

Russia and china
comparative
economic systems
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Russia and China Comparative economic systems

The remarkable change from communism to market economies across China, as well as Russia, began in 1970s. Since that time, some individuals, with a good number of them too poor, have been affected by structural changes in agriculture. None the less there is a wide disparity in the reform approach that states have selected. In order to understand the comparisons between the different states, we keep focusing on four broad groups of determinants. These include first, the manner the different states are structured, especially on the extent of decentralization. Second is the historical heritage of Socialism. Third is the difference in wealth as well as the organization of the economy. Lastly, first technological disparities in farming practices as well as the context within which farming took place.

Russia, which is the largest constituent republic come out as an independent state when the Soviet Union crumbled in December 1991. The political group of newly self-governing Russia went on board on an attempt to change its state socialist system, founded on state ownership of businesses and central planning, by a market means that is capitalist, based on physical assets and a market structure of harmonization. Russia has relied on a viable strategy referred to as the neoliberal transition strategy (NLTS) to convert this transition. The policy was created by western neoclassical economists and requires the government to take limited participation in the process of transition (Carson et al, 2008 P. 107). The country's economy depends on individual self-interested plans to change.

On the other side, China, this is the state socialist country, started transforming into a capitalist market system during 1978. State-directed transition strategy, which is China's development strategy, differs largely from the NLTS. In China, the SDTS calls for the government to undertake an active role in controlling the progress. In 1996, historic conversion of Russia had been in place for at least five years, whereas China's transition had been ongoing for eighteen years. It is quite clear that China's financial performance throughout the transition has been superior to that of Russia. Whereas China's economy has had a significant growth during the transformation Russia's economy has declined dramatically. Regardless of the noticeably different performance, with minimal expectation, Russia has not changed their conviction that the NLTS is much better than to China's SDTS.

China in 1978, as well as Russia in 1991, despite having one feature in common, which is that they were large state socialist countries poised to go on board on a market transition. The two differ from each other in various ways, in addition to their individual development, strategies. Moreover, the macroeconomic records of both Chinese and Russian transitions are extremely dissimilar to each other, which suggest that the latter was based on a practical strategy whereas the former was not.

The NLST as referred to, as shock therapy requires that the process of changing from state socialism to capitalism be done remarkably swiftly that is within remarkably few years. The strategy depends on some three key policies, which includes stabilization, privatization, as well as liberalization (Carson et al, 2008 P. 119). First, liberalization calls for the removal of state
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limits on price-setting and ancillary market behavior. The other policy, stabilization strives to achieve the inflation, unrestricted by liberalization, under control by means of reduction in government spending and tight monetary policy. Privatization refers to turning state-owned ventures into privately owned enterprises. On top of the policies, the NLTS also emphasizes upon the instant termination of the state allocation of resources and the elimination of restrictions to free international trade as well as funding.

Fundamentally, the NLTS aims at transforming the state socialist strategy into a capitalist market formula by removing state control of business ventures and state control over the economy, with the assumption that individual enterprises, as well as market forces, will thenceforth direct the activities of starting and putting in order economic roles that had formerly been undertaken by the government.

The other country china began transforming to a market strategy amid growing pressure from western experts to coerce the state to practice the NLTS. Nonetheless, this persuasion was not taken by China. The Chinese government rather practiced a very different SDTS. Instead of merely liberalizing prices, China kept a double system of prices, under which state ventures had to create a definite quantity of gain at the lower plan price, with production over that level sold at the market price.

China kept price check on some retail products through 1991, which is 13 years later after the transformation began. Inflation remained under control because of sound administrative measures, which were combined with

regular concise spells of carefully tightened credit. Instead, of reducing state expenditure, China undertook massive investments in infrastructure to sustain economic growth. The state allowed fair credit expansion, instead of strict fiscal policy, whereas deviating into productive investments through control of bank lending as well as direct setting of interest rates by the government.

Differently from the severe economic tightening in Russia, in China, money supply rose rapidly, from 25% of gross domestic product in 1978 to 89% in 1994. Instead of privatizing state ventures, China encouraged the creation of new non-state ventures, which includes employee collectives, villages, townships, as well as private persons. The state went on to facilitate investment funds into state ventures that were under state management (Carson et al, 2008 P. 99). In agriculture people were provided with plot of land for personal utilization, though they were not permitted to sell or lease the land. Even though, China has accepted foreign investors, it has kept active support of its domestic market.

