

RUSSIA'S REFORM AND TRANSITION AS SEEN FROM JAPAN

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I Western and Japanese Perceptions of the Transition

The former Soviet Union (- here after FSU-), Central and East European countries have been attempting a transition from a “socialist (or communist)” type of political system and indeed be able command economy to a Western type of democracy and market economy. These countries may accomplish this transition in the long term. However, the currently debatable point, on which Japanese scholars and American and West European scholars hold different view is how this. “transition” is in practice being and will be carried out in these countries in the future. To state my conclusion first, most Japanese specialists, myself included, tend to look at such a “transition” less optimistically than Americans and West Europeans.

Let me provide several concrete conflicting views between Japanese and American and West European specialists concerning this question. The following five points are very closely correlated with each other, each being a logical consequence of the preceding point.

First, considering that ideology plays a crucial role in a political and economic systems, scholars in the West, especially Americans, tend to regard what FSU and some other “socialist-oriented” countries have been accomplishing since the 1989–1991 period as a revolutionary event. Western scholars consider liberalization from the “communist” ideology in these nations to be a great achievement, based naturally on their firm belief in the propriety of their own political ideology and economic system, i.e., democracy and capitalism.

Second, most Western specialists take it for granted that their political system (democracy) and economic system (free market economy) constitute not only the best politico-economic model that should be emulated by practically every nation in the world, but also that it provides the only possible universal model that could be applied to every country on earth. They believe that the Western type offers a single panacea that will cure all ills. They thus tend to assume that, once the FSU and Central and East European countries abandoned the bad “communist” system, these countries have no other choice but to adopt democracy and market economy. In this sense, the way of thinking by Western specialists is very “black and white”,

with no room for the in-between, gray area between the “bad” and “good” systems.

Third, Western administrators, as well as scholars, again particularly Americans, do not necessarily regard the role that culture plays in the process of systemic transformation to be important. One may say that this is the other side or the consequence of their propensity to overemphasize ideology. When Americans arrived at the new continent, they encountered little resistance from indigenous culture (except the Indian culture) to the introduction of their own culture in this new environment. Based on their own unique experience, most Americans are likely to consider that it is not too difficult for others to achieve their own ideals, as long as they are determined to do so.

Fourth, again probably based upon their own experiences, most Americans (and some West Europeans as well) are inclined to consider that the “transition” period will be relatively brief and smooth. Their view is that the most important thing for the people in the FSU and Central and East European states is to acknowledge that the “communist” system was a wrong choice and to decide to switch from it to the right system. Then, the rest will be relatively easy. Believing that this shift is the right decision to change to the best system, some Americans and West Europeans tend to even tolerate mistakes which might be committed during such a transformation process.

Fifth, some have gone so far as to argue that democracy and free market economy are not things which can be simply given from above, but rather must be obtained by strong determination and struggles, which may sometimes also require the use of force. Such a use of force must be tolerated as a lesser evil. Based more or less on such logic (or excuse) they did not criticize Boris Yeltsin, when the Russian President dissolved the Parliament and even bombarded the building.

Japanese, on the other hand, view the on-going transformation in the FSU and Central and East European countries in a different fashion.

First, they do not share with the American and West Europeans view that ideology plays a decisive role in a political and economic systems. Most Japanese are less ideology-centered, less dogmatic, and instead more pragmatic. They are less excited about changes which have taken place in the FSU and Central and East European countries. Japanese do not have such a “black or white” view of things. They consider that there is almost always an in-between gray zone, like that in a Japanese brush painting. They believe that there are many variations in a political and economic system, which may be called “mixed” system.

Second, while admitting that the Anglo-Saxon or West European type of democracy and market economy provides quite a good model, the Japanese consider that this model neither should nor can be automatically emulated elsewhere in its original form. Even if it is regarded as the best model, the Japanese feel that there

are many difficulties in applying the model to other countries. Russian, and Central and East European efforts at economic reforms have resulted in several adverse effects such as the, inflation, unemployment, widening income differences, and other bad effects. In other words, Japanese argue that the *best* model is not necessarily a *universal* model.

