

# Beware of How you Walk on a Rocky Path

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## Abstract

The article analyzes differences in the outcome of similar reforms undertaken by the USSR and China in the 1980-1990s. Whereas in the

Soviet Union they led to the country's collapse, China managed to overcome an acute political crisis in 1989 and achieve rapid economic growth. The authors analyze the different initial conditions of the reforms, which predetermined their nature and focus and produced different intermediate results. Center-region relations are identified as the key factor responsible for the different outcomes of the reforms. The authors conclude that the evolution from decentralization to recentralization, which China had undergone but which had only started in the Soviet Union, continued in post-Soviet Russia, producing the same result: recentralization was actually carried out at the beginning of the 21st century when Vladimir Putin came to power.

**Keywords:** Russia, USSR, China, reforms, center-regions relations, decentralization, recentralization.

In the 1980s-1990s, two socialist countries—the Soviet Union and the People's Republic of China—carried out deep and comprehensive reforms. Their purpose was to revive the economy, improve the standard of living, and ultimately increase the viability of the ruling regime. Dismantling the existing system was not on the agenda. In both countries the Communist Parties initiated reforms in the hope of strengthening the system of economic and social management.

However, the result turned out to be the exact opposite. The two countries emerged differently from the acute socio-economic crisis that swept through them in the second half of the 1980s. Many know quite a lot about Soviet *perestroika*, but few remember that China also faced a deep systemic crisis, which culminated in mass protests in Beijing's Tiananmen Square in the spring of 1989.

While China stepped up reforms after a short period of conservative reaction, the USSR and its ruling party were heading for a collapse and a general crisis of the state, from which Russia, as the Soviet Union's successor, recovered only at the end of the 1990s and the beginning of the 2000s.

One of the key factors (although, of course, not the only one) behind the difference in results is the policy of relations between the center and

the regions. In the wake of socio-economic liberalization, both the Soviet Union and China consciously opted for decentralization.

In addition to positive results, decentralization had side effects. For example, the Chinese economy, fragmented since the Cultural Revolution, faced the risk of even greater fragmentation due to growing regional protectionism, and the center, deprived of fiscal flows, was unable to “dictate its will” to the most developed regions and support the least developed ones.

However, in the early 1990s, the Chinese leadership switched to the policy of ‘recentralization’ first outlined in the mid-1980s, that is, exactly when a rapid centrifugal process began in the Soviet center-regions system. After the collapse of the USSR, Russia also embarked on a long and winding path to “recentralization with Russian characteristics.” This journey ended in the first decade of the 21st century during Vladimir Putin’s presidency, and its final stage became known as the “strengthening of the vertical of power.”

The transition of the two countries from decentralization to recentralization, during which one of them was destined to go through an intermediate collapse and the other to achieve success, is a through line of a monograph released in 2023 by the Russian Foreign Ministry’s MGIMO Publishing House (Zuenko and Savchenko, 2023). This article, though its scope is narrower, is based on the conclusions made in that publication. Specifically, the monograph is methodologically and theoretically more substantiated, and presents a detailed analysis of the theoretical sources of the study. The format of a journal article does not permit a comprehensive overview of the problem, but we should note that the direction of the research has been mainly determined by the works of Mikhail Karpov (1997), Alexander Shubin (2005), and Ronald Coase and Ning Wang (2012). Importantly, Mikhail Karpov<sup>1</sup> was the first to study the fundamental structural and dynamic similarities and differences of Soviet and Chinese reforms, which became clearly noticeable after 1989-1990.

In this comparative study, we focus on just one, key question: *How do states collapse, or resist collapse, in a systemic crisis?*

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<sup>1</sup> Mikhail Karpov introduced this idea in lectures given at Kazan Federal University in March 2022 and at Tomsk State University in May of the same year.

