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## Failures and Successes: Soviet and Chinese State-Socialist Reforms in the Face of Global Capitalism

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### Introduction

Any consideration of the reform of state socialism, based on the experiences of the Union of Soviet Socialist Republics (USSR) or the People's Republic of China (PRC) must situate them historically. Invoking abstract categories such as state, communist party and market, without situating them concretely, is meaningless. In this regard, we must confront the fact that, in terms of their origins and their subsequent history, neither the USSR nor the PRC conformed to the script for socialist revolution and construction envisaged by Marx, Engels or Lenin. Classical Marxism, including Bolshevism, had

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assumed that socialism would have to be established in the advanced capitalist countries: citadels of industrial productivity that would provide the prerequisite economic abundance for socialist egalitarianism rather than generalised scarcity, otherwise 'all the old filthy business would necessarily be reproduced', as Marx put it in *The German Ideology* (Marx, 1846, p. 11). Furthermore, classical Marxism assumed that the industrial working classes of the most developed economies would be the driving forces of socialist revolution that would be inherently internationalist, breaching national boundaries. History decided otherwise, in the case of both Russia and China. The October 1917 Revolution shattered the 'weakest link' in the imperialist chain, as Lenin famously conceived it: semi-capitalist, overwhelmingly agrarian, Tsarist Russia.

The Bolsheviks, however, saw October as but the opening salvo that would ignite the world revolution, first and foremost in highly industrialised Germany, with its powerful, politicised working class (Markwick, 2017, p. 604). Again, the script faltered: Nazism rather than socialism triumphed in the citadel of European capitalism. Instead, the next great socialist breakthrough came on the periphery of capitalism: semi-feudal, semi-colonial China in 1949, spearheaded by a peasant army, not an industrial proletariat (Anderson, 2010, especially pp. 60, 64, 66). In this sense, the Chinese revolution was a 'gigantic jacquerie', as Isaac Deutscher put it (1964, p. 25), which stamped its imprint on the Chinese Communist Party (CCP) and state, and still does.

Most importantly here, Lenin assumed that while during the transition from capitalism to communism the 'dictatorship of the proletariat' would be required to suppress the bourgeoisie, the flourishing of socialist democracy would mean that the 'need for a special machine of suppression will begin to disappear'. This 'withering away of the state' was a fundamental thesis of Lenin's 1917 essay 'The State and Revolution' (Lenin, 1917). In the classical Marxist conception, the 'demise of the state', in the course of being 'subordinated' to society, was integral to the 'eliminating of class', the sine qua non for socialism (Krausz, 2015, pp. 180, 310). 'Withering away of the state' was expunged from Stalin's lexicon, although he officially declared the Soviet Union socialist in 1936; it has yet to reappear in Chinese political thought where,

on the contrary, in the last four decades party and state have played a pivotal role in driving economic transformation and development (Gregor, 2014, pp. 111, 125, 236, 238).

## Socialism in One Country

In contrast to Lenin, Stalin asserted that the more socialism advanced the ‘sharper’ the class struggle and the more necessary the ‘dictatorship of the proletariat’ (Stalin, 1928, pp. 171–172). Indeed, Stalin embraced Soviet great power ‘statehood’ (*derzhavnost’*) (Lewin, 2016, p. 149). Stalin’s étatiste socialism was a necessary corollary to his espousal of ‘socialism in one country’, in violation of the original Bolshevik tenets that socialism could only be realised on an international scale; in the first place in the most advanced capitalist states (Krausz, 2015, pp. 281–286; for a counter view, that argues ‘complete socialism in one country’ was endorsed by Lenin in 1923, see Van Ree, 1998). Stalin’s justifiable fear that those very same states, primarily Britain, France and Germany, would unleash war against the beleaguered, infant Soviet state, saw a Soviet retreat from internationalising socialism by political means through the Communist International (Comintern). Instead, in the 1930s, crash construction of a near autarkic Soviet fortress, by forced-march industrialisation and agricultural collectivisation, became the primary means of thwarting imperialist invasion (Stone, 2000, pp. 3, 7, 212–216). The result was a ‘militarised socialism’ (Von Hagen, 1990, p. 337); a more or less permanent war economy, which prioritised military-industrial production overconsumption. A war economy would characterise the Soviet Union almost to the very end (Bisley, 2001, pp. 110–111, 116–131; Harrison, 2017). Indeed, ultimately it would contribute to the Soviets’ undoing. Stalin, however, made a virtue out of military necessity. But the militarised Soviet model of ‘barracks socialism’ was never part of the classical Marxist script for a socialist state or society (Butenko, 1990, pp. 46–47). A lesson, as we shall see, Stalin’s Chinese comrades would eventually come to learn in the 1980s.

