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Russia and China: converging responses to globalization

PETER FERDINAND

In 2004 the Russian and Chinese governments agreed that they needed to enhance cooperation. Part of that effort would involve changing popular perceptions of each other. For China, 2006 was made 'the year of Russia in China'; 2007 is 'the year of China in Russia'. These projects mark an attempt to widen popular understanding in each country of the other, and also to develop wider business networks with an interest in developing trade. This involves a transformation of the traditional identities that have dominated bilateral relations over the last 40 years. For this reason it is a relationship that merits study from a constructivist perspective.¹

But why should the Russian and Chinese governments decide to do this now? And why the importance given to changing identities? The two countries have claimed to be building a 'strategic partnership' since 1996. Why has that not made more progress? This article will argue that over the past three to four years there has been a convergence of views in Russia and China over ways of developing their economies, particularly their industries, towards an approach that diverges from Anglo-American neo-liberal prescriptions for reform that put the main stress upon privatization, establishment of secure property rights, and opening to competition with the outside world. Russian leaders have also become more sceptical about western-style liberal democratization; Chinese leaders always have been. This has meant that policy-makers in both countries now look for alternatives, where previously policy-makers in Russia turned instinctively towards the West and especially the United States. In particular, they now look to the state to play a key role in facilitating the adaptation of their economies, as well as their polities, to the challenges of competing with the rest of the world. Thus the 'developmental state' syndrome offers attractions for them.

This article will argue that an important dimension in the evolution of Russo-Chinese relations is the environment of domestic policy-making, i.e. elite political culture, and that the reforms that have been taking place in both countries in recent years have evolved towards a convergence of views in both governments over the best ways to develop their economies in general and their bilateral relations in particular. This general consensus has buttressed more specific policies aimed at

¹ The constructivist approach focuses on the identities that states 'construct' of and for each other and their impact on the international system. See e.g. Alexander Wendt, *Social theory of international politics* (Cambridge: Cambridge University Press, 1999).

developing cooperation. This article, the first of two that will analyse the changing relationship between Russia and China, will focus more upon the convergence in the domestic policy-making environment that has facilitated closer relations; the second will concentrate more upon areas of foreign policy cooperation.

This article will first present some comparative evidence on the results of the opening of both economies to the outside world since the beginning of their reform periods. Then it will look at the emergence of converging state-guided industrial policies. This will be followed by a comparison of policies of guided democratization, then by a section on the continuing or renewed importance of nationalism in domestic political life, and finally by some conclusions.

Responses to globalization

Over 28 years have passed since China began its economic transformation in December 1978, and over 15 since the collapse of the Soviet Union in December 1991, which set all of the component states, but above all Russia, on the path of political and economic revolution. In the immediate aftermath of 1991 the foreseeable trajectories of development for Russia and China were quite different. Russia seemed set on political democratization and the introduction of a capitalist market economy. China, however, persisted with 'socialism with Chinese characteristics'. This consisted of a mixture of planning and the market, with both private and state-owned enterprises, but no democratization. Comparison of the two development strategies tended merely to highlight the differences. Nolan, for instance, emphasized the superiority of the Chinese path; Aslund, on the other hand, argued that the departure points of the two economies were so different, with China far less industrialized than Russia, that there was no point in trying to draw lessons for Russia from what China had done.²

Before the term became quite so widespread, or indeed known in either state, Russia and China had to 'globalize'. Moreover, neither government embarked upon its reforms with a clear plan for long-term transformation. One of the best-known phrases of both Deng Xiaoping and Zhao Ziyang to characterize reform in China was 'feeling one's way across the river, a stepping stone at a time'. One of the best analyses of the early economic reform process in Russia was entitled *Without a map*.³ Both reform projects were based upon enormous improvisation, with only the general direction of change clear. A great deal of the literature on the transformation of communist economies has focused on the dichotomy of 'shock therapy' versus 'gradualism', with Russia taken as an example of the former and China of the latter. In fact both countries began by embracing radical, though different, strategies, and the risks were equally daunting. The detailed implementation and, crucially, the sequencing of reforms could only be guessed at. So at any

² Peter Nolan, *China's rise, Russia's fall: politics, economics and planning in the transition from Stalinism* (Basingstoke: Macmillan, 1995); Anders Aslund, *Building capitalism: the transformation of the former Soviet bloc* (Cambridge: Cambridge University Press, 2002), pp. 93–5.

³ Andrei Shleifer and Daniel Treisman, *Without a map: political tactics and economic reform in Russia* (Cambridge, MA: MIT Press, 2000).

one time they combined radical reform in one sector of the economy with greater restraint in others. The big difference was that Russia embarked upon radical political reform as well as radical economic reform. China, by contrast, kept political change under control throughout, with the exception of the upsurge of protest in spring 1989.

In 1980 the People's Republic went against the whole thrust of 30 years of development by introducing the 'special economic zones', intended to attract investment from overseas Chinese—an entirely unexpected move from a regime which had built its legitimacy in part upon the restoration of Chinese control over the whole of Chinese territory. It was a controlled experiment in opening the economy to the outside world. At the same time it began breaking up the communes in the countryside, which had been among the core institutions of the Maoist model of development; within three years they had almost disappeared. Even though this change quickly won the support of the mass of the peasants, the majority of the population, it was extremely contentious within the ruling Communist Party. Both of these new policies laid foundations for the economic success that has followed. But policies towards industry were more pragmatic, creating space for new 'township and village enterprises' to develop light industry by the side of, and provide competition for, state-owned enterprises. There was no sudden privatization of industry, nor was there any legislative guarantee for property rights.

By contrast, Russia in 1992 embarked upon a neo-liberal policy of radical market reforms and privatization of state-owned enterprises. Legislation guaranteeing property rights was also rapidly passed. The country rapidly opened the economy to the outside world, abolishing the state's monopoly on foreign trade. But agriculture remained largely untouched by reforms—the breakup of the old collective farms began only a decade later—and after the dismissal of Acting Prime Minister Gaidar in November 1992 further implementation of radical reform became more haphazard.

Now, with China a member of the World Trade Organization (WTO) and Russia likely to join in the near future, and with China having (albeit only just) established constitutional equality for different kinds of property rights, it is more appropriate to compare the two countries' development achievements.

Domestic economic achievements

First, some statistics. There is no doubt that China has had greater success than Russia in achieving economic growth, as can be seen from table 1.

Four things are evident from this. First, in gross terms, the Russian and Chinese economies were almost identical in size in 1993. By 2003, however, the Chinese economy was almost three times as large. Between 1993 and 2003 the Russian economy grew on average by 1.4 per cent per year, although underlying this figure is a striking difference in performance in two sub-periods: between 1993 and 1998 Russian output fell on average by 5.5 per cent, but since then it has risen on average by 6.7 per cent. Over the same period the Chinese economy grew on average by

Table 1: Comparative economic statistics for China and Russia since reform

| | China | | Russia | | |
|--------------------------------|-------|-------|---------|-------|---------|
| | 1983 | 1993 | 2005 | 1993 | 2005 |
| GDP (US\$bn) | 227.4 | 431.8 | 2,228.9 | 435.1 | 763.72 |
| GNI per capita (US\$) | | | 1,740.0 | | 4,460.0 |
| Gross Domestic Savings/GDP (%) | 34.5 | 41.8 | 41.2 | 34.7 | 32.9 |
| Exports/GDP (%) | 8.3 | 17.1 | 34.6 | 38.2 | 35.1 |

Sources: World Bank; *Sodruzhestvo nezavisimyykh gosudarstv v 2005g.* (Moscow, 2006).

8.6 per cent per year—and in the preceding decade it had grown by 9.5 per cent annually.

Second, Russia has achieved quite a high level of domestic savings by world standards, but these have slightly declined over the past decade. In China, by contrast, savings have increased as the economy has grown, reaching an enormous 47 per cent of GDP in 2003, and still standing at 41 per cent in 2005. While some might argue that this figure is too high for optimal use of resources, it does nevertheless lay the foundation for further industrial growth.

Third, Russia was already quite open to the outside world in 1993, as shown by the high export/GDP ratio—though a large proportion of this trade was with the newly independent states of the former Soviet Union and therefore not in itself an indication of integration into the world economy at large. It has, however, maintained that high level. By contrast, China was much less well integrated into the world economy when reforms began in 1979, but since then its share of trade has grown continuously, so that by 2005 it had reached nearly the same ratio of exports of goods and services to GDP as Russia. This ratio is much higher than figures for EU member states, where access to the common market provides a marked advantage, and much higher still than those for the United States and Japan.

Fourth, despite all these achievements, it is still worth remembering that in 2003 China's per capita gross national income was still only 42 per cent of Russia's. This suggests a continuing disparity in living standards between the two countries. At the beginning of this century Jiang Zemin set the objective of turning China into a 'moderately prosperous society' (*xiaokang shehui*) by doubling per capita income again over the next ten years. China's rural population still continues far to exceed that of Russia, even though migration from the land has been extremely rapid since reforms began, with the share of the total population living in the countryside falling from 80.6 per cent in 1980 to 57 per cent in 2005. In Russia the equivalent figure throughout this period has remained stable at 27 per cent.

