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# NAVAL POSTGRADUATE SCHOOL Monterey, California



## THESIS

**RUSSIA AND CHINA: THE IMPACT OF REFORM AND  
THE PROSPECT OF DEMOCRACY**

by

Leah Amerling

March 2002

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**RUSSIA AND CHINA: THE IMPACT OF REFORM AND THE PROSPECT OF  
DEMOCRACY**

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Lieutenant, United States Navy  
B.A., University of the South, 1994

Submitted in partial fulfillment of the  
requirements for the degree of

**MASTER OF ARTS IN NATIONAL SECURITY AFFAIRS**

from the

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## **ABSTRACT**

This study provides a comparative analysis of Russia and China's transformation by focusing on two aspects: the impact of reform efforts on economic performance and the prospect for democracy. China's domestic modernization centered on economic reform, whereas Russia's deliberately included both political and economic dimensions. Such approaches have set Russia toward economic decline and China on a path to economic power. Additionally, the author finds that Russia's overnight transition to a liberalized regime allowed for the consolidation of political and economic structures, marked by elite control and corruption, that obstruct democracy's progress. In contrast, China's reforms, implemented under an authoritarian regime, have created unintended spillover effects in the ideological, political, and social spheres of the polity, which collectively, are providing the forward momentum toward a transition to a liberalized regime. The author determines that the unique nature of these polities has direct implications for U.S. foreign policy. In regards to Russia, U.S. policy will need to take into account the constraints that Russia's corrupt polity places on international assistance. In regards to China, whatever policy the United States adopts, it will need to calculate how its policies advance or retard the domestic evolution underway in China and the impact the US may/can have on the process.

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## TABLE OF CONTENTS

I.	INTRODUCTION.....	1
II.	THE INTELLECTUAL LENS: WHAT IS REGIME TRANSITION? .....	5
III.	RUSSIA .....	9
	A. INTRODUCTION.....	9
	B. WESTERN LOGIC OF THE REFORM PROCESS .....	10
	C. POLITICS AND THE ECONOMY .....	11
	D. THE ROOTS OF ECONOMIC DECLINE.....	13
	E. DEMOCRACY IN RUSSIA.....	20
	1. Structural Impediments .....	20
	2. Political Culture .....	20
	F. CONCLUSION .....	24
IV.	CHINA .....	25
	A. INTRODUCTION.....	25
	B. POLITICS AND THE ECONOMY .....	25
	C. ECONOMIC GROWTH .....	31
	D. IDEOLOGICAL, POLITICAL AND SOCIAL IMPACT OF REFORM.....	33
	1. Ideological Reform- Redefinition of Official Ideology .....	33
	2. Political Reform.....	35
	a. <i>Decentralization of Decision-Making</i> .....	35
	b. <i>Legal-Based Infrastructure</i> .....	35
	c. <i>Elections in China</i> .....	36
	3. Social Restructuring .....	38
	4. Political Culture .....	42
	E. CHINA'S LEADERSHIP.....	43
	F. CONCLUSION .....	45
V.	CONCLUDING REFLECTIONS .....	47
VI.	FOREIGN POLICY IMPLICATIONS FOR THE UNITED STATES .....	51
	BIBLIOGRAPHY.....	55
	INITIAL DISTRIBUTION LIST .....	61

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## I. INTRODUCTION

Russia is a fledgling democracy in decline. China is a rising power in the midst of an internal transition.<sup>1</sup> How did each get to this point? Where are they going from here? The aim of this thesis is to assess the processes of transition unfolding in Russia and China by focusing on the impact of reform as it pertains to explaining the differing economic performance of the two countries' and the prospect for democracy. Although these emphases seem disparate in nature they are actually intertwined. At one level, the most visible level, economic reform directly influences the economic performance of a country. At another, more subtle level, economic reform shapes the political and social structures of a country. By influencing the framework of a polity, it can serve either to retard or enhance the potential for democracy. The case studies of Russia and China presented here illuminate this complex interplay between economic reform, political structure, and regime transition.

Both Russia and China are transitioning from a communist past. However, the reform strategies implemented by each power have differed significantly in their approach as well as in their respective outcomes. China's domestic modernization has centered on economic reform, whereas Russia's reform efforts deliberately included both political and economic dimensions. The differences resulting from such reform approaches have been twofold. First, differing reform strategies have set Russia and China on divergent economic trajectories: China, a rising economic power and Russia, a

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<sup>1</sup> According to U.S. National Security Advisor, Dr. Condoleezza Rice, "China is a problem for, and a challenge to, American interests because it's a rising power. Any rising power with unresolved vital interests will be a challenge. It would be wrong to think of China as an enemy, but it is not wrong to think of China as a challenge... At the same time, though, there are great opportunities with China as it makes an internal transformation that is quite dramatic. Anyone who has been to China in the last twenty years recognizes that for the first time, the Chinese people are no longer fully dependent on the government for their livelihood and that that will change the dynamics of both economics and politics in China in dramatic ways... Russia, a country that I've spent my whole life trying to understand, is a challenge for different reasons. It is a challenge because it is a declining power. And managing a declining power is every bit as difficult as managing a rising power."

Extract from Dr. Rice's address to the Fletcher Conference "National Strategies and Capabilities for a Changing World," hosted by the U.S. Army co-sponsored by the Institute for Foreign Policy Analysis, Arlington, Virginia, 16 November 2000.

Available [Online]: <<http://www.ifpafletcherconference.com/army2000/transcript/rice.htm>>. [10 March 2002].

polity in economic decline. Second, a more subtle difference has emerged in the differing political and social context that have followed reform. This study contends that in China, reforms have given rise to an evolution of society in the direction of pluralism and diversity thereby providing a context that cultivates the development of democracy. In Russia, political and social structures, marked by elite control and corruption, have obstructed democracy's progress.

With regard to prospects for democratic consolidation in Russia, the fundamental problem rests in the fact that Russia's democracy was created overnight. Unlike modern democracies where the democratic polity emerged over the course of a country's history as a product of a set of mutual conflicts and compromises between ruler and ruled, Russia's democracy was superimposed onto the same state-society framework as existed under communism—that of an “hour-glass society”—with a large state bureaucratic society at the top, an extensive network of ties among private citizens, and few ties or institutions in the middle to connect top and bottom.”<sup>2</sup> At its civil society foundations, not much had truly changed when democracy was inaugurated into the Russian polity. Subsequent developments, specifically the consolidation of a elite-controlled, inherently corrupt economic structure have stemmed against the development of a middle stratum of society and in such a way, have served to perpetuate the Soviet legacy of a deeply divided social structure. In such a light, democracy's very foundation is fractured. Consequently, although Russia possesses many of the visible trappings of a democracy, it fails to function as one. Political participation and the rich economic bounties afforded by democracy are only obtainable by the elites. Meanwhile, the masses remain economically impoverished and alienated from the new form of government.

In contrast, an authoritarian regime continues to oversee China's transition to a market-based economy. Although China has yet to possess many of the visible elements of a democracy it is steadily moving toward a liberalized regime. To understand the processes of reform unfolding in China, one must look at the by-products of economic reforms. In the political arena, market-oriented reforms have provided the impetus for political restructuring, including a profound decentralization of authority and the development of a legal infrastructure. Reforms have also generated unintended

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<sup>2</sup> Thomas F. Remington, Politics in Russia, (New York: Longman, 1999), p84.

consequences in Chinese society by giving rise to new social/economic groups with diverse social interests. The evolutionary nature of China's transition is creating the political and social pillars of a liberalized regime, thereby providing China with that which Russia lacks, a strong foundation on which democracy may later take root.

This study proceeds as follows. Chapter II addresses the theory of regime transition in order to provide the conceptual framework through which to view Russia and China's transformation.

The third chapter addresses the impact of reform efforts on the Russian polity. In Russia, the collapse of communism equated to the institutional collapse of the state. While communism was a mode of governance, its Party served as the integrating fabric and institutional framework of the state. Its collapse provided Russian elites a rare opportunity to exercise their power unfettered by institutional constraints. Given such circumstances, Russian elites forged a system in which politics and the economy live in symbiosis, with the economy relegated to a tool for elite self-enrichment. The realization of such an outcome has come at a disastrous price for both the state and for democracy. In regard to economic performance, Russia's economy requires continued dependence on state subsidies for its sustainment and in such a way, feeds on itself thereby engendering its own degeneration. In regard to democratic transition, the elite-dominated and corrupt economy stunts the emergence of an integrated social structure, providing Russia with a weak foundation on which democracy can take root.

Chapter IV reviews China's transition process. China's economic reforms, which have introduced managerial autonomy, profit incentive, and competition into the workings of the polity, have led to economic growth under the umbrella of the Chinese party state. As regards the prospect for democracy, economic reforms have instigated profound political and social changes that are serving to restructure China's polity. A decentralization of political decision-making, a rapidly diversifying society, and the emergence of civil society are some of the traits which now characterize the Chinese polity. Although China's polity is still authoritarian in nature, the slow creation of the ideological, political, and social pillars associated with a free market economy is providing China with that which Russia lacks, a strong foundation on which democracy

may later take root. The evolutionary nature of China's transition and the slow reconstruction of the state-society structure actuated by market-oriented reforms indicate tendencies that portend well for a later transition to a liberalized regime.

Chapter V summarizes this study with an anecdote on the role of the communist state and its contribution to democratization. Chapter VI, an addendum to the study, addresses the implications of Russia and China's transition to U.S. foreign policy.

## II. THE INTELLECTUAL LENS: WHAT IS REGIME TRANSITION?

Before proceeding with the case studies of Russia and China, it is first necessary to develop the conceptual lens through which to view those processes unfolding in Russia and China. This chapter addresses the concept of regime transition. For this I borrow the definition of China scholar Minxin Pei. Regime transition, he argues, may be seen as a restructuring of state-society relations. A regime he defines as distinct from a state.

The definition of a political ‘regime’ here centers on the institutional (formal) and substantive arrangements of power, since such arrangements determine who gains access to power and how that power is exercised... Analytically, a regime is distinct from the state, which is a Weberian conception narrowly defined here as administrative, law-enforcement, and security-military organizations under the centralized control of a supreme authority. Empirically, the two often overlap and are, fundamentally, symbiotic. A regime uses the instruments of the state to maintain itself and advance its goals. And the state, largely through the power arrangement formalized by the regime, extracts resources from society to keep itself in existence. Changes in the regime type inescapably affect the structure and capacity of the state and vice versa.<sup>3</sup>

The state is comprised of the operational mechanisms of the polity while the regime is the structural framework. Democracy exists and thrives in countries that have an integrated societal framework, that is, a construct in which the masses are integrated into the polity and form a facet of the power-sharing relationship with the center and social elites. Pei argues that in polities that exhibit a strong degree of central control, such as communist countries, limited reforms tend to extend beyond the scope of their original intent and become a catalyst for regime change as a result of ‘societal takeover’, that is, when the balance of power between the state and society precipitously shifts in favor of the latter.<sup>4</sup> Such a shift typically occurs as a result of two simultaneous processes—the institutional decay of the state realized as a consequence of reform and the “rapid mobilization of previously excluded social groups [which lead to], swift

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<sup>3</sup> Minxin Pei, From Reform to Revolution: The Demise of Communism in China and the Soviet Union, (Massachusetts: Harvard University Press, 1994), p. 6.

<sup>4</sup> Ibid.

resource gains by these groups, which thus provide them with the means to radicalize reform.”<sup>5</sup>

In modern democracies such a restructuring of state-society relations, resulting in a more balanced, integrated social framework, evolved over time. An illustrative example of such a process is the formation of the democracies of Western Europe during the 19<sup>th</sup> century. In the 18<sup>th</sup> century the absolutist state dominated Europe, the foundation of which was a traditional power-sharing relationship between the center and social elites. Economic transformation, specifically the economic and industrial revolution of the 19<sup>th</sup> century altered the framework in which Europe’s traditional order operated. Industrialization instigated mass urbanization of the populace, resulting in an unprecedented integration of the masses into the political framework’s operation. Over time, new social and political constituencies arose alongside the old. Pressures emanating from these new constituencies called for the political order to become more participatory. As a result of industrialization, the state could no longer fulfill its function in regards power-sharing and in regards efficiency as a mode of government. As the masses became integrated into the polity, democracy as a mode of governance emerged as the successor to the traditional order.<sup>6</sup>

When reviewing Russia’s democratic transition, the glaring difference is that its overnight transition to a liberalized regime did not afford its social structure time to evolve. Consequently, Russia’s democracy stands upon a social construct that is still structurally communist. Democracy’s most formidable obstacle is its lack of a social foundation. In contrast, China is undergoing an evolutionary transition, much like Europe, but more recently like the newly industrialized countries of South Korea and Taiwan. William Overholt labels this the “Asian Model.” Although there are many differences between China and its smaller, newly democratic neighbors, the *process* and *dynamics* of transition are the same. In the “Asian model” an authoritarian regime implements economic reforms that inadvertently create many of the “prerequisites” of democracy. It builds the institutions, establishes a legal framework, liberalizes the

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<sup>5</sup> Ibid.

