WHY CHINA NOT RUSSIA?:
CHINESE AND RUSSIAN MODELS OF REGIONAL ECONOMIC DEVELOPMENT

Harley Balzer
Georgetown University
balzerh@georgetown.edu

Paper prepared for International Studies Conference, Hong Kong, June 2017.

THIS IS A WORKING DRAFT. PLEASE DO NOT CITE OR REDISTRIBUTE WITHOUT PERMISSION FROM THE AUTHOR.
WHY CHINA NOT RUSSIA?:
CHINESE AND RUSSIAN MODELS OF REGIONAL ECONOMIC DEVELOPMENT

Harley Balzer
Georgetown University June 5, 2017 (11:13am)

The leading economic powers in the world over the past 500 years have been nations open to trade with at least some regions developing vibrant economies. In their ascent to economic leadership, the Netherlands, Great Britain and the United States all shared the attributes of trade openness and decentralization (Weingast 2009). In the second half of the 20th century, economic interaction with neighboring states and regional economic groupings gained increased salience. Even if geographically diffused production is altering the situation, regional synergies and clusters remain one of the ways to develop regional advantage. The world is not flat, but it is increasingly integrated.

Three levels of regional economic interaction—within, across and transcending borders—have become major contributors to economic success. Analysts of each level of regional integration have appropriated the “regionalism” label for their slice of the topic. Few analyses incorporate all three levels.

1) SUB-NATIONAL REGIONALISM focuses on regional development within a country’s borders, frequently involving collaborative efforts.

2) TRANS-NATIONAL/TRANS-BORDER REGIONALISM promotes cross-border economic linkages, sometimes invoking what are said to be “natural” economic synergies, generally including efforts to minimize transaction costs for trans-border economic activity;

3) MULTI-NATIONAL REGIONAL INTEGRATION involves groups of countries establishing formal regional economic/trade agreements or organizations (a large number of bilateral economic agreements exist, though these increasingly are being extended into broader regional efforts).

A fourth major regionalism topic involves regional security organizations. While recognizing that economic security is a crucial component of any regional security grouping, delving into the security issues would make this study excessively lengthy and complex. It has become commonplace to note that Russian policy emphasizes security issues while China prioritizes economic linkages.

In each of the varieties of economic regionalism, China has far outstripped Russia in the extent and quality of integration and in economic returns.

1) At the sub-national level, China’s coastal provinces and many (but not all) special economic zones have been successful, some stunningly so, while Russia’s regional
development projects primarily have generated payoffs to individuals who abused opportunities rather than benefiting their regions or the economy in general. Russian policy has discouraged rather than stimulated local initiative (latest HSE study). Some Chinese regions have boomed, while others began to catch up following policy shifts designed to reduce regional disparities.

2) Some Russian border regions have fared better economically than others, but overall Russia’s cross-border economic interactions remain limited. Exporting natural resources does not foster dense economic ties. The contrast with China’s involvement in dynamic Asian and global trade networks as well as global supply and production chains is stunning to anyone who remembers the 1950s or 1970s. The difference is illustrated starkly by the border the two nations share. The Russia-China border remains among the least economically developed of China’s border zones, and one of the laggards among East Asian contiguous territories. Visual images of towns/cities on opposite sides of the border illustrate the striking difference. This continues despite growing tensions in some of China’s other border regions, while the geostrategic issues along the border with Russia have been resolved.6

3) Countries the size of China or Russia (or the U.S.) Often prefer bilateral rather than multilateral trade agreements. It is a Gulliver issue: large economies do not want to be constrained by collective demands by Lilliputians. China’s economy is so large that it threatens to dominate any multi-national regional economic association it joins (Mansfield and Solingen 2010). Neertheless, Chinese involvement in multi-lateral economic groupings has been more economically productive than Russia’s. Despite the growing disparity in their economic weight, Russia often has been perceived as seeking to exert economic leverage on its neighbors. While China’s behavior has changed in the wake of the 2008 economic crisis and Xi’s rise to power, for the first three decades of reform and openness China’s behavior in international economic groups was relatively restrained.7 During the 1997 Asian financial crisis, China was perceived as acting responsibly by not devaluing its currency. More recent behavior has been interpreted as reflecting greater assertiveness.

China’s involvement in regional economic integration has been attributed in part to the Asia’s economic dynamism, and especially East Asia (Y. Huang). Yet at least until 2008, Europe was growing, and some former USSR and Soviet Bloc states integrated reasonably well with what was then and still remains the world’s most successful regional economic union. Russia has continued to focus on developing some form of Eurasian Economic Union, with few tangible benefits thus far.

The sub-, trans-, and multi-national levels of economic regionalism are intricately inter-related. Decentralization and successful sub-national development benefit from and stimulate cross-border exchanges and foreign trade. Dense linkages with neighboring countries promote demand for regional economic organizations to institutionalize the interactions.
Sub-national development is generally the starting point for trans-national and multi-national economic regionalism. This paper focuses on the sub-national level. It is part of a book project that deals with all three levels. While cross-border integration may encourage the development of regions within a country, and trans-national cooperation may stimulate cross-border economic activity, the weakness of all three varieties of economic regionalism in Russia indicates that the sub-national experience is crucial. Weak economic performers do not attract partners or investment.