Russia had had a highly developed industrial sector before 1991, with a very well-educated workforce, and there was a general expectation that the country

Table 2: Structure of GDP of Russia and China by value of output (%)

| | China | | | Russia | |
|-------------|-------|------|------|--------|------|
| | 1983 | 1993 | 2005 | 1993 | 2005 |
| Agriculture | 33.0 | 19.9 | 12.6 | 8.3 | 5.6 |
| Industry | 44.6 | 47.4 | 47.5 | 44.6 | 38.0 |
| Services | 22.4 | 32.7 | 39.1 | 47.1 | 56.4 |

Source: World Bank.

was well placed to adapt to and integrate into the world economy. In the event, however, Russia has evolved into a key supplier of primary materials, especially oil. While some manufacturing industries did adapt to world competition, many are less competitive than those of India, Brazil and China, as well as the developed world.⁴ The overall structure of the Russian economy shifted in the direction of primary industries and services. Also importantly, the ability of primary resource companies to sell on world markets and thereby gain foreign currency gave them a particular advantage at home.

The contrast between the basic composition of GDP in Russia and China is especially striking. As can be seen from table 2, both China and Russia used the reforms to develop the share of national income generated by services—a sector that was seriously repressed under a planned economy. The difference, however, is that China achieved this by shifting resources from agriculture, while Russia has done so by shifting resources from industry. The result is that China has remained a much more industrialized country, while Russia has become a much more service-oriented economy. The divergence in performance is particularly striking if we focus upon the early part of the respective reform periods. China's reforms until then had effectively facilitated a shift of resources nationally from agriculture to services. The share of GDP coming from industry was roughly comparable to that of Russia after the collapse of the USSR. But since then the proportionate shift into services has come to an end. Russia, on the other hand, has seen large amounts of resources move from industry into services. Even though these statistics may overstate the extent of the service sector in Russia, because a significant part of oil production is attributed to supply companies rather than exploration ones, the difference is still substantial.

Domestic welfare problems and inequality

Although the two states have pursued different methods of managing their economies, they have both cut back on state welfare spending. Neither country had a comprehensive welfare state before reforms began. In particular, urban state

⁴ Julian Cooper, 'Can Russia compete in the global economy?', *Eurasian Geography and Economics* 47: 4, 2006, pp. 407–26. I am grateful to one of the anonymous referees for drawing this point to my attention.

Table 3: Comparative Gini coefficients for inequality in China and Russia

| | 1985 | 1990 | 1995 | 2000 | 2003 |
|--------|------|-------------------|------|------|------|
| China | 22.4 | 34.1 ^a | 29.0 | 39.0 | 44.9 |
| Russia | | 25.9 | 41.2 | 42.5 | |

^a 1991.

Source: WIDER World Income Inequality Database.

employees enjoyed greater state provision than peasants, whether in terms of health care, education or pensions. Some of the benefits were distributed through enterprises rather than state offices. Once the reforms had begun, however, both states felt three pressures that affected welfare. First, they had to disentangle welfare provision from enterprises' more normal business operations; if this was not done, existing firms would be handicapped when trying to compete with newly created private companies not burdened by the same welfare commitments. Second, the two countries were under greater pressure to balance their budgets—this applied especially to Russia after the whirlwind of shock therapy in 1992–3. Third, both felt that they were relatively poor and could not afford to compensate their people for the withdrawal of services and facilities by enterprises.

As can be seen from table 3, within the period of reforms, both China and Russia have moved from a level of inequality that was on a par with Nordic Europe to one that is closely approaching that of much of Latin America. While people living on fixed incomes, especially those on state pensions, have seen dramatic falls in their standard of living, the number of millionaires has swelled in both countries. The wealth of 3 million RMB millionaires in China has been estimated as equal to the combined net income for two years of 900 million peasants.⁵ And according to the 2006 Forbes list, there are 49 Russian dollar billionaires living in Russia, with 19 Chinese dollar billionaires living in China.

Both governments are now sufficiently concerned about the problem to devote attention to reducing inequality. In China, in particular, one of the new messages of the post-Jiang Zemin leadership has been the need to tackle inequality and develop a 'harmonious' (*xiehe*) society.

Increasing international economic capabilities

Both Russia and China can attribute most of their economic success in the past decade or so to engagement with the world economy, although the ways in which this took place were not identical. In China this was not so true of the first decade of reforms. During that period Chinese export growth lagged behind the growth rate of the economy as a whole, and throughout that decade China consistently ran a trade deficit. Since 1992, however, China has run trade surpluses—and

⁵ Cited in B. N. Kuzyk and M. L. Titarenko, *Kitai-Rossia 2050: Strategiiia sorazvitiia* (Moscow: RAN Institut Dal'nego Vostoka i Institut Ekonomicheskikh Strategii, 2006), p. 362.

Table 4: Geographical distribution of foreign trade of China and Russia in various years (%)

| | China | | | Russia | |
|----------------------|------------------|------|------|--------|------|
| | 1983 | 1993 | 2005 | 1993 | 2005 |
| <i>Exports to:</i> | | | | | |
| USA | 7.8 | 18.7 | 21.4 | 4.6 | 3.1 |
| EU | 11.3 | 13.4 | 18.9 | 44.8 | 54.9 |
| China | | | | 7.0 | 5.4 |
| Russia | 1.4 ^a | 2.9 | 1.7 | | |
| Industrialized world | 42.2 | 52.2 | 53.8 | 59.2 | 51.5 |
| Developing world | 53.1 | 46.9 | 46.0 | 40.2 | 48.3 |
| <i>Imports from:</i> | | | | | |
| USA | 12.9 | 10.3 | 7.4 | 8.6 | 3.3 |
| EU | 15.9 | 15.2 | 11.1 | 42.0 | 31.5 |
| China | | | | 8.7 | 5.2 |
| Russia | 2.1 ^a | 4.8 | 2.4 | | |
| Industrialized world | 68.1 | 52.5 | 38.1 | 60.2 | 50.6 |
| Developing world | 24.2 | 45.8 | 53.5 | 38.0 | 49.2 |

^a USSR as a whole.

Source: IMF, *Direction of Trade Statistics*, various years.

surpluses much greater than the preceding deficits. The growth in foreign trade was now higher than that of the economy as a whole. This was the result of the increasing success of China in developing an export orientation for its manufacturing industry. In Russia the growth in export surpluses is of more recent origin, apparent only since 2000. Yet the export/GDP ratio has actually gone down. The cause of the improvement has been the rise in world oil prices. The value of oil exports has risen while that of other exports has continued to fall.

One striking result of the economic reforms has been a change in the regional trading relations of both countries, as shown in table 4. A number of points emerge from this table. First, both countries have greatly diversified the spread of their trade relations following reform, but China and Russia have gone in different directions. China's continued industrialization has meant that its exports now predominantly go to the industrialized world, where previously they went to the developing world. It now receives most of its imports from the developing world, where previously they came from the industrialized world. Thus in a sense it acts as a manufacturing bridge between the industrialized and the developing worlds. Some have estimated that production in China adds only 15–25 per cent of value to the imports of components before they are exported as finished products. That is further evidence of the extent to which China has embedded itself in world trading

Table 5: Net inward FDI stock of China and Russia (US\$m)

| | 1980 | 1993 | 2005 |
|--------|-------|--------|---------|
| China | 6,251 | 57,172 | 317,873 |
| Russia | | 1,400 | 132,491 |

Source: UNCTAD, *World Investment Report 1995, 2005*.

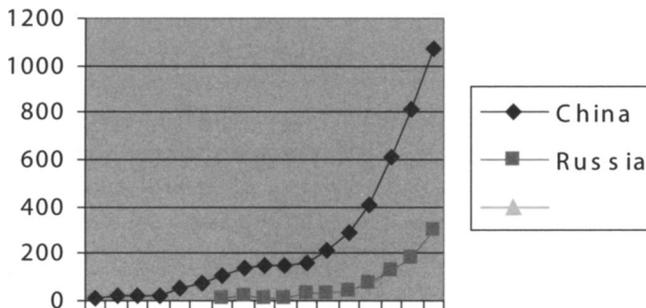
patterns. By contrast, Russia’s de-industrialization means that it now exports more to the developing world, as well as (just) importing more from there.

Second, as might be expected from these figures, China’s trade surpluses with the United States and the EU have continued to grow, while trade with both the United States and the EU has become less important to Russia. The EU remains much more important for Russia, while the United States is more important for China, at least in terms of exports. In fact, Russia’s trade with the rest of Europe, i.e. eastern Europe and the rest of the FSU, as well as Turkey, has also grown as a proportion of its overall trade since reforms began—though this is partly explained by market prices replacing the old ‘fraternal’ terms in trade with formerly communist states. But it does mean that the ‘near abroad’ is becoming economically more important to Russia again.