<sup>6</sup> Hagen Schulze, States, Nations and Nationalism: From the Middle Ages to the Present. (Massachusetts: Blackwell Publishers Inc., 1998), p. 137-159.

economy, creates an educated middle class, and political and social plurality. In such a way, the authoritarian regime builds democracy's foundation. Overholt summarizes the basic process:

First, social changes increase social freedom even in the face of repressive efforts. Second, economic liberalization loosens the regime's most powerful lever, its control over people's jobs. Third, economic growth expands trade and travel and access to foreign information, and thereby exposes the population to democratic ideas. Fourth, demands for some form of democratization from a population that is now educated, self-confident, and able to organize as a political force become overwhelming.<sup>7</sup>

Overholt recognizes that although the process dynamics are similar, the pace may be different. "The Asian experience is that economic success leads inexorably to political reform, but that political reform lags by a generation in the smaller countries; it may take somewhat longer in a continental-size country."<sup>8</sup>

The perception of the processes of transition unfolding in Russia and China today is colored by a western bias that advocates that political reform should precede economic reform.<sup>9</sup> Such a bias has a virtuous grounding in the idea that, political liberalization brings with it individual liberty, the fundamental rights of man, and therefore its implementation is viewed as the touchstone of true success. Therefore, the West hails countries like the former Soviet Union which have undertaken political reform first and denounces those, like China, which exclude political opening in their transition process.

Such a bias excludes the possibility that "economic structures can precede freedom and freedom can precede democracy."<sup>10</sup> But as history has shown, both in Europe and in Asia's newly industrialized countries, *it very well can*.

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<sup>7</sup> William H. Overholt, The Rise of China, (New York: W.W. Norton & Company, 1993), p. 127.

<sup>8</sup> Overholt, p. 131.

<sup>9</sup> Overholt, p. 130.

<sup>10</sup> Overholt, p. 126.

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### **III. RUSSIA**

#### **A. INTRODUCTION**

Beginning in the 1980s, leaders of the Soviet Union embarked upon a path of reform that ultimately led to a transition from communism. The reform strategy implemented under Soviet leader Mikhail Gorbachev incorporated economic reform with concurrent political liberalization. The political and cultural liberalization known as “glasnost” created an opening through which dynamic social forces were unleashed that ultimately brought about the collapse of the Communist Party and of the Soviet Union. Since the party acted as the integrating fabric of the polity, its collapse equated to the collapse of the framework of the state. Unimpeded by institutional constraints, Russian elites possessed “carte blanche” to construct the new face of the country’s polity. In the absence of an effective state, Russian elites have forged a system in which politics and the economy live in symbiosis, with the economy relegated to a tool for elite self-enrichment. The realization of such an outcome has come at a disastrous price for both the state and for democracy, one which has engendered the economic decline of the state and has provided a weak foundation on which democracy can take root.

This chapter explores this argument in two steps. First, a depiction of Russia’s political-economic system is presented. A close look at Russia reveals a polity that more closely resembles a reproduction of the Communist elite or “nomenklatura” system of governance rather than a democracy. Such a system presides over an inefficient economy subsidized by the state, sustained in a web of intra-elite mutual dependency and regulated by the corrupt elements of society. The sustainment of Russia’s inefficient economy necessitates continued dependence on the state, and as a result, has created an economy that feeds on itself, thereby engendering the polity’s own economic degeneration. In regard to democratic transition, the consolidation of an elite-controlled, inherently corrupt economic structure stands in the way of the development of a middle stratum of society, and in such a way, serves to perpetuate the Soviet legacy of a deeply divided social structure. The corrupt nature of Russia’s polity has also served to blunt the emergence of a political culture that is both supportive of democracy and facilitates its progress. Although the dictates of Soviet ideology have been lifted endowing the masses with some

of the visible trappings of a democracy, from both a political and social perspective, Russia remains *structurally* communist. Without a solid foundation, democracy in Russia lacks fertile soil into which it can take root. The absence of this foundation is democracy's most daunting challenge to consolidation.

## **B. WESTERN LOGIC OF THE REFORM PROCESS**

Before delving into the reality of Russia's transformation, a review of Western logic encapsulates how Russia's transition was supposed to unfold, thereby providing a useful comparison to its reality. The West, led by the United States, encouraged the policies of 'shock therapy' and rapid privatization of state assets. Economic shock therapy was deemed to be a necessary tool that would dismantle the Soviet economic structure thereby clearing the path for the construction of a capitalist economy. In conjunction with 'shock therapy', the West emphasized privatization in order to establish private ownership, the fundamental building block of the capitalist system. From here, the key notion was that "once a set of owners had been created, they would, essentially, develop an interest in the rule of law, and interest in creating the necessary institutions that would protect their property, secure their contract rights, and secure rapid growth..."<sup>11</sup> Democratic institutions would thus arise out of the transition process. However, as Joel Hellman, lead specialist on governance for the Europe and Central Asia region at the World Bank points out, one of the fundamental problematic assumptions underlying such a linear view of transition to capitalism and democracy is "why assume that such actors [would] want institutions and the rule of law available to everyone? Why wouldn't they prefer to create redistributive institutions to use their power, the resources they gain from the distribution of property to themselves to create institutions that don't create generalized goods the everyone can partake of, but that actually redistribute further advantages to themselves..."<sup>12</sup>

In essence, this is exactly what happened in Russia. Elites constructed a system that maximizes their interests at the expense of the state and the masses. The fundamental and critical intellectual flaw regarding the West's logic of assistance to

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<sup>11</sup> Joel Hellman, lead specialist on governance for the Europe and Central Asia region at the World Bank speaking at a conference hosted by the Carnegie Endowment for International Peace. Transcript available [Online]: <<http://www.ceip.org/files/programs/russia/tenyears/transcript4.htm>>.[10 March 2002].

<sup>12</sup> Ibid.

Russia was the failure to account for *human nature*. Ironically, the same intellectual flaw that was the source of the distortion of Marx's utopian vision of communism in the Soviet Union, likewise has led to post-Soviet Russia's distortion of capitalism and democracy.

### C. POLITICS AND THE ECONOMY

The collapse of the Soviet state enabled Russian elites to construct a polity centered around the maximization of individual self-interests. "In contrast to "normal" societies where political power is circumscribed by an institutional framework and the rule of law, the void of the transformation period provided Russian elites a rare opportunity to exercise their power unfettered by such constraints. The result has been to produce a "weak" Russian state in which institutional development occurs at the whim of the political elite."<sup>13</sup>

The collapse of the institutional infrastructure of the old regime allowed for the reunion of political elites and the economy. Left to their own devices, Russian elites constructed today's "shadow state- whose defining characteristic is a corrupt fusion between government and private sector elites that stunts institutional development, survives through predation on productive processes in society, and compels the majority of the population to withdraw from the sphere of legitimate commerce and political activity."<sup>14</sup>

In the current "democratic" system, just as in its Soviet predecessor, political and economic power remains united in the hands of the elites. The Communist system was tightly governed by its nomenklatura elite structure. It was these elites who occupied the mantle of power during Russia's transition and in actuality, never vacated its seats of power. As Yuri Burtin, a Russian sociologist states, "members of the nomenclature survive as a socioprofessional group, administering the state, possessing and distributing its riches, and sharing the same political and economic interests. This new elite has naturally reoccupied the power structures, forging their own links with industry and the military. A new network of vested interests, special pleading, and patronage has been

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<sup>13</sup> Stavrakis, p. 1.

<sup>14</sup> Ibid, p. 2.

created deep within the political system.”<sup>15</sup> At its essence, politics in Russia reflect a continuance of the old system minus the constraints of Soviet ideology. Present day politics in post-Soviet Russia remain the exclusive arena of the elites, only now conducted under a different label.

From the beginning of reform efforts, Russian officials were afforded the ability to simultaneously occupy political office and own newly privatized companies. This led to massive conflicts of interest, collusion between political officials and industry-financial actors, and to a situation in which government officials could manipulate the political process to enrich themselves. It wasn't until 1996 that parliament ratified a law prohibiting public officials from holding positions in private companies while in office. However, by then, a new “intra-elite pact” had already taken root and consequently, such measures proved futile in precluding the collusion of political officials and financial magnates.<sup>16</sup>

The tight interweaving of politics and the economy is blatantly evident through widely publicized financial scams such as the 1998 short-term bonds scandal which plunged the Russian economy into crisis. Sergei Khrushchev provides a quick synopsis of the scam which illustrates the overt manipulation of the economy by the elite:

The Central Bank of Russia transferred budgetary monies, including credits from the IMF and the World Bank, into an account at Firmaco, an offshore company founded by Sergei Dubinin, the Central Bank chairman and at the same time a business partner of [Sergei] Kiriyenko's (successor to Viktor Chernomyrdin as prime minister in March 1998) and [Anatoly] Chubais'. From there these monies, now in the form of private capital, were transferred back to Russia, to the government short-term bond market. The inventors of this scheme for robbing Russia and their Russian and foreign friends pocketed dividends of up to 100%.<sup>17</sup>

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<sup>15</sup> Yuri Burtin quoted in Virginie Coulloudon, “Crime and Corruption after Communism: The Criminalization of Russia's Political Elite,” *East European Constitutional Review*, Vol. 6, No. 4, Fall (1997), p. 4. Available [Online]:<<http://www.law.nyu.edu/eecr/vol6num4/feature/criminalization.html>>. [29 March 2001].

<sup>16</sup> Coulloudon, *Ibid.*

<sup>17</sup> Sergei Khrushchev, “Russia After Yeltsin: A Duel of Oligarchs,” *Mediterranean Quarterly*, Vol. 11, No. 3 (2000), p. 3. Available [Online]:<[http://muse.jhu.edu/journals/mediterranean\\_quarterly/v011/11.3khrushchev.html](http://muse.jhu.edu/journals/mediterranean_quarterly/v011/11.3khrushchev.html)>. [25 March 2002].

Russia's economy tumbled from the crisis, defaulting on its domestic and foreign debts in August 1998. Since 1998, the Russian economy has been in an upswing, bolstered by high oil prices. Last year it paid off more than 17 billion to foreign creditors, including 2.8 billion in voluntary payments ahead of schedule. Foreign debt has reduced from 150 to 133 billion.<sup>18</sup> However, Russia's recent recovery, facilitated by high oil prices, is extremely deceptive for it covers the tremendous structural problems which still persist and constitute the roots of Russia's economic difficulties.

#### **D. THE ROOTS OF ECONOMIC DECLINE**

The current picture of economic stability masks the deeper problems which plague Russia's elite controlled economy-- low production efficiency, a crumbling infrastructure, pervasive official corruption and widespread poverty. These problems lie at the heart of Russia's difficulties and have served to produce Russia's economic decline.

At a very fundamental level, Russia's economy functions not as a market economy, but as a duplication of its Soviet form—a parasitic monopolistic economy, possessing an inefficient industrial sector which requires continued dependency on the state for its operation. Such operation allows for Russia's disfigured market economy to neglect the key tenant of market theory, productivity, yet still function.

The basic premise of market theory holds that in a competitive environment where productive assets are privately owned, “owners are motivated to maximize their property's ability to produce a return. Whereas a monopolist does not care if the firm he or she owns is inefficient, the owner of a firm in a market system wants to increase the productivity and therefore the market value of the firm.”<sup>19</sup> This stimulates the growth and productivity of the economy. In such a light, a market economy coupled with privatization of assets benefits both the individual and the nation by propelling its growth.

