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The History of Cold War Economic Policies: How the Panda Outlived the Bear

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Abstract

The Cold War is often regarded as a political and economic struggle between capitalism and communism. Recent post-Cold War scholars have uncovered that the nations allied to either side were not as united as the conventional understanding of the subject has previously been thought. Using recent publications, this paper reports on the how the diverging interests between the Soviet Union and People's Republic of China drove a wedge in the communist world. This led China to slowly embrace economic reforms and ties with the United States while the Soviet Union entered into a period of stagnation which ultimately led to its collapse. The information in this report can change how the Cold War is both understood and is taught. This gives scholars the ability to apply the changes nations made during the Cold War to track the adaptations in economic policy future states may undergo.

In the Twenty-First Century, the term “Cold War” evokes images of competitions between the United States and Soviet Union to assert technological prominence in space and military dominance through nuclear weapons. Through films depicting the heroic struggle of soldiers fighting in a far-off proxy war or documentaries replaying out of context political speeches, the Cold War became romanticized. Scholarship has demonstrated that the history of the Cold War is not as glamorous as the media portrays it. The truth is after the 1960s, the Cold War became a series of evolving economic policies. Domestically and internationally, China and the Soviet Union experimented with new economic practices to bolster their economies which led them to both compete and cooperate with the United States. These policies, though not as exciting as an action film, are vital to understanding the Cold War since they set China on the path of economic prosperity while culminating in the collapse of the Soviet Union. To explore the economics of the Cold War, the development of China’s economy is examined, and how that development led to an economic relationship with the United States. Following this, the Soviet stagnation of the 1970s is reviewed and compared to the changes Mikhail Gorbachev made to rectify it. Through an analysis of Cold War state economic practices, a more accurate grasp of Cold War dynamics can be understood.

With the victory of Mao Zedong in the Chinese Civil War, China was reborn as the People’s Republic of China (PRC). Under Mao, the Chinese Communist Party (CCP) promoted the rejection of capitalism and Western influences to stimulate a new era of communism. However, this supposed rebirth of China into communism was never fully accomplished. Since its inception, the PRC recognized the lucrative nature of capitalistic trade and consumerism.¹ Though controlled and rationed through the CCP, the government created its own form of trade and consumerism

¹ Karl Gerth, *Unending Capitalism: How Consumerism Negated China’s Communist Revolution* (Cambridge: Cambridge University Press, 2020), 5-9.

within its borders. At first glance this seems like a contradiction. Why would a revolutionary movement dedicated to establishing a communist state continue capitalistic practices? The answer lies in the fact that Mao wanted the PRC to be a powerful industrial state to rival the West, and as long as the CCP controlled the economic practices of society, then some measures of capitalism could be allowed. Karl Gerth describes this as, “Ultimately, the CCP failed to end capitalism, in large part because it chose instead to harness the practices of industrial capitalism and consumerism for larger or more immediate state goals.”² The government accomplished this harness through several diverse measures.

One way China promoted consumerism was through a desire for its citizens to compete with the West, namely, to be familiar with technology. If Western citizens knew how to operate basic consumer technology with which the Chinese people were unfamiliar, then Western citizens would have an advantage over the Chinese populace. To preempt this, the government promoted products known as the Three Great Things: the wristwatch, the bicycle, and the sewing machine.³ The concentration on these complicated manufactured products ensured that the Chinese people could produce them in factories and operate them in their daily lives. This way, the Chinese people could stimulate the domestic economy by purchasing these items and the CCP could export these, and other products, to prove to the West they had equal if not superior industrial capability.

Another way China encouraged consumerism was through advertisements, posters, and films.⁴ The consumption of products was portrayed by media as one’s patriotic duty, since demand increased and grew domestic production capability. Mao described this attitude as New Democracy. On this concept, Gerth writes, “The initial stage of development [under New

² Gerth, 2020, 5.

³ Gerth, 2020, 12-13.

⁴ Gerth, 2020, 101.

Democracy] would explicitly prioritize strengthening the forces of production during a ‘transitional period of economic recovery’ rather than immediately furthering of the goals of the Communist Revolution by transforming the social relations of production.”⁵ To foster economic growth, media outlets were careful to portray the increasing state control over production as necessary to combat the temptations of capitalism.⁶ By the 1970s the PRC had a steadily growing economy with a large workforce offering their labor to the state. If it wanted to grow further, it would have to seek rapprochement with the West.