The 1949 Chinese Revolution was certainly the ‘child’ of the October Revolution, which by first rupturing the world capitalist system had

eased the birth of the PRC (Anderson, 2010, p. 60; Deutscher, 1967, p. 79). Further, Mao Zedong's Communist Party that led the revolution was certainly the offspring of Stalin's Communist Party of the Soviet Union (CPSU, from 1952): militarised, autocratic and 'monolithic' (Anderson, 2010, p. 66). Nevertheless, the CCP was not a clone of Stalin's CPSU. Instead of a political vanguard party, prolonged peasant 'people's war' forged a distinctive party-army alliance rooted in peasant movements, motivated by a populist 'mass line' that elevated a classless category of 'the people' to the driving force of a 'staged revolution', in the first instance ousting imperial powers and overturning feudal relations in the countryside (Wang, 2016, pp. 288–291). Mao saw China's 'new democratic' revolution as 'part of the world revolution' (Mao, 1940), but his priority was forging an independent, unified, industrialised nation-state on the road to socialism, not internationalising the revolution. In that sense, Mao's revolution was motivated by Sun Yat Sen's vision for a modernised China (Gregor, 2014, pp. 111, 125) and conceptually confined within Stalin's 'socialism in one country' paradigm (Deutscher, 1967, pp. 92–93). A partial break with this paradigm came post-Mao in the 1980s. CCP paramount leader Deng Xiaoping lamented 30 years of 'disastrous', 'closed door policy' for obstructing China's development (Deng, 1984b, p. 38). Development, not world socialism, was the essence of what Deng would proclaim as 'socialism with Chinese characteristics'.

Notwithstanding Stalin's belated support for the CCP-led revolution, an Alliance and Friendship Treaty signed in February 1950 between the USSR and the PRC forged a close bond up to the mid-1950s, laying the basis for 'the largest ever socialist development project' in the guise of Soviet economic aid, advice and expertise (Lüthi, 2010, p. 34). 'The Soviet Union's today will be our tomorrow', was a popular saying in China in the 1950s (Marsh, 2003, p. 264). In its first decade, the PRC assumed a socialist character in the Soviet political and economic mould, adopting its first Five Year Plan in 1952. However, relations went into freefall after Nikita Khrushchev's denunciation of Stalin's 'cult of the personality' at the March 1956 Twentieth Congress of the CPSU. In this context, Mao viewed Khrushchev's espousal of 'peaceful coexistence' with the capitalist West as a betrayal of world revolution. He also

condemned Soviet ‘weakening’ of its command economy model in the post-Stalin period. The CCP equated the Stalin economic model with ‘the very definition of socialism’; any departure from it was tantamount to ‘revisionism’ of Marxism and the ‘restoration’ of capitalism (Kong, 2010, p. 161). Accordingly, Mao threw down the gauntlet to the Soviet leadership with his adoption of the catastrophic Great Leap Forward (1958–1962). Moscow and Beijing’s paths abruptly parted in the summer of 1960 after the withdrawal of Soviet aid specialists, who had been subject to a Chinese campaign against the CPSU (Lüthi, 2010, p. 47). It was clear that the CCP leadership would not simply defer to the Soviet approach to world affairs.

For another two decades, however, the PRC cleaved as tightly as ever to the Stalinist command economy model while pursuing a distinctive campaign politics, climaxing with the Cultural Revolution which, despite considerable economic progress, brought ‘disarray’ to China’s industrial sector (Bernstein, 2009, p. 6). By the late 1970s, breaking with the erroneous concepts that planning equals socialism and that markets equal capitalism were crucial ideological prerequisites for China to diverge from the developmental path bequeathed by the Soviet Union in favour of ‘socialism with Chinese characteristics’ (Kong, 2010, p. 163).

## State Socialism Under Siege

Despite their shared origins in the October 1917 Revolution, it is obvious that distinct historical legacies, circumstances and challenges faced CPSU General Secretary Mikhail Gorbachev’s USSR in 1985 and Deng Xiaoping’s PRC in 1979 when they embarked on their reforms. Indeed, one could go so far as to say that despite their common political heritage, and their similar non-capitalist economies, the differences in development made reform in the two states almost incomparable. The Soviet Union, and even more so its allied Council for Mutual Economic Assistance (Comecon) socialist states in East-Central Europe, by the 1980s had passed through the fires of extensive industrial and agricultural development and urbanisation, not to mention

the most destructive war in history. Although in this decade, the USSR still lagged far behind the core capitalist states in terms of productivity, per capita income, and consumption, the Soviet Union eclipsed China by these measures, especially the latter two, which in 1979 was only just embarking on its second wave of agricultural reform and mass industrialisation.