Finally, it should be noticed that the importance of bilateral trade between China and Russia has declined. There is an asymmetry in the relationship, in that it is still more important to Russia than to China; but for neither is it nearly as important as trade with the United States or the EU.

One other factor in their success was the amount of FDI that they have attracted. This can be seen from table 5. China came first. However, Russia has also begun to attract more recently. It should be noted that it took both China and Russia about 10–12 years to attract substantial amounts of FDI, which was notably longer than for some states in eastern Europe after 1989.

Figure 1: Foreign exchange reserves of China and Russia 1990–2006 (US\$bn)^a



^a Chinese figures exclude gold reserves, Russian figures include them.

Sources: People’s Bank of China, Central Bank of Russia.

Finally, figure 1 shows the dramatic recent increases in both countries' foreign exchange reserves. By spring 2007 China and Russia had the highest and the third highest foreign exchange reserves in the world respectively (Japan came second). This was a dramatic transformation. China ran trade deficits throughout the 1980s, while Russia's foreign exchange reserves were almost completely depleted in the financial crisis of 1998. By 2007, however, Russia's foreign exchange reserves were increasing every month by more than the total amount of Russian reserves in 1999, while China's were increasing every month by about the same as the country's total reserves in 1990. In percentage terms, Russia's foreign exchange reserves are now growing faster than China's. In addition, Russia was able to make an early payment of \$22.5 billion to cancel its accumulated debt to the Paris Club of sovereign creditors in 2006. Considering that default on these debts had provoked the 1998 financial crisis, this action was a further cause for satisfaction in the regime.

Thus, by the middle of the first decade of the twenty-first century, both China and Russia could contemplate a future that was much less prey to external shocks, one where domestic governments were more in control. Until then, both had been 'takers' of the world trading environment. The reserves that they have accumulated and the economic success implied by those reserves now give both states more confidence that they can afford to be less deferential towards the governments, policies and ideas of the developed world, the 'West'. They have greater freedom to choose when to listen to western advice.

Convergence in industrial strategies

Nee and Opper have recently characterized China's political economy as 'politicized capitalism', by which they mean that state actors both set the regulatory framework and remain directly involved in guiding transactions at the level of the firm.⁶ Hanson and Teague have written of Russia's 'political capitalism'.⁷ The main argument of this section is that both China and Russia are pursuing policies typical of 'developmental states', that is, states where the government still plays a crucial role in determining the direction of economic development. Typically these have three elements: (1) state-directed long-term economic development; (2) state mobilization of resources to achieve these goals within the framework of a market economy, in part through ownership of key market-players; and (3) political authoritarianism.⁸ Ideally, according to Evans, the state authorities determining the long-term development of the economy should enjoy 'embedded autonomy' from particularistic interests.⁹

⁶ Victor Nee and Sonja Opper, 'On politicized capitalism' (www.isnie.org/ISNIE06/Papers06/06.3/opper.pdf, accessed 11 May 2007), p. 1.

⁷ Philip Hanson and Elizabeth Teague, 'Russia's political capitalism and its environment', in David Lane and Martin Myant, eds, *Varieties of capitalism in post-communist countries* (Basingstoke: Palgrave, 2007), pp. 149–64.

⁸ The original work on 'developmental states' was Chalmers Johnson's *MITI and the Japanese miracle: the growth of industrial policy, 1925–75* (Stanford, CA: Stanford University Press, 1982). See also Robert Wade, *Governing the market: economic theory and the role of government in East Asian modernization* (Princeton, NJ: Princeton University Press, 1990); Meredith Woo-Cumings, ed., *The developmental state* (Ithaca, NY: Cornell University Press, 1999).

⁹ Peter Evans, *Embedded autonomy: states and industrial transformation* (Princeton, NJ: Princeton University Press, 1995).

Naughton characterized the whole process of transition from a planned economy to a market economy in China as 'growing out of the plan'. He explained that, rather than focusing upon the need to move as rapidly as possible to a market or to privatizing enterprises, Chinese reformers saw unmet needs everywhere and focused upon granting individuals and institutions the freedom to try to meet those needs. It meant opening up 'pockets' of opportunity into which individuals, communities or foreign investors could move with new enterprises. Local authorities in particular set up township and village enterprises with variable proportions of private and public capital. Both farmers and state enterprises still had to meet planning targets for certain commodities which were supplied to the state at low prices, but they were allowed to sell extra output, or different output, at higher market prices if they could see a way. It was a 'twin track system'. So resources flowed in from a variety of sources, stimulated competition and then widened those pockets. While there was a lot of protection for local industries, especially in the early years, gradually competition began to spread across the country. Then 1993 saw a new phase of economic development which began the process of reunification of the market, re-establishing greater control by the centre and strengthening the institutions that would regulate the further development of the market.¹⁰ This was termed 'systemic transformation' (*gaizhi*), but could include privatization.

In the mid-1990s the state adopted a policy of 'holding on' to big companies that were of strategic importance for the national economy and 'letting go' medium and small ones. This meant that the central government concentrated on identifying and strengthening the largest companies that could serve a national purpose, while local governments at province level and below concentrated on measures to improve the performance of companies in their area. The incentive for them was that success would bring them increased fiscal revenues. In addition, local party and state officials could earn significant bonuses in pay for economic success in their region.¹¹ Many of them acted as 'matchmakers', bringing together companies that could prosper. A survey showed that by 2001 about 86 per cent of local state-owned enterprises (SOEs) had gone through 'systemic transformation', and 70 per cent had been fully or partially privatized.¹² Then methods that showed promise were taken up by the central government—another example of China's use of local experiments as a prelude to national policy. Unlike Russia with its privatization from above, this was predominantly privatization from below, or at least from the middle. Chinese local authorities had much greater economic autonomy than their Russian counterparts.

The result has been that the number of SOEs in China fell from 57,300 in 1999 to 31,897 in October 2004, though they still represented 53 per cent of total industrial

¹⁰ Barry Naughton, *The Chinese economy: transitions and growth* (Cambridge, MA: MIT Press, 2007), ch. 4.

¹¹ Susan H. Whiting, 'Growth, governance and institutions: the internal institutions of the party-state in China', World Bank, 2006, http://siteresources.worldbank.org/INTCHIINDGLOECO/Resources/REV_Whiting_WBdraft_072806.doc, p. 6, accessed 11 May 2007.

¹² Ross Garnaut, Ligang Song, Stoyan Tenev and Yang Yao, *China's ownership transformation: process, outcomes, prospects* (Washington DC: International Finance Corporation, 2005), p. 5.

assets (down from 68 per cent). The reforms have led, however, to an increase in return on assets (ROA) in SOEs from 1.3 per cent to 4.5 per cent, though this is still a low figure, and lower than in the non-state sector, where ROA over the same period has risen from 3.5 per cent to 5.2 per cent.¹³ Forty per cent of SOEs were still loss-making, although Holz has shown that this can be explained by the higher commercial taxes that SOEs pay because of the sectors of the economy in which some of them operate, e.g. petroleum and gas extraction, tobacco processing and electricity generation.¹⁴

The overall change that has taken place in the ownership structure of the Chinese economy is also summarized by Garnaut et al. Whereas in 1998 state-controlled enterprises accounted for 41 per cent of China's GDP, by 2003 this had fallen to 34 per cent—by coincidence, the same figure as they estimate for domestic private ownership in that year. The rest is made up by the remaining collective enterprises and foreign-owned firms.¹⁵

Despite the changes in the Chinese economy in recent years, then, the central and provincial state authorities continue to play a crucial role in determining both its structure and its performance. A 2004 resolution on enhancing the Chinese Communist Party's governance stressed:

The Party should correctly handle the relationship between keeping public ownership as the mainstay of the economy and promoting the development of the non-public sector, firmly consolidate and develop public ownership and encourage the state-owned to play the dominant role, while unswervingly encouraging, supporting and guiding the development of the private sector so that they can promote and benefit each other.¹⁶

Throughout the reform period the state has sought to determine priority areas for national economic development. In 1998 the then Vice-Premier, Wu Bangguo, was quoted as saying:

In our world today economic competition between nations is in fact between each nation's large enterprises and enterprise groups. A nation's economic might is concentrated and manifested in the economic power and international competitiveness of its large enterprises and groups. International economic confrontations in reality show that if a country has several large enterprises or groups it will be able to maintain a certain market share and hold an assured position in the world economic order.¹⁷

In 2003, to help achieve this competitive strength, the Chinese government created the State Assets Supervision and Assets Corporation (SASAC) to manage its holdings. This is a national agency in Beijing, but it also has provincial branches. Its initial function was to protect the state against insider buyouts that undervalued state assets—in 2002/3 there was a popular outcry against apparent abuses.

¹³ Garnaut et al., *China's ownership transformation*, p. 8.

¹⁴ Carsten Holz, *China's industrial state-owned industries: between profitability and bankruptcy* (Singapore: World Scientific, 2003), pp. 291–2.