Why have some Chinese regions become growth engines, while few Russian regions have managed to develop beyond selling unprocessed natural resources? This paper begins with a brief summary of sub-national economic regionalism and outlines regional policy in the two cases. The third section is devoted to China’s successful agricultural development and resulting regional industrial spurt, examining the Township and Village Enterprises (TVEs) and general development of Small and Medium Businesses (SMEs). The Russian story offers nothing remotely comparable. Section four compares Special Economic Zones, a policy introduced in both cases but with stunningly different results. Russia’s attempts to emulate China’s successful SEZs achieved little. Section five focuses on the incentive structure for local officials, examining the debate over “market-preserving federalism.” Whether federalism is an appropriate term or not matters far less than the stark difference in incentives for fostering regional economic development. The conclusion accounts for the difference in development trajectories, focusing on local officials’ incentive structure and willingness to learn, the Chinese regime’s pragmatic response to successful local development, and the benefits of thick integration with the global economy.

Sub-National Regions in Development

Sub-national regionalism provides the most striking and most important contrast between Chinese and Russian economic performance. Regional economic development accelerates growth and undergirds trans-border and multi-national linkages. Regions within any large country develop in different ways at different rates, reflecting geography, factor endowments, leadership, trade and technology. While relative development levels may be path dependent, they also may change over time with shifts in international trade or international relations, discovery of new resources, changes in technology, and other factors. In the first two decades of the 21st Century, global supply and production chains have shifted the emphasis from trade to diffused production. Baldwin (2014: 5) describes this as change from “made here, sold there” to “made everywhere, sold there.”8 The impact of this “unbundling” on regionalism is still in flux.

Astute leadership can make a decisive difference. In both China (in the 1980s) and Russia (in the 1990s) significant decision-making authority devolved to regions. The consequences were vastly different. In China, greater autonomy resulted in rapid economic development of some areas. Russia did not experience anything comparable; more often what prevailed was “involution,” essentially devouring the inherited capital
stock (Burowoy 2002).

2) Regional Policy In Russia and China

In China and Russia central control of the regions weakened in the first decade of economic reform (1979-89 in China; 1991-1999 in Russia). In both cases, this resulted in widening income differentials, growing corruption, and un- and under-employment for state sector workers. Some Chinese regions used their new (partial) freedom to establish Township and Village Enterprises (TVEs) and Special Economic Zones (SEZs), developing productive industries and attracting foreign investment. In Russia, new business creation was difficult, while Russian SEZs generated a boom in illicit trade taking advantage of tax exemptions. Some regions issued their own monetary instruments (Woodward), some ceased paying wages to state employees—especially teachers—hoping that the Federal government would cover the cost of wages for public sector employees (Robertson).

Allowing local governments to keep a portion of the tax revenues encouraged Chinese provinces to collect the taxes; in Russia under Putin, all the funds went to Moscow, making the game one of competition for redistribution. The key to the difference in regional performance involved incentives and institutionalization. Even as both regimes have sought to recentralize, China’s regions have continued to develop.

Regional policy in the Russian Federation was initially shaped by the power struggle between Gorbachev and Yeltsin in the final years of the USSR. Yeltsin was ousted from the government in 1987. Following his election to the Russian Federation Congress of Peoples Deputies in 1990 and then election as Chairman of the Supreme Soviet, Yeltsin encouraged leaders of USSR Union Republics to assert autonomy and sovereignty, and eventually outright independence. When Yeltisn was elected President of the Russian Republic in June 1991, he and Gorbachev battled for the support of regional leaders by initiating a bidding war of benefits and privileges. Yeltsin became famous (or infamous) for embracing Galina Starovoitova’s call for regional leaders to “take all the sovereignty they could swallow.”

Once he became President of an independent Russian Federation at the end of 1991, Yeltsin began to reassess the impact of regional autonomy. He signed bilateral agreements with a growing number of regions defining the degree of economic sovereignty they would enjoy. By 1993 his regime began to consider strong action to reassert central power. This led to armed intervention in the Chechen Republic, resulting in the first Chechen War (1994-96).

Yeltsin’s government sought to restore some modicum of central power after his re-election in 1996, but growing economic difficulties, culminating in a full-blown crisis in August 1998, limited the regime’s capacity to offer carrots or deploy sticks.

Vladimir Putin’s elevation to the presidency at the beginning of 2000 brought
major changes. In addition to reining in the oligarchs, Putin sought to restore Moscow’s control over the regions. In this effort he was aided enormously by the increase in global oil prices, along with changes making Moscow the recipient of most tax revenues. This enabled Putin to control redistribution of the resource rents (Gaddy and Ickes). Regional development now depended primarily on Moscow’s largesse, distributed through regional development programs and mega-projects, inducing regional leaders to compete for favor rather than experimenting with their own development projects. The level of corruption in the giant programs encouraged greater venality in the regions.