Third, most Japanese tend to pay greater attention to the political culture of each nation than Americans do. They are fully aware of the fact that a political and economic system imported from abroad and imposed from above has to be adjusted to the previously existing indigenous culture, and can be absorbed only in a greatly transformed form. Even if the goal or objective is the same, it is natural that the outcomes will be different in each case, as adjustments depend on historically and traditionally inherited cultures. The Japanese believe that when Anglo-Saxon or West European type of democracy and free market economy is transplanted into Russia, it will inevitably become a Russian type of democracy and market economy.

Fourth, again based upon their own experiences of achieving democracy and capitalism, the Japanese regard the FSU and Central and East European nations' paths to democracy and free market as a very long-lasting and painful process accompanied by zigzagging. The reform and transformation process may in fact be reversed. The breakdown of a totalitarian political system could possibly lead to another type of dictatorship. The transition process may also get stuck somewhere along the way. There is no guarantee that even if democracy is established, it will be self-sustaining. Hence, consolidated democracy is only of the one possible outcomes, while a breakdown or the establishment of a new authoritarian system are other possible outcomes which must be considered. Japan's democratization process began more than 100 years ago ("the first wave of democratization" according to Samuel P. Huntington's *The Third Wave*, 1991), but democracy was interrupted by chauvinistic nationalism and militarism ("the first reverse wave"), and was not restarted until after World War II ("the second wave of democratization"). Based on these bitter experiences, it is difficult for Japanese optimism of Americans and West Europeans concerning a smooth, systemic transformation in the FSU and Central and East European states.

Fifth, almost all Japanese consider the use of force impermissible even in the transition process. Although there may be more than one definition of democracy, the majority of Japanese regard the protection of human rights, and particularly human lives, as the most important principle of democracy. Many Japanese were upset when Yeltsin violated this principle by his decision to bombard the Parliament building or to militarily invade Chechnya.

II Difficulties in the Path to a Market Economy

It is an undeniable fact that the Russian Federation, some other “Socialist-oriented” nations have had many difficulties in their attempts to shift smoothly to a Western type of a market economy. Why has it been so?

The first answer to this question is ascribable to the simple fact that this type of shift constitutes an unprecedented attempt for them. According to Marxist-Leninist theory, capitalism is a stage which must be overcome and succeeded by socialism. Regardless of whether this is a wrong proposition or not, the fact still remains that Russia began to practice the Soviet type of “socialism”, without fully experiencing the stage of capitalism. Now the Russians have to try to build capitalism from scratch. This is a unique feature of the transition process in Russia, which is not shared with Central and East European countries, such as Hungary and Poland.

Another related reason is the confusion which is prevalent now in Russia and to certain extent Central and East European countries. These countries have simultaneously experienced the triple transition i.e., the dissolution of the U.S.S.R., the collapse of the Soviet system, and the breakup the command economy. FSU and Central and East European countries thus have to simultaneously tackle three difficult new tasks, i.e., the establishment of their own identity, democracy, and a market economy. These three tasks are interrelated in a very dynamic and complicated way. China, for example, tried first to experiment with economic reform, leaving political reform for a later stage. In contrast, the Russians, Central and East Europeans started to pursue these two objectives at the same time, which has caused them enormous difficulties and hardships.

If we focus on only economic reforms in Russia and other “Socialist-oriented” states, we cannot help but notice the confusion concerning the methodology of conducting reforms. The question which must be answered is how and at what pace should reforms be carried out to establish a free market economy. In these countries there are now at least two basic answers to this question: “shock therapy” or the more “gradual approach.” The former school of thought argues that surgery must be conducted as quickly as possible, and the source of cancer must be taken out, no matter how painful the surgery might be. The latter school of thought argues that such radical surgery will almost certainly kill the patient rather than save the patient’s life. This debate has become complicated further over the question of how to implement this policy decision. To make things worse, theoretical debates are closely connected with the power struggle in these countries.