¹⁵ Garnaut et al., *China's ownership transformation*, p. 10.

¹⁶ http://english.people.com.cn/200409/26/eng20040926_158381.html, accessed 15 May 2007.

¹⁷ Cited in Peter Nolan, *Transforming China: globalization, transition and development* (London: Anthem, 2004), p. 186.

However, its head, Li Rongrong, has an ambitious objective of using the agency to increase the return on state assets as well. Apart from restructuring the asset structure of individual companies, this could lead to a role in enhancing the management of particular enterprises, by encouraging the hiring of outsiders, including foreigners, and by changing governance arrangements. At present SASAC has control of 161 SOEs, but it has announced that this will be reduced to between 80 and 100 by 2008 through mergers and closures. This is still a large number, and there has been talk of its establishing a number of asset management companies to control groups of SOEs. In some ways its control over national economic assets is potentially analogous to that of Temasek Holdings in Singapore, another developmental state, and SASAC has studied how Temasek operates.¹⁸ But for the moment it is still, according to Naughton, 'a sprawling empire'.¹⁹

In the mid-1990s the state developed plans for a wide-ranging industrial policy that sought to develop 'pillar industries', as well as agriculture and exports.²⁰ This idea has reappeared more recently. In December 2006 SASAC announced for the first time a list of strategically vital sectors of industry where the state must have 'absolute control'. They were arms production, power generation and distribution, oil and petrochemicals, telecommunications, coal, aviation and shipping. In these sectors the state should hold either an exclusive or a controlling stake in enterprises. The state should also facilitate strong national corporations in machinery, car production, IT, construction, iron, steel and non-ferrous metals. However, in these latter sectors non-state and foreign investors could be minority investors.²¹ In addition to the above list, the state has also limited foreign investment in its four main banks to a maximum holding of 25 per cent.

The Politburo is still responsible for the appointment of the heads of the 53 largest SOEs. Political access can still be vital for business success and individual wealth. Nee and Oppen have stressed the importance of party connections for SOEs in gaining construction contracts or obtaining commercial credit, with directors of enterprises holding concurrent posts in the party apparatus possibly having greater economic clout.²² Political status can also ease the way to individual wealth. As Holz reminds us, of the 3,220 Chinese citizens with personal wealth of RMB 100 million (\$13 million) or more, 2,932 are the children of high-level cadres.²³

¹⁸ 'Strong arm of the state', *China Economic Review*, Feb. 2007 (www.chinaeconomicreview.com/cer/info/Strong_arm_of_the_state.htm); Barry Naughton, 'SASAC rising', *China Leadership Monitor*, no. 14 (http://media.hoover.org/documents/clm14_bn.pdf); Barry Naughton, 'Claiming profit for the state: SASAC and the capital management budget', *China Leadership Monitor*, no. 18 (http://media.hoover.org/documents/clm18_bn.pdf), all accessed 13 May 2007.

¹⁹ Naughton, *The Chinese economy*, p. 318.

²⁰ Peter Nolan, *China and the global economy: national champions, industrial policy and the big business revolution* (Basingstoke: Palgrave, 2001).

²¹ 'China names key industries for absolute state control', *China Daily*, 19 Dec. 2006 (www.chinadaily.com.cn/china/2006-12/19/content_762056.htm, accessed 13 May 2007); see also 'Guozhiwei jiu tuijin guoyou ziben tiaozheng guoqi chongzhu zhidao yijian dawen' (www.gov.cn/jrzq/2006-12/18/content_472293.htm, accessed 13 May 2007).

²² Nee and Oppen, 'On politicized capitalism', p. 28.

²³ Carsten Holz, 'Have China scholars all been bought?', *Far Eastern Economic Review* 170: 3, April 2007, pp. 37, 38.

In Russia, the route towards becoming a 'developmental state' has been more circuitous. The state embarked upon a rapid privatization from above in the early 1990s, heavily influenced by neo-liberal ideas from the West prescribing massive privatization and opening the economy to the outside world. Rather than concentrating on needs, as in China, the government focused on getting the economic structures right. Apart from the economic objectives, this was also intended to prevent the return of a communist state. The process took several years, unleashed enormous inflation in 1992 that took years to control, destroyed the savings of middle-class Russians and led to the rise of 'oligarchs' who came to dominate the Russian business scene. According to Rabushka and Bernstam, between 1990 and 1999 Russia lost 45 per cent of its GDP and about 50 per cent of its consumption. This far exceeded American losses in the Great Depression, which they put at 30 per cent of GDP and 20 per cent of consumption. Aslund gives lower figures for the fall in Russian GDP, at 35 per cent, and in consumption, at 27.3 per cent, but these are still greater than the figures for the American Depression.²⁴

The turbulence unleashed during that period certainly crippled the state. The result was that by 1996 President Yeltsin found himself obliged to ask for help from the oligarchs in his election campaign. They offered him loans in exchange for shares, taking control of large industrial assets. On a wider scale, Rabushka and Bernstam have wryly described the period of the 1990s in Russia as one of 'Enterprise Network Socialism', where managers of enterprises in general, not just the oligarchs, managed to divert resources from the rest of the economy at the expense of consumers. Given the enormous losses at that time and the difficulties of keeping enterprises afloat, managers may not have felt as though they were succeeding with anything. Nevertheless, effectively they exercised joint control with the state over taxation and monetary policy.²⁵ For the second half of Yeltsin's time in office, the state was dominated by the new industrial-financial conglomerates that had emerged. This period was popularly known as the 'rule of the seven bankers' (*semibankirshchina*). Individual oligarchs were even appointed to key state positions: Berezovsky, for example, became Deputy Secretary of the National Security Council. Then the financial crisis of 1998, provoked in part by a fall in world oil prices, again devastated individual savings and further eroded public confidence.

Putin's time as Yeltsin's successor has been marked by a consistent attempt to reverse the state-business relationship to restore the dominance of the state, despite the fact that he was originally elected with oligarch support. Soon after his election he declared that he wanted a 'collective project of national development', although the specifics only emerged slowly afterwards. He let it be known that he wanted a policy of 'equidistance' between the state and business interests. In Evans's terms, he was setting the objective of establishing 'embedded autonomy' for the state's economic decision-makers.

²⁴ Alvin Rabushka and Michael Bernstam, *From predation to prosperity: how to move from socialism to markets* (http://media.hoover.org/documents/predation_chapter1part2.pdf, p. 1, accessed 13 March 2007); Aslund, *Building capitalism*, pp. 118, 308.

²⁵ Rabushka and Bernstam, *From predation to prosperity*, ch. 1, p. 4.

In practice this has proved a process of many stages, and whatever long-term plan Putin may have had,²⁶ he did not reveal it at once. He was an outsider when he took office, and had relatively few allies in the bureaucracy upon whom he could rely. He had to improvise. The first step was to have a meeting with the heads of the 21 largest companies and assure them that he would not attempt to reclaim the assets that they had acquired in the 1990s, however those acquisitions had been made, provided they did not interfere in politics. The next step was to try to bring order into the world of interest groups acting on behalf of different business actors—groups that by 2000 numbered anything between 900 and 1,500. The political leadership sought to regularize government–business relations by making some business associations privileged interlocutors with the government, establishing what was called ‘a consultation regime’. In particular, the state elevated the status of the Russian Alliance of Industrialists and Entrepreneurs (Employers) (RSPP) and expected the oligarchs to join it. This meant that its members represented firms producing about half of the total GDP and the government set out to have quarterly meetings with its bureau. However, government–business relations were challenged by the Yukos affair in 2003. This led to the arrest of its two main owners, Khodorkovsky and Lebedev, for failure to pay taxes. The subsequent dismemberment of the company, apparently because of Khodorkovsky’s attempt to build his own political platform, eroded the mutual trust between the regime and the RSPP. The organization agonized over its response for a long time, re-electing Khodorkovsky to its leading bureau and expelling him only in 2005, when he was in prison, but in the end it backed down. After that, business organizations acquiesced in the need to defer to the state and official meetings with the government became less regular. Now the government determined with which individuals it was going to talk and what would be the agenda.²⁷

From this time onwards a strategy of increasing government control over key industries gradually emerged, with an emphasis upon ‘national champions’ that would be shielded from foreign ownership. As of mid-2006, according to Deryabina, the list of strategic companies consisted of 514 federal state unitary enterprises and 548 joint-stock companies in which the state is the main shareholder. The government’s plan is to combine these into 30 or 40 major holding companies in crucial economic sectors, in all of which the state would be the main shareholder. This could be done through simply consolidating state companies—as for example in the takeover of the main car manufacturer AvtoVAZ by the defence conglomerate Rosoboronexport—or by buying assets on the market, or by replacing directors with new ones who can be expected to accept state leadership.²⁸ According to the OECD, state-controlled companies account for about 34

²⁶ For a discussion of the possible significance for later policy of Putin’s 1997 doctoral dissertation on mineral natural resources in the strategy for development of the Russian economy, see Harley Balzer, ‘Vladimir Putin on Russian energy policy’ (www.inthenationalinterest.com/Articles/November2005/November2005Balzer.html, accessed 13 Feb. 2007).