During his first two terms as President, Putin relied on “salami tactics” to gradually claw back control, using hydrocarbon rents as carrots and legal action as sticks (Balzer 2003; others). The 2008 economic crisis exposed the dangers implicit in dependence on commodity exports. Rapid recovery of oil prices in 2009 may well have produced a false sense of security. It was clear that Russia’s economic model was exhausted, but Putin continued to focus on petroleum.\(^{11}\) When the price of oil declined in 2014, the regime initially behaved as if it once again would recover quickly. Global hydrocarbon markets, however, had been altered radically by shale oil and LNG. Prices fell to as low as $30, and then stabilized in the $40-50 range. Many analysts predicted that this would remain the price range for at least several years.\(^{12}\)

Dramatically reduced revenues for Russia’s major export generated a serious recession, exacerbated by post-Crimea sanctions and even more by the Russian government’s combination of counter-sanctions and increased defense spending. In this situation, Moscow had less revenue to redistribute to the regions. The number of donor regions fell to four in 2015: Yamal-Nenets, Khanty-Mansiisk, Tiumen, and Moscow.\(^{13}\)

The story of Russia’s regions over the quarter-century following 1991 was not entirely bleak. Yet the few local leaders who achieved growth based on something other than petroleum did not manage to foster sustainable development. Prusak in Novgorod in the 1990s sought to attract foreign investment and battle the pervasive corruption. After the 1998 crisis and Putin’s election, he fell in line and was removed in 2007. Artamanov, a former collective farm director who became Governor in Kaluga was an unlikely candidate to foster an auto industry cluster. He induced first VW, then Volvo (for trucks) and a PSA-Mitsubishi joint venture to open assembly plants, in part by encouraging Russian firms to establish factories to provide “local content” parts. The successful enterprises were able to supply not only the local assembly plants, but also some in other cities.\(^{14}\) The economic crisis following Crimean annexation wiped out much of what Artamanov had achieved. Some foreign firms still function in Kaluga, but their turnover is quite modest (source).

Tatarstan became something of a model in the early 2000s and 2010s. Leaders from other regions flocked to Kazan to study their experience (Sharafutdinova). The economic crisis beginning in 2014 made Tatar economic success only relative.
China’s regional development has been far more successful, both in economic outcomes and impact on policy. Reform and opening stimulated rapid economic development in some Chinese regions. Too often, authors emphasize a single aspect: agriculture, fiscal federalism, township and village enterprises (TVEs), special economic zones (SEZs), small and medium enterprises (SMEs), the private sector, or the persistence and revival of the state sector (SOEs). One variant of each narrative cites wise state promotion and monitoring of the reforms; alternative (and in this author’s view more plausible) accounts focus on local initiative, often at variance with official policy. While each of these aspects of China’s development deserves a separate monograph (and most have them), taken separately they remind one of the blind men and the elephant. The crucial factor in China’s rise has been the interaction of multiple sources of growth. Here again we see a marked contrast with Russia.

Largely spontaneous de-collectivization provided the initial impetus for growth and the labor force for TVE development. Successful TVEs provided income for local governments that helped some develop SEZs, while also stimulating growth of private SMEs. The TVEs and SEZs generated revenue that allowed China’s government to defer serious reform of the SOEs, cushioned the impact once SOE reform was broadly implemented in the late 1990s, and fostered competition forcing both private and state enterprises to use their resources more efficiently. Meanwhile, state subsidy of some SOEs limited the degree of unemployment and economic decline during the first two decades of reform. The TVEs were either merged or privatized after 1994. The SEZs evolved over time, and have been augmented by new varieties of special zones, many focused on high technology. In each program, the Chinese state deserves credit less for wise management than for recognizing success and accepting it, particularly in the first decade of reform and somewhat in the second decade (Shue 2004).

Whether the State sector truly deserves to be included as an important factor in China’s growth remains a disputed question. Compelling evidence suggests that China’s economic performance was significantly better in the years when the State sector did not enjoy priority (Hong & Nong 2013; Lardy 2014). A strong case may be made that since the mid-2000s the Chinese state has again become a serious obstacle to continued economic success (Huang; Pettis; etc.).

David Zweig (2002) characterized the processes in China in the 1980s and 1990s as “segmented deregulation.” Restrictions were removed in specific sectors of the economy and in discrete geographic locales not through enlightened administration by a developmental state but resulting from fierce competition (“fevers”) to take advantage of openings perceived as having uncertain time horizons. Regions and enterprises competed for FDI and workers competed for jobs (Gallagher). Rather than an “East Asian model" of enlightened bureaucrats overseeing development, China is a case where success derived from competition. Regional disparities within China are now largely explained by differences in the degree of integration with the international economy (Demurger et al.).
The Chinese government has made efforts to reduce regional disparities. Going beyond Deng’s proclamation that some regions should get rich first, projects encouraging the successful coastal regions to partner with central and western regions have been superceded by major development programs for the West and North. FN ADD!

**NEED TO ADD ON 1994 CHANGE**

In sum, both regimes sought to restore central control in the 2000s, with mostly adverse consequences. Many Chinese regions have continued to grow despite changes that have encouraged dubious behavior. Nearly all Russian regions face a difficult recovery path. The puzzle is what accounts for the buy-in by many Chinese officials compared to predation by the majority of Russian officials. China’s relative success began with an unplanned but highly successful shift from collectivized agriculture to family-based farming.