For this reason, while both party leaders rightly or wrongly made policy choices that ultimately reinvigorated or destroyed their respective socialist reform projects, they did so in circumstances not of their own choosing, to paraphrase Marx from *The Eighteenth Brumaire*. Briefly put, diverging from the path and degree of development the USSR had followed in the latter part of the twentieth century, the PRC possessed 'structural advantages' for reform, especially 'decentralization', that the rigidly centralised USSR lacked (Bernstein, 2009, p. 2). In many respects, Soviet institutional rigidity was the penalty the USSR paid for first breaking with international capitalism in 1917 and then, standing alone under threat of invasion, pursuing crash industrialisation from its own resources under the aegis of Stalin's 'military-mobilisational' state (Cherepanov, 2006, p. 424).

Until the advent of Gorbachev's *perestroika* [reconstruction], the Soviet state was caught in an exhausting military-industrial competition primarily with the USA, which waged a Cold War of attrition with the express purpose of breaking the Soviet Union if not directly confronting it. The Soviet civilian economy was encumbered by an onerous military-industrial apparatus which in 1985 consumed a staggering 15% of its Gross National Product, dwarfing the 6% expenditure of the USA (Davis, 2002, p. 156). This proved to be systemically fatal when the advanced capitalist states in the 1970s began transitioning to so-called post-industrialism and neoliberalism. In the Brezhnev era of 'stagnation' (*zastoi*), the Soviet economic model of mass production serving primarily to sustain mass armies, which had served it so effectively since the 1930s, was being eclipsed in the West by service industries, flexible production and high-tech battlefield weaponry (Harrison, 2017, p. 205). Bearing the brunt of Western anti-communist enmity, with some respite during the 1970s decade of *détente*, the Soviet state had limited political and economic instruments with which to counter the

growing technological edge of the advanced capitalist states. The militarisation of the Soviet state and its foreign policy proved its undoing; its ten-year war in Afghanistan (1979–1989) was the final straw.

Gorbachev's 'new thinking' determination to end the Cold War was in good part driven by the urgent need to shed this massive military burden in order to divert resources to the civilian sector. Despite Gorbachev's attempts to ameliorate Cold War competition through his 'new thinking' peace and disarmament initiatives (Gill & Markwick, 2000, pp. 35–36), ultimately the Soviet *étatiste* political and economic system foundered, not only under the weight of a cumbersome *nomenklatura* apparatus that defied reform but also entrenched economic structures and popular expectations of social security they engendered, not least in the collectivised farm sector.

Collectivised farming, which Gorbachev as late as 1988 regarded as the backbone of socialist agriculture, was the Achille's heel of the Soviet system, consuming resources that could have been mobilised to regenerate the non-agricultural sector. Despite huge investment in agriculture in the Brezhnev era, growing from 16% of total Soviet investment in 1965 to 28% in 1985, productivity stalled (Rozelle & Swinnen, 2009, p. 279). Massively subsidised, the state guaranteed incomes of farm-workers nearly equalled those of their urban counterparts. Accordingly, attempts under Gorbachev in the 1980s to reform collective agriculture by replacing wages with labour contract and leasing systems that reflected farm output, were resisted by farmers and farm administrators alike. Consequently, such initiatives did little to improve poor agricultural performance, in contrast to similar reforms in China which strengthened rural support for the CCP.

It would take the wholesale overturn of the Soviet economic and political system under the banner of 'shock therapy' by neoliberal capitalist politicians and their advisors, notably Russian President Boris Yeltsin, US economist Geoffrey Sachs and the International Monetary Fund, to decollectivise agriculture and privatise industry (Gill & Markwick, 2000, pp. 138–140). The economic and social consequences of the breaking of the Soviet state were disastrous (Rozelle & Swinnen, 2009, pp. 276, 278–279, 282, 284). Moreover, despite the expectations of both Gorbachev and Yeltsin that dismantling Soviet state socialism

would open the way for it to rejoin the prosperous European ‘home’, post-Soviet Russia and its allied successor states remain on the ‘periphery’ of the world capitalist system, to invoke Wallerstein’s world system’s theory (Lane, 2009, pp. 101–102). Only Russia’s powerful nuclear military apparatus has prevented it from being subordinated to expansionary global capitalism, spearheaded by NATO (Markwick, 2016).