²⁷ Petra Stykow, *Staat und Wirtschaft in Russland* (Wiesbaden: Verlag für Sozialwissenschaften, 2006), pp. 96, 139–58.

²⁸ ‘Russian state resumes intervention in the economy’ (<http://en.rian.ru/analysis/20061020/54986941-print.html>, accessed 15 May 2007).

per cent of GDP output,²⁹ a figure that is almost identical to the estimate for China for 2003 mentioned above, but with the difference that the share in China is still declining, while that in Russia is increasing.

Liuhto has identified three areas of the economy which the state now regards as strategic: (1) militarily sensitive (defence sector, car and aircraft manufacture, telecommunications and electronic media); (2) the 'top sensitive sector' (electricity generation, logistical infrastructure, strategic metals, oil and gas); and (3) the 'economically sensitive sector' (non-strategic natural resources including forestry, banking and insurance). These are all areas where the state would wish to have a key presence, though the extent of that might vary. The state's objective would be to ensure as far as possible that these sectors are occupied by powerful Russian companies that are internationally competitive. Altogether the Russian cabinet proposal is to restrict foreign participation in 40 industries deemed 'strategic'.³⁰ Already, according to World Bank estimates, the largest 20 industrial conglomerates account for around 40 per cent of GDP/industrial output.

Explanations of these new initiatives have identified two factors. The OECD has highlighted a kind of 'state capture': the relative weakness of the state as an institution coupled with the ambitions of individual leaders of large corporations close to the state. Insofar as this is true, it represents continuity with the business-government relations of the 1990s, although it weakens officials' 'embedded autonomy'.³¹ Others have focused on the increasing prominence in the Russian government of officials who come from a security background (*siloviki*) and wish to protect national assets. As Kryshtanovskaia demonstrates, they have spread across a wide range of government institutions. Even the Ministry of Economic Development has four such deputy ministers.³²

There is, however, a third element. This is the widespread scepticism about relying purely on the market to determine national economic relations. Virtually all senior Russian administrators, like the mass of the population, were educated under a system of national economic planning, and even if their communist convictions, such as they were, have been eroded, the experience of the national economic losses in the 1990s has not persuaded them of the universal superiority of the market. There remains a sense of the need actively to construct, engineer and guide a market that will ensure long-term economic growth. Since 2004 there has been an increasing stress on the importance of scientific and technological innovation as the key to future economic prosperity and the basis of 'real sovereignty'.³³ In 2004 two economists in the Russian Academy of Sciences, Kuzyk and Yakovets, produced an ambitious plan for long-term growth that highlighted the key importance of ensuring Russian scientific and technological innovation. As was apparent

²⁹ OECD Economic Survey, *Russian Federation 2006* (Paris: OECD, 2006), p. 38. This page also contains a list of major state acquisitions between 2004 and autumn 2006.

³⁰ Kari Liuhto, 'A future role of foreign firms in Russia's strategic industries' (www.europe2020.org/spip.php?page=imprimer&id_article=404&lang=en); 'Cabinet backs investor limits' (www.cdi.org/russia/johnson/2007-24-32.cfm), both accessed 10 May 2007.

³¹ OECD Economic Survey, *Russian Federation 2006*, p. 39.

³² Ol'ga Kryshtanovskaia, *Anatomiia rossiiskoi elity* (Moscow: Zakharov, 2004), p. 274.

³³ Andrei Kokoshin, *Real'nyi suverenitet* (Moscow: Europa, 2006), pp. 60–4.

from table 2, Russia has been losing international competitiveness in simpler manufacturing to countries like China. Now, these authors argued, the state needs to use its national resource base to generate the investment that will build up the science and technology which are essential to make a success of globalization. They reject fundamental reliance upon markets to achieve this—what they term the ‘inertial-market strategy’. Instead they recommended mobilizing capital through a state innovation investment fund, an insurance innovation fund and various venture funds.³⁴ Putin’s annual message to the Federal Assembly in 2006 underlined the importance of major increases in spending on science and technology. All of this would be easier to achieve if the state had greater leverage over the distribution of the profits of large corporations.

This section has argued that the political-economic landscape of both China and Russia is now significantly dominated by big businesses close to or part of the state, especially in sectors deemed ‘strategic’. Large companies now find it easier to gain access to government decision-makers, and there are a lot more business associations in both countries, but the most recent analyses have suggested that neither country is a corporatist state in the political science meaning of the term. Business associations as such do not enjoy privileged status as negotiating partners of the state.³⁵

In particular, a developmental state syndrome has emerged in Russia under President Putin since 2003. A capitalist economy with state officials controlling key sectors of industry and directing its development, yet reiterating the need to ‘refine’ the market; an economy that seeks to protect its industries from foreign competition and yet seeks to grow through exporting; a political system whose leaders proclaim western democratic values, yet practise authoritarianism and seek to limit popular choice for the sake of building a democratic system ‘more suitable’ for national conditions: these are paradoxes that would have been recognized by Presidents Park Chung Hee and Chun Doo Hwan of South Korea. The treatment of Yukos and Khodorkovsky also has its precedents in Korea. President Chun allowed the Kukje *chaebol* to go bankrupt for failing to contribute as much as other *chaebols* to one of his pet social projects. And even in democratic Korea, the president of the largest *chaebol* (Hyundai), Chung Ju Yung, was sentenced to three years in jail after he challenged the political elite by standing for election as head of state in 1992: he was defeated and his company was subjected to a very onerous tax audit, though unlike Yukos it was not dismembered and remains the second largest in Korea.³⁶

Of course, from the perspective of western market economists, the strategy of relying upon the state to structure and direct the economy is fundamentally flawed. Putin’s former economic adviser, Illarionov, has produced a scathing

³⁴ B. N. Kuzyk and Yu. V. Yakovets, *Rossii 2050: Strategiia innovatsionnogo proryva* (Moscow: Ekonomika, 2004), pp. 8, 321–74.

³⁵ Stykow, *Staat und Wirtschaft*; Scott Kennedy, *The business of lobbying in China* (Cambridge, MA: Harvard University Press, 2005). See also Bruce Dickson, *Red capitalists in China: the Party, private entrepreneurs and prospects for political change* (Cambridge: Cambridge University Press, 2003).

³⁶ See e.g. Eun Mee Kim, *Big business, strong state: collusion and conflict in South Korean development, 1960–1990* (New York: State University of New York Press, 1997); David C. Kang, *Crony capitalism: corruption and development in South Korea and the Philippines* (Cambridge: Cambridge University Press, 2002).

analysis of the recent changes in the economy, arguing that it is combining all the mistakes of other oil-rich and closed economies.³⁷ Others have pointed both to the dangers of relying so heavily on energy exports and also to the fact that, even in the Russian oil industry, private corporations were far more efficient than the state ones. Aslund has called it 'a time of boom and folly'.³⁸ Moreover, the increasing practice of state officials holding positions on the boards of large corporations undermines the 'embedded autonomy' of key economic decision-makers that Evans regarded as crucial for success. According to the *Financial Times* in 2006, 11 members of the presidential administration chaired six state companies and had 12 further state directorships, while 15 senior government officials held six chairmanships and 24 other board seats.³⁹

Nevertheless, states that are, or wish to become, members of the WTO cannot adopt the same protectionist measures as earlier developmental states such as Korea did in the 1960s and 1970s. If one country identifies 'national champions' and seeks to protect them, this will both jeopardize their opportunities for expansion abroad and encourage reciprocal counteraction by other countries. And the government share of GDP in both Russia and China is about 20 per cent. So, however the 'commanding heights' of the economy are now defined, this is still much less than the Soviet Union—or China before 1978—understood by the term. This still leaves significant room for other market players. In addition, according to Galukhina and Pappé, neither Russian banks nor the Russian stock market will be able to raise adequate capital to meet the needs of big business, while medium-sized industries will be able to develop successfully only by exporting and expanding abroad, because of the limited size of the Russian market. All these factors will contribute to keeping Chinese and Russian industry, and the rules under which they operate, largely compatible with international practices and rules.⁴⁰ However, according to Lyons, this is part of a broader challenge posed by the growth of 'state capitalism' in various countries. International practices may also have to change to accommodate them.⁴¹

'Guided' democratization

Not only did Russia and China diverge in their first responses to the economic challenges of transformation, they did so over political change too—and along similar lines. While China has pursued a strategy of gradual, controlled evolution away from the Maoist ideological control of the 1970s, Russia went through

³⁷ Andrei Illarionov, 'Russia Inc.', *New York Times*, 4 Feb. 2006, p. 13.

³⁸ Anders Aslund, 'Russian resources: curse or rents?', *Eurasian Geography and Economics* 46: 8, 2005, p. 616. See also Clifford C. Gaddy and Barry W. Ickes, 'Resource rents and the Russian economy', *Eurasian Geography and Economics* 46: 8, 2005, pp. 559–83; Rudiger Ahrend, 'Can Russia break the "resource curse"?', *Eurasian Geography and Economics* 46: 8, 2006, pp. 584–609.