## **RUNNING ON PARALLEL TRACKS**

In studying *perestroika* and the collapse of the USSR, Russian researchers rarely look beyond Russian history to the parallel experience of other countries. However, those who do find that, at the beginning of their respective journeys, the Soviet Union and China ran along almost parallel tracks, like two slalom skiers moving next to each other. The initial stage of reforms in the two countries was almost identical, even though neither Moscow nor Beijing studied the other's reform experience.

Changes in the USSR and China began with cautious attempts to revamp the existing system without demolishing the economic or political order, and they gained momentum only when the failure of the original modernization/acceleration plan became obvious. In both cases, political leaders took uncertain steps, pushing for change at first but then retreating to conservative positions, causing the elites to split into progressive supporters of radical transformation and conservatives who wanted to focus entirely on economic restructuring. Not only Mikhail Gorbachev, but also Deng Xiaoping, were forced to balance between the two groups (for which the former is widely reproached), and make inconsistent decisions regarding socio-economic and political reforms. Those who accuse *perestroika*'s initiators of lacking a well-thought-out plan will be surprised to learn that China, too, devised the strategy and tactics of reform on the move, improvising rather than following a certain plan. Much of what caused the Soviet system's collapse, in the view of Russian historians, can also be observed in China, which nevertheless managed to avoid a catastrophe.

However, the formerly-parallel reform paths of China and the Soviet Union began to quickly diverge when their systems plunged into an acute crisis in 1989-1990. But in terms of center-region relations, they eventually came to the same result—recentralization, regardless of whether the state is formally unitary or federal.

## **DIFFERENCES IN INITIAL CONDITIONS**

There were quite a few factors that ultimately led to the reforms' different outcomes in the USSR and China, and the first one worth

mentioning is the *initial conditions*: differences in the type and depth of government decentralization at the first stage of reforms.

Let us expand our comparative approach to cover political transformations in Latin America. When comparing the depth of decentralization in Brazil, Argentina, Mexico, and Colombia in the last quarter of the 20th century, Tullia Falletti showed that the first steps along this path largely determined all the subsequent ones. Focusing on three main types of decentralization—administrative, fiscal (more broadly, economic), and political—she found that the most profound transformations took place in countries where decentralization began in the political domain. Where local elites were first burdened with administrative and economic powers instead, subsequent political decentralization did not leave room for a radical revision of the entire system of relations between the center and regions (Falletti, 2010, pp. 31-38, 54-55).

Decentralization, once in progress, cannot be stopped quickly and effectively without significant political costs. Political decentralization, as a first step, maximizes the strength of subnational elites who enter political struggle for redistributing economic and administrative powers in their favor. This is what happened in the Soviet Union and was inherited by Russia, which became the most decentralized federation in the world in the late 1990s. At the same time, the counterexample of China confirms the importance of the starting point and the first steps in transforming center-region relations.

In China, administrative and partial fiscal decentralization at the initial stage of reforms (late 1970s-1980s) was a legacy of Mao Zedong's rule and the Cultural Revolution. Mao deliberately decentralized China to avoid copying the Soviet model of strict centralization and total economic planning, which by then had lost authority and attractiveness in his eyes.

The question of Mao Zedong's motives—whether he considered such a system more effective, or the experience of managing Soviet districts and being a “field commander” during the guerilla war had left an impression upon him, or he hated the bureaucracy for its everlasting pursuit of control and expansion—remains open. Yet facts

are facts: China approached the reform period with a decentralized, if not fragmented, economy and broad administrative powers on the ground, but its ruling political elites were still united, partly thanks to the Cultural Revolution that had suppressed dissent and opposition.

Contrary to his intentions, Mao's legacy of decentralization certainly made it much easier to plan and carry out economic and administrative experiments. In the second half of the 1970s, the Chinese authorities began experimenting with various forms and methods of reform in different regions, speeding the creation of non-state-owned production and logistics chains, while in the USSR, for all its internal heterogeneity, each enterprise basically was a separate workshop within a huge "state-factory," and attempts to remove individual elements destabilized the entire structure.

