (albeit from a much lower starting point).²⁶ (Yet not even the most successful East European economies can compare to the growth rate of the PRC in the 1978–88 period.) Of course much of the variation in growth rates may be attributed to extraneous factors having nothing to do with reform: the Eastern European economies have been burdened by debt, inhibited from appropriately adjusting their economies by the standing threat of Soviet intervention, and their relatively far-going integration into Western markets makes them vulnerable to a deceleration of Western European growth rates. This congeries of confused signals offers great ambiguity (and wide discretion) to Soviet reformers in search of outside guidance.

Whichever specific “menu” of reforms the Soviets decide to select, the most zealous reformers are apt to take heart at the speed at which reforms have been implemented in the PRC, and are impressed by the success of efforts to combine basic planning with market coordination (after an initial period of confusion and price inflation), and most of all by the swift, positive economic results achieved. More than anything else, the Soviets might be expected to be surprised by the high level of consensus among the Chinese elite concerning the need for change and the general direction of reform, the relative dispatch with which dissenting officials were eliminated, and the speed with which reform policies were pushed through; in all of these respects, the Soviet experience with reform has heretofore proved to be far more daunting. Those more hostile to reform will point with alarm to such problems as inflation, unemployment, and inequitable distribution of income.

The Soviet impact on the PRC, in view of the fact that China has advanced further along the road toward economic reform than the USSR, seems likely for the foreseeable

25. Hungary launched its New Economic Mechanism in 1968, shifting from command planning to a decentralized system aimed at guiding the market by indirect economic levers (interest rates, credit, taxes, tariffs, and foreign exchange rates). Planning is limited to the establishment of long-term macroeconomic goals. The central government supply of materials and machinery has been abolished, replaced by a tiered price system. The reforms entered a second phase in 1977, designed to integrate it with the international market; more recently, they have authorized the sale of bonds, introduced a bankruptcy law, and allowed factory councils to be elected.

26. *New York Times*, September 6, 1987.

future to be conservative rather than progressive—particularly in view of the unanticipated problems (e.g. inflation, corruption, inequality) that Chinese reform has brought with it. Many among the successor generation poised to succeed Deng Xiaoping and other veterans were educated in the USSR (viz the so-called Russian returned students [*liu Su pai*], who have clear seniority over the potentially more numerous American returned students [*liu Mei pai*]), and may be relatively comfortable with a form of socialist modernization designed to reinforce the pillars of the Leninist party–state.²⁷ The broad potential constituency favoring improved relations with the USSR would include not only such returned students, but many in the central foreign trade apparatus who find their monopoly over trade slipping away as economic decentralization proceeds; those in the planning apparatus who find it easier to deal with a fraternal planned economy than with the uncertainties of a free market; the Western areas of China, which find themselves being neglected by capitalist investment preferences and wish to cultivate economic ties with the Soviet Far East; enterprises and ministries which produce goods with no market or stiff market competition in Western markets; and the propaganda apparatus and security organs, who find present open policies eroding their functions. This coalition may plausibly argue that ties to the USSR need not come at the expense of China's ties to the West—no sacrifice is necessarily entailed, only benefits.²⁸

As Soviet reforms begin to take more coherent form, however, and gather their own momentum, it is conceivable that many Chinese reformers may turn to the Soviet Union not simply for an excuse not to reform but as a positive model for reforms supplementing their own experience. After all, the retained profit scheme introduced to Chinese industry in 1979 is merely an adoption of reforms introduced to the Soviet Union in 1965 and to Eastern Europe even earlier. Although the issue is still moot, most observers concur that the Soviet emancipation of the intelligentsia known as *glasnost* has been far more thoroughgoing and sustained than analogous Chinese attempts to promote “a hundred flowers, a hundred schools of thought.” Soviet progress toward socialist legality leaves the Chinese in the shade, and Soviet legislative arrangements are relatively advanced (the reorganization of the Supreme Soviet scheduled for spring, 1989, may be particularly significant).²⁹ The attractiveness of the Soviet model will of course depend upon how well it succeeds in stimulating economic growth without the adverse socio-political side-effects (e.g., inflation, inequality, corruption) the Chinese associate with market economies. It remains to be seen whether the Soviets will realize the ambitious goals projected at their 27th Party Congress, but certainly at this writing it must be conceded that the concrete results of *perestroika* have hardly measured up to expectations. According to the forecasts of US intelligence analysts, Soviet GNP is likely to grow by 2–3 percent annually until 1990—less rapidly than aimed for by Soviet planners, but more rapidly than earlier outside estimates.³⁰

27. Most prominent of these returned Soviet students is of course Premier Li Peng, Zhou Enlai's foster son, who studied at the Moscow Power Institute from 1948 to 1955. Others include Jiang Zemin, Li Tieying, Yang Shangkun, and Ding Guangen (alternate member) within the Politburo, and Song Jian, Zhou Jiahua, Zhou Jimeng, and Ding Henggao on the State Council. (I wish to thank Parris Chang for this information.)

28. See David Michael Lampton, “China's Limited Accommodation with USSR: Coalition Politics,” in *AEI Foreign Policy and Defense Review*, vol. VI, no. 3 (August 1986), pp. 26–35.