In the late 1960s and early 1970s, the relationship between the PRC and Soviet Union began to collapse. The CCP began to doubt the Soviet Union’s commitment to building socialism⁷ and military skirmishes between the two allies began to breakout along their borders.⁸ Out of fear of going to war with the Soviet Union, China decided to slowly seek an opening of relations with the United States. Viewing the Soviets as the greater threat, the United States welcomed a new relationship with China. This culminated in an impromptu and awkward meeting in Warsaw when the U.S. ambassador to Poland Walter Stoessel confronted Chinese diplomats asking them to convey the U.S.’s support to reestablish diplomatic relations.⁹ Zhou Enlai, the premier of the PRC, expressed his welcome at the thought of using this relationship to “offset” the Soviet Union by breaking free of their influence and possibly gaining protection from it by the United States.¹⁰ Eventually, after high level secret meetings, full diplomatic ties were established as the U.S. table

⁵ Gerth, 2020, 50.

⁶ Gerth, 2020, 119.

⁷ Gerth, 2020, 92.

⁸ Xia, Yafeng. “China’s Elite Politics and Sino-American Rapprochement, January 1969-February 1972,” *Journal of Cold War Studies*, vol. 8, no. 4 (Fall 2006), 4-8.

⁹ Xia, 2006, 9.

¹⁰ Xia, 2006, 10.

tennis team, U.S. Secretary of State Henry Kissinger, and President Nixon himself visited China by 1972.

The rapprochement between the PRC and United States brought with it political and economic changes for China. Politically, it changed the traditional balance of Cold War international relations. During the 1950s and 1960s, the Soviet Union asserted itself as the leader of the socialist world in a campaign of countering emerging Western hegemony. By 1972, the socialist world was fractured and its second largest member was collaborating with the United States. While Mao's subordinates such as Lin Biao may have held private reservations against a sudden embrace of the West, they never expressed them and followed Mao's lead in this new political venture.¹¹

The larger consequence of the new Sino-American relationship was economical. The impetus of this new relationship was mutual disdain for the Soviet Union and not initially to improve economic ties. While opening free trade between China and the U.S. would bolster the Chinese economy, China wanted to slowly experiment with creating economic ties so that the state could monitor and control the process. This was achieved through opening special economic zones (SEZ) within China to serve as grounds for Western trade experiments. These types of zones had previously existed in China before the CCP take over, but were dismantled under the guise of preserving state power.¹² Upon entering into a relationship with the U.S., China again turned to this idea with the goals of learning better production techniques and acquiring new technology.

¹¹ Xia, 2006, 25-27.

¹²Christopher, Miller. "From Foreign Concessions to Special Economic Zones: Decolonization and Foreign Investment in Twentieth-Century Asia," in Leslie James and Elisabeth Leake, eds., *Decolonization and the Cold War: Negotiating Independence* (London: Bloomsburg, 2015), 41-44.

With those goals in mind, the new SEZ project was a resounding success. Initially, businesses sought each other out across international state lines and established their own relationships while government negotiations stalled.¹³ When these business relationships proved advantageous to the state, the CCP became willing to expand the SEZ project. An example of this is how Coca-Cola brought to China more efficient bottling production technology while allowing Chinese citizens to purchase the Western beverage.¹⁴ To prevent foreign capitalism from completely sweeping over the country, the CCP limited who could purchase Coca-Cola and still framed the opening of economic ties in the name of New Democracy since China was gaining technology to bolster its economic growth. Using SEZs not only introduced China to the means to increase its economic growth, but also allowed the government to remain in control of the economy and maintain its legitimacy in the minds of its people.

In contrast to China, the Soviet Union and the Eastern Bloc it controlled in the 1970s began a steady decline which would eventually lead to its downfall. Whereas China found new security and eventually new economic partnerships with the United States, the Soviet Union remained isolated. The main problem it faced was economic stagnation. In the late 1960s and early 1970s, the Eastern Bloc experimented with their economies to incorporate free market elements such as incentivizing supply and matching Western market prices.¹⁵ This did mitigate some of the effects of stagnation, but there was another problem preventing full economic growth.

States of the Eastern Bloc increasingly became burdened with debt. This debt was accumulated as the states struggled to pay for basic yet vital services such as energy. In addition,

¹³Charles, Kraus. "More than Just a Soft Drink: Coca-Cola and China's Early Reform and Opening," *Diplomatic History*, vol. 43, no. 1 (2019), 108-110.

¹⁴ Kraus, 2019, 117-122.

¹⁵ Miller, Christopher. *The Struggle to Save the Soviet Economy: Mikhail Gorbachev and the Collapse of the Soviet Economy* (Chapel Hill: UNC Press, 2016) 13.

states had to borrow money to pay for imports of Western technology and consumer goods.¹⁶ Miller writes, “Between 1975 and 1980, East Germany’s net debt increased from \$3.5 billion to 11.7 billion, while Poland’s jumped from \$7.7 billion to \$23.4 billion.”¹⁷ Though the Soviet Union provided substantial loans to the Eastern Bloc, it was in debt as well, and the socialist world found itself largely in debt to Western banks. This created a political crisis as economic planners began to accuse the West of using debt to purposefully destabilize their economies and incite unrest amongst their people who had to help carry the economic burden. Kotkin characterizes this time as, “The compromise with capitalism made by the East bloc in the 1970s forced a severe reckoning in the following decade. Borrowing from the West had amounted...to a substitute for conceding the establishment’s monopoly on power.”¹⁸ The debt crisis and questions of sovereignty represented a crisis that needed resolving, and if Soviet communism were to survive, new leadership was needed.