In the Soviet Union, decentralization began in the political sphere, which created room for struggle among government agencies for the expansion of administrative and economic powers and for the emergence of opposition inside the ruling class. This was largely the result of rapid politicization of economic and governance problems. Mikhail Gorbachev's attempts to shift responsibility for the failure of economic acceleration to the lower levels of the party and economic bureaucracy destroyed the already fragile unity. Speaking in Khabarovsk in 1986, he for the first time openly accused the lower levels of government of sabotaging *perestroika* and likened his restructuring plan to revolution.

Democratization, which was seen as a way to unleash the creative potential of society, in reality multiplied the number of opponents not only on the conservative, but also on the relatively "democratic" flanks, and even allowed them to defend themselves and attack others on the political stage. The emergence of public politics, with a centralized economy still in place, made the central authorities a target for political attacks, and the seizure of local resources became the main purpose of this struggle.

The emergence and radicalization of public politics, facilitated by Gorbachev himself, left him without a political center on which he could rely. The transfer of real power from the party to Soviet bodies,

and from the center to the republics and regions, created a situation where, by the time of the Soviet Union's collapse, opponents of the central government had already built an alternative non-partisan governance hierarchy. December 1991 did not change anything in the system of governance. The same persons still held power in many Soviet republics and many Russian regions.

At the same time, deeper administrative and economic decentralization in China, which preceded the start of market reforms, made it not only more adaptive to further change, but it also insured it against uncontrolled politicization of center-regions relations.

### **THE IMPACT OF THE PAST**

Another factor that predetermined the divergence of initially similar reforms in the USSR and China is the *different historical context* in which Deng Xiaoping and Mikhail Gorbachev acted. This is not about the different civilizational foundations of the two states, but about their attitude to the recent past.

Reformers in Moscow and Beijing had to look forward and back at the same time, creating prospects for the future but also dealing with the legacy of their predecessors. For Deng Xiaoping, the key task of the first few years of reform was to overcome the negative consequences of the Cultural Revolution, which had affected him personally. This predetermined his desire to build a system of collective leadership, create a system of rotation and retirement for senior officials, and take certain steps to de-ideologize governance—everything that inadvertently strengthened those elements in center-regions relations that helped increase the regions' economic efficiency while facilitating the transition to recentralization.

The urgent need to revise the understanding of recent experiences was satisfied in a manner characteristic of the Chinese political elites. In 1981, the CPC Central Committee adopted a resolution titled "Certain Questions in the History of Our Party since the Founding of the People's Republic of China," which contained strong wording regarding the Mao Zedong era and the Cultural Revolution. It did not leave room for any significant

public discussion (this was clearly seen in the absence, even in the troubled period of public protests in 1987-1989, of any revisionism regarding Mao Zedong's activities and of any proposals to remove his mausoleum from Tiananmen Square).

At the same time, in the USSR, the turn to historical topics and society's engagement in their discussion had far-reaching tragic consequences for Soviet leaders. Mikhail Gorbachev often substantiated his ideas by referring to Vladimir Lenin, but more pertinent was his assessment of Nikita Khrushchev's rule and especially downfall. This experience most likely convinced Gorbachev and his close associates of the need to step up political reform: the emergence of public politics in the Soviet Union reduced the risk of conspiracy at the top and opened opportunities for broad reform. However, the main goal was to ensure free political rein for Gorbachev himself and cut the Communist Party's constraints on him. True, Gorbachev eventually lost, but not the way the previous Soviet reformer, Khrushchev, had: Gorbachev protected himself from repeating the latter's political fate by sacrificing the political system.

In order to clip the wings of real and imaginary opponents of democratization even before they started acting, the Propaganda Department of the CPSU Central Committee gave the go-ahead for a "lesson in truth" by expanding the freedom of speech and the exposure of Stalinist crimes and Brezhnev-era excesses. It is important that this initiative highlighted the darkest chapters of the Soviet past associated with mass repressions and deportations, hunger, and the incorporation of the Baltic republics. But more importantly, this sobering shower of truth coincided with a collapse of the dam that had blocked information about life in core capitalist countries, whose socioeconomic inferiority had always underlain official Soviet propaganda. The CPSU turned out to be responsible both for the crimes of the past and for dismal life in the present.

*Perestroika* was supposed to ensure the country's breakthrough into the future. Instead, it triggered extremely heated national debates about recent history. We can say that the Soviet elites, both political and intellectual, did not have the strength to think about the future,



as they had already committed so much effort to discussing the past.<sup>2</sup> Moreover, these debates inevitably denigrated Soviet experience in the eyes of society, turning it into an object of ridicule. Against this background, the Western model, information about which now spread unhindered by any censorship, became increasingly attractive. All republics of the Soviet Union, which was teetering on the verge of collapse, shared the same desire: to turn the page of Soviet history and start a new life in a new state, using new models.

A similar process took place in China in the 1980s. However, firstly, China still viewed the West through the lens of anti-colonial policy, remembering the traumas of the century of humiliation, not completely overcome yet; and secondly, censorship and political control were still strong, despite relaxation in some respects.

### **(IN)DEPENDENCE ON(FROM) WORLD PUBLIC OPINION**

Uncontrolled decentralization in the USSR was launched by the political reform, but it was designed primarily to strengthen the power of the reformers. To a large extent, decisions were determined by how the reformers positioned themselves on the international stage.

Paradoxically, the USSR fell victim to the foreign policy success of its *perestroika*. By the end of the 1980s, Gorbachev had gained unprecedented popularity in the West, unseen for Soviet leaders before, which was based on his image as a liberal and humanist. However, this success woke up political “break-away” tendencies in the Soviet bloc and in the Baltic republics and dramatically limited Moscow’s freedom of action not only within the Soviet bloc, but even within the Soviet Union itself. Gorbachev’s “new thinking” formula and ideals of humanism pushed Moscow away from suppressing break-away tendencies by force, towards renegotiating the structure and content of relations between Soviet republics. This meant that the Soviet Union itself and the main principles of its organization became the subject of political discussion and were brought into the sphere of public politics

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<sup>2</sup> This idea was borrowed from the work of renowned Brazilian economist Celso Furtado who in 1949 similarly described the socio-political situation in the British Empire (Furtado, 1985, pp. 14).

with its struggle for the redistribution of power. In this political context, the previously illusory right of the Soviet republics to secede from the Union became a real opportunity. (In China, national autonomies did not and do not have such a right even formally).

Unlike Deng Xiaoping, Mikhail Gorbachev could not openly take a conservative position. His role as democratizer and humanist significantly limited his ability to adjust the political course and introduce conservative elements, as was done in China, where throughout the 1980s the collective leadership served as a safety belt when the country went through the sharpest turns of reforms. Subsequently, Russian President Boris Yeltsin had much more freedom of action, and used the armed forces to resolve political conflicts without regard to the world community. As a result, the Russian Federation, although it had inherited almost all the systemic problems that had destroyed the Soviet Union (as is commonly believed in domestic and world historiography), managed to avoid seemingly inevitable disintegration in the early 1990s, amid the parade of sovereignty and debates on the Treaty of Federation and a new constitution.

Initially, the West also considered Deng Xiaoping a leader capable of making China its friend. He repeatedly appeared on the cover of the American *Time* magazine as a reformer, a liberal, and almost a champion of freedom of speech and other political reforms (which is a far cry from reality). However, neither Deng nor anyone else from the top elites (even those who are unreasonably labeled as “China’s Gorbachev”) needed recognition and support from the West, although they enjoyed the benefits of trade and investment cooperation with it. (This was because, after Mao Zedong’s death, China created a complex system of collective leadership that envisioned a mechanism for containing an individual leader.) The suppression of the Tiananmen Square protests in 1989, strongly condemned in the West, “untied the hands” of the Chinese leadership completely, allowing it to pursue the policy it considered necessary without regard to outside opinions.

If the condemnation of China’s actions had been followed by specific steps to curb its further development, the political alignment

in the 1990s could have been different. However, the sanctions imposed by the United States and some Western countries were short-term and largely formal—Western investment in China was so lucrative that Beijing did not even lose its “most favored nation” status in trade. This convinced the Chinese leadership that it could continue its political course despite foreign policy complications.

At the same time, when assessing Soviet reforms, one should not entertain the illusion that a revival of harsh censorship would have been enough to ensure the success of the reforms as in China. This simplified understanding of the situation stems from a modern view of reform priorities, while for the people who lived at that time, *glasnost* and the abolition of stiff restrictions on the dissemination of information were the main and most desirable changes. This demand was boosted by strong external information pressure on the Soviet Union; it also stemmed from the high level of human capital development achieved in the USSR by the 1980s, which was not the case in China. Roughly speaking, for the well-fed and educated Soviet people, the ability to consume Western information and freely discuss things was much more important than for Chinese society that was still concerned with “achieving satiety” after two decades of Mao Zedong’s socio-economic experiments.

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This brings us to almost the simplest and at the same time the most accurate explanation of the different outcomes of the Chinese and Soviet reforms.

In China, the main public demand in the first decades of reforms boiled down to a banal desire for food, clothes, and a job. Reforms solved these tasks quite successfully, despite their controversial and inconsistent nature, and this was noticeable even during the 1989 crisis. In the Soviet Union, people were well-fed when *perestroika* started, since it was preceded by a calm and fairly prosperous period of stability, but as the reforms proceeded, regardless of their goals and objectives, the quality of life kept declining. This dramatic difference ultimately led to a different attitude towards reforms in the two countries. In China, reforms enjoyed the support of people and, more importantly, the elites.

In the Soviet Union, without support from the elites, *perestroika* stalled and any attempts to rejuvenate it through even more radical reforms only made things worse. Eventually, reforms were continued in newly established independent states after the collapse of the USSR.

This reveals another parallel with the Chinese experience. In both countries, decentralization eventually turned in the opposite direction, having failed to become a lasting feature of public administration. While transforming the economy and reducing the involvement of the central government in routine management, decentralization jeopardized the very existence of the unified state. In China, this led to subnational economic fragmentation in the second half of the 1980s, when provinces began to trade and compete with each other as separate states. In addition, shrinking fiscal revenues did not allow the central government to pursue a socio-economic policy that could match its ideological principles.

The decision for recentralization was made in China in the mid-1980, but was implemented only a decade later due to the effects of decentralization: the weakening of the central government and corruption, which made the implementation of the reforms almost impossible: they were resented by the regional elites and provoked popular unrest. The suppression of the unrest in 1989, coupled with the natural renewal of the aging elites, allowed the central government to dismantle elements of political decentralization, carry out fiscal reform that put an end to the financial autonomy of the regions, and optimize human resources through personnel rotation (Zuenko, 2022; Zuenko, 2023). As a result, unlike the first reforms in the late 1970s, deep market reforms in the late 1990s (which ended in China's accession to the WTO) were carried out amidst, and on the basis of, recentralization.

In other words, in both Russia and China, regions strengthened their positions as reforms progressed, because the new reform-minded national leadership needed the support of the regional elites (decentralization). So regardless of whether a “weak leader” gained political capital or a strong leader, who did not need to bargain and reaped the benefits of the previous “appeasement” of the elites, came

to power, the two countries moved towards strictly limiting the powers of the regions (recentralization).

The example of the two countries clearly shows that the recentralization reforms were preceded by a crisis situation. For China, the year 1989 was a milestone that allowed its leadership to carry out recentralization reforms without paying much attention to resistance from the regions. For Russia, which by the end of the 20th century had become one of the most decentralized federations in the world, the events of 1998-1999 were the “analogue of the Tiananmen turmoil,” when the political elites united in the face of a new economic crisis and a young leader (Vladimir Putin) appeared on the political stage. He was much less bound by commitments to the regional authorities and was seen by society as a person capable of overcoming the most negative tendencies of the 1990s.

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