The distinction between China's SDTS and Russia's NLTS go far beyond the issue of speed of transition. China decided to deploy its state-owned, planned economy as a basis for initiating a new non-state, sector based on market. This strategy was a two-sector strategy, compared to the one-sector strategy of Russia. China kept and upgraded its state sector while encouraging a growing sector of non-state ventures. The average living standards for the citizen in China have risen tremendously since the transformation began. Even though the variation may have risen, the extent

of income disparity in China has been remarkably inferior compared to that of Russia.

Historic Legacy. The historic legacy of communism has created a large gap between China and Russia. As early as 1980, rural households in Russia had been working on collective farms for close to six decades. Because of this, most workers had been born under the collective scheme and, therefore, did not have a memory of family farming. In contrast, when household responsibility system was introduced in the late 1970s, households in China had carried out activities on collectives for only two and half decades. Even, though, a good number of the collective members aged under 40 could not remember the household farming periods, there was a good number of older members that could recall.

Because of these historical, it is practically possible that farm households in China preferred a return to what they recalled, whereas those in Russia feared what they were unknown to them (Carson et al, 2008 P. 211). A good number of elderly farm workers in Russia had worked on family farms all the way until after the Second World War. Most of them were collectivized only in the late 1940s as well as early 1950s around the same period, which China's communist party was collectivizing. Basing on this, it is clear that historical legacy, even though it is a factor cannot entirely account for the disparities of both China and Russia.

Wealth. Even, though, report may not provide a detailed explanation, the disparities in wealth levels in China, and Russia, as well as level of living provided by pre-reform collective farming largely, is one of the essential

reasons, which households in both states differ so piercingly in their zeal for reform. In China, many rural households had faced poverty in the past, and about 30 to 40 per cent of households lived below the poverty line, which is one dollar per day internationally. The other 70 per cent of people lived below two dollars per day international poverty line. Income level in rural areas differed significantly below that of urban areas. Whereas agriculture had also been subjected to tax under the ancient Russia regime to encourage industrial development, the experience was quite different in the 1970s and 1980s. From the start of the Brezhnev era, farm workers in Russia had gained a lot from large subsidies from the state fiscal system as well as comparatively high earnings in the agriculture sector. This does not mean that farm production was doing well in Russia. Towards the end of Brezhnev period, even though input utilized reached an all time high, agricultural productivity was declining. Even with the low performance, workers in Russia's state farms as well as collectives enjoyed standards of living that were substantially higher than those in China's rural areas were (Carson et al, 2008 P. 187). For instance, expenditure and income of those in rural areas were not that different from those in the urban settings in Russia under this period. A large number of workers were covered with social welfare benefits. Certainly, extreme farm wages amidst low production could only take place with extensive budgetary support. For sure, after the mid 1950s extraordinary aid had been offered to agriculture. Individuals knew life in the farm to be one that could be spending contentedly with a little work force. In various Russia, rural, wages were greater than those in urban areas were. Wages, as well as farm prices, were higher than anyone would have

expected under whichever type of market equilibrium. However, when prices were liberalized during the 1990s, state of trade fell radically in Russia.

Providing, extremely high income and wages for less effort, it is not amusing to learn that farm workers in Russia resisted agricultural reforms. Under the pre-reform scheme, incomes were guaranteed by the state, which was under a performance-based scheme, in which farm employees would have had to endure the peril of agricultural production. Therefore, salaries would have declined; effort would have had to increase as well as risk being higher. In addition, provided with the magnitude of over employment as well as pre-reform soft-budget limitations, agricultural restructuring would nearly have activated significant lay-offs as it took place in several countries in the 1990s. With such changes, it is clear that China's farmers had almost nothing to lose while grassroots support in agriculture for radical change was not possible in Russia.

Technology. In the same manner, in which wealth factors had contradictory effects in both China and Russia, the scenery of technology also did.