In 1985 Mikhail Gorbachev became the general secretary. After the Soviet-Sino split, each side became entrenched in their own interpretation of communism. China began to open up while the Soviet bloc tried to remain self-sufficient. By 1985 the debt crisis, soaring prices, and questions of state legitimacy were on a path to becoming so severe that Gorbachev implemented the policy of perestroika to restructure the Soviet economy. The main three industries supporting the economy were the military, energy, and agricultural sectors.¹⁹ The military budget especially hemorrhaged money at being 40% of the total Soviet economic budget.²⁰ The interest groups that

¹⁶ Miller, 2016, 14

¹⁷ Miller, 2016, 14

¹⁸ Kotkin, Stephen. “The Kiss of Debt: The East Bloc Goes Borrowing,” in Niall Ferguson, Charles S. Meier, Erez Manela, and Daniel J. Sargent, eds., *The Shock of the Global: The 1970s in Perspective* (Cambridge: Harvard University Press, 2010), 91.

¹⁹ Miller, 2016, 59.

²⁰ Miller, 2016, 60.

controlled these three industries resisted any efforts to cut their share of government spending. Ultimately, Gorbachev was able to make their budgets more transparent so their spending could be more easily tracked, but their importance to the Soviet economy made them largely untouchable, so budget cuts would have to be made elsewhere. These powerful interest groups made Gorbachev act cautiously since making them sacrifice too much would lead to political resistance. Miller writes, “If he crossed too many power interests, he could have easily been forced out, retired, jailed, perhaps even shot...Gorbachev knew he always stood on a knife’s edge. Any wrong move could cost him his job, or worse.”²¹ Despite the economic problems, special interests refused to yield their wealth and power for the common good. This self-interest stands in contrast to the Chinese economic model where the state had full control over all industry. In the Soviet Union, special interest had rooted themselves within the fabric of the economy and could not be mandated by the government to change, even at the expense of the state’s existence.

Gorbachev continued passing reforms such as enterprise reform to incentivize more production²² and individual labor activities which created de facto private business that could operate without government interference.²³ Though other Soviet leaders were bitter over the breakdown of the Soviet Union’s relationship with China, Gorbachev earnestly wanted to try to save the Soviet economy by any means he could. Based on the Chinese example, in the middle of 1990, Gorbachev allowed the creation of the Soviet’s own SEZ in Nakhodka City near Vladivostok.²⁴ It was hoped that this zone would attract foreign, especially Chinese, capital and teach Soviet economic planners new methods to bolster production and increase economic output. Ultimately, the Nakhodka project failed. The project relied on Soviet subsidies while it tried to

²¹ Miller, 2016, 72.

²² Miller, 2016, 79.

²³ Miller, 2016, 87.

²⁴ Miller, 2016, 115.

become established and attract foreign investors, but investors were scarce. Miller attributes his failure to, “[In the Soviet Union] businesses face a labor shortage and hoped to import cheap Chinese labor. The situation was the opposite in China: Shenzhen had plentiful labor but needed foreign capital; Nakhodka’s businesses needed cheaper labor.”²⁵ The project was doomed since it was cheaper to invest in China or other Asian countries who could use their endless supply of workers to create products at lower costs. The Soviet’s SEZ soon became a moot point anyway since a year later the Soviet Union would collapse due to its underlying economic problems.

In the closing decades of the 20th Century, the Soviet Union and People’s Republic of China split apart their relationship and pursued different economic paths. Fearing a growing Soviet military presence, China reopened diplomatic relations with the United States. Their political diplomacy led to economic cooperation albeit under the careful and strict control of the Chinese government. The Soviet Union and the Eastern Bloc, remaining isolated to economic world powers, found their economies enter into stagnation. Decades of planed economic policy could no longer compete with Western and Chinese growth. Eastern Bloc countries increasingly incurred debt to Western banks and special interest groups refused to surrender their economic hold over the Soviet state. Gorbachev in his short time as general secretary tried to rally Soviet economic planners to accept his restructuring, but time was not on the Soviet’s side. The ramifications of these decisions are still present today. China’s economic growth has exponentially continued while Russia struggles to regain its economic stability. Looking forward, it will be interesting to witness if Russia can shed its Soviet past and open up to the West, and whether the Chinese government can maintain its control over a largely capitalistic economy.

²⁵ Miller, 2016, 116.

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