However, in Russia's case, markets combined with privatization led not to an increased emphasis on productivity but to disinvestment<sup>20</sup>, a peculiarity defying the very

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<sup>18</sup> “Russian Economy Teeters,” *Business Day*, 12 February 2002. Accessed through David Johnson's Russia list, #6072. Available [Online]: <<http://www.cdi.org>>. [25 March 2002].

<sup>19</sup> Remington, p. 187.

<sup>20</sup> Michael Buroway, “The State and Economic Involution: Russia Through a China Lens”, in *State and Society Synergy: Government and Social Capital Development*, Peter Evans, ed., (University of

principles of market theory. Market theory assumes that owners, pursuing their own self-interest, will reinvest resources into their firms in order to bolster production efficiency, since greater efficiency maximizes owners' ability to make a profit. However, in Russia, markets were created into a system that was not naturally competitive, but structurally monopolistic. Consequently, a second profit-making alternative was available to economic elites, one reflective of collaboration vice competition. In such a system, immediate access to profit was initially realized through the "hypertrophy of the Soviet economy", that is, maximizing the extraction of subsidies from the center while conducting mutually beneficial inter-enterprise trade relations. Rather than revamp the economy, elites sought to exploit the existing form of Soviet economic function. This is the economy that continues today--a "privatized version" of its Soviet predecessor.

Michael Buroway identifies three phases of the reform era which he labels—disintegration, reform, and stabilization-- that led to the reproduction and consolidation of the Soviet economic system.

Under the first phase, the disintegration of the party state in the late 1980s empowered preexisting economic conglomerates by reducing center-imposed constraints on activity. Upon the dissolution of the state, "conglomerates sought to advance their own economic interests—continuing to demand subsidies while increasing their control over the terms and proceeds of sale."<sup>21</sup> Lateral barter relations expanded. Profit was realized from *trade* rather than from *transforming production*.<sup>22</sup> In this early phase, the economy had already embarked upon a new path, characterized by a continuation of the Soviet method of function. The seeds of Russia's present-day disfigured market economy were sown.

The hallmark of the second phase, that of reform, was privatization of state assets. Beginning in October 1992, a state directed privatization campaign of voucher privatization was initiated. The campaign was aimed at creating public ownership of state assets. One hundred and forty-eight million privatization vouchers, each worth

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California at Berkeley, 1997), p. 157. Available [Online]:  
<[http://www.escholarship.cdlib.org/ias/evans/evans\\_bu.html](http://www.escholarship.cdlib.org/ias/evans/evans_bu.html)>.[25 March 2002].

<sup>21</sup> Buroway, p. 160.

<sup>22</sup> Buroway, p. 160.

10,000 rubles, were distributed to citizens. Various methods were established by which vouchers could be exchanged for stock shares; however, the most widely used option was one in which employees could acquire majority stakes in an enterprise. The privatization process, plagued by “insider privatization”, allowed senior officials to acquire the largest proportion of shares in privatized firms<sup>23</sup> and as a result, cemented elite control over the economy.

These new industrial owners, continued to exploit the Communist system of state subsidies and inter enterprise trade. Instead of investing in their own enterprises, owners invested in the independent financial sector “moving merchant capitalism from trade to finance.”<sup>24</sup> During this early phase of privatization and monetization of the economy, “the government continued to hand out low interest credits to those who had the political capital to garner them.”<sup>25</sup> Therefore, most companies were able to secure additional funding even though they exceeded planned budgets. Inefficiency at the plant level was therefore sustained as there was no incentive to cut costs and the Soviet form of economic function continued.

The third phase, stabilization, witnessed a resurgence of the intra-elite, barter based economy resulting in an increase in the strength of the mafia. Following the elections of 1993, the cast of government characters changed and government adopted more stringent fiscal policies. Loans were harder to obtain and interest rates increased. Loss making enterprises, finding it more difficult to obtain capital, circumvented the difficulty by increasing inter enterprise barter transactions. Barter exchange enabled loss-making enterprises to operate without paying their bills. As barter transactions became increasingly prevalent, the mafia became more deeply entrenched in the economy, serving as a surrogate to an effective state.<sup>26</sup> Without effective institutions to manage the economic functioning of the polity, the mafia became the mechanism of regulation and enforcement of contracts and obligations. By the mid 1990s, the barter economy and the mafia became significant components of Russia’s economy.

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<sup>23</sup> Remington, pp. 190-192.

<sup>24</sup> Buroway, p. 162.

<sup>25</sup> Buroway, p. 162.

<sup>26</sup> Buroway, p. 162.

In the absence of an effective state, Russia has developed an economy characterized by inefficiency and corruption. This has produced what Michael Buroway labels, *economic involution*—“an economy that cast away at its own foundation by funneling resources from production to exchange.”<sup>27</sup> It “implies a severe state of economic degeneration where an economy feeds upon itself.”<sup>28</sup>

The corollary to Russia’s economic degeneration has been to produce a crumbling infrastructure. Lack of investment has seriously impacted the state of Russia’s fixed capital assets. As of 1999 more than 50 percent of the machinery and equipment of Russian enterprises was obsolete; production equipment that was over fifteen years old reached 46 percent; and by mid-1999, the volume of capital investment in basic assets was at a meager 22 percent of the 1991 level.<sup>29</sup>

The structural crisis has already impacted the lifelines of the country—its agricultural sector. In 1999, the grain harvest was 54.7 million tons, compared to 1990 when the Russian Federation harvested 116.7 million tons.<sup>30</sup> Established norms indicate that about one ton of grain per capita should be harvested in order to provide enough to bake bread and feed livestock. Therefore, about 150 million tons of grain is required annually to provide for Russia’s 147 million inhabitants.<sup>31</sup>

The lack of modern equipment and resources is a significant factor which impairs the ability of the agricultural sector to produce output. For example, agricultural enterprises acquired 150,000 new tractors in 1990 but only 5,900 in 1999; for trucks, 146,000 in 1990 and 1,000 in 1999; for grain-harvesting combines, 42,500 in 1990 and 3,500 in 1999.<sup>32</sup> Without modern equipment, agriculture is simply unable to sustain output.

The main mechanism of Russia’s economy which allows it to sustain itself is the barter economy. It is the barter economy that enables enterprises to survive when wages

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<sup>27</sup> Buroway, p. 150.

<sup>28</sup> Buroway, p. 152.

<sup>29</sup> Vladimir Sysoyev, "The Dollar Outflow Continues Unabated," *Nezavisimaya gazeta*, 16 February (2000), cited in Khrushchev, p. 21.

<sup>30</sup> Khrushchev, p. 22.

<sup>31</sup> Khrushchev, p. 22.

<sup>32</sup> Khrushchev, p. 23.

and taxes combined exceed income. Yevgeni Yassin of the Higher School of Economics asserts that some 40 percent of all Russian businesses are actually loss-incurring businesses, although they are able to stay afloat through the barter economy.<sup>33</sup> The barter economy is not a new phenomenon but a carry over from the Soviet past. This non-monetized sector of the economy, or the “virtual economy”<sup>34</sup>, has its roots in the unreformed industrial sector inherited from the Soviet Union, a legacy of the “structural militarization”<sup>35</sup> of the Soviet economy. The defense orientation of the Soviet economy created a distorted relationship between the defense industry and the economy as a whole in Russia. The Soviet defense industry, since it was “the very core of its economy, received all the best technologies, material, and human resources of the country.”<sup>36</sup> At both the macroeconomic level and the microeconomic level, civilian industries and infrastructure were relegated to secondary status, thus giving rise to a highly inefficient civilian sector. This kind of economy sustained itself by noncommercial measures, “through direct distribution of resources at artificially fixed prices.”<sup>37</sup> Under the Soviet model, civilian industry was highly subsidized with under priced raw materials and insufficient charges for capital. This hid its inefficiency, providing the illusion that it had “a large manufacturing sector which produced value” but, in fact, “manufacturing destroyed value, but this was masked by arbitrary pricing.”<sup>38</sup> This is the economy that Russia inherited and that the virtual economy helps to sustain.

From a macroeconomic level, the Soviet economy is not value producing. The actual dearth of value in the system is manifested in the chronic “payments arrears” crisis where “enterprises don’t pay their suppliers; they don’t pay their workers; they don’t pay

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<sup>33</sup> Jose Pinera, “A Chilean Model for Russia”, *Foreign Affairs*, September 2000, p. 69. Available [Online]: <[http://www.ciaonet.org/olj/fa/fa\\_sep0ct00d.html](http://www.ciaonet.org/olj/fa/fa_sep0ct00d.html)>.

<sup>34</sup> The term “virtual economy” is borrowed from Clifford Gaddis and Barry W. Ickes of the Brookings Institute. See footnote 38.

<sup>35</sup> Vitaly V. Shlykov, “The Crisis in the Russian Economy,” U.S. Army War College, Strategic Studies Institute publication, 30 June 1997, pp. 16-17. Available [Online]: <<http://carlisle-www.army.mil/usassi/ssipubs/pubs97/crisis/crisis.pdf>>. [25 March 2002].

<sup>36</sup> Shlykov, p. 17.

<sup>37</sup> Shlykov, p. 17.

<sup>38</sup> Clifford Gaddis and Barry W. Ickes, “Russia’s Virtual Economy,” *Foreign Affairs*, Vol. 77, No. 5, September/October (1998), p. 57.

their taxes.”<sup>39</sup> Barter can partly cover costs but both taxes and wages require cash. Because there is insufficient value in the system, the only option afforded to economic players is to shift value by allocating it either toward paying taxes or wages. As Clifford Gaddis illustrates,

In January through March (of 1999), Russia’s tax service increased its intake of cash by slightly over five billion rubles (after accounting for inflation). During that same period, enterprises’ debts to their workers for overdue wages rose by almost exactly... five billion rubles.<sup>40</sup>

In Russia’s present economy, government continues to subsidize industry. The most utilized method is through direct redistribution of resources to uncompetitive industries whereby the government forces industries, primarily in the resources sector (gas and electricity monopolies) to provide under priced services to unproductive firms.

As regards subsidies, the state is caught in a peculiar quandary. At one level, the Soviet industrial sector serves as Russia’s social safety net, providing jobs for the masses, and thereby contributing to domestic stability. In Russia, there exists a tight linkage between the economy and social welfare.

The Soviet structure which concentrated production in a relatively small number of relatively large enterprises meant that many local governments are entirely dependent on the economic health of a single employer: almost half of Russian cities have only one industrial enterprise, and three-fourths have no more than four... Since Russian industrial firms were traditionally responsible for a broad range of social welfare functions, such cities are heavily dependent on these firms for the provision of basic social services as well as being the mainstay of employment.<sup>41</sup>

Therefore, a breakdown in the economy has a great potential to create large-scale socioeconomic breakdown. But on the other hand, the propping up of inefficient industry and the continued dependency on the state which it demands, over time, is resulting in a slow depletion of state resources and in such a way, is bringing about economic decline of the nation.

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<sup>39</sup> Gaddis, p. 56.

<sup>40</sup> Gaddis, p. 58.

<sup>41</sup> Remington, p. 179.

A significant portion of the economy of present day Russia functions through barter. Recent estimates indicate that barter constitutes approximately 50% of all inter-enterprise transactions. Barter is also the predominant form of payment to the government. In 1998, 40% of all taxes paid to the government were in nonmonetary form.

As was stated earlier, heavy dependence on barter gives rise to a support structure of corruption. “[As] inter-enterprise barter and other monetary surrogates, embedded in regional networks of mutual elite dependency, [has] become common- [this has served as] a formula for further corruption, as such transactions typically require political patrons, shady banks, or outright protection rackets.”<sup>42</sup>

The unspoken victim of such a system is the middle class entrepreneur. In such a system, there is no opening through which an entrepreneur can enter the economy and engage in legitimate activity. As a consequence, small and medium size enterprises employ only 10% of the Russian workforce. This stands in stark comparison to the United States where they employ 52% of the workforce, and in the European Union where they employ, 72%.<sup>43</sup>

Aslund Aslund, expert in post-Soviet transitions at the Carnegie Endowment for International Peace in Washington asserts that corruption is directly responsible for the stunted development of small and medium size enterprises in Russia. “The security police, the tax police and other law enforcement agents are the organized crime in Russia today, so you have to get the state-sponsored organized crime under control in order to permit small enterprises to flourish.”<sup>44</sup>

By blunting against the integration of the middle class, Russia’s economic structure has direct implications for its process of democratic transition. The economic and political structure which has consolidated in Russia acts to perpetuate a deeply

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<sup>42</sup> Georgi Derlugian, “Recasting Russia,” *New Left Review* (United Kingdom). Accessed through David Johnson’s Russia List, #6014, 10 January 2002. Available [Online]: <http://www.cdi.org> or [www.newleftreview.org](http://www.newleftreview.org). [10 March 2002].