*Agriculture and Small Business*

The first crucial difference between the Chinese and Russian economies involves China’s agricultural reforms, which facilitated development of a private industrial sector based on SMEs, with the TVEs playing a major and unanticipated role. SOEs have remained overwhelmingly economic laggards in both China and Russia, but China’s non-state sector compensates in ways Russia’s private economy does not. Success resulted from entrepreneurial efforts in Chinese regions, some authorized and others simply tolerated.

While increasingly sophisticated industrial production has become the dominant narrative of China’s rise, the first source of new income for both Chinese people and local governments resulted from a rapid and unplanned shift away from collectivized agriculture. When increased productivity made a growing share of agricultural labor redundant, villages responded by establishing township and village enterprises (TVEs). When Special Economic Zones (SEZs) were created, surplus agricultural workers provided labor for this new sector as well.

China’s shift from collectivized agriculture to the “household responsibility system” was an unintended but highly successful economic revolution. The social aspects have been less positive. As with much of China’s economic policy under Deng, the CCP eventually took credit for something it had not anticipated but had the good sense to not oppose.

The government proposed experiments with a “group responsibility system.” When a group of peasants in Anhui province agreed to dismantle their collective, replacing it with a “household responsibility system,” authorities did not intervene to prevent the action.16 Imitation followed, and quickly mushroomed on a vast scale (K. Zhou 1996; Zweig) Agricultural productivity soared.
Zhou (1996: 63-69) chronicles China’s de-collectivization process in detail. Chen Yizi wrote a report demonstrating the effectiveness of the Household Responsibility System \( (baochan daobu) \), noting it not only improved economic performance and the quality of life for peasants, but also reduced the need for grain imports. Yet China’s top leaders remained skeptical. This was not a case of technocratic managers trying various experiments to discern which worked best. Rather, once the peasants demonstrated the superior performance possible under \( baochan daobu \), reformers fought a protracted battle to gain approval, or at least acquiescence. That Chinese leaders repeatedly accepted policies quite different from what they had intended demonstrates pragmatic willingness to “learn truth from facts,” not administrative guidance. Zhou describes it cogently:

The central government, which literally had at least potential control of virtually everything in China, really did not think much about the farmers. They thought about heavy industry and the urban sector, so what took place among the farmers slipped right out from under them, caught them unawares, until the results were so widespread and powerful in terms of a double-digit real growth rate that officials were more likely to claim credit than to interfere (K. Zhou 1996: 101).

Improved productivity quickly made redundant some of China’s massive agricultural labor force, still tied to villages by a strict system of residence permits. Many of these peasants found work in new enterprises set up under the auspices of township and village governments. Officially, the new businesses were collective, though many of them operated essentially as private enterprises. Xu and Zhang (2009) describe three different models of TVE development, reflecting differing conditions in Hunan, Guangdong and Wenzhou. Common to all three models were leadership by entrepreneurs, vague ownership rights, and intimate connections with local government officials.\(^{17}\)

The tremendous success of some TVEs in a sellers market generated imitation. As demand became satisfied, this produced a modicum of efficiency-improving competition, but eventually led to duplication and over-supply. Unlike the state sector, most TVEs faced hard budget constraints. Even when local governments provided assistance businesses were forced to become more efficient. Less successful enterprises faced bankruptcy.

A widespread tactic allowing businesses to function as private firms while obeying legal registration requirements was the “Red Hat” phenomenon.\(^{18}\) Naughton (1994), and many Chinese scholars, discuss the TVEs as “public ownership.” This was formally accurate. But in China, many things are not precisely what the formal name would imply. Naughton’s article appeared in 1994, just before changes to the revenue system and consolidation and privatization of the TVEs. Many TVEs wore “Red Hats,” formally registering as collective enterprises while \textit{de facto} functioning like private businesses.
Naughton (1994: 269) concluded his important article with a prediction of a solid future for the TVEs, noting that the Chinese government rejected privatization for ideological reasons and that any privatization program would create tremendous administrative problem (though it is not clear why these problems would be greater than the difficulties involved in hybrid ownership). Naughton suggested that TVEs were a long-term phenomenon:

“As markets for assets and factors of production become more complete, the advantages of TVEs will fade. But the demonstrated ability to solve problems of delegation and incentive design indicates that TVEs will not disappear, rather remaining a distinctive feature of the Chinese economic landscape for the foreseeable future.”

As the Red Hat phenomenon demonstrates, the Chinese experience was hardly free of corruption. But the picture varied across regions. Some local cadres extorted whatever they could; others realized that the TVEs were contributing to the local budget in ways central redistribution would never match. When the tax system allowed local governments to retain a portion of the revenue, and promotion depended heavily on cadres’ performance in growing the local economy, TVE entrepreneurs knew enough to pay off the cadres. Local officials found it increasingly rewarding to foster and protect the new enterprises. Oi describes the indirect ways that cadres could be included as proprietors of the new businesses, a tactic that frequently produced essential protection. A spouse, a nephew, or some other relative might be made a member of the enterprise administration, guaranteeing the cadre a share of the profits in return for benign behavior. In Russia, by contrast, first the mafia and then local officials became a threat to private businesses, forcing them to accept protection and expropriating the most successful ones. In China, the criminal gangs developed more slowly, and they were often partners rather than predators.