The third reason lies in the difficulty of creating a capitalist economy from above. Capitalism can be defined as an economic system, in which an individual or a group of people with entrepreneurship are engaged in free, voluntary commercial or

other economic activities. Thus, in capitalism, economic activities are not imposed on people from above by central government. There is the possible system of "State Capitalism", in which the State plays a major role in introducing and establishing capitalism in the country. In such a case, however, the guidance by the state is limited to providing an environment favorable for the private entrepreneurs to engage in economic activities. An unprecedented difficult problem for Russia and other "socialist-oriented" countries boils down to the question of how to make a transition to a market economy without having a civil society. One faces the dilemma that there cannot be a civil society without a market, and there cannot be a market without a civil society. Some regard a civil society as a product of the market, while others see the market as the offspring of a civil society. The relationship between a market and a civil society provides a sort of a chicken and egg debate.

III Some Conclusions

Not being an economist but a political scientist studying the FSU/Russia, I would like to point out the following subjective factors preventing a smooth transition to a market economy in Russia. Russians, from the top political leaders and economists to the ordinary people in the streets, may have heard and read about various concepts of the capitalist economy, such as profits, capital, investment and markets, but they have been living for so long in a centrally controlled command economy, they do not understand how all these concepts actually work. They only have a superficial understanding of the mechanism, by which markets operate in a capitalist system. This superficial understanding can sometimes be worse than pure ignorance. Let me elaborate concretely.

The Russians do not understand that the "give and take", or mutual or common benefit is the number one principle of capitalism. Instead, they often misunderstand capitalist competition as a means to obtain profits unilaterally. The Russians do not trust their own Russian banks, and instead prefer to deposit their money at foreign banks in Switzerland and London. The amount of so-called "capital flight" almost equals the amount of money which G-7 countries have so far provided to Russia as aid.

The important role that the number two principle of capitalism, the so-called "*pacta sunt servanta* (contract must be observed)", plays in the market economy is not appreciated enough by the Russians. The "just in time" principle of Toyota Corporation, the most important principle of Japanese management, which the Russians admire more than anything else, is based on this "*pacta sunt servanta*" principle. Unfortunately, however, the traditional view still held by Russians that the law

and the electric pole were two things which should be avoided as much as possible. Thus, they did not dare to criticize their President who unilaterally canceled his promised visit to Tokyo on very short notice, and dissolved parliament to hold new elections, while postponing the presidential election. Consequently, this is how one Western businessman explains why he was not motivated to invest in Russia: "There may be plenty of opportunity for making money, but this is only the case for those who dare to ignore and even violate the law. Long-term business commitments, however, are made not through learning how to evade the law but how to abide by the law" (*The Financial Times*, March 22, 1994). Such Russian attitudes have led to the situation where per capita foreign investment in Russia currently amounts to only 27 billion US dollars, compared to 528 billion US dollars in Hungary.

Competition is the third principle of free market economy. Even Russian intellectuals do not fully appreciate this principle. Almost all of my Russian friends admit that there is no other way for Russia to survive and prosper but to proceed to a free market economy. Yet, they themselves behave as if they do not understand what competition really means. For example, when applying for a scholarship, they try to bribe me by bringing a present, instead of filling out an application form to prove their eligibility.

In summary, I would like to emphasize the following points:

- (1) The transition from the Soviet type of political and economic system to a democracy and market economy is a more complex process than some Westerners believe;
- (2) Russian indigenous culture plays a crucial role in the transition process;
- (3) A great majority of the Russian people do not understand the importance of long-term investment and profits; what they are engaged in is not transactions based on mutual trust, but a bazaar-type economy based on barter;
- (4) There is no guarantee the black market now prevalent in the FSU will automatically grow into a Western type of market economy, since these two types of economy are based on two opposing principles;
- (5) For these and other reasons, my personal prognosis on the transition to a democracy and free market economy in the FSU is not so optimistic as that of some of my American and West European friends.