<sup>43</sup> Margaret Mary Henry, “A Modest Bourgeoisie Buds in Russia”, *Christian Science Monitor*, 4 Feb. 2002. Accessed through David Johnson’s Russia List. Available [Online]: <http://www.cdi.org>. [25 March 2002].

<sup>44</sup> Ibid.

divided social structure reflective of its communist predecessor. This, in turn, denies democracy the fertile soil necessary in which it can take root, thereby impeding its ability to mature.

## **E. DEMOCRACY IN RUSSIA**

### **1. Structural Impediments**

The construction of this political and economic system in post Soviet Russia, presents a formidable challenge to the progress of democracy by serving to blunt against the emergence of a state-society construct supportive of democracy. Unlike modern democracies where the democratic polity emerged over the course of history as product of a set of constraints between ruler and ruled, Russia's democracy has been built upon the same state-society construct as existed under communism -- that of an "hour-glass society" - with a large state bureaucratic society at the top, an extensive network of primary ties among private citizens, and few ties or institutions in the middle to connect top and bottom".<sup>45</sup> From a structural perspective, Russia's economic and political construct stems against the emergence of a middle stratum of society and in such a way, serves to perpetuate the Soviet legacy of a deeply divided social structure. Consequently, a fundamental underpinning of a democratic polity, an integrated social structure in which the masses are seamlessly interwoven into its fabric, has failed to emerge. When viewed at its foundation, democracy lacks a framework conducive to its maturation.

### **2. Political Culture**

The corrupt nature of the system not only has structural implications but also governs societal behavior. The system as it currently operates encourages the individual in Russian society to insulate himself from the state rather than to influence its operation, producing in Russia, an "a-civil" society.<sup>46</sup> Such a societal reaction exacerbates a second foundational weakness of Russia's democracy — the lack of an underlying political culture supportive of democracy. In modern democracies, political culture is an unseen, but significant component of democracy's foundation. Political culture is the soil in which democracy places its roots. A well-rooted democracy is one whose roots extend into the habits, values, and beliefs of the populace. Russia's rapid transition denied it of a

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<sup>45</sup> Remington, p. 84.

<sup>46</sup> Michael McFaul, "Democracy Unfolds In Russia", *Current History*, October (1997), p. 325.

major prerequisite of democracy, “the autonomous individual who treats his or her personal freedom as something “natural” and “inalienable” and at the same time understands (from lived experience) that freedom implies responsibility for one’s choices, and that establishing and following rules is a normal way to exercise one’s freedom.”<sup>47</sup> Such a mindset is still being learned in Russia. The current nature of the system serves to retard its evolution.

Many observers cite the resilience of the Russian people is an indicator of the degree to which the Russian people will labor in the name of democracy. However, another interpretation of society’s resilience is that it is not an indicator of the degree of the masses’ conviction to democracy but a reflection of how shallow the roots of democracy actually are. Societal withdrawal as a behavior has been bred by decades of communist rule. Ghia Nodia, head of the department of political philosophy at the Institute of Philosophy in Tbilisi, Georgia, labels such behavior as “idiotization”, a term he derived from the Greek word idiot, which he defines as a purely private person who is unwilling or unable to act in the public sphere. Nodia asserts that communism induced a delegitimization of public space. As such, “the capacity for positive public action-society’s “political muscle”, if you will, atrophied. Belief in the possibility that individual action could change anything in the public space reached a low ebb.”<sup>48</sup> In such a light, societal resilience may be seen as a continuance of the conditioned behavior that was fostered under communism. It therefore can be interpreted as an index which reveals the limited degree to which the concept of democracy has seeped into general society.

Many political theorists identify political culture, particularly beliefs about democratic legitimacy, as a critical factor in the consolidation of a democracy. Political culture as defined by Stanford/Hoover scholar Larry Diamond is “a people’s predominant beliefs, attitudes, values, ideals, sentiments, and evaluations about the political system of their country and the role of the self in that system.”<sup>49</sup> Political culture is not static. The

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<sup>47</sup> Ghia Nodia, “How Different Are Postcommunist Transitions?,” *Journal of Democracy*, Vol. 7, No. 4 (1996), p. 25.

<sup>48</sup> Ibid.

<sup>49</sup> Larry Diamond, *Developing Democracy Toward Consolidation*, (Maryland: Johns Hopkins Press, 1999), p. 163.

character of political culture changes over time such that a supportive culture for democracy can evolve with the democratic institutions themselves. In new democracies, this evolution is prompted by the efficacy of the democratic institutions, a factor greatly lacking in Russia.

Political theory describes the relationship between political culture and political institutions as mutually influencing, such that “causality work[s] both ways, that attitudes influence structure and behavior, and that structure and performance in turn influence attitudes.<sup>50</sup> Political culture “affects the character and viability of democracy’ but is simultaneously “shaped and reshaped by a variety of factors including...broad changes in economic and social structure, international factors (including colonialism and cultural diffusion) and of course the functioning and habitual practice of the political system itself.<sup>51</sup> The degree to which a democratic regime successfully functions in “delivering the ‘political goods’ of democracy has sizable independent effects on political attitudes and values”, specifically in the belief in the legitimacy of the democratic regime.<sup>52</sup> For example, the more satisfied a people are, the greater is their support for democracy.<sup>53</sup> Improvements in the economic system and perception of increased political freedom contribute to enhancing the belief in democratic legitimacy. As these factors are realized, they are assimilated into the culture and transform it. In such a way, culture evolves in response to the functioning of the democratic institutions. Diamond’s argument concludes that “when support for democracy has become intrinsic and unconditional can democracy be considered consolidated and secure.”<sup>54</sup> This evolves through the dynamic interaction between political culture and political institutions.

Beliefs about democracy are partly shaped by the masses’ perception of the degree to which a democratic regime successfully functions. In Russia, the introduction of democracy has not coincided with increased political and economic functioning of the

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<sup>50</sup> Diamond, p. 164.

<sup>51</sup> Diamond, p. 165.

<sup>52</sup> Diamond, p. 162.

<sup>53</sup> Diamond, p. 193.

<sup>54</sup> Diamond, p. 169.

system. Consequently, in Russia, the dynamic and bi-directional interaction between political culture and political institutions is absent.

With regard to democratic consolidation, the fundamental obstacles are those that have resulted from the fact that Russia's democracy was created overnight. Such a rapid transition to democracy denied Russia many of the foundational pillars which make a democracy strong. Michael McFaul, Hoover fellow at Stanford University, acknowledges that many key liberal institutions such as an independent judiciary, a structured party system, a vibrant civil society, and checks on the executive: are absent in Russia. Recognizing that Russia falls far short of a democracy, McFaul opts to label Russia an electoral democracy, "a system in which elections with certain procedures but uncertain outcomes determine who governs."<sup>55</sup>

Such a descriptor in the case of Russia is too generous. Even free elections, the touchstone of democracy, fall short of their true intent. Richard Rose reminds observers that "the liberal theory of democracy is demand-driven: voters decide what they want and politicians compete to supply their demands."<sup>56</sup> However, in Russia, people 'choose' what elites supply. Government accountability to the masses is most severely obstructed by a 'floating party system'. Russia's political parties dissolve and reform at such a high rate that voters are unable to evaluate and establish accountability of leaders. Elections in Russia, "no more represents the free choice of the Russian people than the Lada car was the choice of the Soviet consumer."<sup>57</sup>

Although Russia does possess some of the attributes of a democracy, a deeper look at the workings of the polity reveal that it hardly reflects democracy in its intended form. The new system incorporates greater individual political freedoms but there is no framework, which connects public officials to ordinary citizens. Russia possesses a

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<sup>55</sup> Michael McFaul, "A Mixed Record, An Uncertain Future," *Journal of Democracy*, Vol. 12, No. 4 (2001), p. 91. Available [Online]: [http://muse.jhu.edu/journals/journal\\_of\\_democracy/v012/12.4mcfaul.html](http://muse.jhu.edu/journals/journal_of_democracy/v012/12.4mcfaul.html). [10 March 2002].

<sup>56</sup> Richard Rose, "Putin's Russia: How Floating Parties Frustrate Democratic Accountability; A Supply Side View of Russia's Elections," *East European Constitutional Review*, Vol. 9, No. 1-2, (Winter/Spring 2000), p. 1. Available [Online]: [http://www.law.nyu.edu/eecr/vol9num\\_onehalf/feature/supplyside.html](http://www.law.nyu.edu/eecr/vol9num_onehalf/feature/supplyside.html). [10 March 2002].

<sup>57</sup> Rose, p. 7.

hollow version of democracy, maintaining a façade of strength on the outside, but lacking substance beneath.

## **F. CONCLUSION**

In view of the description presented above, the transitional model of postcommunist development which included concurrent political and economic reform has not only failed economically but created the conditions which gave rise to an economic and political structure which retards the progress of democracy. In regard to the economic performance of the country, the sustainment of Russia's inefficient economy requires continued dependence on the state, and as a result, has created an economy that feeds on itself, thereby engendering the polity's own economic degeneration. In regard to democratic transition, the consolidation of an elite-controlled, inherently corrupt economic structure stands in the way of the development of a middle stratum of society, and in such a way, serves to perpetuate the Soviet legacy of a deeply divided social structure. The corrupt nature of Russia's polity has also served to blunt the emergence of a political culture that is both supportive of democracy and facilitates its progress. Russia faces a daunting challenge as the root of its problems lie at its very foundation. What is truly required is a fundamental restructuring of the political and economic structures of the polity. Alexander Budberg, a Russian journalist, asserts that such a complex undertaking can only be accomplished through a political project spearheaded by the president. The main priority of president Putin must be the development of a 'very careful and thoroughly thought-out replacement of the old political system with a new one.'<sup>58</sup> Facing the pressures of Russia's elites and the challenges of this entrenched regime, the prospect of such an undertaking looks slim. Until Russia's political and economic structures are revamped, problems emanating from this rotten foundation will continue to plague the Russian polity and crisis will continue to color Russia's foreseeable future.

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<sup>58</sup> Alexander Budberg, "Vladimir Putin and His Presidency's Main Task," *Moskovsky Komsomolets*, No. 26, 2002. Accessed through David Johnson's Russia List. Available [Online]: <<http://www.cdi.org>>.[25 March 2002].

## **IV. CHINA**

### **A. INTRODUCTION**

Like Russia, its ideological soulmate, China has undertaken reform of its communist polity. Unlike Russia, whose reform efforts included both political and economic dimensions, China's reform strategy, initiated in the late 1970s, centered around economic modernization. As a result, the last two decades have witnessed China's increased integration into the global economic order and a concomitant rise in its economic power. Rising economic power, however, is only the most visible result of China's reforms. Economic reform has had an equally powerful effect on the internal composition and character of the Chinese polity by instigating a dramatic transformation of its political, ideological, and social spheres. This chapter seeks to illuminate the processes of transition that have unfolded in China directing its focus on two aspects: the impact of reform as it pertains to explaining China's economic growth and as it relates to regime transition. It argues that economic reforms which increased provincial and managerial autonomy, introduced competition, and injected the profit incentive into the economic structure have created the conditions which have placed China on a path of rising economic power. On a more subtle level, China's reform efforts have engendered spillover effects in the political, ideological, and social realms of the polity. The shift in focus to economic modernization resulted in a profound decentralization of decision-making authority, the lifting of the suffocating constraints of Marxist-Leninism-Mao Zedong doctrine, and has given rise to a rapidly diversifying society. The concurrent changes in these spheres is having the unintended consequence of developing political, ideological, social, and economic pillars that portend well for a later transition to a liberalized regime. The evolutionary nature of China's transition is serving to develop that which Russia, as shown in the previous chapter, lacks, a strong foundation on which democracy can later take root.