The TVE’s were privatized and/or replaced by private enterprises after 1994 (victory of the Wenzhou model). TVEs made a major contribution to China’s development, providing employment for peasants redundant in agriculture; generating tax revenue that supported local governments and allowed the regime breathing space to defer serious reform of the SOEs; and creating economic interests that lobbied successfully for legal changes recognizing private property (K. Tsai).

The successful growth of TVEs in the 1980s and early 1990s underlines one of the sharpest contrasts between China and Russia: the development of small and medium enterprises. China’s reform and openness program generated spectacular growth of small businesses. 19

In contrast to Zweig’s (2002) focus on government policy, Xu and Zhang (2009) emphasize the role of local governments, while Kate Zhou focuses on the bottom-up development of TVEs. Speaking to a group of Yugoslav guests in June 1987 Deng Xiaoping explained to them that:
our rural reforms have proceeded very fast, and farmers have been enthusiastic. What took us by surprise completely was the development of township and village industries. The diversity of production, commodity economy, and all sorts of small enterprises boomed in the countryside, as if a strange army appeared suddenly from nowhere. This is not the achievement of our central government. Every year township and village industries achieved 20 percent growth. This was not something I had thought about. Nor had the other comrades. This surprised us (quoted in K. Zhou1996:106).

TVEs were producing 1/3 of China’s exports by the mid-1990s, and increasingly these were value-added products. TVEs have faded. But small and medium businesses in China helped cushion reform of SOEs, and they remain more profitable (Hong & Nong 2013).

Montinola et. al. (1995) focused on the importance of local revenue, especially extra-budget revenue. Their article was written just before the central government sought to increase its share of revenue in 1994. This was not the first time Beijing sought to re-impose its authority over local activity: Li Peng tried in 1989-91, without much success. His program resulted in some 3 million TVEs going bankrupt or merging with other TVEs, even as SOEs were bailed out by state banks (Baum 1996: ). The amalgamation and bankruptcies point to one of the tremendous strengths of the TVE sector: intense competition for foreign capital, labor, and eventually talent in the form of foreigners and Chinese returning from abroad. This competition forced local governments to guarantee decent conditions in their efforts to attract capital and labor. In many instances, the result was an arrangement offering an informal version of credible commitment. While hardly as secure as legal guarantees, a “mutual hostage” economic relationship worked surprisingly well.

China’s TVEs offer a striking contrast to the co-operatives established in Russia during perestroika (Jones and Moskoff 1991; Solnick 1998). Successful TVEs were competitive and developmental; Russia’s co-ops were frequently parasitic. In Gorbachev’s USSR, many co-ops were formed within State enterprises. They used the work space, utilities, security services and often the materials and supplies belonging to the state enterprise, but sold their product for private profit (Jones and Moskoff). The impact was to undermine the state economy, while illicit proceeds went into consumption rather than investment.

In China, the TVEs had no supply or distribution networks. An army of caigouyuan (purchasing agents) developed to acquire the supplies for TVE production (Zhou 1996: 113). Some supplies were acquired on the open market, resulting in rising prices (and inflation). Increasingly, supplies were purchased from SOEs, which were able to acquire them at subsidized state prices and earn a significant profit by selling them to the private sector. This created supply shortages at some SOEs, but represented a source of easy profits, and forced at least some SOEs to become more
efficient in their use of resources. It also encouraged greater production of the needed inputs.\textsuperscript{20}

China’s stunning agriculture success led some scholars of Russia to ignore the three decades of Soviet efforts to reform agriculture after Stalin’s death and criticize Gorbachev for not beginning his economic program with agriculture (Goldman; cf. Johnson). The key difference between Chinese success and Russian failure was not that Soviet/Russian policies ignored agriculture, but rather the contrast between bottom-up and top-down approaches.\textsuperscript{21} Chinese leaders did not set out to dismantle collectivized agriculture; they eventually accepted the outcome when it improved production and freed a massive labor force that began to engage in economically productive activity. Russia’s centrally mandated program encountered serious resistance from and subsequently predation or capture by local officials.

