



## Mao, Marx & the Market

Capitalist Adventures in Russia and China

by Dean LeBaron with Donna Carpenter  
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### Take-Aways

- The West must engage China and Russia to improve the economic standard of all parties.
- Freeing China and Russia from the scourge of centralized planning was supposed to be the most significant economic event of this century.
- Soviet technology foundered for lack of consumer market application.
- Russians were hampered by a wounded national pride and a culture that had opposed private enterprise as improper.
- Russia is trying to convert military manufacturing to industrial production.
- One former producer of space-launch rockets began producing children's sleds.
- In China, innovation has been decimated by political repression.
- Unlike the Russians, the Chinese were willing to work to lure Western assistance, and carefully implemented recommended reforms.
- The growth of the Chinese consumer market occurred with breathtaking speed.
- Chinese citizens now feel a passion to restore their country to its proper place of greatness on the world stage.

### Rating (10 is best)

Overall	Applicability	Innovation	Style
<b>8</b>	<b>7</b>	<b>8</b>	<b>9</b>

## Relevance

### What You Will Learn

In this Abstract you will learn: 1) The political, cultural and economic histories of Russia and China; 2) How each country has approached the challenge of moving from a planned to a free-market economy, and 3) The future economic prospects for both countries.

### Recommendation

Dean LeBaron has crafted an insightful volume that is part travelogue, part cultural analysis, and part memoir. The resulting book will bring you up-close and personal with the forces that shaped the two great cultures of Russia and China. The text is adorned with vignettes, anecdotes, parables and humor that keep the read as entertaining as it is weighty. *getAbstract.com* strongly recommends this book to anyone looking to understand two countries that have greatly influenced the last century of human history and will play a central role in the next.

## Abstract

### Swords Versus Plowshares

If it is true, as the Chinese say, that a journey of a thousand miles must begin with a single step, then the West still has a long way to go in understanding our eastern brethren in Russia and China (and we better get on the march soon). Efforts to privatize Russian businesses and invest in the country's infrastructure were boosted in the summer of 1990 when a conference entitled, "Swords into Plowshares," was held at Harvard. The topic was how to ease the transition of the former Soviet Union back into the Western economic mainstream. The importance of this initiative was underscored when a member of the Russian delegation stated at an informal meeting that he had visited Boston before.

"Oh?" an interested listener replied. "And when was that?"

"About five years ago?"

"And where did you stay?"

"Nowhere," the delegate answered, before going on to explain that he had visited Boston aboard a Soviet submarine, from which, using the periscope, he took a tour of Boston Harbor. Suddenly beating swords into plowshares became a real and present priority.

### The Soviet Context

The latent potential of the Soviet economy was clear. It ranked as the third most populous country in the world behind China and India, with almost 300 million citizens. If nothing else, it could be a huge market for Western consumer goods. Those predisposed to dismiss the country's accomplishments in light of its shoddy consumer goods overlooked the fact that the country had simply de-emphasized such items in favor of a pronounced military buildup. A 1990 Soviet study found that one in three food samples collected by inspectors was unfit to eat. Only about one in 25 Soviets owned a car, compared to two of every three Americans. Indeed, a black South African was more likely to own a car than a citizen of the Soviet Union. The city then known as Leningrad had one gas station per 201,000 people. And there was one phone in the Soviet Union for every seven in the United States.

"The Russians were hampered by their wounded pride."

"Judging China by contemporary Western standards is always risky."

“Political failure, as opposed to a lack of resources, accounted for the difficulty in feeding Soviet citizens.”

“Russian history is marked by long periods of torpor interrupted by sudden, vigorous activity.”

“I believed that freeing these countries from the chains of central planning would prove the most significant economic event of the century, benefiting not just their own populations, but people everywhere.”