³⁹ Neil Buckley and Arkady Ostrovsky, 'Back in business—how Putin's allies are turning Russia into a corporate state', *Financial Times*, 19 June 2006.

⁴⁰ Ya. S. Galukhina and Ya. Sh. Pappé, 'Russian big business 2000–2005: key trends in its transformation and development', *Studies on Russian Economic Development* 17: 3, 2006, p. 255; Ya. S. Galukhina and Ya. Sh. Pappé, 'Russian big business in 2000–2005: some key developmental aspects', *Studies on Russian Economic Development* 17: 4, 2006, p. 395.

⁴¹ Gerard Lyons, 'How state capitalism could change the world', *Financial Times*, 8 June 2007, p. 15.

political as well as economic 'shock therapy'. The result has been that while the CCP has remained in power, despite occasional severe challenges as in 1989, the Russian political system has gone through several transformations.

At the very beginning of the reform process in China, Deng Xiaoping encouraged greater political liberalization, with tacit support for the 'Democracy Wall' protests in Beijing against the supporters of the old Maoist line, commenting: 'Let the people say what they will, the heavens will not fall.' Once he had defeated his opponents, however, he dampened expectations of democratic change. The official programme of Four Modernizations made no mention of democratization, though unofficially it was often mentioned as the fifth modernization. The party leadership never contemplated sharing power or having to compete for it. This was best exemplified by the treatment of the demonstrators on Tiananmen Square in June 1989. Although, ironically, he fell foul of opponents at the top of the party, Zhao Ziyang, then General Secretary of the party, was associated with the theory of 'neo-authoritarianism', which stressed the importance of political stability for economic development.⁴² In July 1998, after the announcement that China was going to sign the International Covenant on Civil and Political Rights, a former student activist in 1989, Wang Youcai, tried to register the new China Democracy Party in Zhejiang province—but when this was referred to Beijing and rejected, he was arrested and imprisoned. A total of 34 members of the party were arrested and imprisoned for terms of up to 13 years.

For years the party leadership stressed the importance of maintaining stability while ignoring democratization, but in more recent years this emphasis has changed. A former member of the Politburo edited a volume entitled *On Democracy* that appeared in 2001.⁴³ The CCP has been mutating away from a relatively orthodox communist party towards one that represents and incorporates a wider range of interests. On the theoretical level this was exemplified by Jiang Zemin's theory of the 'Three Represents', which was enshrined as official doctrine at the 16th Party Congress in 2002. This claimed that the party should represent the needs of the most advanced productive forces, the interests of 'advanced' cultural forces and the fundamental interests of the majority of the nation's citizens.⁴⁴ At the level of personnel or membership, it was exemplified by another decision at the same Congress, namely that private entrepreneurs should be allowed to join the party. Moreover, with a membership of over 70 million (though that still represents only just over 5 per cent of the total population) it is the largest political party in the world.

The CCP still retains the traditional methods of socialization of its members inherited from the Maoist era. In practice, however, it is turning into a national party of power. This has involved greater institutionalization of party procedures,

⁴² Barry Sautman, 'Sirens of the strongman: neo-authoritarianism in recent Chinese political theory', *China Quarterly* 129, March 1992, pp. 72–102; Michael J. Sullivan, 'The impact of western political thought in Chinese political discourse on transitions from Leninism, 1986–92', *World Affairs*, 1994 (www.encyclopedia.com/doc/1G1-15781091.html, accessed 17 May 2007).

⁴³ Li Tieying, *Lun minzhu* (Beijing: Renmin chubanshe, 2001).

⁴⁴ For an account of the evolution of official doctrine on the legitimacy of the CCP from the 1990s, see Nora Sausmikát, 'More legitimacy for one-party rule? The CCP's ideological adjustments and intra-party reforms', *Asien* 99, April 2006, pp. 70–91 (www.asienkunde.de/articles/SausmikátA99.pdf, accessed 18 May 2007).

for instance introducing a retirement age of 70 for party leaders. In 2004 the Central Committee adopted a 36-page resolution on 'The Enhancement of the Party's Governance Capability' to rejuvenate party-building. It emphasized the need for supervision of party officials by rank-and-file members to help stamp out corruption. But it also effectively reinterpreted the traditional doctrine of democratic centralism by calling for multi-candidate elections to party posts, rather than 'arbitrary decision-making by the head of the committee'.⁴⁵ However, it limited the scope for rank-and-file decision-making to periodic voting on personnel, and made no mention of regular involvement of ordinary members in processes to decide among individual policies.

Though elections to village committees now take place throughout most of China, Chinese leaders want democracy to develop first within the party and then spread outwards incrementally, in a kind of guided democracy. This is in keeping with the general preference of the Chinese elite for gradual change. The renewed stress on 'socialist democracy' was also a partial response to critics such as the prominent economist Hu Angang, who on the eve of the 16th Party Congress in 2002 had called precisely for this, so as to restore the party's links to the widest possible cross-section of society. But Hu had also called for the transformation of the National People's Congress from a 'rubber stamp' and 'retirement home for senior party cadres' into a much more effective institution that checks up on the government, audits expenditure and prevents corruption.⁴⁶ This has not yet happened, although leaders such as Wen Jiabao have regularly stressed the role that socialist democracy should play in combating corruption. Sometimes this is associated with 'good governance'.⁴⁷

In 2005 the State Council published a white paper on democracy which declared that the paths of different countries to democracy would vary and that 'the Chinese people's struggle for democracy was closely related to the safeguarding of national sovereignty, territorial integrity and state dignity ... A complete model of democracy cannot be built overnight.' It stressed that democracy could not be imposed by external forces.⁴⁸ In 2006 the sixth plenum of the CCP stressed that in building a harmonious society the party must adhere to democracy and the rule of law; and at a press conference at the end of the National People's Congress in March 2007, Prime Minister Wen Jiabao reaffirmed that one of the important reforms that needed to be pursued was 'democracy-oriented political reform', though it would take a long time for China fully to develop its democracy.⁴⁹ Moreover, presidential

⁴⁵ http://english.people.com.cn/200409/26/eng20040926_158379.html and [158383.html](http://english.people.com.cn/200409/26/eng20040926_158383.html) (both accessed 15 May 2007).

⁴⁶ Hu Angang, 'Di er ci zhuanxing: cong jingji jianshe wei zhongxin dao zhidu jianshe wei zhongxin', in Hu Angang, Wang Chaoguang and Zhou Jianming, eds, *Guojia zhidu jianshe* (Beijing: Qinghua Daxue Chubanshe, 2003), pp. 12–21.

⁴⁷ Yu Keping, 'Toward an incremental democracy and governance: Chinese theories and assessment criteria', European Institute for Asian Studies and Institut für Ostwissenschaften, Universität Duisberg joint project discussion paper no. 3/2000, p. 15.

⁴⁸ 'White paper on political democracy' (www.china.org.cn/english/features/book/145941.htm, accessed 17 May 2005).

⁴⁹ www.chinadaily.com.cn/china/2006-05/05/content_582850.htm; 'Among China's elite, talk of "democracy"' (www.iht.com/articles/2007/04/19/asia/china.php?page=1), both accessed 18 May 2007.

adviser Yu Keping stressed that China would not copy other countries' models.⁵⁰

Three points emerge from this survey of official doctrine in China. First, the regime is now more explicitly committed than it was in the 1990s to building democracy, albeit a 'socialist' democracy, which will spread outwards from greater democracy in the party. Second, this process is to be gradual and incremental. Third, it is linked to preserving national sovereignty. Foreign (i.e. western) models of democracy are to be rejected. In this last respect there is a convergence with the attitudes of the Putin administration in Russia.

In Russia, political transformation in the Yeltsin era was not a success. Yeltsin unleashed 'shock therapy' in politics perhaps more than in economics, but without a clear perspective on how to build democracy. It was all improvisation.⁵¹ Yeltsin himself was less interested in institution-building than in finding individuals whom he could trust and put in charge, but he was also suspicious of potential rivals and kept undermining their authority. In 1993 his confrontation with the legislature led to the army shelling it. Civil society became demoralized by the economic chaos, so there was little institution-building from below. Political parties failed to attract deep support. And Yeltsin encouraged decentralization, which got out of hand and in the case of Chechnya led to outright rebellion.

After the democratic chaos of the Yeltsin era, Putin's first priority was to restore the pre-eminence and authority of the state. Within a month of taking office, he told his closest advisers that in future the state would pursue a policy of equidistance from all clans and factions. As mentioned above, he began to bring greater order into relations with business organizations and pressured oligarchs into submitting to his authority on pain of tax audits. Friendly oligarchs took over companies running independent TV stations and reined them in. He also imposed seven representatives of the federation to supervise elected provincial governors and reverse the erosion of Moscow's control. Later in 2005 he went further and introduced the power to appoint governors as well. Parties were required to reregister with the state and voting procedures were tightened.