For the first two decades of its existence, the PRC too was under fire from the West but unlike the infant Soviet state it was not alone. Economic and technical aid from the USSR meant that the PRC’s industrialisation ‘take-off’ was not as traumatic as that of the USSR, which in the context of ferocious civil war and threatened invasion had completely expropriated the Russian industrial, financial and landed elites and forcibly collectivised agriculture to fuel its crash industrialisation. The PRC, however, allowed private capital to survive and retained the allegiance of the class that brought the CCP to power: the peasantry (Amin, 2013, p. 16). Mao’s 1972 *modus vivendi* with US President Richard Nixon and the subsequent normalisation of relations with the USA in 1978, largely shielded the PRC from economically draining confrontation or even invasion. Coupled with improved relations with the USSR towards the end of the Brezhnev era (Bernstein, 2009, p. 10), China was much better positioned to drastically reduce the burden of its defence and military expenditure than its Soviet counterpart. Indeed, despite the resistance of a relatively backward military-industrial sector, between 1978 and 1997 China achieved an extraordinary reversal of military to civilian production within its defence sector. Whereas in 1978 military production was 92% of the annual output of the defence sector, by 1997 84.5% its production was civilian. Chinese conversion of defence expenditure to the civilian economy, ‘one of the largest ever transfers of industrial capacity from the military to the civilian spheres’, freed up enormous resources for modernisation (Tai, 2008, pp. 74–76, Table 3.2). Of course, this drastic conversion came at a price for millions of defence industry workers. As employment in the defence industries nearly halved from three million workers, the secure ‘iron rice bowl’ employment and welfare benefits of the Mao era were eroded (Tai, 2008, pp. 75, 92).



The PRC faced serious challenges in 1978 when Deng Xiaoping embarked on reform to bring what he called ‘order out of the chaos’ (cited in Bernstein, 2009, p. 3) after the ten-year turmoil of the Cultural Revolution (1966–1976). China was still an underdeveloped nation, even compared to Gorbachev’s sclerotic USSR: 70% of China’s workforce was engaged in agriculture, compared to 14% in the USSR; China’s average income per capita was 14 times lower than the USSR’s; and almost one-third of China’s citizens were illiterate (Anderson, 2010, p. 75). By these measures, as argued above, China in 1978 was much more like Stalin’s Soviet Union in 1929 than Gorbachev’s Soviet Union in 1985. However, the PRC had made major industrial and agricultural progress, notwithstanding the upheavals of the Great Leap Forward (1958–1961) and the Cultural Revolution (1966–1976), but towards the end of the Mao period the economy was beginning to run out of steam as productivity slowed despite ever higher investment. In short, China’s Stalinist model of ‘extensive growth’ needed to shift radically to ‘intensive growth’ (Blank, 2015, pp. 47–49). In this respect, in 1978 the PRC faced a similar developmental crisis as its much more industrialised Soviet cousin, but in a vastly different social environment, particularly in the countryside. It was in this context that CCP abruptly turned to market measures in 1978 and subsequently embraced a ‘socialist market economy’ in 1992.

More than a few Western commentators have variously concluded that this signalled China embracing wholehearted state, neoliberal, and even imperialist, capitalism (Hart-Landsberg & Burkett, 2005; Ho-Fung, 2015; Minqi, 2008); conclusions which seem premature. Others have explored the seeming similarities between the CCP’s market socialism and the CPSU’s New Economic Policy (NEP) pursued in 1921–1928 (Hooper, 2017; Kenny, 2007). Although in the 1980s opinions about NEP varied among Chinese scholars there was no ambiguity on the part of CCP leaders, who saw it as legitimising their turn to the market; indeed Nikolai Bukharin, praised for his patient, non-violent approach to the peasantry unlike Stalin, was partially rehabilitated as Lenin’s ‘heir’ (Rozman, 2014, pp. 158–160). The leading theoretician of NEP was fully rehabilitated in the Soviet Union in

February 1988 at the height of *perestroika*, lending further legitimacy to economic and political liberalisation, in particular the introduction of market mechanisms (Gill & Markwick, 2000, p. 48).

## NEP with Chinese Characteristics

Parallels between Deng's reforms and Lenin's NEP can be illuminating, particularly in relation to the role of the state utilising capitalist measures to manage a transition to socialism, although of course such parallels are limited. The specific historical circumstances that the USSR faced in 1921 and the PRC in 1978 were vastly different. The Bolsheviks were seeking to save the world's first socialist revolution which was threatened with defeat after seven years of war had ravaged the economy and society. True, China turned towards market mechanisms after the ten-year turmoil of the Cultural Revolution, but the PRC was facing nothing like the life or death choice that confronted the Bolsheviks. The challenge for China was more muted, but ultimately no less threatening: economic competition from Japan, South Korea and Taiwan. As Deng observed during the 1989 Tiananmen crisis:

There was no way the economy could develop, no way living standards could rise, and no way the country could get stronger ... The world is galloping forward these days, a mile a minute, especially in science and technology. We can hardly keep up. (Cited in Anderson, 2010, p. 79)

For the Bolsheviks, the NEP was not merely a matter of keeping up; it was a question of survival. NEP was a 'transitional', crisis strategy for socialism; a 'retreat' to state capitalism (Krausz, 2015, pp. 335–337) which combined centralised, Soviet controlled planning through Gosplan, with market mechanisms between and within town and country. The NEP entailed, as Lenin put it in brief notes:

- (α) Retention of the commanding heights in the sphere of *means* of production (*transport*, etc.);
- (β) Retention of the land in the hands of the state;

- (γ) freedom of trade in the sphere of petty production;
- (δ) state capitalism in the sense of attracting *private capital* (both concessions and *mixed companies*) (Lenin, 1922).