Actually, the Soviets had impressive technological capability, which simply had not been leveraged to put stock on retail shelves. Similarly, hardships experienced by Soviet citizens stemmed from poor management and political leadership, as opposed to lack of resources. Consider that prior to the breakup of the Soviet Union at the end of 1991, the Soviet Union enjoyed twice the landmass of China and only a quarter of China’s population. True, there were fuel shortages. However, the Soviet Union held about 40% of the world reserves of natural gas, and about six percent of the world’s oil reserves. Also, the Soviet Union had more timber, coal, copper, zinc, nickel and gold than any other nation in the world.

Its human capital was substantial as well. Nearly all of its citizenry had attended some high school during the Gorbachev years. Some nine percent had college degrees, up from two percent in 1960. Thanks to the military infrastructure, the Soviet Union had one of the world’s largest pools of science and engineering talent, numbering some 1.5 million persons.

The question remained, however, of how to convert the impressive resources of the former Soviet Union into practical economic benefit, even as the society re-engineered itself politically and charted a perilous course towards open-market democracy. The World Bank, for example, had estimated that as much as half of the Soviet Union’s industrial assets were so outdated that their worth was close to salvage value. Moreover, the level of healthcare was deplorable, and as measured by life span, you were better off being a citizen of Mexico rather than the Soviet Union. And the Gorbachev government had identified 290 ecological “disaster zones,” including toxic waste sites that had to be cleaned up. All this from a country that had astounded the West by exploding its first atomic weapon in 1949, and shocked the world with the launch of the first space satellite, Sputnik, in 1957.

As one Russian explained, Russia’s shift to a planned economy under the Soviets had been like making fish chowder. It was simple: You catch some fish, chop them up, and cook them in broth to make chowder. The transition from central planning to a free market was even easier: Just turn the chowder back to broth, and bring the fish back to life.

### **The Conversion**

The Soviet term was konversiya, or conversion. The country’s leading producer of rockets, for example, was soon making children’s sleds. It wasn’t exactly converting swords to plowshares, but close. Another example of conversion was known as absorption: It involved assigning responsibility for sectors of civilian industry — fisheries, light machine manufacture — to the military. While one normally envisions the transfer of business from government to private enterprise, dumping a grossly mismanaged business on the private sector usually failed. It was the military’s job to marshal the resources needed to renovate them.

This was the environment that the American company Batterymarch faced in its mission to create investment deals to help Russia reorganize its economy in the post-Soviet era. After sifting through some 5,000 enterprises, Batterymarch found 100 select organizations to convert to private enterprises. It proved to be an uphill battle, however. The former Soviet officials said they would do whatever was necessary to attract Western investment, but in reality they were often envious of the West’s success and didn’t want to learn from their experience. Certainly, there were serious cultural

“The chronic shortage and shoddiness of Soviet consumer goods did not indicate ineptitude as much as it pointed to a lack of emphasis in these areas.”

“What the Soviets knew how to do, they often did very well. While their advanced weapons represented their expertise in research, technology, and production, precious little of that knowledge and proficiency was used to stock retail shelves.”

“Investment doesn’t happen without people whose strong convictions and venturesome spirits make it happen.”

obstacles: Decades of Communist propaganda had conditioned Soviets to believe profit was somehow immoral. One young woman, for example, trying to learn how to broker Russian real estate, said that her mother responded to her new career with the words: “You help human beings find a home and for that you charge money?” It was a response quite unlike what would be seen in China.

### Parting the Red Sea

China is a land of remarkable inventiveness. The Chinese created paper, invented paper money, were the first to cast iron, they were the first people to make steel, they engineered the crossbow, invented the umbrella, created the seismograph, fishing reel and playing cards, and their design for the steam engine dates back to 600 A.D. They also printed the first book in 868 A.D.

What happened to all that creativity? Political oppression drove people away. Today, there are 30 million Chinese living outside of China. The 1.5 million Chinese citizens living in the U.S. boast the highest annual income of any ethnic group.