Interestingly, it is evident that technology raised the support of farmers for reforms in China since they would have a higher value of benefitting. Giving encouragements to farmers in China would result to comparatively low involvement in the state's labor-intensive farming system. China's farmers bought few of their inputs. They also had restrained distribution channels. In addition, they sold comparatively little of their yield into the market. Farmers who used production, which interfered with processors, were decidedly less (Carson et al, 2008 P. 131). Farmers in China welcomed reforms knowing

that the high labor component share, which is the potential for efficiency
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that enhanced production would translate to extremely higher wages for them.

The opposite was true in Russia. The farmers had a clear understanding of their nature of production scheme as well as the ties, which they had contribution and yield networks. If reforms stood for dramatic alteration to the input procurement channels, as well as, output marketing system, the farmers totally understood that there would be incompetence costs.

Nonetheless, they should have expected that even though, as remaining claimants, there must be some competence gains, such an increase would be considerably small because labor did a reasonably smaller function in Russia agriculture. Therefore, with such insignificant upside increase, they did not have the assurance of when; they were going to recover from the disorders, which would automatically follow any set of strong reforms in Russia. Thus, the nature of technology backed the determination to oppose the reforms.

In addition, several rural families received a substantial part of their real wages from their household plots that they managed next to their job on the collective as well as state farms. There was a mutual association between the huge farms as well as the household plots as production on the plots supplement the salary as well as food security of the workers. Meanwhile, vital inputs required for production on the plots originated from the large farms, which in several cases were unregistered. Therefore, reforms of the huge farms as well as interruptions of the supply chains would as well influence household plot production.

Technology and the manner it influenced the distributive consequences of the agricultural reforms also added to the establishment of an agreement among farmers in China, and if this were something to go by it would have contributed to the anxiety among household in Russia. Since economies of scale are not useful in China's labor-intensive farming schemes, reformers found it easy to allocate land in a manner that was viewed as kind to each rural household with slight loss of effectiveness. Because each household gained, naturally this type of strategy had wide-based support.

In Russia, however, if constricting were to be achieved, it would totally have destined big layoffs. Effective management of farmers in Russia required that capital-intensive farmers needed admission to adequately wide tracks of land (Carson et al, 2008 P. 177). Therefore, effective oriented reform would have translated that the farm's control rights must have had to be limited in the hands of very few people and the other population of workers laid off or absorbed back as merely wageworkers.

Leaders between China and Russia were not only anxious about motivating growth when allowing reforms to aid the effectiveness of agriculture. There concern was at the same time in other likely effects. This includes ideology, as well as the effect on the organization of both the social and political relations. Another concern was the reform's likely collision on equity. The parity of cost of reforms was essential to create the reforms socially as well as politically sustainable. Leaders who belonged to the conservative group rejected the HRS disputing that it would raise variation in rural areas. The other concerns were disruptions triggered by the reforms. Disruptions could diminish the existing rents collected by communist leaders and could have <https://assignbuster.com/russia-and-china-comparative-economic-systems-economics-essay/>

important negative social effects, such as joblessness or income declines. Therefore, like uneven income effects, it would build strong political opposition as well as reactions alongside the reforms.

Because of the two concerns, the varying nature of technologies in the two systems of farming enabled it so that reform was not a problem in China compared to Russia. In the first place, the labor concentrated nature of China's farming schemes shows that with little input of physical capital, reform strategies that altered incentives could raise incomes with less danger of disruptions to the rest of the economy.

In the contrary, the more resource intensive as well as large-scale nature of Russia agriculture and the manner in which farming was entrenched in a much bigger as well as multifaceted Agro-food scheme means that the original increases from possessions rights reforms and market liberalization would be comparatively less (Carson et al, 2008 P. 212). To achieve, Russia's reformers would have to create structural changes in the input as well as output channels.

The possible disruption and incompetence could be comparatively widespread and harsh. Therefore, even though grassroots force must have been forcing China's leadership to put into practice the reforms in the late 1970s, the comparatively large increases that the leadership was likely to anticipate from collectivization could have enabled them to be more approachable. In contrast, provided with the possible complexities, as well as the high cost of reforms in Russia, taking into consideration that the

management understood these benefits, it could describe why there was fewer efforts in approaching the reforms when they met confrontation.

In addition, technology also assisted China's leaders by reducing the competence and parity trade-off that could have been triggered by agricultural reforms. Due to the nonappearance of a large economy of scale effects, transformers in China were able to give land to each farmer. Through better encouragements, improved effectiveness raised incomes significantly.