Reforming agriculture was an ongoing but ultimately impossible task in the Soviet Union.\textsuperscript{22} Despite his extensive experience with agriculture, Gorbachev fared no better during perestroika. Resistance to change remained fierce. The first decade of reform after 1991 was no better, as collective farm directors sought to preserve their authority and their subsidies rather than promoting positive change (sources). In the 2000s some regions did begin to develop profitable agriculture, and for a few years it appeared that Russia might return to the major role it had played in world grain production in the 19\textsuperscript{th} century (Liefert, Liefert and Serova). Several bad harvests put a damper on these prospects. Much of Russian agriculture remains behind the curve of modernization, and climate change does not bode well for future development.\textsuperscript{23}

Even if Russia had undertaken a major reform of agriculture, it would not have liberated vast numbers of workers to staff new enterprises, whether state, private or hybrid. But this does not prove that China’s success derived from the vast low-wage peasant labor pool. Low-wage, unskilled labor does not move an economy up the value-added chain. The Baltics and several Central European nations managed a more successful economic transition than Russia without a large pool of redundant agricultural labor. Poland and Slovakia became relatively attractive sites for industrial production due to a supply of skilled workers available at lower cost than in neighboring Germany. Russia might have managed something similar, but this would have required greater openness and skilled labor.\textsuperscript{24}

In contrast to the success of many TVEs, Russia’s SMEs represent one of the great failures of the transition. Small initial numbers, slow expansion, and minimal growth into medium-sized businesses reflect an environment of increasing and increasingly sophisticated predation.

Because they were transient and located inland, the TVEs have received less attention than the coastal SEZs. As redundant labor became more available, social benefits were cut back and the cost of living rose, millions of younger workers, many female, flocked to the SEZs (Factory Girls; others).
Special Economic Zones (SEZs):

If agriculture and TVEs jump-started China’s economic boom, longer-term development was based on creating Special Economic Zones (SEZs). Focused initially on low-wage labor for Japanese, South Korean and Taiwanese firms as they moved up the value-added chain, assembling components has been augmented with increasingly higher value-added production. Some Chinese firms now seek offshore production in countries with lower wages (Burma, Cambodia, Laos).

While Russia had nothing remotely comparable to the TVE phenomenon, SEZs began to appear during perestroika. After 1991, they were more numerous, but Russian SEZs never have played a significant role in the nation’s economic growth. Under Putin, state programs largely replaced efforts to establish special zones in Russia. When reintroduced in 2006, Russian SEZs remained a minor factor in the country’s economy. The contrasting fates of SEZs in the two countries provides overwhelming evidence of China’s thicker international integration and greater success.

China’s zones attracted foreign investment, which also brought technology and managerial talent. This has helped Chinese to learn how to build firms and navigate the global economy. Russian Russia’s lack of success in this realm has meant less investment and missing an opportunity to develop crucial skills.

China has become a model for SEZ development, though in multiple ways. Like so many other aspects of China’s economic success, the SEZ story has generated (at least) two competing meta-narratives. One emphasizes wise central government policy in setting up the zones, gradually expanding them, and culling some that engaged in abuses [source]. More nuanced accounts note the fierce political battles behind the zone program, and the massive competition once opportunities were created, including a significant number of copy-cat zones that lacked official approval. Zweig (2002) and Cartier (2001) both describe a “zone fever” phenomenon. Chinese regions competed intensely to gain the status and privileges accorded to SEZs. Some not included in the program simply behaved as if they had been granted zone privileges. Here again, competing mandates allowed some to get away with clearly illegal behavior, while others suffered negative consequences. [BAUM? OTHERS?] On balance it appears that in many regions successful economic development trumped legal niceties.

Foreigners were not likely to invest in areas with no infrastructure and no industry. Astute Chinese officials built “nests” by enticing domestic industry to help them make the zones appear to be thriving industrial centers. [source] In some cases the Chinese officials collaborated with foreign partners to relabel a share of SEZ production for sale on the domestic market, an illegal but profitable activity that had the side effect of pushing SOEs to become more competitive.

One of the striking things about China’s SEZs is that they did not generate a race to the bottom. [ADD]
As in the case of TVEs, many varieties of SEZs developed. The character of the SEZs began to evolve quite early.\textsuperscript{25} While low-skill, low-cost production was an important part of the story, China increasingly is being replaced in this role by poorer Asian countries. Far less attention has been accorded to increasingly complex and higher value-added production in China’s SEZs. The move to more complex technology began quite early. Rodrik ( ) noted that China’s industrial output is three times what would be expected for its overall level of development. Evolution has continued.

The local state-business relationship in China was more diverse than in Russia. Ong (2012) compares government control in Sunan with the more laissez-faire model in Wenzhou.\textsuperscript{26} Shenzhen was in many ways the “most special” case, with a strong private sector and benefits for workers including a minimum wage and social insurance. In part, this reflected an emphasis on technological upgrading practically from the outset. Hong Kong played a special role here (Yeung, Lee and Kee), and reaped a significant—some mainlanders say disproportionate—share of the returns.

By 1991 at least 27 HTDZs had been established. In the 1990s the government encouraged new types of zones, continuing to emphasize high technology. By 1994 special zones had been established in 311 cities. Another 114 localities had areas open to foreign investment. Success in building SEZs offered cadres both career advancement and an income stream that could be siphoned. In this environment, a share of the rents could be used to benefit the broader community.

China’s international economic integration generated local demand for policies supporting industrial development though linkages to international technology chains. Regions that made themselves attractive to foreign investors could reap significant benefits. Local success could lead to revisions in government policies. Initially reluctant to receive investment from Taiwan, the success of TVEs and SEZs collaborating with Taiwanese induced the government first to tolerate and then to legalize Taiwanese investment. Kellee Tsai (2006) has described how the CCP gradually came to accept stronger property rights. The SEZs stimulated some SOEs to speed up restructuring to compete, while enterprises in the zones helped to absorb some of the workers made redundant when SOEs finally restructured.