When Chairman Mao came to power in 1949, he embarked on an ambitious series of three great campaigns, each of which was disastrous. The first was the relocation of China’s military-industrial complex away from coastal cities, to make them safe from American bombardment and invasion. This program, completed in three to four years, was called the Third Front and hardly proved a model of efficiency. Next came the Great Leap Forward, a movement to reorganize China’s peasant families into an industrial army. Rural villages were restructured into communes beginning in 1958. Some 90 million peasants left their farms to work industrial jobs. Most lacked the training and tools to be productive, and the Great Leap stumbled. Estimates are that during the Great Leap, some 30 million Chinese starved. Finally, there was the Cultural Revolution, in which anyone suspected of bourgeois sympathies was arrested and often killed.

As Mao’s legacy faded and the Chinese started trying to reclaim their place among the world’s nations, they proved that they could do more than talk a good game. Yes, the cultural discontinuity remained. Chinese, for example, found it difficult to understand that food distribution in Western countries was not centrally managed, but rather was governed by commodity exchanges and market forces. To some Chinese, coordination in the absence of a central controlling authority seemed incomprehensible. The Chinese caught on quickly, however. In 1985, China’s Central Military Commission concluded that a major war seemed unlikely in the years ahead. That meant China could begin to shift some resources away from the military, creating a Chinese peace dividend of sorts. Deng slowed the pace of military production, and plant managers had to shift some capacity to production of consumer goods. China also became a major arms supplier as domestic orders fell and authorities decided to expand to overseas markets.

### The Chinese Miracle

In 1979, state-owned businesses accounted for over 90% of China’s productivity. This dropped to 63% by 1988 and by the end of 1991 had dipped to 50%. During this period per capita income virtually doubled. Key contributors to China’s economic miracle:

- Unlike the East Europeans and Russians, China’s economy was already open to the outside world, enjoying a huge trade surplus with America, for example.

“My first impression of China was that modern industry was recently grafted onto an ancient civilization.”

“Yoking the issue of human rights with business always struck me as a doomed idea. It was obviously bad for business, but it is also detrimental to the aims of the human rights activists, who are more frequently arrested when the U.S. exerts pressure.”

- The entire workforce was energized by the ambitions of the private sector.
- China’s consumer market blossomed with tremendous speed.
- Pacific Rim economies in general were strong during this period.
- China’s currency was easily convertible into other currencies. This gave investors the assurance that they could take their profits back home — not always easy to do in Eastern Europe or the former Soviet Union.

One sign of China’s growing success: Clothes made in China can be found virtually everywhere in the world. The sad irony for a country founded on Mao’s brand of Marxism is that the workers labor for long hours and low pay in sweatshops.

How willing were the Chinese to accommodate the ways of the west? Well, in the Shekou Industrial Zone, located across the harbor from Hong Kong, the Chinese have built part of the area to look like a re-creation of a New England village. China knew that they would need Western experts to advise them on upgrading their technology, and that the foreigners would work best in familiar surroundings. So the area was built to accommodate them. The Chinese relied on a photograph of a New England village as their model, and they even replicated the large white building with a spire. The Russians did relatively little to make their country more approachable to the West.

In China, there is now a glut of Horatio Alger-type rags-to-riches stories. People have risen from extreme poverty to economic well being in no time. China is a country that has rediscovered its taste for greatness. Their hosting of the Olympics is emblematic of this renewed ambition. The test for China, of course, is whether market forces can ultimately thrive in a society lacking in individual liberty. While it may be that the Western view of democracy founded on individual human rights will prevail, China may continue to reject its principles for the foreseeable future.

## About The Author

Dean LeBaron founded Batterymarch Financial Management in 1969. He is author of *Dean LeBaron’s Treasury of Investment Wisdom: 30 Great Investing Minds*, and *Dean LeBaron’s Book of Investment Quotations*, both published by Wiley, and *Ins and Outs of Institutional Investing*, published by Nelson-Hall. Donna Carpenter is an accomplished business writer with several books to her name.

## Buzz-Words

Cultural Revolution / Great Leap Forward / Konversiya / Marxism