In the first instance, the NEP was a concession to the peasantry, who had security of land tenure and could sell their surplus grain; private, retail trade was legalised; and agricultural and commercial cooperatives could be formed. The NEP also entailed utilising Tsarist-era ‘bourgeois’ technical specialists and administrators and encouraging foreign, capitalist trade and investment (Suny, 1998, pp. 138–139). In short, Lenin’s NEP entailed ‘building socialism with capitalist hands’ while the Soviet state retained the ‘commanding heights’ of the economy (Husband, 1997, pp. 274–275). The same metaphors could certainly be applied to China’s turn towards the market under Deng from 1978 onwards. Like Lenin’s NEP, the CCP has kept a firm hand on the tiller of state and key state assets, unlike Gorbachev’s diluted version of it.

China’s economic volte-face from 1978 to 1992 entailed, inter alia, the following measures:

1. A second land reform, in which a ‘household responsibility system’ replaced communes. In many respects it was analogous to the NEP: private agricultural production for the market was encouraged; farmers would be rewarded by becoming ‘rich’ and ‘prosperous’ for their own ‘hard work’ (Deng, 1983a, p. 12).
2. Very high peasant savings were achieved by increasing incomes, and by limiting welfare payments by implementing the ‘one child’ family policy. The resultant savings were channelled by banks into modernising state enterprises. This was certainly capital accumulation, pumping surplus income from the countryside into industry but it was not the harsh ‘primitive socialist accumulation’ Soviet economist Yevgenyi Preobrazhensky famously advocated in the latter years of NEP (Allen, 2003, pp. 57–58; Erlich, 1960, pp. 42–44).
3. Decentralisation of economic decision-making. This was the opposite of the Soviet Gosplan, which continued throughout the Soviet NEP and would become the hall-mark of Stalinist industrialist development.

4. State enterprises were effectively leased to managers who were able to sell products outside the plan at market prices; in so doing, there was no analogy with the NEP.
5. The establishment of Township and Village Enterprises (TVE) in the countryside: Again, there was no analogy with the NEP. The TVE entailed light industry based on abundant cheap labour; as a result, rural-industrial output and rural incomes dramatically increased.
6. Special Economic Zones (SEZ) had no counterpart with Lenin's NEP, although Soviet reformers toyed with the concept during *perestroika*. Taking advantage of the Chinese diaspora, the SEZ provided low-cost labour for the assembly of electronics and white goods. In 1984, Deng hailed SEZ as conduits for foreign 'technology, management, and knowledge' and for China to open up to the world. In the SEZ, workers employed under the 'contracted responsibility system' were to be rewarded 'according to their performance'. Deng made no apologies for the fact that people in the coastal SEZ could 'become rich first. Egalitarianism will not work (Deng, 1984a, pp. 26–27)'.

In Deng's unabashed advocacy of hard work being rewarded by 'prosperity' and 'wealth', there was an echo of Bukharin's call 65 years earlier to Soviet peasants to 'enrich yourselves'. However, not only was the Soviet NEP begun in far more threatening economic and military circumstances but in the 1920s NEP was a transitional measure during what the Bolsheviks assumed to be a lull before the next international revolutionary storm, which they were actively stoking through the Comintern, while the Soviet Union built diplomatic and economic state-to-state relations with the core capitalist powers. China has no such political instrument separate from the PRC and its priority is not international socialism but developing socialism within China's national boundaries.