### **B. POLITICS AND THE ECONOMY**

The differences in the reform strategies undertaken by the Soviet Union and China can be explained as a difference in the response to overcoming the obstacle of an entrenched bureaucracy which served to impede the progress of economic reform. In the

case of the Soviet Union, Gorbachev came to believe that a certain degree of political reform was necessary to “prod a recalcitrant and entrenched party bureaucracy toward economic reform by making it accountable to a broader, mobilized, and politically engaged public.”<sup>59</sup> The political liberalization campaign of ‘glasnost’ was initiated in order to facilitate the implementation of economic reform but ultimately, as history has revealed, led to the collapse of the communist party and of the Soviet Union.

China’s leaders took a different approach to pushing reform through an entrenched bureaucracy, one which embedded political strategy into its economic reforms. China’s leaders, although ready to undertake economic opening, were equally convinced of the necessity of maintaining the stability and centrality of the Party. Unlike the Gorbachev leadership, whose background experience was “a post-Stalinist stability and stagnation that provided few warnings of the dangers of political reform,” China’s leadership had just emerged from the social and political chaos of the Cultural Revolution (1966-1976). Many of the reform-oriented leaders, including the paramount figure, Deng Xiaoping, were officials who had been purged during the Cultural Revolution and rehabilitated upon Mao’s death (1976). The experience of the Cultural Revolution, “[while it had] created a large constituency for change, it also generated a strong aversion to disorder, almost an obsession with stability, and an abiding fear of mass participation in political life.”<sup>60</sup>

Consequently, creating pressure from without to prod along economic reforms, as the Soviet leaders did, was not an option China’s leaders would consider. Instead, Deng took another tack, that of political strategizing at the center-- that is, creating a constituency within the center that had a strong personal stake in pursuing economic reform. At its essence, this was a very Maoist tactic, utilized to implement very “un-Maoist” policies. Mao had always relied heavily on the use of rectification campaigns designed to keep people divided and off-balance, thereby ensuring his position of power. China’s political history under Mao had been one of the continual playing of groups

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<sup>59</sup> Robert W. Strayer, “Decolonization, Democratization, and Communist Reform: The Soviet Collapse in Comparative Perspective,” *Journal of World History*, Vol. 12, No. 2 (2001), p. 385. Available [Online]:<[http://muse.jhu.edu/journals/journal\\_of\\_world\\_history/toc/jwh12.2.html](http://muse.jhu.edu/journals/journal_of_world_history/toc/jwh12.2.html)>.[10 March 2002].

<sup>60</sup> Lowell Dittmer, "Socialist Reform and Sino-Soviet Convergence," in *Reform and Reaction in Post-Mao China*, ed. Richard Baum (New York: Routledge, 1991), p. 31 cited in Robert W. Strayer, p. 395.

against each other. Although Mao used this to keep people divided, Deng adapted this tactic to bring about support for reform and, thus, to create pressure for reform from within.

Susan Shirk explains this tight interlinking between China's economic reforms and political strategy. She identifies the cornerstone of the Chinese leadership's strategy as its fiscal decentralization program popularly called "eating in separate kitchens."<sup>61</sup> The program consisted of the implementation of a contractual-revenue sharing program, whereby any two adjacent levels of government negotiated as to the amount of taxes to be remitted over a 5-year period. The lower echelon government was then entitled to retain the residual profit. The reform package was couched in such a way as to give provincial leaders a vested interest in promoting the reform drive. This was aimed at influencing decision-making at the center in the Chinese Communist Party (CCP) Central Committee where local and provincial officials constituted a large bloc of its members. Reforms created a strong constituency within the center to push for reforms and thus to push through the bureaucracy at the center.<sup>62</sup> "Such a policy package was the best way to create a political counterweight to the central bureaucracy and achieve market reform while preserving China's communist institution."<sup>63</sup>

Likewise, China's leaders pursued a tactic of circumvention rather than confrontation with entrenched bureaucratic power in regard to the revampment of the economy associated with opening to the West. "Instead of attacking the perquisites and powers of the central bureaucracies head-on, Deng decided to encircle the bureaucracies by creating new forms of business exempt from normal state rules, such as private and collective firms and Special Economic Zones designed to attract foreign investment."<sup>64</sup>

China's leaders sought to decentralize decision-making, thereby providing a political context that served to facilitate economic reform, but strove to maintain the authority of the center. In general, the central government devolved much fiscal

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<sup>61</sup> Susan Shirk, The Political Logic of Economic Reform In China, (Berkeley: University of California Press, 1993), p. 149.

<sup>62</sup> Shirk, p. 15.

<sup>63</sup> Shirk, p. 149.

<sup>64</sup> Shirk, p. 15-16.

authority to the provinces, giving them day-to-day control of economic activities, shifting more responsibility to them in areas such as the approval of capital construction projects and foreign joint ventures, planning and material supply, and the retention of foreign exchange earnings.<sup>65</sup>

Political decentralization is most visible in the establishment of special economic zones (SEZ), coastal open cities, and development zones. Each of these areas were given a high level of autonomy in regards to economic endeavors in their area as well as tax incentives designed to attract foreign investment and foster economic growth. China's four SEZs—Shenzhen, Shantou, Zhuhai, and Xiamen—were established in 1979. The autonomy and special tax rates of the SEZs were extended in 1984 when the central government declared fourteen coastal cities as “coastal open cities” conferring to them the level of autonomy enjoyed by the SEZs. In 1992, such autonomy was extended to various inland regions, such as cities along the Yangtze River and cities on the Russian border. In addition, many inland cities, established internal “development zones” which received similar tax benefits and a higher degree of autonomy in regard to economic activity.<sup>66</sup>

While the government began a process of withdrawal from direct economic control over its polity, it also loosened its hold on the nomenklatura system of political appointments. The CCP reduced the appointment authority of each tier of the political structure to include positions at the same level and one level down vice two levels down as previously instituted. Such a policy produced a trickle down effect, increasing nomenklatura control at each of the various levels of government.<sup>67</sup>

As shown above, China's reform policies, brought about a significant decentralization of authority in the political realm but kept the Party as the integrating center of the polity. While decentralization provided a political context in which successful economic reform could be implemented, it does not explain specifically how economic reforms led to China's astonishing growth. The initial boost to China's

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<sup>65</sup> Shirk, p. 178.

<sup>66</sup> Gabriella Montinola, Yingyi Quan, and Barry R. Weingast, “Federalism, Chinese Style: The Political Basis for Economic Success”, *World Politics*, Vol. 48, No. 1, pp. 62-63. Available [Online]: <[http://muse.jhu.edu/journals/world\\_politics/v048/48.1montinola.html](http://muse.jhu.edu/journals/world_politics/v048/48.1montinola.html)>. [10 March 2002].

<sup>67</sup> Shirk, p. 179.

economy came from a surprising area—the rural sector. A deeper look into the dynamic that unfolded in China’s rural area in the early stage of reform provides insight into how economic reforms gave rise to privatization and fostered the emergence of a market economy, thereby laying the groundwork which resulted in the rapid growth of rural industry and ultimately launched China on a path to power.

The origins of China’s “capitalist revolution”— that is, of privatization<sup>68</sup> and a market economy, lay in the rural sector and were an unintended byproduct of agricultural reform. As part of the overall domestic modernization program, China’s leaders implemented several reforms aimed at increasing the productivity of China’s agricultural sector but which also had the unintended consequence of creating the conditions for the emergence of quasi-privatization and the market economy.

One of China’s key agricultural reforms sanctioned an organizational change in the traditional commune system by directing the establishment of a ‘group responsibility system’ aimed at “increasing agricultural productivity by making production teams smaller and more accountable”<sup>69</sup> Through this limited opening provided by the state, an unexpected social response arose whereby peasants quickly substituted the ‘group responsibility system’ for an indigenous ‘household responsibility system’. Over time, such a movement resulted in the complete decollectivization of agriculture in China. Eventually, the household system coalesced into a structure resembling pseudo-privatization as limited household contracts with the commune became more substantive and more individual in character as peasants built houses on collective land, rented out portions of it, hired labor, and even bequeathed family plots to their children.<sup>70</sup>

In conjunction with the dismantling of the commune system, various other reforms were implemented aimed at increasing productivity, two of which had the combined impact of setting the conditions for the creation of a market economy. First, a new contractual system between peasants and the state was established whereby peasants were obligated to deliver a set amount of grain and other agricultural products at a state

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<sup>68</sup> Privatization in the case of China refers to enterprises which are collectively owned or owned by local government.

<sup>69</sup> Pei, p. 95.

<sup>70</sup> Strayer, p. 396.

fixed price. Peasants were then free to engage in any line of business they chose with the surplus output.<sup>71</sup> In such a way, government policy indirectly supported and encouraged the development of a sphere of activity outside the state. Second, the state initiated a partial price liberalization which created the operational mechanisms for this outside sphere. Specifically, the state implemented a dual-track price reform whereby enterprises were permitted to sell quotas to the state at state fixed prices and surplus output at market set prices. Initially designed to “provide incentives to managers of state owned enterprises to increase production without disrupting the government’s economic plan... [price reform] open[ed] and enormous fissure in the planned economic system through which the private sector could grow and prosper.”<sup>72</sup> Through the combination of the above-mentioned measures, the market economy was born.

Once peasants were free to be businessmen, many nonagricultural rural enterprises (township and village enterprises, [TVEs]) sprung up throughout rural China. In early 1987, Deng Xiaoping expressed his astonishment at the rise of this sector, a phenomenon he likened to “an army suddenly appearing from nowhere”.<sup>73</sup>

Several external factors, such as access to foreign capital and technology, added power to this ongoing transformation in China’s rural sector. Additionally, China’s opening to the West provided niche markets for these new rural industries, specifically in the area of low cost consumer goods exports. In 1991, 85000 township and village enterprises were involved in exports production, compared to 48 in 1981. In 1981, total exports from rural industries amounted to 8.5 million yuan, compared to 1992, where they reached 120 billion yuan.<sup>74</sup> By the mid-1990s, rural industries had become a major player in China’s export-oriented economy.

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<sup>71</sup> Pei, p. 96.

<sup>72</sup> Pei, p. 98.

<sup>73</sup> Quoted in Thomas P. Bernstein, “China: Growth without Political Liberalization”, in Driven By Growth: Political Change in the Asia Pacific Region, James W. Morey, ed., revised edition, (New York: M.E. Sharpe, 1999), p. 99.

<sup>74</sup> Pei, p. 107.

### C. ECONOMIC GROWTH

Overall, China's economy has averaged real growth of more than 9% a year. Per capita income has nearly quadrupled in the last 15 years.<sup>75</sup> An IMF research team examined the source of the nation's growth and has concluded that "although capital accumulation—the growth of the country's stock of capital assets, such as new factories, manufacturing machinery, and communications systems -- was important, as were the number of Chinese workers, a sharp, sustained increase in productivity (that is, increased worker efficiency) was the driving force behind the economic boom."<sup>76</sup> Productivity gains accounted for more than 43% of China's growth during 1979-1994 and by the early 1990s had overtaken capital as the most significant source of that growth.<sup>77</sup>

The increase in productivity that accounts for China's tremendous growth is directly the result of China's fiscal decentralization reform implemented in 1980. This reform, the cornerstone of China's early reform efforts, completely redefined fiscal relations between the center and localities with the establishment of a contractual revenue system. Contractual agreements obligated the provinces to remit a fixed amount of taxes to the center, allowing the localities to retain residual earnings. The center, by relinquishing control over the economy's surplus, injected the *incentive for profit* into the economic structure. *This has served as the driving force of the economy's growth.*

The exact way in which China's economic reforms worked to enhance productivity and therefore overall growth is illuminated in the dynamic which unfolded in China's rural sector. Jean Oi, analyzing the workings of the economy at the township and village level, discovers how China's productivity and its growth is being generated at the base level of China's economy, a phenomenon she labels 'local state corporatism'. Oi finds that the spark that ignited China's growth is found in the interplay between China's overall fiscal decentralization and one of its most important early reforms—decollectivization of agriculture. Shu Yan Ma, associate professor of government and

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<sup>75</sup> Zuli Hu and Mohsin S. Khan, "Why is China Growing So Fast?," IMF Economic Issues series, No. 8, pp. 1-2. Available [Online]: <<http://www.imf.org/EXTERNAL/PUBS/FT/ISSUES8/INDEX.HTM>>.[10 March 2002].