The opening in China created a frenzy to become a development zone, which lowered transaction costs while affording rent-seeking opportunities that could benefit the entire community (Zweig 2002: 51, cf Wank 1999). Zweig argues that uncertainty fostered rapid development. No one was sure at first if the opportunities would last, or how far they would extend, so regional leaders scrambled to take advantage of the opening, creating “zone fevers.” When successful, the openings established important linkages to the outside world. Zweig (2002: ) does not idealize the process. He notes that openings resulted in “atomistic collective action, where localities sharing common constraints and a common desire for deregulation lobbied for individual concessions rather than jointly demanding collective benefits.” Rewards for individual rather than collective action are a constant theme in the transition story.
In addition to uncertainty, the “fevers” also stemmed from local pressures, competition, and the need to move quickly or risk losing the foreign investment (Zweig 2002: 152). Chinese entrepreneurs were competing with each other and with other developing economies, and they understood the impatience of foreign investors. Russians always thought they would be in a position to call the shots, and repeatedly left potential investors frustrated, assuming Russia would be able to negotiate better terms later. Russians had little understanding of “windows of opportunity,” assuming the foreign investors would always want to invest in Russia. Most failed to grasp the global nature of competition for investment funding. The Chinese learned quickly. Investors are not usually heroes. Some may engage in tourism rather than serious business relations. Even when investors are serious there is a learning curve in attracting FDI and especially in encouraging foreign investors to set up production facilities. Cisco’s representative in China described how the “basic offer” from Chinese regions became much more sophisticated during the five years he worked in the country.27

Despite admiring and attempting to imitate China’s SEZ success, Russian rulers have never managed to foster anything remotely comparable. Gorbachev’s staff studied and sought to emulate China’s SEZs early in perestroika (Miller 2016). The Russian results were markedly different. Russia’s program was more modest and less successful. Beginning during perestroika and increasingly in the 1990s, the zones became infamous for illicitly importing alcohol, tobacco and other goods.28 Rather than doing the hard work to modernize local industry, regional leaders focused on the competition for redistributed revenue from the center and participation in state programs. Both sources of funding offered significant opportunities for graft. In many regions, local officials eschewed foreign investment, fearing it would weaken their control over the region. After 1991, talented people sought positions in enterprises in the natural resource sector, or in the government. Establishing a business was fraught with risk and did not promise much reward to either the entrepreneur or local officials (Satinsky 2001).

Slider (199?) concluded that “elites in Russian regions have demonstrated by their actions that they are pursuing a set of goals other than attracting outside investment.” Rather,

“they seek to retain control over the region’s major economic assets and to enhance their own political power. The reality is that most regional leaders are suspicious of outside, and especially foreign, investment because of the threat it represents to their ability to direct the region’s economy.”

One factor cited by many analysts to explain the success of China’s TVEs and SEZs is the “offshore Chinese.” The 30 million Chinese living in Asia constituted a tremendous resource able to provide capital, skills, and support when China began to open up (Weidenbaum and Hughes, 1996). Slider and other observers have suggested that Russia had no diaspora comparable to the Overseas Chinese. It is certainly true
that most of the economically successful Russian emigres lived farther away. But the same could be said of India’s diaspora. In the crucial 1990s, the heritage group in the U.S. with the largest proportion of millionaires per capita was people of Russian descent (Stanley and Danko 1996: 19). Data from the Soviet Interview Project show that immigrants from the USSR in the 1970s enjoyed the most rapid and successful economic integration of any American immigrant wave. Why did the Russian diaspora not seize on investment opportunities in their homeland? It is easy to suggest that many of those who left both in the 19th century and in the 1970s were Jews who had little affection for Russia/USSR. But Chinese emigres were not likely to feel much affection for the Communist government, especially after Tiananmen. It is crucial to note that Chinese living outside China did not invest immediatly. It was only when TVEs and SEZs began to show signs of genuine economic success that foreign capital, and capital from Chinese in particular, began to flow to the Mainland. In the early years of reform, foreign assistance from Japan and Germany far outweighed foreign capital as a source of funding [ADD SOURCE].

Capital follows investment opportunities, not co-ethnics. Co-ethnic relations certainly may facilitate business relations (Cooke 2004) Yet Chinese now invest in Africa and Latin America, where the Chinese diaspora is not a factor. India’s diaspora in America waited a long time to invest in their homeland, becoming interested only when government policy shifted away from Ghandian self-reliance. The Indian diaspora in Africa has not fostered an investment boom, while Chinese have invested billions.