The objective was 'managed' or 'guided' democracy (*upravliaemaia demokratiia*). In the first instance this meant creating a new 'party of power', Yedinaia Rossiia (United Russia): that is, a party that would support Putin, dominate the political scene and mobilize support, though Putin himself had no formal relationship with it. The Kremlin used all the authority of the state to insert United Russia into the party landscape, with the result that in the Duma elections of 2003 it came top with 38 per cent of the vote and almost half the seats. In 2004, after further manipulation by the Kremlin, it helped to deliver re-election for Putin with 71 per cent of the vote—up from 53 per cent in 2000.⁵²

⁵⁰ Yu Keping, 'Minzhuzhuyi shi ge hao dongxi', *Beijing Ribao*, 26 Oct. 2006 (www.chinaelections.org/NewsInfo.asp?NewsID=97186, accessed 18 May 2007).

⁵¹ Yu. M. Baturin et al., *Epokha El'tsina: ocherki politicheskoi istorii* (Moscow: Vagrius, 2001).

⁵² For the weaknesses of Russia's party system, see Stephen White, 'Russians and their party system', *Demokratizatsiya*, Winter 2006 (http://findarticles.com/p/articles/mi_qa3996/is_200601/ai_n16537200); Jonathan W. Riggs and Peter J. Schraeder, 'Russia's political party system as a (continued) impediment to democratization: the 2003 Duma and 2004 presidential elections in perspective', *Demokratizatsiya*, Winter 2005 (http://findarticles.com/p/articles/mi_qa3996/is_200501/ai_n13640850/pg.1), both accessed 17 May 2007.

Since then the Kremlin has encouraged the emergence of a second pro-Kremlin party, but this time one that is centre-left rather than centre-right. In October 2006 the former Rodina (Motherland) party merged with two others to create a new one, Spravedlivaia Rossiia.⁵³ This party would appeal more to those who had been disadvantaged by reforms, whose numbers had been increasing, as shown in table 3. Before the party was actually formed, the leaders were invited to the Kremlin to meet Putin, and this has been interpreted as an official endorsement.⁵⁴ At the very least the new party will be intended to provide a 'legitimate' voice for protest, while drawing support away from the Communist Party in the next elections in December 2007. However, it is probably not intended to be a serious rival for United Russia. More widely, these changes represent an attempt to hatch a new party system in which Duma seats are limited to just two, three or four parties. The threshold for parties to win seats in the Duma has been raised from 5 per cent to 7 per cent of votes, which will also contribute to the same effect.

The Kremlin has not just attempted to create a new party system; it has also tried to create an approved version of civil society. In 2005 it established the Social Chamber, which meets on a regular consultative basis with the president to discuss public issues. The first group of members were nominated by the president, who then nominated an additional group, who then nominated a further group. Thus they were all beholden to the president, directly or indirectly. What the Kremlin would like to do is 'guide' society in a long-term project towards a new, complete political system, which ultimately would be a new democracy, though in the meantime it would be restrictive.

This diverging experience of political and economic development in China and Russia is reflected in recent opinion polls in the two countries on attitudes towards democracy. In the 1999–2002 World Values Survey, Russia had the lowest level of support for its political system of any country that was polled. In the aftermath of the 1998 economic crisis only 3 per cent rated it as 'very good', while 83 per cent rated it as 'bad'. Moreover, only 7 per cent declared themselves 'very satisfied' or 'rather satisfied' with the way democracy was developing in their country—again, the lowest figure in the world. And while 63 per cent of the Russian panel agreed with the proposition that 'Democracy may have its problems, but it's better than any other form of government', this was the second lowest score out of 77 countries, with only Nigeria below them. Russians were divided over nostalgia for the communist system. In answer to the question, 'How would you rate the political system as it was 10 years ago?', 41 per cent rated it as 'very good', while 30 per cent rated it as 'bad'.

By contrast, 90 per cent of the Chinese panel in the same survey agreed with the proposition that democracy is in general better than any other form of government, while 88 per cent declared themselves 'very satisfied' or 'satisfied' with the way that democracy was developing in their country (the third highest figure of

⁵³ There is no easy translation into English because of the ambiguity over the word 'just'. Literally it means 'Just Russia', i.e. it demands justice in Russia.

⁵⁴ 'Russia's version of a two-party system' (www.russiaprofile.org/experts_panel/2006/8/4/4169.wbp, accessed 9 Aug. 2006).

all the countries polled). They were not asked to rate the current political system, but they were asked to do so for the system of ten years previously: 64 per cent rated it as 'very good' and only 12 per cent as 'bad'.⁵⁵ In other words, Russia professed democracy, but Russians had a very low level of satisfaction with it since the mid-1990s. China, on the other hand, which did not claim to have espoused democracy, had a population better disposed towards it.

By spring 2005 approval for democracy had risen somewhat in Russia, according to the latest in a series of surveys by the Pew Foundation. Confronted with a choice as to whether Russia should rely on democratic government rather than a strong leader, 28 per cent opted for democratic government and 66 per cent for a strong leader. This was a little better than in 2002, when the equivalent figures were 21 per cent and 70 per cent, but it was much worse than 1991 when the figures had been 51 per cent and 39 per cent. But in 2005 81 per cent rated a strong economy as more important than good democracy, and only 14 per cent the reverse.⁵⁶

The complex nature of current Russian attitudes towards democracy was revealed in a 2006 survey by the Levada Centre. As for the Russian political system, 47 per cent of Russians rated it favourably (but did not necessarily assess the level of democracy), while only 31 per cent had a favourable view of the Russian economy.⁵⁷ When asked about other countries, 73 per cent of respondents rated the American economic system favourably and 54 per cent the American political system. On the other hand, 67 per cent had a favourable view of the Chinese economic system and 56 per cent of the Chinese political system. In other words, they rated both the American and Chinese political systems more favourably than the Russian one, and also almost equally well. This did not mean that they all appreciated Chinese communism, although some no doubt did. But it did not suggest great enthusiasm for democracy, or at least for more democratic reforms.

However, if the party system in Russia is to develop greater staying power, it is essential that United Russia develops a programme that can outlast Putin. Up to now the problem has been that parties with developed programmes such as the Communist Party or Yabloko have been unable to win power, while a succession of parties of power associated with individual members of the elite have faded away like their patrons' careers. If United Russia is to survive, it needs a more coherent programme. In 2005 it began to set out a big idea: 'sovereign democracy'. It represented a nationalist response to the challenges facing the country.⁵⁸

⁵⁵ Ronald Inglehart, Miguel Basañez, Jaime Díez Madrano, Loek Halman and Ruud Luijkx, eds, *Human beliefs and values: a cross-cultural sourcebook based on the 1999–2002 values surveys* (Mexico City: Siglo XXI Editores, 2004), tables E110–112B, E123.

⁵⁶ <http://pewglobal.org/reports/display.php?ReportID=250>, accessed 15 May 2007.

⁵⁷ http://worldpublicopinion.org/pipa/articles/home_page/200.php?nid=&id=&pnt=200&lb=hmpg2, accessed 15 May 2007.

⁵⁸ For a summary of the changing emphasis, see Nikolai Petrov, 'From managed democracy to sovereign democracy', CSIS PONARS policy memo no. 396, 2005 (www.csis.org/media/csis/pubs/pm_0396.pdf, accessed 17 May 2007).

Nationalism and 'real sovereignty'

Although Chinese leaders espoused pragmatism in their choice of reform strategies, a strong element in their thinking has been the desire to avoid dependence upon the West. After all the perceived humiliations that China had suffered over the preceding century and a quarter, in their view because of western actions, their leaders remained mistrustful about the world order that had emerged. They were prepared to open China to the outside world; nevertheless, they wanted to ensure that borrowings from abroad were taken on their terms. Their pragmatism was aimed at finding ways of improving their political and economic system, not sacrificing it.

From the 1990s China's relations with the outside world were dominated by its relationship with the United States as the sole remaining superpower, which included the protracted negotiations over China's accession to the WTO, where America was seen as the most important country that had to be won over. China's leaders were ambivalent about this relationship. On the one hand they certainly did not want to see China endlessly deferring to the United States. A core belief was that the communists had originally won control of China by proving themselves to be more consistent nationalists than their opponents. They had 'saved' the country. Since then the party had continually defended the nation against challenges from the outside, as in the Sino-Soviet dispute. There was considerable popular support for this stance. Occasional confrontations with the United States sparked the publication of a series of books that proclaimed that China could say 'no' to America. For some in the Chinese leadership, that also meant scepticism about the need to join the WTO, since the terms were bound to be onerous. On the other hand, others, led by Prime Minister Zhu Rongji, believed that China needed to join the WTO to strengthen the hands of the reformers who wanted to continue the liberalization of China's economy. In 2001 the decision to join was finally approved, but once it was over and China had managed a successful transition, the issue of how much further China needed to change in response to foreign pressure kept emerging. Ideas began to surface about the need for a new Chinese model of development and a 'Beijing consensus' that could go beyond the 'Washington consensus'.⁵⁹

In 2004 the CCP reaffirmed: 'We should always put national sovereignty and security in the first place. We will resolutely guard against and fight the infiltrative, subversive and separative [*sic*] activities of all hostile forces and effectively guard against and deal with various risks from the international economic field.'⁶⁰

A recent analysis of Chinese policies towards sovereignty has challenged the conventional wisdom that China has maintained a consistent and unchanging defence of its sovereignty. Carlson has argued that China has shown surprising

⁵⁹ See e.g. Yu Keping, ed., *Zhongguo moshi yu 'Beijing gongshi': chaoyue 'Huashengdun gongshi'* (Beijing: Shehui kexue wenxian, 2006). For an exasperated protest against the widespread misuse of the term 'Washington consensus' by the person who coined it, World Bank researcher John Williamson, see his article 'What should the World Bank think about the Washington Consensus?', *World Bank Research Observer* 15: 2, Aug. 2000, pp. 251–64.

⁶⁰ http://english.people.com.cn/200409/26eng20040926_158386.html, accessed 15 May 2007.

flexibility in the field of economic opening to the outside world. Indeed, in the 1980s and 1990s China actually gave preference over domestic producers to foreign companies that invested in China, in part because of the technology that they could bring, but in part also, according to Pei, because foreign entrepreneurs were not likely to challenge political power.⁶¹ The special economic zones and different tax rates for foreign exporters from domestic ones were one manifestation of this. Nevertheless, Carlson concluded that 'Beijing still places a premium on the walls that sovereignty can build'.⁶² And from 2007 foreign companies will be expected to pay the same rates of tax as Chinese ones, although for existing investors there will be a five-year transition period.

By contrast, the Russian attitude towards relations with the West has fluctuated much more since 1991, even since 2000—effectively, during the presidency of Vladimir Putin. When he briefly became prime minister in autumn 1999, Russia was still only just recovering from the financial crisis of the previous year, which had seen the country desperately appealing to its western partners for assistance. It had even seen one of Putin's predecessors as prime minister, Evgenii Primakov, in autumn 1998 appealing to the West for food aid. And the appeal did evoke a positive response in terms of financial aid. According to Wedel, the United States put pressure on the IMF to be accommodating and impose less onerous obligations than a strict reading of its rules for assistance would have justified.⁶³

Thus, when Putin became president in May 2000, he had two basic priorities. The first was to straighten out the deficiencies in the state that had led to this second crisis in six years. Russia could not afford another. The second was to keep close to western partners who had been helpful and who might be again if further international difficulties did ensue. Just before Putin took office in 2000, Foreign Minister Ivanov emphasized that the basic foreign policy principle of the new administration would be 'realism'. This also implied pragmatism, the need to abandon illusions about the possibility of simply adopting western models of liberal and democratic organization and expecting them to succeed. Nevertheless, like Yeltsin before him, Putin publicly expressed interest in Russian membership of NATO and the EU. His pro-western inclination at that time was epitomized by his immediate decision after 9/11 to declare unconditional solidarity with the United States.

After 2000 Russia's finances dramatically improved, in large part because of the rising price of oil. By 2004 this was reflected in a new tone that was beginning to emerge in the President's annual state-of-the-union messages. Now a new stress upon 'sovereignty' could be heard, an assertion of the need for Russia to be allowed to do things its own way. 'Realism', as opposed to illusion, now turned into a preoccupation with 'real sovereignty', which Kokoshin defined as

⁶¹ Minxin Pei, *China's trapped transition: the limits of developmental autocracy* (Cambridge, MA: Harvard University Press, 2006), p. 32.

⁶² Allen Carlson, *Unifying China, integrating with the world: securing Chinese sovereignty in the reform era* (Stanford, CA: Stanford University Press, 2005), p. 248.

⁶³ Janine Wedel, *Collision and collusion: the strange case of western aid to eastern Europe, 1989–1998* (Basingstoke: Macmillan, 1998).

'the capacity of a state in reality (and not merely in declaratory fashion) independently to conduct its internal, external and defence policies, to conclude and tear up agreements, enter into strategic partnerships or not'. He cited China and India as examples of states that practised real sovereignty in the face of globalization. At the same time he also reassured readers that this did not mean autarky or isolation: it implied active engagement in world affairs.⁶⁴ As for United Russia, the 'party of power' that was formed to back Putin, in spring 2005 the deputy head of the Kremlin administration and reputedly Putin's closest political adviser, Vladislav Surkov, initiated a discussion of national priorities and then in February 2006 made a presentation to a group of leaders about 'sovereign democracy', that is, a democracy that Russians were free to develop as they saw fit, not according to some western preconceived ideas. He defined it as 'a form of political life of society, under which the authorities, their organs and actions are selected, formed and directed exclusively by the Russian nation in all its variety and completeness so that all the citizens, social groups and peoples comprising it achieve material well-being, freedom and justice'. He added that an objective was to make national sovereignty a factor in fair globalization and the democratization of international relations.⁶⁵

Conclusion

This article has argued, first, that the politics and political economy of Russia and China have been converging in recent years, although this does not mean that they are identical. This is so despite the fact that their routes to the present have been quite different. In general China's path has been more consistent, while Russia's has been more erratic. The two states are, however, more comparable now than at any point since 1991. Second, this means that the policy environment in both countries is now more critical of ideas for further development from the West. Third, this change in the orientation of decision-makers means that they have greater opportunity to look to each other for advice and consultation about cooperation. Previously, despite their professed 'strategic partnership', they always had to keep at least one eye fixed on the West, especially the United States. Now they have more time to look around. This does not necessarily mean that they will succeed in forming an alliance. States with even more similar political and economic structures are often divided by disputes over conflicting interests. Nevertheless, the fact of general policy convergence does mean that China and Russia can view their interests in a new light. It helps to explain why the two of them are now devoting more attention to that strategic partnership and exploring ways of raising it to a new level.

In 2006 a distinguished researcher at the Institute of the World Academy and International Relations in the Russian Academy of Sciences, Kholodkovskii, gave the following characterization of the Putin regime:

⁶⁴ Kokoshin, *Real'nyi suverenitet*, pp. 49, 27, 52.

⁶⁵ *Suverennaia demokratiia: ot idei k doktrine* (Moscow: Europa, 2006), pp. 28, 32; Aleksei Chadaev, *Putin, ego ideologiia* (Moscow: Europa, 2006).

- (a) a choice in favour of the market, but controlled by the state and supplemented by non-market practices; the inviolability of property, but only of property linked to the state;
- (b) legal dualism—limited and selective application of the law, combining ‘white’ and ‘grey’ zones of legal relations;
- (c) the construction of society from above, non-acceptance of control by society;
- (d) formal and limited democracy, with curtailed pluralism, freedom of speech and information;
- (e) a foreign policy alternating between partnership with the West and opposition to it.⁶⁶

All of these propositions could also be applied to China, albeit with nuanced variations.

Neither country is trying to overthrow the globalization that has been taking place over the last two decades. Both have benefited from international demand for their products. Indeed, China’s success as a new manufacturing centre and its demand for raw materials to supply the rest of the world has indirectly helped Russia recover from the 1998 crisis, because it pushed up commodity prices generally. But both countries want to turn it more to their advantage. This is particularly true of Russia. Deliagin has written of the opportunity to escape from ‘colonial dependence on the West’. Trenin has expressed the view more starkly: ‘Russians no longer recognise US or European moral authority.’⁶⁷ Their accumulated economic resources give them the hope that through the state they may be able to bend international trends in directions that are more advantageous to them.

Of course, there is no shortage of commentators who suggest that the Putin regime is unstable.⁶⁸ The same is also true of China, although they are fewer.⁶⁹ This could mean that the convergence sketched out above will be short-lived. Nevertheless, short of complete collapse, it seems unlikely that the wary attitude towards globalization and the West on the part of the Chinese and Russian authorities will go away. If so, it will help to frame their attempts to build the closer cooperation that will be the subject of the second article.

⁶⁶ K. G. Kholodkovskii, ‘Protsses samoopredeleniia, ego aktory, mekhanizmy i rezul’taty’, *Mirovaia Ekonomika i Mezhdunarodnye Otnosheniia* 2006: 6, p. 46.

⁶⁷ Mikhail Deliagin, *Vozmezdnie no poroge: revoliutsiia v Rossii, kogda, kak, zachem?* (Moscow: Novosti, 2007), p. 410; Dmitri Trenin, ‘Russia redefines itself and its relations with the West’, *Washington Quarterly*, Spring 2007, p. 96.

⁶⁸ See e.g. Lilija Ševcova, ‘Garantiert ohne Garantie: Russland under Putin’, *Osteuropa* 56: 3, March 2006, pp. 3–18; Lev Gudkov, ‘Russlands Systemkrise’, *Osteuropa* 57: 1, Jan. 2007, pp. 3–13.

⁶⁹ See Pei, *China’s trapped transition*.