<sup>76</sup> Hu, p. 3.

<sup>77</sup> Hu, p. 3.

public administration at the Chinese University of Hong Kong. provides a succinct recapitulation of Oi's logic:

According to Oi, the decollectivization of agriculture and the institution of the household responsibility system in rural China transferred the income rights over agricultural production from collectives to individual households. While this significantly enhanced the production incentives of peasants, the change deprived local governments of a major source of income. At the same time, China's fiscal reform granted local governments the right to retain part of the extra tax revenue they raised. That is, the higher the economic growth rate, the higher the tax revenue, and the greater the income of local governments. Given such a stake in economic growth, local governments were motivated to mobilize and coordinate resources under their jurisdiction to engage in entrepreneurial endeavors. They established and ran rural enterprises and took the profits to pay for expenditures and reinvestments. In such a way, local governments functioned like a large corporation with diversified businesses, thereby serving as the engine of China's economic development.<sup>78</sup>

By introducing the profit motive into its economy, China's economic reforms succeeded in fostering entrepreneurship, a key tenet of a successful capitalistic economy. Oi concludes that China's success proves that growth can be achieved without privatization. "The key variable is not the form of ownership but the incentive structure for the officials who manage these firms."<sup>79</sup> By introducing the profit motive into the economy, the "political interests of local officials, instead of being at odds with local economic interests, became institutionally tied to them."<sup>80</sup> This stands in stark contrast to Russia, where exploiting the political system rather than engaging it serves elite self-interest. China's economic system, unlike Russia, is developing into a well-oiled machine in which the market economy serves as its framework and entrepreneurship as its fuel.

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<sup>78</sup> Shu-Yun Ma, "Understanding China's Reforms: Looking Beyond Neoclassical Explanations," *World Politics*, Vol. 52, No. 4 (2000), p. 587. Available [Online]: <[http://muse.jhu.edu/journals/world\\_politics/v052/52.4ma.html](http://muse.jhu.edu/journals/world_politics/v052/52.4ma.html)>. [10 March 2002].

<sup>79</sup> Jean C. Oi, *Rural China Takes Off: Institutional Foundations of Economic Reform*, (Berkeley: University of California Press, 1999), p. 56.

<sup>80</sup> Oi, p. 56.

#### **D. IDEOLOGICAL, POLITICAL AND SOCIAL IMPACT OF REFORM**

Such a tremendous economic transformation has not occurred in a void. Economic reforms have wrought political change and such change has altered the foundation of China's polity. Although China's political reform has not incorporated deliberate steps toward democratization, China has taken many steps toward political liberalization. Democratization is distinct from the processes of political liberalization, the "latter being a necessary precondition for the former, and involves expanding basic freedoms of expression and association, as well as the rights of individuals. The former entails building democratic institutions, including regular, free, and fair elections.<sup>81</sup>

Contrary to popular belief which holds that China's leaders only promoted economic reform, significant measures have been undertaken to adapt the political system. Three aspects of political reform will be emphasized here. First, a major ideological shift underpins China's economic transformation whereby the Party officially repudiated the dogmatic interpretation of the Maoist version of Marxism Leninism and its associated emphasis on class warfare and moved to espousing modernization as the focus of the Party. Second, China's polity has realized a profound political decentralization as a result of economic reforms, recasting the role of the center to that of facilitator rather than dictator. Third, new and changing social conditions force the center to continually redress the system in response to such changes. Two such changes discussed here are the emergence of rule of law and the implementation of village democratic elections. Although these measures fall short of democracy, they nonetheless encompass concerted measures of political reform, reforms that are creating a foundation on which democracy may later take root.

##### **1. Ideological Reform- Redefinition of Official Ideology**

In order to redirect the focus of the polity to such an unMarxist undertaking as market-based economic modernization, the Party had to redefine the role and content of official ideology so as to develop the ideological justification for such a dramatic shift in course. The new ideological orthodoxy that emerged alongside economic modernization was given a name at the 12<sup>th</sup> Party Congress held in 1982: "socialism with Chinese

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<sup>81</sup> Suisheng Zhao, "Three Scenarios", *Journal of Democracy*, Vol. 9, No. 1, 1998, pp. 54-55 (54-59). Available [Online]: [http://muse.jhu.edu/journals/journal\\_of\\_democracy/v009/9.1zhao.html](http://muse.jhu.edu/journals/journal_of_democracy/v009/9.1zhao.html). [10 March 2002].

characteristics.” Although there is no succinct definition, it encompasses three fundamental concepts. First, Marxism-Leninism is presented as a flexible, pragmatic doctrine, rather than fixed dogma, whose content evolves over time. As such, all great Marxist leaders were agreed to have formulated insightful ideas but were limited by the circumstances of their time. Consequently, ideas espoused by past leaders, although accurate at one time, are not necessarily suitable in the present. Therefore, current leaders are obligated to experiment with other models in order to find the one appropriate to present circumstances. In such a way, China’s leadership recast Marxist Leninism from a *teaching* to a *method*. Second, China’s leadership established that the basic measure of success of new methods is the degree to which they are successful in advancing economic modernization of the country. The third tenet holds that the Party is the true agent of implementation and experimentation, therefore nothing should challenge the hegemony of the Party.

So, with an ideology that casts Marxism-Leninism as the method and economic performance as the end, the legitimating ideological principle for economic reform was created. Those tasks undertaken as part of economic modernization, such as decentralization of agriculture or dismantlement of state-owned enterprises, had become promotable because they advance economic performance and therefore, are in alignment with official ideology.

The new ideology had the corollary impact of making life freer for the ordinary citizen. Under Maoism, all aspects of life were politicized; no legitimate private sphere existed. All aspects of life were open to inspection in the name of the public good. Armed with a new ideology, Deng Xiaoping altered this fundamental dynamic. In a famous statement in 1986, Deng set forth to differentiate between the “ultimate ideal” and the “common ideal” which provided a distinction between what is needed to be an upstanding citizen and for a good party member. Such a distinction created the ideological space for the emergence of interests separate from the party.

The “common ideal” asserts that to be patriotic, one must support advancement of the country under the leadership of the Party. This implied that one is not required to be communist. One can have such ideals as religion, as long as they do not challenge one’s

allegiance to the country.<sup>82</sup> Communist members, however, *do* have to believe that communism is the way of the future and must follow the ideals of communism.

The concept of the “common ideal” enabled the Party to unify the country behind the call of progress. The subtle byproduct of such differentiation was that it created ideological space. As a result, more organizations and social activity, such as clubs, discos, religious associations, have become legitimate and have a place in the system.

Also, such an ideological shift decreased the amount of restrictions of intellectual activity. Under Maoism, whole types of science were banned because of the existence of overtones which clashed with Marxism. Now, as long as scientific theories advance human knowledge and the modernization of the country, they are acceptable. Additionally, public debate on many topics is tolerated and encouraged as long as such debate acts as a tool which advances China’s progress.

## **2. Political Reform**

### ***a. Decentralization of Decision-Making***

In the political sphere, a profound decentralization of decision-making has been brought about in conjunction with China’s economic reforms. As was shown in the previous section, political and economic decentralization has enhanced the powers of local government relative to the center and has institutionalized as part of its economic framework, a decentralized polity that would be very difficult, if not impossible, to recentralize.

### ***b. Legal-Based Infrastructure***

A second aspect of political reform encompasses those reforms that are instituted in order to redress the system in response to changing social and economic conditions. Two such examples are the emergence of a legal-based system and village elections.

In order to create a favorable environment for foreign investment and to provide a legal foundation for a market economy, China has implemented several measures to create a legal framework based on “rule by law.” As several new laws that

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<sup>82</sup> Although the scope of permissible interests has widened, there are still significant forbidden zones. For example, in regard to freedom of religion, religions that require transnational allegiances, such as the Catholic Church due to its relation to the Vatican, are still prohibited. In lieu of the Catholic Church, the state offers its own alternative, the ‘Patriotic Catholic Church’.

have been promulgated act to limit the discretionary power of the state, such measures may serve as an intermediate step toward “rule of law.” Rule by law may serve as an intermediate step toward rule of law. The distinguishing difference between the two is that rule by law “signifies the goal that party and state must act in conformity with the law and that the law should be a major means of social control. Rule of law, in contrast, signifies accountability of the rulers.”<sup>83</sup>

Rebecca Moore, associate professor of political science at Concordia College, notes that steps toward “rule by law”, such as the State Compensation Law (1992), which affords citizens the right to sue the state for a variety of infractions, and the Administrative Penalties Law (1996), which acts to circumscribe the power of Chinese officials by “outlining principles of transparency, legitimacy, and due process for the administration of punishments and penalties”, may encourage progress toward “rule of law” as such steps are slowly constraining the power of the state.<sup>84</sup> Moore notes that according to Minxin Pei, the number of civil case and commercial disputes adjudicated by the courts increased substantially. The number of commercial disputes settled in court rose from about 15,000 a year in the early 1980s to 1.5 million a year in the mid-1990s. Additionally, laws that confer upon the citizen the right to sue the government has resulted in a rather remarkable rise in the number of lawsuits filed, from approximately 600 in 1986 to nearly 80,000 in 1996.<sup>85</sup> These statistics reveal that society is responding to and incorporating the use of such laws into their activities, and as a result, rule by law is becoming assimilated into the workings of the polity and into the habits and values of the masses. The embeddedness of law-based behavior and the depth to which its roots are extending into society in the present, portend well for a well-rooted liberalized regime later.

### *c. Elections in China*

The second powerful example of China’s ongoing political transformation is the official recognition of new forms of political organization at the village level and

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<sup>83</sup> Bernstein, p. 95.

<sup>84</sup> Rebecca R. Moore, “China’s Fledgling Civil Society: A Force for Democratization”, *World Policy Journal*, Vol. 18, No. 1, Spring (2001), p. 58. Available [Online]: <<http://proquest.umi.com/pqdweb?Did=000000072669173&Fmt=3&Deli=1&Mtd=1&Idx=9&Sid=3&RQT=309>>.[ 10 March 2002].

<sup>85</sup> Ibid.

the subsequent the implementation of democratic village elections. The activation of the rural sector as a result of economic reform prompted organizational responses, specifically the establishment of village committees. The village committee acts as the ‘executive arm’ of village governance and is subordinated to the villagers’ assembly, a body composed of all villagers 18 years of age or older. Village committees were officially recognized as a legitimate form of political organization in the 1982 PRC constitution as a medium, elected by village residents, designed “to handle public affairs and social services, mediate civil disputes, help maintain public order, and convey residents’ requests and opinions to the people’s government.”<sup>86</sup> The acquiescence on behalf of the party to allow for such organization was a pragmatic response taken as a means of stemming against possible revolt by a peasantry, who had become increasingly estranged from local leaders as a result of the social upheaval of the Cultural Revolution.<sup>87</sup>

Over time, villagers’ committees have become an integrated part of the political structure in the village. In the late 1980s, the government officially allowed for the democratic election of this political body. In November 1987, the National People’s Congress passed a provisional law that was made permanent in November 1998 as the Organic Law on Villager Committees. The law delineated several elements required of elections to include:

Open, direct nominations by individuals rather than groups; multiple candidates; secret ballots; the mandatory use of secret voting booths to ensure the integrity of the individual vote; a public count of the votes; immediate announcement of election results; and recall procedures.<sup>88</sup>

An often-overlooked development is the replication of village elections in the urban areas. Residents’ or neighborhood committees (RCs) constitute the urban counterpart of villager committees. Residents’ committees were initially organized in the

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<sup>86</sup> Jamie P. Horsley, “Village Elections: Training Ground for Democratization”, *The China Business Review*, Vol. 28, No. 2, March/April (2001), p. 45. Available [Online]: <<http://proquest.umi.com/pdqweb?Did=000000069893637&Fmt=4&Deli=1&Mtd=1&Idx=1...>>. [10 March 2002].

<sup>87</sup> Moore, p. 60.