## Socialism in One China

Although in many respects, Deng adhered to the Marxist–Leninist heritage bequeathed by Stalin and paid homage to Chairman Mao, a major shift in Marxist analysis underlay the 'Four Modernisations' reform

programme that the CCP pursued from 1978 onwards. At the CCP's 12th National Congress in September 1982, Deng emphasised that 'socialism with Chinese characteristics' meant that the CCP should recognise 'Chinese realities' and not 'mechanically copy' other models of development, by which he clearly meant the well worn Soviet path: 'We must integrate the universal truth of Marxism with the concrete realities of China (Deng, 1982, p. 3)'. Where Mao in the 1950s and 1960s had emphasised changing the social relations of production, irrespective of the underdevelopment of China's productive forces, manifest in disastrous experiments such as the Great Leap Forward and the Cultural Revolution, Deng effectively repudiated Mao's perspective: 'We ignored the development of the productive forces for a long time', he lamented in April 1983:

In a socialist country a genuinely Marxist ruling party must devote itself to developing the productive forces and, with this as the foundation, gradually raise the people's living standards... So we are paying special attention to the building of a high standard of material civilization. At the same time, we are building a socialist civilization with high cultural and ideological standards. (Deng, 1983b, p. 16)

In stressing the development of 'material civilization', Deng was reviving the classical Marxist conception that the development of full-fledged socialism required the highest development of the productive forces: 'Pauperism is not socialism, still less communism', he insisted (Deng, 1984b, p. 37); a fundamental Marxist principle stressed again and again in the late 1920s by Stalin's Left opponents within the Soviet Communist Party against his conception of 'socialism in one country'.

The question, of course, was how socialism was to be achieved in an impoverished, pre-industrial, predominantly agrarian society? In this regard, in contrast to Stalin's semi-autarkic 'socialism in one country', China set itself on a path of opening itself up to the 'outside world', expanding international trade to secure 'foreign investment capital and technology', to catch up with the developed countries, a prolonged process that could take possibly '50 or 70 years (Deng, 1984c, p. 52)'. The assumption here, in integrating itself into the global capitalist economy,

was a prolonged era of ‘peaceful coexistence’ with the Western powers. There was nothing like the urgency of Stalin’s prescient warning in 1931 that ‘we have ten years to catch up, or we shall go under (Stalin, 1931)’. Nazi Germany invaded the USSR on 22 June 1941.

China was certainly not facing immediate war in 1978 but economic liberalisation was far from smooth sailing. Precipitous reductions in state expenditure and abolition of centralised pricing that threatened ‘iron rice bowl’ social security, fanned popular discontent. In the wake of the 1989 Tiananmen crisis, China’s decade-long march towards the market stalled. However, soon after Deng’s famous 1992 ‘southern tour’, in October 1993 the PRC defined itself as a ‘socialist market economy’. What followed was the accelerated expansion of market measures: First, privatising State-Owned Enterprises (SOEs) and even more so provincial TVEs, so that by 2004 private sector employment was twice that of the public sector. Second, an extraordinary rise in foreign trade and exports boosted by foreign investment and cheap labour, making China the so-called new ‘sweatshop of the world’. The net result of China’s hypertrophied NEP in the four decades since 1978 has been an average annual GDP growth of 9.5%; a rate of growth ‘unprecedented in human history’. In those forty years, 700 million people have been lifted out of poverty. Given its massive population, China thereby has contributed in its own right to global poverty reduction (Yifu & Shen, 2018, p. 117). This undeniable social progress has been achieved by the unleashing of market forces on an extraordinary scale. By the turn of the century, non-state, market production accounted for 75% of China’s GDP (Chow, 2018, pp. 109, 113). The result, however, has been the spawning of a financial and industrial class that had no counterpart in the Soviet system, until the Soviet state collapsed.

## Learning from Failure

The CCP leadership learned crucial lessons from the failure of Gorbachev’s reforms, which they watched with ‘urgency’ (Meisels, 2013, p. 3). Notwithstanding the unravelling of state socialism in East-Central Europe in 1989 and the catastrophic collapse of the Soviet

Union itself in 1991, Beijing affirmed publicly that the PRC would draw strength from the lessons learned: ‘Don’t panic’, declared Deng in early 1992, ‘don’t think that Marxism has disappeared, that it’s not useful anymore and that it has been defeated. Nothing of the sort!’ (Deng, 1992). In the aftermath of the Soviet collapse, the CCP established its own research groups dedicated to analysis of the causes and lessons of the Soviet demise and reoriented Chinese academic institutions to do same. Thus, for example, on this basis in 1992 at the Chinese Academy of Social Sciences, the former Institute for Soviet and East European Studies was rebadged as the East European, Russian and Central Asian Studies. Likewise, in 1994 the China Reform Forum at the Central Party School was established, with a particular focus at that time on Soviet transformation and downfall (Marsh, 2003, pp. 264–265).

One of the first systematic attempts to draw lessons from the fate of the Soviet Union was produced by the Ideology and Theory Department of *China Youth Daily* in the immediate aftermath of the failed attempt to overthrow Gorbachev on 21 August 1991, the final salvo in the USSR’s demise. Pointedly titled, ‘Realistic Responses and Strategic Choices for China after the Soviet Coup’, among its recommendations were:

1. China should not move towards capitalism, as had occurred in the USSR.
2. The CCP needed to transform itself from a ‘revolutionary’ into a ‘ruling’ party.
3. CCP Marxist–Leninist ideology needed to become ‘relaxed’, democratic and liberal to broaden popular support, but invoking Chinese traditions such as Confucianism rather than Western ones.
4. Chinese nationalism should become the bedrock of CCP legitimacy to avoid the ethnic nationalism that had afflicted the USSR (Marsh, 2003, p. 266).