The crucial difference is that Russian leaders at all levels failed to create conditions that would attract investment, whether to special zones or to their regions. Many did not want the “interference.” They focused on redistribution, corrupt gains and untrammeled political power. Slider describes a process in which “second tier” administrative barriers overwhelmed macro-level policies. Nineteen SEZs were established in Russia by 1995, most of them by Presidential decree. Russians repeatedly invoked the Chinese experience, but most politicians and officials knew little of what it actually involved. With few coastal options Russia in 1993-96 created “internal offshore zones.” Regional governments offered businesses the opportunity to register by paying a registration fee and thereby avoiding any additional tax. Kalmykia became the Delaware of Russia, headquarters of more than 5,000 enterprises from 81 regions. Some regional leaders were elected on a populist platform opposed to foreign investment. The redistribution and tax systems played a major role in this sub-optimal arrangement. Like the voters who elected populist governors, many regional elites were suspicious of foreign investment, viewing it as a threat to their control over the local economy (Satinsky 2001; others).

A few Russian regions were different. Novgorod was notably successful in attracting foreign investment in the 1990s (Notes from visit to Novgorod; Petro). For the few years when governors became subject to voter assessments of their performance (1996-2004), some did pay attention to the local economy (Konitzer). But redistribution, corruption, and control remained the top priorities through the 1990s. After 1999, Putin
changed the game to a system based on hyper-centralization. When he reintroduced elections for regional leaders after 2012, the rules included “filters” allowing Moscow to reject any candidates deemed unsuitable. Satisfying the Kremlin remains the most important factor for Russia’s regional officials.

Was it necessary to reassert central control in the manner Putin adopted? There was certainly discussion of regional separatism and the possible disintegration of Russia in the 1990s. Yet Donna Bahry asks why, if separatism and disintegration were a serious threat, it proved so easy to reassert control once Putin came to power. In the few cases where he encountered resistance or pushback, he resorted to Soviet-style salami tactics, gradually returning to his demands, as in the cases of the Federation Council and Civic Forum (Balzer 2003).

The Russian government began to develop special zones again after 2005. The number was small, and success has been quite limited, even compared with the modest goals set for the new zones. Most remain small. In Estonia, with a population of less than 1.5 million, Tallinn has more than 100 firms in its special technology zone [source]. Russian media now discuss the mushrooming of start-up firms since 2014, but this has been a time when little investment capital is available.

What accounts for the dramatic difference in regional development in China and Russia? Much of the explanation involves incentives for local and regional officials.

*Market-Preserving Federalism and incentives*

A region’s capacity to generate economic growth depends in large part on investment, whether from its own revenue, the central government or foreign sources. The Chinese and Russian policies regarding taxation, redistribution and foreign investment are complex, at times contradictory, and have shifted over time. The outcomes in the two cases have been remarkably different. China’s system fostered an incentive structure encouraging regional leaders to devise ways to develop the local economy. Russia’s system in the 1990s encouraged self-enrichment, and under Putin shifted to rewarding compliance with central demands. China retained ultimate control over personnel, but less direct control over policy, inducing a growing number of regional and local officials to find ways to encourage economic growth. The combination of extra-budgetary revenue and career incentives (both positive and negative) helps explain why a larger share of Chinese have been engaged in successful development. When the Chinese system changed after 1994, the new incentives still encouraged development, but with far greater negative externalities.

Studies of China and Russia have done much to muddle our understanding of federalism. Russia calls itself a federation, but the Russian constitution does not meet the criteria political scientists use when defining federalism: No powers in Russia are reserved as the exclusive domain of sub-national political units (Stepan). China is a unitary state that does not entertain discussions of federalism, yet both under Mao and
since his death, Chinese regional and local governments have had a large degree
of autonomy in formulating economic policy. This has led some analysts to describe
the Chinese system as “market preserving federalism.” This formulation should not be
conflated with constitutional federalism. It is, at its core, a matter of incentive structures
for local officials. What combination of reward and punishment encourages regional
authorities to promote economic development rather than (or more realistically along
with) engaging in predatory behavior? Deng’s answer initially allowed regions to retain a
share of the revenue they collected above a fixed obligation. Making the region more
prosperous gave cadres more resources to use for local purposes, or to pilfer, and
enhanced their career prospects.

Corruption remains a serious problem in China and Russia. Yet the Chinese
incentive structure included two elements that helped constrain the level and character
of corruption, especially at the sub-national level. First, economic growth was generally
the most important criterion for career advancement up to the Provincial level. Second,
while the Communist Party’s ultimate authority to rotate, dismiss, and punish cadres
certainly did not prevent corruption, it did encourage local officials to avoid corrupt
practices that would seriously damage the local economy. Despite many exceptions, on
balance Chinese corruption differed from the more predatory behavior of Russian local
governments.

Authors writing about “Market-Preserving Federalism” (Weingast; Mintinola, Quin
and Weingast) have drawn attention to the important ways China’s decentralized
system encouraged economic development in the regions. The term itself, however,
generated significant criticism. Dali Yang (2006) emphasized that the Chinese central
government retained the ultimate power to remove or reassign cadres, a relationship
that seriously undermined any claim to federalism.

In subsequent collaborative work, Yang and co-authors have refined the criticism
of MPF, focusing on a sophisticated theoretical approach (Su et al. 2014):

We start with the assumption of revenue-maximizing local government
officials. However, we also add more institutional details to better account
for the patterns of local government behavior. