

RUSSIA AND CHINA IN TRANSITION: IMPLICATIONS FOR HRD RESEARCH AND PRACTICE IN GLOBAL COMMUNITY

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Abstract

In recent years, both Russia and China have attempted to move toward a market economy from a centralized, tightly controlled economic and political system that had held sway for many decades. In Russia, the attempt foundered largely because Russia moved too quickly without giving sufficient attention to its history and tradition. China, on the other hand, has retained elements of a centralized system while moving gradually toward a market economy. Both countries had had numbers of state-owned enterprises (SOEs) that became the key element of and central to the economic transition. Lewin's model of force-field analysis is used as a means to analyze the forces that both drive and restrain the economic restructuring. Entry into World Trade Organization (WTO) challenges both countries' SOEs. Training SOEs leaders to obtain core competencies is a crucial first step for SOEs to survive and develop in a global marketplace.

Introduction

Two features have made this paper unique. One is that Russia and China have a similar history--centralized, tightly controlled socialist economic and political systems--since the communist party took over power in both countries. The other is that the authors have had rich experiences both in Russia and China. Liu has conducted comparative adult education research in Russia and China for more than ten years and has run a business in Moscow for two years. Niemi has been a distinguished teaching professor in the HRD field and visited Russia eight times and China twice and taught in the University of Leningrad and Shanghai Second Institute of Education. The authors have realized from their experiences and research that HRD professionals and adult educators should play an important role in the transition process.

In this paper, Russian and Chinese revolutions and transition from a centralized economic system to a market-oriented economy will be first analyzed by applying Lewin's force-field model. From this analysis the authors have concluded that training SOEs leaders is the first step if SOEs are to survive and grow. Core competencies of a training program are developed at the end of the paper.

Russian Revolutions and Transition to Market Economy and Application to Lewin's Model

Historically, Russia underwent two cataclysmic transformations. In the bloody 1917 Revolution, the Czar and his regime were overthrown by Lenin and the Bolsheviks. This act signaled the end of a long-standing repressive feudal system in which state and church had commingled their efforts to hold tight control. Lenin's aim was not merely to replace a political and social system, but to abolish bourgeois culture and values as well; a process he foresaw would take many years (Lenin, 1920). Subsequently, the Union of Soviet Socialist Republics (USSR) came into being. According to Vlachoutsicos and Lawrence (1990),

Lenin believed democratic centralism would promote the public interest by institutionalizing both central direction of the economy and local control over local management and conditions... [but] the gap between practice and policy was enormous; the democracy in democratic centralism had virtually disappeared. (p. 58)

The early ideals had been lost, but the system continued. A second transformation took place during the last decade of the twentieth century with the collapse of the Soviet Union, a

transformation that produced new hope and optimism based on the bright promise of a market economy. Expectations ran high that a capitalist-style market economy would produce a better standard of living, more and better consumer goods, improved social conditions and more job opportunities. But this promise, like the first revolutionary transformation, has been largely unfulfilled. An important reason, according to Luzhkov (1999), is related to the Russia mentality:

It seems that difficulties in the formation of a market economy in Russia were engendered by an insufficient regard to specific features of the history of its development and the specific nature of the Russian mentality formed over roughly the past thousand years. Russia cannot accept the prescriptions of others; it must seek its own path. (p. 6)

Cohen (2001), in the "Failed Crusade", affirmed this reason in somewhat different terms. In effect, he chided the United States for attempting to impose its system on Russia:

...the United States was to teach ex-Communist Russia how to become a capitalist and democratic country and oversee the process of conversion known as "transition". Certainly, Russia was not to be trusted to find its own kinds of change, lest it wander off ... (p. 9)

This stance was no mere attitude. It became the official policy of the Clinton administration. According to a chapter appearing in Stivers and Wheelan's "The Lewin Legacy: Field Theory in Current Practice" (1986), Lewin would have viewed this American policy as a restraining force that hinders change. His force-field analysis embraced both the driving forces that facilitate change and the restraining forces that impede it. Niemi employed Lewin's force-field analysis in 1990 during discussions with top managers of Leningrad's state-owned-enterprises (SOEs). From their open, honest responses, Niemi constructed Figure I, which presented their views of the driving forces and restraining forces that would impact a move toward a market economy.

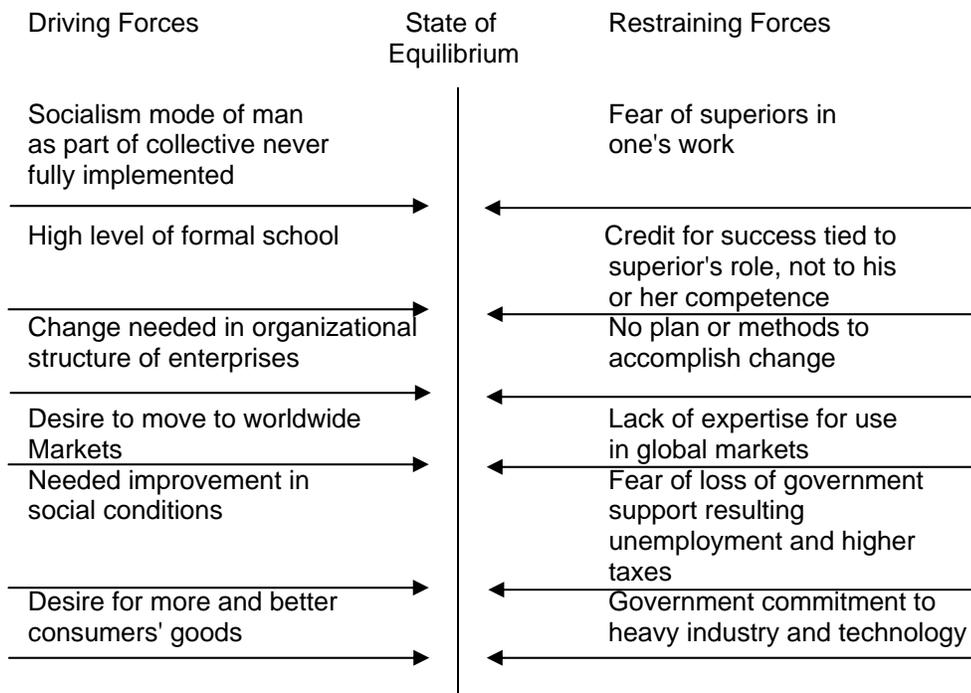


Figure I: Application of Lewin's model to Russia

An examination in the year 2002 shows that Russia's impetuous attempt to move into a market economy has failed. In the first place, certain driving forces that appeared in 1990 no longer

existed. For example, the high level of education has receded; social conditions have deteriorated, with a notable increase in crime; and affordable consumer goods are scarce.

As for the restraining forces--notably the lack of expertise and absence of a coherent plan or method to accomplish change--these are all too obvious. In addition, the worst fears that loss of government support would result in unemployment and higher taxes have been realized. Cohen (2001) summed up the relationship thus:

In 2000, investment was 20 percent what it had been a decade earlier... As of today, those reserves are 100 percent exhausted. Having produced almost nothing new and consumed most of what was readily at hand, the "reforms" collapsed. (p. 45)

Chinese Revolution and Transition to Market Economy and Application to Lewin's Model

After the Chinese Communist Party (CCP) took over power in 1949, China began to build socialist economy based on the Russian experience. In this process, China almost copied the Russian model of centrally-planned economy. Numbers of state-owned enterprises (SOEs) were established. During this period, everything of SOEs was planned by the government, from product to be produced to cadres, workers, as well as technical personnel. This circumstance left the SOEs leaders little room to decide, but merely to fulfil the government plan.

Beginning in the late 1970's, China started transition from centralized economy to market-oriented economy. Unlike Russia, which brought a "sudden death" to the socialist centrally-planned economy, the CCP and Deng Xiaoping, the most prestigious leader of the party, decided to reform the economy by means of so-called "crossing the river by fumbling the pebble-stone". That decision meant that the reform would not constitute a dramatic or revolutionary change, but a careful, decisive step-by-step gradual change.

In order for the economic reform to move in the orbit of a virtuous circle, the Chinese government has tried to deeply reform the SOEs as central to the economic reform. The SOEs were given more and more relatively independent rights to make their own decisions according to market needs. Competition began to be crucial for these SOEs to survive and develop both among the SOEs and in the international stage. The SOEs leaders gradually realized that their competition in the global marketplace depended on their product/service quality and, in the final analysis, on the competition for human resources that the SOEs possessed.

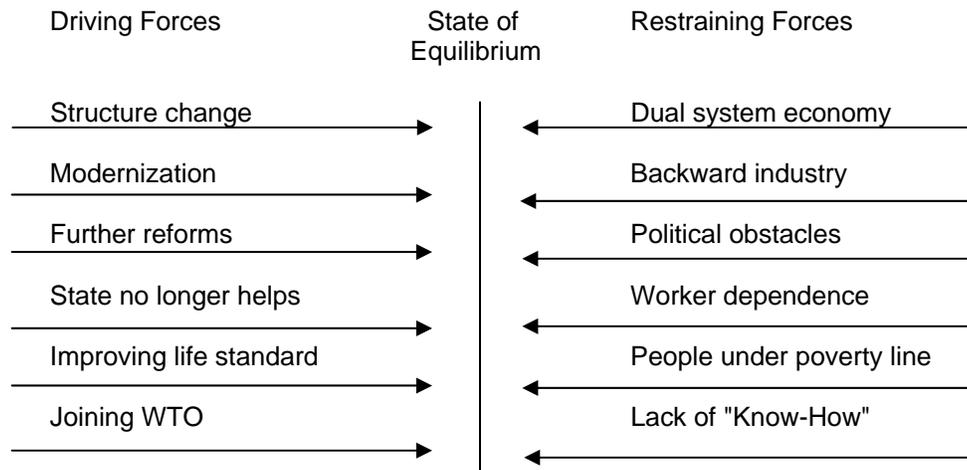


Figure II: Application of Lewin's model to China

After fifteen years of negotiation, China finally was officially accepted as a member of World Trade Organization (WTO) at the end of 2001. Joining WTO, in the authors' view, is the overwhelming force that would compel China to change and to institute further economic reforms. Adult educators and HRD professionals in this process of transition should play a strategic role. Training SOEs leaders to deal with the opportunity and challenge is crucial for the China's SOEs to survive in a global marketplace.

Although the Chinese government tried very hard to improve SOEs, there are still many forces that hinder the transition. Figure II demonstrates the forces that urge the Chinese government to continue reform and the restraining forces that the Chinese government and SOEs are facing. The forces that facilitate change are from the reform itself, whereas some of the impeding forces are systemic and others are stemmed from the reform itself. We will analyze each of the pairs of forces below.

Structure Change/Dual System Economy

Since 1979, the Chinese government has tried to maintain the planned economy and to urge the SOEs to play a leading role in the entire economic restructure. Meanwhile, the government has encouraged the development of private companies. However, the dual price system between SOEs and private companies had made unfair competition for the two sectors. SOEs obtained low-priced raw materials and equipment from the governmental plan; whereas private companies had to buy them in double or even more of that price.

Modernization/Backward Industry

One of the goals of the economic reform was to achieve the so-called "four modernization" in the sectors of industry, agriculture, defense, and science and technology. But the industry base, which was built with the help of the former Soviet Union in the 1950's, was so backward that it has become a heavy burden for the Chinese government to restructure. Foreign companies that joined the Chinese market have become a route by which China could accomplish technology transfer in order to modernize its backward industry.

Further Reforms/Political Obstacles

As the economic structural reforms deepened, the political system and legacies have become serious obstacles for further reforms. It is quite clear that, despite the impressive gains China has made economically over the past 20 years, many intractable problems remain, including SOEs. Many of the workforces in SOEs are superfluous and have been called by state officials "empty-shell enterprises" (*kongqiao qiye*). The best way for the Chinese leaders to solve this problem is to exercise not only expert economic policy-making, but political fortitude as well.

State no Longer Helps/Worker Dependence

After China started economic reform, the Chinese government no longer supported and provided welfare as it did during the period of centralized-planning economy. Worker dependence stemmed from the legacy of China's centrally-planned economy, the policy of full employment, and the distinctive and original nature of the Chinese employment system, which has been dubbed the "iron rice-bowl" (*tie fan wan*). Once workers joined an SOE work unit (*danwei*), not only could they not be fired, they also had "free" housing, schooling, medical care, and the like. Many workers were born into, educated by, spent all their working lives in, and then enjoyed their retirement under the institutionalized *danwei*. Since this social security system no longer exists, millions of workers have lost their jobs. This condition has made many former SOEs' workers feel lost.

Improving Life Standard/People under Poverty Line

The original goal and purpose of the reform was to improve people's living standard. There is no doubt that the overall quality of life for average citizens has improved dramatically. Citizens now have access to better services in crucial areas such as health care and education. Millions more now have electricity and telephone service as well. According to China's Office on Poverty Alleviation and Development, over 100 million individuals have risen out of destitution and now

live above the official poverty line, which was set at annual per capita income below 640 RMB Yuan [U.S. \$77] in the late 1980s. However, it was estimated that in mid-1999 42 million Chinese still lived below the poverty line.

Joining WTO/Lack of "Know-How"

After China joined WTO at the end of 2001, China has made important commitments to open and liberalize its market. These commitments were viewed by many as "quite sweeping" (Groombridge, 1999) and "exceed those made by any other member of the World Trade Organization" (Lardy, 2001). The commitments include non-discriminatory treatment to all WTO members, eliminating dual pricing practices, avoiding price controls for purposes of affording protection to domestic industries or services providers, revising its existing domestic laws and enacting new legislation fully in compliance with the WTO Agreement, avoiding any export subsidies on agricultural products. (WTO News Releases, 2001)

Needless to say that joining WTO will benefit China, but will certainly challenge China, too. The most serious challenge for China would be that SOEs leaders lack "Know-How". Under the centrally-planned economy system, the SOEs leaders never worried about what to do and how to do. They suddenly have to face an international competitive market. Many of them feel confused and lost and do not know how to deal with the new situation.

Implications

The authors believe that the first step for Russian and Chinese SOEs to survive and develop is to train the leaders to obtain core competencies for the global marketplace in order to face the challenge created by the transition and entry into WTO. WTO rules and international trading laws, global mission and philosophy, global negotiation and communication skills, cultural sensitivity, creating an environment for organization learning, and cultural exposure, should be included in the training program.

WTO is based on international trading rules. Only understanding and skillfully using them can the SOEs leaders succeed in the global marketplace. Moreover, international laws and the knowledge of international practice in the trading system are also important for SOEs leader.

One of the most important tasks of global leaders is to provide workers with a sense of direction relating to the organization's strategic mission and philosophy. As Marquardt (1999) notes, a leader should develop a philosophy first in order to develop a mission statement.

Negotiation is a process in which two or more entities discuss common, as well as conflicting interests in order to reach an agreement of mutual benefit. In international negotiations, some aspects that differentiate the negotiation process from culture to culture include language, cultural conditioning, negotiating styles, approaches to problem solving, implicit assumptions, gestures and facial expressions, and the role of ceremony and formality. For international negotiations to produce long-term synergy, and not just short-term solutions, Russian and Chinese SOEs leaders must be aware of the multicultural facets embedded in the process. The negotiator must understand the cultural space of his or her counterparts. Fisher's (1980) five considerations for analyzing and improving cross-cultural negotiations should be a part of Russian and Chinese SOEs leaders' training programs. The five considerations are (1) the players and the situation; (2) styles of decision making; (3) national character; (4) cross-cultural noise; and (5) interpreters and translators.

The ability to cope with cultural relativity and sensitivity is the key requirement for the SOEs leaders to succeed in a global marketplace. To create opportunities for international collaboration, the SOEs leaders must learn the customs, courtesies, and protocols of their counterparts from other countries, as well as understand the national culture and mindsets of the people. SOEs leaders training program should include respect for the values and practices of

other cultures such as organizational structure, leadership styles, motivation patterns, training and development models, and human resource management.

How to create an environment for learning within an organization is a very important task for Russian and Chinese SOEs leaders. A capable leader should be able to turn the organization into a "learning organization."

In order to deeply understand other cultures Russian and Chinese SOEs leaders should be significantly exposed to at least one other culture in which the business takes place. This goal could be accomplished through international internships, significant travel experience, or month-long excursions organized by the organization.

After most of Russian and Chinese SOEs leaders obtain, possess, and skillfully utilize these competencies, the challenges posed by transition to market economy and entry into WTO will be transformed into opportunities.

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