<sup>88</sup> Horsley, p. 46. Detailed information on China’s rural elections processes and procedures can be found in *The China Quarterly*, Volume 162, June 2000, Special Issue: Elections and Democracy in Greater China.

1950s to absorb those urban residents who did not belong to a state unit such as a state-owned factory or government agency. A 1989 law, following suit with developments in the rural area, called for the establishment of RCs for every 100-700 households, each accountable to a residents' assembly. RC members in theory were to be elected by members of households but in actuality have been appointed by the Party. However, in 1999, 20 cities were approved by the party to experiment with open RC elections. Some places have utilized secret ballots to conduct elections while others have elected members by household representative.<sup>89</sup> The election process of RCs is not as developed as that of its village counterpart nor is it as prevalent. However, as China's urban unemployed numbers increase,<sup>90</sup> the role of RCs may expand and with it, may occur further progress toward the development of election-based processes in the urban areas.

### **3. Social Restructuring**

Against the backdrop of these significant ideological and political changes, Chinese society has also changed in very profound ways. Market-oriented reforms have generated unintended consequences in Chinese society by giving rise to a society that is slowly decentralizing and steadily pluralizing. At the most fundamental level, market reforms have served to break the highly vertical mode of social organization characteristic of the pre-reform era. Chinese social structure of the pre-reform era was 'vertical'

in the sense that each individual and social group was incorporated into a hierarchically organized system of some kind as opposed to belonging to social institutions organized horizontally by their members... This system of 'verticality' led to what has been called... social 'encapsulation'... meaning that individuals and groups were cloistered within their 'systems' and units and separated from comparable systems and units at the same level.<sup>91</sup>

Market oriented economic development has fractured this verticality and spawned the rise of a society which is more fluid and more dynamic. Society has become more mobile as those in the countryside have opted to relocate to the cities in hopes of a better living, or to rural towns which are emerging as "growth poles and centers of local

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<sup>89</sup> Horsley, p. 50.

<sup>90</sup> Horsley, p. 50.

<sup>91</sup> Gordon White, Riding the Tiger: The Politics of Economic Reform in Post-Mao China, (California: Stanford University Press, 1993), pp. 200-201.

industry.”<sup>92</sup> Society has become more complex with the rise of new constituencies such as private entrepreneurs, managers of foreign-invested enterprises and multinational corporations, lawyers, financiers, consultants, and think tank analysts.<sup>93</sup> Additionally, horizontal ties amongst these new constituencies are coalescing in the form of professional associations and regional based business associations. Society and its interests are organizing in unprecedented ways.

Burgeoning social pluralism has pressured the center to create institutional mechanisms that provide greater popular participation in political affairs. An illustrative example of the growing consultation between the center and social groups is the establishment of chambers of commerce, which act as economic advisory boards to the center. For illustrative purposes, one example is the China Chamber of Commerce for Electronic Products. The organization was established in January 1988 and described as an ‘unofficial body’ which seeks ‘to guide, coordinate and supervises marketing and to serve as a bridge between enterprises and the government’, working under the ‘leadership of the Ministry of the Machinery and Electronics Industry’.<sup>94</sup>

Market-oriented reforms have altered both the disposition of society and its relationship to the state. Market-oriented reforms, by redistributing economic resources in favor of society, have tilted the balance of power between the state and society in favor of the latter. With the shift in the relative balance of power between the state and society, “the space for the emergence of new social groups with economic resources at their disposal” was created.<sup>95</sup>

Gordon White captures this phenomenon:

Since they have brought about, albeit unevenly, a redistribution of economic power—away from the state and its ancillary agencies and towards individuals, households, firms, and groups—they have also brought about a shift in the balance of power between state and society. This dispersion of social power has opened up the potential (Marxists might call it the material basis) for a new social sphere which provides a realm of (greater or lesser) social autonomy vis-à-vis the state. To the

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<sup>92</sup> White, p. 206.

<sup>93</sup> Bernstein, p. 84.

<sup>94</sup> White, p. 226.

<sup>95</sup> Moore, p. 57.

extent that this new social space is occupied by new types of organization which are organized spontaneously and enjoy a degree of autonomy from the state, then we can discern the shoots of an incipient civil society which has crucial implications for China's long-term political future.<sup>96</sup>

New social groups, most of which are community service-related now color China's social landscape and constitute an embryonic civil society in China. These non-governmental organizations (NGOs), although possessing a relative degree of autonomy, do not function with complete autonomy from the state. The state is aware of the potential for grassroots social organization to generate social pressure from below, engendering social unrest and domestic instability. Consequently, the state has implemented measures to maintain an umbrella of control over society's encroaching autonomy. Two such restrictions stand out. First, the state has created its own institutional framework in the form of government-organized NGOs, or GONGOs. Such organizations are envisioned as "bridges" designed to reconnect the state with the society."<sup>97</sup> Second, the state has instituted strict administrative regulations over the growing non-governmental sector in an effort to blunt the growth and maturity of the sector. In 1989, China's State Council enacted a series of regulations which formalized a level of control over the social organizations. The 1989 regulations require all social organizations to register with the Ministry of Civil Affairs after first obtaining a state or party sponsor.<sup>98</sup> In such a way, China is ensuring a tight linkage between old and new social groups. In 1998, the State Council amended the regulations, adding the stipulation that only one group related to a particular issue area can register at each administration level. Furthermore, registration requirements were extended to include smaller "people-run, non-enterprise units".<sup>99</sup> China's regulations are effectively ensuring a degree of oversight over its new, spontaneously created social organizations, thereby keeping its civil society "in check".

Some observers note that such restrictions critically impair the development of China's civil society by stifling its autonomy and curtaining its natural growth. Although

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<sup>96</sup> White, p. 199.

<sup>97</sup> Moore, p. 59.

<sup>98</sup> Moore, p. 59.

<sup>99</sup> Moore, p. 59.

the regulations are indeed more restrictive, they may well prove to have the unintended side effect of fostering a more organized and more efficient civil society as time progresses. Looking to the case of Russia, which faces the same challenge of geography, when the party collapsed and prodemocratic forces rose to the surface, those forces were quickly overpowered and assimilated into the existing elite structure, failing to implement effective change. Due to the absence of organized civil society which was compounded by the challenges of geography, “pro-democracy forces in the Russian republic took shape as amorphous, highly fragmented “movements” rather than a set of institutional or social “interest”... (and thus) gave rise to no unified opposition.”<sup>100</sup> Instead of a loose amalgam of disparate organizations, China’s highly regulated structure is fostering concentration of social groups and in such a way, may prove a catalyst for more efficient and therefore more potent organization of its civil society.

China’s civil society is still in embryonic form and has yet to garner the strength required to pressure the state toward a more liberal direction. However, as Moore put it,

To be sure, China’s civil society is unlikely to enjoy the autonomy assumed by the Western paradigm without a further commitment to political reform at the top. At the same time, any future political reform will need to be rooted in society if China is to experience a smooth transition to democracy. China’s civil society, though still constrained, should therefore be understood as laying the groundwork for future political reforms by fostering the participation, pluralism, and decentralization generally associated with liberal democracy.<sup>101</sup>

China’s civil society must be viewed through the lens of its contribution to the emerging infrastructure of democracy as it provides a positive component for democracy. “A strengthened and increasingly autonomous civil society will serve not only to encourage reform at the top but also to ensure that reforms are firmly rooted in Chinese society—in its habits, institutions, and values.”<sup>102</sup> Chinese civil society is but one manifestation of the many social changes instigated by economic reform. As China continues on its path of transition, its social structure will continue to transform

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<sup>100</sup> Strayer, p. 386.

<sup>101</sup> Moore, p. 62.

<sup>102</sup> Moore, p. 64.

concurrently, thereby providing China with a strong social pillar on which democracy may later stand.

#### **4. Political Culture**

In addition to the structural changes visible in Chinese society, China's political culture is also transforming alongside the transition of its polity. As the late Air Force general John Boyd argued, man is in a constant state of reorienting himself to his reality.

Boyd asserted

that one's orientation to the external world changes and evolves because it is formed by a continuous interaction between his observations of unfolding external circumstances and his interior orientation processes that make sense of these circumstances. These interior processes take two forms of activity: analysis (understanding the observations in the context of pre-existing patterns of knowledge) and synthesis (creating new patterns of knowledge when existing patterns do not permit the understanding needed to cope with novel circumstances). The synthetic side of the dialectic is crucially important to one's orientation because it is the process by which the individual evolves a new worldview...<sup>103</sup>

The mental models of the individual, which the philosopher of science Thomas Kuhn labeled "paradigms," are "shaped by the evolving relationship between the individual and its external environment." In such a light, the transformation of the Chinese polity is *simultaneously* transforming the political culture of Chinese society, so that, like other democracies whose democracy was forged through an evolutionary process of history, a political culture supportive of democracy is arising alongside the democratic institutions themselves.

Jamie Horsey, who has written extensively on the emergence of village elections in China, makes a key point in regard to political culture. He states, that while such moves toward democratization (i.e. village elections) may be limited in scope, their true utility is as a 'training ground for democracy'.

While developing sound legal codes and building legal institutions to implement and enforce laws are critical to establishing the rule of law, so is nurturing a society that understands the rights and responsibilities of citizens in a modern state. The introduction of democratic elections, self-governance, and transparency in financial and administrative affairs in

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<sup>103</sup> Franklin C. Spinney, "Genghis John," *Proceedings of the U.S. Naval Institute*, Vol. 123, Iss. 7, July (1997), p. 42.

villages, with mechanisms to enforce accountability through recall and term elections as well as legal and administrative remedies, are significant building blocks for the spread of democracy, government accountability, and rule of law to higher levels and other sectors of Chinese society.<sup>104</sup>

China's political culture will continue to transform alongside the changes in its polity. As such, a political culture which is supportive of democracy will continue to grow amidst China's transition, serving as an unseen force which will facilitate its advancement.

#### **E. CHINA'S LEADERSHIP**

The general character of the Chinese leadership reflects a polity which will continue in the direction of economic reform. Consequently, it is assessed that this trend of political liberalization will continue into the future. China's present day leadership is a reflection of the new type of member brought into the party alongside the shift to economic modernization. Under Maoism, class struggle was the primary focus of the party and therefore the party recruited cadres to mass mobilize the populace. Deng Xiaoping, recognized that a different type of cadre member was needed to advance the goal of modernization. Party cadres needed not to be agents of class warfare but managers of modernization. The communist party embarked upon a concerted effort to incorporate educated people into its fold.

China under Jiang Zemin has witnessed the rise of this new generation of leaders alongside the old Party elites. These leaders are college-educated, primarily with technical backgrounds. The majority of this new leadership has risen to the power center from the most progressive economic regions, thus engendering a natural proclivity toward reform. Currently, approximately 90% of the twenty three-member Political Bureau (Politburo) of the Communist Party, the institutional core of Party leadership, have a college education and 18 of the 23 members are either from the coastal provinces, the two coastal cities or have worked in these areas during the reform era. At the 16<sup>th</sup> Party Congress slated for 2002, this new generation of leaders will officially take the helm. Eleven of the 23 Politburo members are retiring as well as 5 of the 7 members of the Politburo Standing Committee -- the decision-making core of the Party. In 2002, the new generation of political elites will rise to fill the top leadership vacancies. China's

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<sup>104</sup> Horsey, p. 50.

rising generation of leaders are pro-reform and will continue to move China in that general direction.

Although these leaders are pro-reform, no deliberate efforts toward outright political liberalization are expected. China's new leaders are well aware of the fragility of China's polity and still hold fast to the belief that a strong center is needed for China to successfully weather economic transition. China's leaders have been shaped by two pivotal episodes: the Cultural Revolution of the 1960s and the 1989 Tiananmen Square demonstrations. The Cultural Revolution made these leaders averse to radicalism and mass action, and the Tiananmen demonstrations made them wary of social and political liberalization. These two experiences form the parameters of what these leaders view as 'safe' and 'stable' politics in China-- not too radical, not too liberal. As such, these leaders will continue economic reform with no deliberate efforts at concomitant political reform.<sup>105</sup>

However, the pro-reform leadership will continue China's long-term strategy of 'going global' and 'opening up'. China's accession into the World Trade Organization will encourage further development of a legal based infrastructure that offers stability, predictability, and better services to foreign-invested enterprises and will continue to make the political decision making process more transparent. Such developments will "push the thinking of the general public a further step forward"<sup>106</sup> and add forward momentum to China's transition.