The failures of the CPSU and its leadership were at the heart of the lessons this document and the CCP drew from the Soviet collapse. Above all, the need to maintain the CCP’s monopoly of power, on the one hand; on the other, to reinforce the ruling party’s legitimacy by raising living standards by continued economic reform (Marsh, 2003, p. 266).

Clearly, unlike Gorbachev, for whom in his own words ‘economic progress and social renewal were ultimately dependent on political democratization’ (cited in Bernstein, 2009, p. 8), Deng did not prioritise political liberalisation over economic reform; nor have Deng’s successors. Quite the opposite: where Gorbachev from January 1987 onwards increasingly turned to political liberalisation, especially as *perestroika* and the Soviet economy stalled, from the start of its reforms the CCP rejected any loosening of its grip on the apparatus of state as China’s ‘socialist market economy’ surged.

Where the largely unified CCP leadership has reaffirmed its pivotal role at the helm of state, Gorbachev, unable to forge a unified party leadership, had made the fatal error of repudiating the leading role of the CPSU. Specifically, in October 1988 he effectively abolished the Party’s central apparatus: The Secretariat. At a stroke, in Second Secretary Yegor Ligachev’s words, ‘The Party was deprived of an operating staff’. Gorbachev thereby surrendered his crucial weapon for directing economic reform and upholding the multinational USSR (Gill & Markwick, 2000, pp. 55, 75, 86).

Gorbachev’s neutering of the CPSU and his embrace of liberal democratic institutions was no accident. Despite his continual invoking of Lenin, in elevating ‘universal values’ above class struggle, his conceptions of ‘new thinking’ and *perestroika* had much more in common with late nineteenth-century social democratic reformism that Lenin had condemned (Brown, 2007). From 1988, an increasingly desperate Gorbachev leadership abandoned its commitment to socialist reform in favour of parliamentarist liberalisation, compounding a dire situation and opening the way to capitalist transformation by the *nomenklatura* in the guise of ‘privatisation of the state by the state’ (Gill & Markwick, 2000, pp. 97, 208–209).

More than a few Chinese analysts have held Gorbachev and the CPSU’s abandonment of Marxism–Leninism as the primary cause of the failure of *perestroika* and the Soviet Union’s collapse (Li, 2011); still others blame the stagnation of the Soviet system or the influence of US ‘bourgeois liberalization’ peacefully undermining the Soviet Union (Meisels, 2013). Whatever explanations for the Soviet demise have been adopted by CCP leaders, academics and analysts, the CCP has



reaffirmed time and again its determination to be at the helm of state and to be guided by Marxism–Leninism. In relation to the unabashed dominance of the Chinese party state, the CCP is true to the Stalinist maxim that the closer socialism the greater the necessity for state power. At the same time, however, there was no Soviet precedent for China's extravagant embrace of market economics and its unleashing of an opulent domestic bourgeoisie. Here is the contradictory essence of 'socialism with Chinese characteristics'.

## Classes and the State

Classes are alive and well within China, a product of the liberalised economic policies the CCP has deployed over four decades. The resultant divisive class relations require a skilful balancing act on the part of the PRC party-state. On the one hand, it has fostered an extraordinarily rich financial and industrial class which has a growing international reach (although Chinese corporations are still dwarfed by US and European transnational corporations: Lane, 2009, p. 106) and which even has a presence in the CCP itself. China's wealthiest 1% control 30% of household wealth, equivalent to that in the USA, while wealth disparity in China, measured by its Gini coefficient, now exceeds that of the USA (Cheng & Ding, 2017, p. 51). But such inequality, particularly in a state that boasts it is 'socialist' is fraught; citizens demanding radical reforms in Czechoslovakia and Poland in the 1960s and 1980s did so in the name of socialism. In 2016, China had a Gini coefficient of 0.465, exceeding the 'international warning line of 0.45' (Yifu & Shen, 2018, p. 119), threatening 'dangerous' social instability (Jin, Qingxia, & Mengnan, 2015, p. 25), particularly in a society with a growing but disenfranchised working class.