Nonetheless, there was another determinant. Since most of the China's farmers were very poor, and management could allow every farmer to take part in collectivization, the transformation also assisted in improving equity. This, therefore, means that there were no tensions between China's management relating the potential distributional collisions of an effectiveness-increasing strategy. Because of the nature of technology, it was a win-win for china.

In contrast, in Russia, technology would have translated that they were going to have been winners and losers from transformation since it called for restructuring, compensation, layoffs and several other changes.

Effectiveness would have merely come at the cost of fairness. In a scheme like that in Russia, this could have erupted tension among managers who were ready to sacrifice competence for a comparatively fairer sharing (Carson et al, 2008 P. 264). This is another reason why China's leaders were very ready to push the agricultural transformations.

It is extremely simple to note the reason why most mainstream Western economists have continued to support the NLTS, even with the insignificant <https://assignbuster.com/russia-and-china-comparative-economic-systems-economics-essay/>

economic output it has produced in Russia and elsewhere, and the availability of alternative policy, which has performed quite well. According to these institutions if private assets and free markets are optimal, then privatizing property and freeing markets from government management is always acceptable and the faster the better.

In the two states, China and Russia, because of the unique political as well as economical situations resulting from the change both the federal government in China and central government in Russia is well-established in relations with ventures through ownership and several other connections. The divestiture of the government's property through the NLTS reforms in Russia compared to that in China build a notably different background for the government to shaping its economy by exerting state power on the ventures.

In the case of Russia, most of the authority is exerted from Putin alongside the challenging demands of the people, comprising the oligarchs and outside pressures such as the WTO in a manner, which seems to fracture the public, in a certainty, which Russia needs to deal with. The truth must come out as a product of the change as well as divestiture of ownership. For China, both the divestiture of political as well as economic authority through the gradual change has enabled the state to manage its economy due to the determination of hierarchical connections between the government machinery and several SOES and other bodies.

Because authority is entrusted in the government in the first place due to Russia legacies of central management, the government's economic

governance capability becomes a product of the change, and its aptitude to manage or affect ventures, and several other economic actors is influenced by both domestic and international interests. These interests determine whether the government promotes economic growth as well as stability (Carson et al, 2008 P. 173). This aspect is unique in relation to the change of both China and Russia.

The distinction of the two states transition processes is subjected into sharp disparity when one consider how in a gradual change, the influence of any single institutional understanding cannot be given a priority since the purpose of a single institutional understanding largely depends on the purpose of several other institutional arrangements in the institutional organization. This adaptive trait applicable to China's policy poses a main challenge one to apply the China strategy on Russia and radically reform not only the institutional landscape of economic actors as well as business state relations as well as the regulations of the game. The gradual approach has allowed the state to take control that increases the yielding of limited managerial self-sufficiency as well as profit sharing, and encourage micro incentives. Moreover, the policy assists to guard products that are not viable in an open, spirited market.

Even, though, China and Russia differ considerably, their distinguishing development does not preclude the likelihood that the latter may be able to gain much from the former. Maintaining an active position in trading with internal and external financial pressures from international economic integration, in the process of pursuing its policy objectives as well as controlling of domestic matters.

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The evidence strongly suggests that the NLTS followed in Russia is not workable, therefore, cannot change a state socialist scheme to a capitalist market system. On the other side, the SDTS represents a workable transition policy. An example can be made that a SDTS would have been economically Viable in Russia in 1992, had its leadership persuaded to follow such a line at that period (Carson et al, 2008 P. 217). It also makes sense to assume that a SDTS could be successfully introduced in Russia later after all these years of liberalization, privatization, as well as economic collapse.

The economic, as well as the political authority of the IMF, as well as World Bank, and those of the foremost capitalist states, which oversees their activities would make it impossible for whichever state between the NIS and CEE to make such a turn in policy. Nonetheless, a huge, resource-rich state like Russia could defy such pressures. The real barrier to such a move for Russia lies greatly in the political leadership of the Russian new rich, who have gained a lot from NLTS regardless of its catastrophic effects on the economy, compared to both foreign pressure as well as domestic economic barriers to implementing an option course of economic growth.