29. See Stephen White, “The USSR Supreme Soviet: A Developmental Perspective,” and William A. Welsh, “The Status of Research on Representative Institutions in Eastern Europe,” in Daniel Nelson and Stephen White, eds, *Communist Legislatures in Comparative Perspective* (Albany: State University of New York Press, 1982), pp. 247–74 and 275–308, respectively.

30. Don Oberdorfer reviews recent intelligence estimates in *The Washington Post*, March 27, 1987, p. A31.

Implications of Reform

It is difficult at this time of transition throughout the socialist world to predict how the reformed futures of these two great nations will intersect. Assuming that current parameters remain stable, the most likely outcome would seem to be that both countries will pursue reform, with China however retaining its overall lead for the foreseeable future. The Soviets seem likely to lag due to their plan-centered over-institutionalization, thoroughly intimidated entrepreneurial potential, historical lack of experience with market forces, and reform-hostile bureaucratic interests, all of which will require some time to rectify. For reasons already alluded to, the Soviets will not adopt a carbon copy of the Chinese model—the Soviet approach will, no doubt, be an eclectic mix, partaking of the East German no less than the Sino-Hungarian experience, as Soviet economic/political needs dictate. Yet the divergence among socialist reform models is easily overstated—to a considerable extent, all reform leads in the same direction, pausing at different points along the way for mainly political reasons. Thus the East German model is already appreciably ahead of the USSR's.³¹ What is significant is that for the first time, the two systems appear to be steering on a recognizably convergent course that neither has superimposed upon the other.

That having been said, a number of caveats are in order. The adoption of reform hardly implies that either country will be safe for democracy at any time in the foreseeable future: even if reform succeeds, these will remain recognizably Leninist, single-party dictatorships, which attempt to legitimize their power through an artificially generated ideological consensus; although reform entails that the party will loosen its grip on the economic and even to some extent on the political and cultural realms, any “premature” popular attempt to overthrow party hegemony is apt to precipitate a harsh crackdown. Nor does convergence necessarily imply a swift or complete resolution of the rivalry between the two states. In view of the Sino-Vietnamese conflict, the buildup of Soviet naval and air power in the Far East, and the evident Soviet determination to play a major role in the Pacific Basin, it is possible that geopolitically-based friction will continue even as the ideological reasons for this evaporate. Sino-Soviet border demilitarization will to some extent be inhibited by Chinese concern about reducing her strategic utility to the US and to Western Europe, about imperiling the “open door” to Western markets, and about losing the equilibrium at the “pivot” that permits China to maximize leverage between the two superpowers. Thus the Soviets can no longer expect to regain the exclusive relationship with the PRC that they enjoyed in the early 1950s, when foreign policy coordination was so complete that Chinese sovereignty was widely discounted.

Still, the fact that both China and the Soviet Union would be concentrating on domestic reforms will tend to abate their foreign policy rivalry and facilitate the further unfolding of their current rapprochement. Whereas the two continue to differ with regard to their respective security dispositions in East Asia, their policies toward other international issues have begun to converge: both oppose the South African and Israeli governments, criticize the US “Star Wars” program, advocate a nuclear-free zone in

Ryzhkov's Report on the Basic Guidelines of Economic and Social Development for 1986–90 and the period up to the year 2000 foresee doubling national income and industrial production by then.

31. The share of private enterprise in the GDR industrial sector is the highest in Eastern Europe except for Poland, and the role of the private sector in service and trade exceeds that in Poland. Whereas the Hungarian economy before 1975 out-performed the East German, since 1975 the GDR has had relatively good economic results, particularly in 1985–86.

the South Pacific, and support the non-aligned movement. The USSR has stopped jamming broadcasts by Radio Beijing since October, 1986, at the same time terminating its own broadcasts to the PRC via Radio August 1 and Radio Red Flag. Last but not least, both have shown greater toleration for the other side's efforts to improve relations with the US.

And what of the future? At this writing, the oft-cited Three Obstacles are scheduled to be removed within the next year, and the Gorbachev–Deng summit has been set for May, 1989. The Soviet claim that this will mark full normalization between the two systems may be overoptimistic, but certainly this represents a milestone. To what extent domestic convergence upon a common approach to political economic development leads to foreign policy coordination remains, of course, to be seen—but the thrust of this analysis is that it can only help facilitate it. Meanwhile, successful reform should make socialism a more appealing alternative for the developing countries. In the light of withdrawal from Afghanistan and Cambodia, the Chinese are assuming tacit abandonment of the Brezhnev doctrine, which seems likely to fall into operational desuetude (though Gorbachev has not yet repudiated the Czech invasion).

These circumstances may well harbor a paradoxical development: an expansive socialist “pluralism,” which threatens to disintegrate internally even as its external appeal increases. As far as US interests are concerned, this could comprise a formidable challenge of a novel, non-military sort. If China and the Soviet Union participate actively in world markets without losing their recognizably socialist character, this may intensify rather than dissipate the socialist challenge to capitalist hegemony.³² But so long as the competition does not assume military form, its impact on bourgeois democracies may also be salubrious, performing many of the bracing, catalytic functions served by the Khrushchev challenge of the late 1950s.

32. See my article, “The World Food Problem: A Political Analysis,” in Gerald and Lou Ann Garvey, eds, *International Resource Flows* (Lexington: D. C. Heath, 1977), pp. 21–37.