The successes of reforms will continue to change China's polity in profound ways. Gabriella Montinol, Yingyi Qian, and Barry R. Weingast suggest that China is moving toward federalism, although differing from the Western concept in that increased autonomy may first be given to the provinces, not individuals. If this were to be the case, federalism, combined with the broad undercurrents described here may give rise to a

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<sup>105</sup> George Gilboy and Eric Heginbotham, "China's Coming Transformation," *Foreign Affairs*, Vol. 80, No. 4, (July-August 2001), p. 27.

<sup>106</sup> Zhu Jianrong, "An Extended View of China's Prospects," *Japan Echo*, April (2001), p. 15. Available[Online]: <<http://proquest.umi.com/pqdweb?Did=000000070968925&Fmt=4&Deli=1&Mtd=1&Idx=1...>>[29 March 2002].

situation where democracy arises first at the local level as another unintended consequence of economic reform and percolates upward.

## **F. CONCLUSION**

What is very clear is that a new political system is being created in the shell of the old. China's metamorphosis is still underway and its end state is yet to be determined. At one level, reforms have placed China on a launchpad to economic power. On another level, reforms have actuated a process of ideological, political, and social evolution. The broad undercurrents in each of these spheres indicate tendencies which portend well for a later transition to a liberalized regime, one which due to the evolutionary nature of its formation, will stand upon a much more solid foundation than that of its neighbor, Russia.

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## V. CONCLUDING REFLECTIONS

In reviewing the impact of reform efforts in Russia and China, one critical aspect tends to be overlooked—the positive role of the state in postcommunist transition. In a Communist society the state equates to the institution of oppression, something from which an individual must break away in order to realize freedom. Consequently, the initial impulse of an outside observer is to cast in a negative light paths of transition in which the state remains a powerful entity and likewise, to view favorably those transitions which result in the disintegration of the state

By providing a deeper look at the processes unfolding in Russia and China as a result of reform, this thesis cast both the state and the processes of Russia and China's transition in a different light. A comparison of the impact of reform efforts in Russia and China reveals that the existence of the state engenders positive consequences for both the nation *and* democracy. In Russia, the absence of an effective state has enabled the existence of an economic framework which upholds an inefficient industrial sector that necessitates continued dependency on the state thereby bringing about economic decline. Furthermore, the specific character of the economy, one of corruption and elite control, stems against the integration of the masses into society and in such a way, retards the maturation process of democracy by failing to provide a structural foundation on which democracy can take root. In China, market reforms combined with the existence of a strong state have resulted in the rise of China's power. The existence of the state has facilitated such an outcome by providing an overarching mechanism in which entrepreneurship, fostered by economic reforms, is directed into state strengthening channels. In addition, China's economic modernization is having the unintended consequence of actuating the restructuring state-society relations. Market-oriented reforms have given rise to a society that is steadily pluralizing and slowly decentralizing. In such a light, reforms are giving rise to a state-society construct that is conducive to the emergence of democracy, providing a solid foundation for a later transition to a liberalized regime.

In light of the differing outcomes realized by Russia and China, it appears that the state is a pivotal actor in transitions from communism. The role of the state is particularly important in transitions from communism to capitalism given the underlying nature of such a transition. Due to the nature of communism, its transition to capitalism most notably involves the individual. Ghia Nodia captures the relationship between the individual and communism:

Communism was about the abolition of private property. But as Hegel says, private property is the necessary correlate of human personality: the notion of personality emerged thanks to the institution of private property; where there is no private property, personality is not possible. The communist project was to change human nature, and the abolition of private property was communism's major-and indeed very powerful-means of doing so, that is, of destroying human personality.<sup>107</sup>

Communism's main task was to eliminate individuality. In such a light, capitalism is the very antithesis of communism. "Where communism tries to destroy human greed, capitalism tries to redirect it into socially productive channels."<sup>108</sup> The market economy is the framework through which human greed, the desire to maximize one's self interest, can course.

Why is an effective state such a crucial player in a transition from communism to a market economy? In a transition from communism to capitalism, human individuality is in a very literal way, unleashed. An effective state is the mechanism by which this human individuality, or "greed", is harnessed. Without such a mechanism, individual self-interest alone can become the driving force of transition. This is what has unfolded in Russia.

In China, economic reform has slowly unleashed "individuality." The state has engineered an economic structure in which individuals can realize profit, and thus they've introduced the element of self-interest into Chinese society. However, the entrepreneurship fostered by economic reform is contained within the structure of the state. Within such a structure, it is becoming a source of the nation's power and of its development.

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<sup>107</sup> Nodia, p. 25.

<sup>108</sup> Nodia, p. 28.

The key ingredient to both China's success and to its democratization, much to the chagrin of Marxists and Western onlookers alike, may just be—the communist state.

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## VI. FOREIGN POLICY IMPLICATIONS FOR THE UNITED STATES

A thorough understanding of the internal dynamics of the Russian and Chinese polities provides insightful information which can be utilized to aid in the selection of a U.S. foreign policy approach toward these countries. This study has revealed two critical points that have direct implications for U.S. policy toward Russia and China.

- In Russia, reforms have led to the consolidation of an elite-controlled, corrupt political and economic system in which elites are posited to manipulate politics and the economy to meet their self-interest at the expense of the nation.
- In China, economic modernization reforms have launched China on a path of rising power but domestically, have produced unintended spillover effects which are corroding the structural integrity of the center-controlled polity. These effects have created an opening which American policy can seek to exacerbate and exploit.

Presently, the war on terrorism has revived the policy debate on how to best provide support to Russia, a country with whom cooperation will be essential to combating the challenges of addressing the terrorist threat. When looking at the merits of monetary aid to Russia, U.S. foreign policy advisors must realize the constraints that the ‘virtual economy’ and the corrupt economic system creates. Advisors must take into account the nature of Russia’s polity when devising its policy approach. The current economic situation only allows international monetary support to bolster the status of elites. At a minimum, monetary support has a strong potential for being diverted from its original intent. Or, in the best case scenario, such support will be injected into the economy only to aid in propping up Russia’s disfigured economy, one that operates on nonmarket principles and whose inefficiency will ensure continued economic decline and future crisis.<sup>109</sup> Given the nature of Russia’s system, monetary aid must be accompanied by strict oversight mechanisms to ensure its effective utilization.

The analysis presented in this study identified a more subtle but equally difficult obstacle facing Russia, specifically in its transition to democracy. Russia’s overnight transition to a democracy did not afford its polity time to evolve. Consequently, Russia

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<sup>109</sup> Gaddis, p. 54.

lacks the social pillars, as exemplified by the profound weakness of its civil society, that uphold a democracy. The lack of public participation demonstrates that democracy is not firmly entrenched in Russian society. The below quotation of a 45-year-old Russian man from Saint Petersburg captures this fatal shortcoming (in reference to participation in organizations):

Well, really, I don't have time, and I'm not interested. But the most important is that, well, the Soviet system, it instilled an antipathy or aversion, because any experience with organizations was unpleasant. That is, an organization is seen as that which imposes an obligation. And obligations under socialism were so rigid that now I just don't want to participate. Maybe organization are completely different now, but I just don't want to.<sup>110</sup>

The U.S. foreign policy approach to Russia must be implemented with an eye on the unique structural and cultural aspects prevalent in the country. Understanding the foundational weaknesses of the Russian polity, policy advisors should look to offer a rather untraditional method of assistance, a demographic Marshall plan, if you will, which focuses on building civil society in Russia. Such a plan should include concerted programs aimed at fostering civic involvement and the development of linkages between the state and its people. Such a policy might focus on strengthening the public sphere by focusing on such efforts as supporting independent media and transforming the Russian legal system. Additionally, such a policy approach should look to support the growth of private sector constituencies, such as small and medium enterprises, whose development would facilitate the development of a structural foundation conducive to democracy. The United States should incorporate a strong cultural aspect to its foreign policy approach to Russia, including an increased emphasis on student and professional exchange programs. The United States must put a long term lens on when looking at Russia and actively work to inculcate Russia's rising generation through exposure to the beliefs and values of democracy, and consequently foster the rise of a generation which inherently understands that which democracy is and that which it isn't by lived experience. In order to aid Russia in tackling the fundamental problems facing its polity, such emphases as outlined above, must be included alongside other aspects of U.S. foreign policy toward Russia.

<sup>110</sup> Marc Morje Howard, "The Weakness of Postcommunist Civil Society," *Journal of Democracy*, Vol. 13, No. 1, (January 2002), p. 162 (pp. 157-169-for bibliography). Available [Online]: <[http://muse.jhu.edu/journals/journal\\_of\\_democracy/v013/1.1howard.pdf](http://muse.jhu.edu/journals/journal_of_democracy/v013/1.1howard.pdf)>. [25 March 2002].

In regard to China, America faces a very different situation than that of Russia. America is tasked with addressing the question of how best to accommodate the rise of Chinese power in Asia, while securing its two primary regional objectives—retaining the desired level of political, economic, and military access to the Asian region and preventing the ascension of a power that could present a global challenge to the United States on the order of that posed by the former Soviet Union.<sup>111</sup>

However, in light of the analysis presented here, the United States has unique opportunities to achieve such objectives while subtly influencing the processes unfolding in China. As was shown in Chapter III, market-oriented reforms have generated unintended consequences in Chinese society. Market-oriented reforms have given rise to a society that is steadily pluralizing and slowly decentralizing. The slow restructuring of state-society relations currently in progress is slowly giving rise to political and social conditions in which democracy can potentially take root.

When formulating a U.S. policy toward China, policy advisors must calculate how policies will either advance or retard China's domestic evolution. U.S. policy makers have a unique opportunity to devise policy which will feed those forces of transition underway in China as part of an overall policy approach toward China. The United States must actively hedge against the growth of Chinese power while providing for a pattern of bilateral engagement that supports the growth of constituencies in China that benefit democratization in the long run. In the economic sphere, the United States would be best advised to maximize trade relations with China. Such steps will contribute to China's internal transformation by serving to nurture the rise of prodemocratic forces—those constituencies that will steadily acquire greater interest in pursuing increased political liberalization. Such steps are in alignment with U.S. national security interest as they are a subversive way of prompting China's transition to a liberalized regime.

From the broadest perspective, the United States should actively work to socialize China into the international system thereby cultivating an international actor which has a

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<sup>111</sup> Zalmay Khalilzad and Abram N. Shulsky, Daniel Byman, Roger Cliff, D. Orletsky, David A. Shlapak, Ashley J. Tellis, The United States and a Rising China (California: RAND, 1999), p. 43. Available [Online]:<<http://www.rand.org/publications/MR/MR1082/>>.[1 December 2001].

vested interest in abiding by prevailing international norms. In the political and military sphere, this policy advocates active engagement with China's political and military actors. This policy would seek to bring China into the various multilateral arms control regimes and into other international regimes dealing with issues such as the environment and human rights. Regionally, the United States would encourage Chinese participation in military exercises and would spearhead efforts to develop standardized protocols such as maritime safety agreements. Hedged Engagement advocates that, in all policy arenas, the United States undertake a concerted effort to integrate China into the broader patterns of regional and international cooperation while maintaining a cautious and steadfast military posture. Such engagement by the United States has a twofold effect. First, such efforts will enmesh China into the international system and will promote an overall alignment of China's interests with those of the international system. 'Socialization' of China into the international system would give China a stake in upholding its norms, and thus China's growth would be channeled in a direction that is in harmony with the international structure rather than in opposition to it. Second, socialization into the international system also promotes domestic change. For example, when China enters into arms control agreements, it must then create the institutions to work such issues. This not only shapes China's institutional restructuring, but also develops constituencies whose livelihood and bureaucratic interests are tied up in these new interests. Indirectly, socialization fosters the transformation of China's political and social character.

Russia and China, although sharing a common past, have very different present circumstances and, quite probably, very different futures. A detailed understanding of the very different processes of transition as they have unfolded in Russia and China, and the position and circumstances surrounding each of these polities today, should provide policy makers with information necessary to promulgate policy which best advances U.S. interests in light of the unique nature of each of these polities.

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