Industrialisation always comes at a price. It certainly did for workers once employed in China's SOEs which in 1995–2003 shrank from 11,800 to 34,000 units. As a result, 44 million SOE workers lost their jobs (Ligang, 2018, p. 352), hitherto guaranteed under Mao's soviet-style 'iron rice bowl' life-time employment and social security benefits. This has been accompanied by massive migration from

the countryside to the coastal cities, creating an impoverished, highly exploited, industrial working class. Yet despite the growth of an urbanised working class, the upshot has been

a major decline of labour's share of GDP from about 53 per cent in 1990 to 42 per cent in 2007. The growing 'reserve army of labor,' the segregation of the labor market, and massive privatizations of state-owned enterprises have significantly depressed the power and weakened the solidarity of the working class. (Cheng & Ding, 2017, p. 51)

Witnessing the emergence of Poland's *Solidarność* (Solidarity) mass trade-union movement in 1980–1981, the precursor to the 1989 fall of state socialism in East-Central Europe, the CCP has been alert to any so-called civil society movements, including workers' movements, which might threaten its hegemony (Bernstein, 2009, pp. 3–4). Testimony to this came with the lethal repression of mass student Tiananmen Square protests in June 1989, which began to attract workers (Boswell & Peters, 1990, pp. 21–22). The willingness of the CCP under Deng to utilise the PLA to repress mass demonstrations, unlike Gorbachev who was manifestly opposed to the use of state violence even to maintain the Soviet Union, is suggestive of two different traditions in party-army relations: the Soviet Red Army was always unequivocally subordinate to the CPSU, whereas the PLA had been co-leader with the CCP of the vast peasant insurgency that drove the Chinese revolution. With its roots and mass support in the peasantry, the CPP has not been reluctant to wield its 'labour repressive system' against the very class that for Marxism is the driving force of socialism (Bernstein, 2009, p. 5). To date, despite mass protests, the state has proven very effective at thwarting sustained, organised, labour resistance.

## Transitional, Contender State

The demise of the Soviet Union confirms the ultimate incompatibility between isolated, developmental, state socialism and militaristic, highly productive, hegemonic capitalism. Despite inserting China into the

world capitalist economy (signalled by its admission to the World Trade Organisation in 2001: Panitch & Gindin, 2013, pp. 147–149), admitting wealthy businesspeople into the CCP, and the codification of private property rights, the Party insists that this model of development is ‘socialism with Chinese characteristics’, albeit still in the ‘initial stage’. In reality, the Chinese model is a hybrid of a predominantly capitalist economy, including state-dependent capitalists, supervised by a powerful ‘contender state’ controlled by a CCP that maintains its grip on the ‘commanding heights’ of banking and strategic industries and resists subordination to the global capitalist system (Panitch & Gindin, 2013, p. 151; Van der Pijl, 2012). In this respect, the Chinese model remains a ‘sovereign project’ (Amin, 2013, p. 22), unlike Russia, which, while politically independent due to its powerful military state, economically has been reduced to a ‘raw-materials supplying appendage’ to international capitalism (Kotz, 2001; 2002, p. 391). And unlike, even more so, the former Comecon-Warsaw Pact states which have been completely subsumed within the European capitalist EU-NATO heartland. Nevertheless, as a hybrid, ‘transitional’ society (Blank, 2015, p. 4), with the CCP-led state riding the tiger of contending class forces externally and internally, China could yet go either way: to full-fledged capitalism or towards state or even democratic socialism.

Serious internal and external challenges confront China’s hybrid, transitional state system. Internally, the class gulf between peasants, workers and capitalists threatens social stability. More to the point, the existence of classes, and a level of productivity which is still far from being able to abolish classes does not accord with the highly advanced, egalitarian socialism envisaged in classical Marxism. In the twenty-first century, China has generated a massive, largely urbanised, working class which will have to become an active agent of socialism if it is to become a genuine ruling class. As Marta Harnecker has argued, ‘one of the essential elements of socialism is social ownership of the means of production’, indeed, ‘without participatory planning there can be no socialism (Harnecker, 2012, p. 243)’. By this measure, China is still a long way from being a socialist state, strictly defined.

Externally, the integration of China’s economy into a global capitalist system, dominated by the USA (Panitch & Gindin, 2013,

pp. 154–155), makes China vulnerable to the systemic crises and limits of international capitalism (Minqi, 2008, pp. 176–177) or to dispossession by overwhelming military power (Long, Herrera, & Andréani, 2018, p. 12; Van der Pijl, 2012, p. 504). Clearly, as the PRC demonstrates, the state apparatus can be not only a bulwark against Western hegemony but also tilt the relationship of nation-state forces favourably against the core capitalist states as China's 'One Belt, One Road' initiative suggests (Sit, Erebus, Lau, & Wen, 2017). But ultimately, the survival and flourishing of 'socialism with Chinese characteristics' depends on the course of progressive politics within the citadels of modern capitalism, especially fraught in Donald Trump's USA.

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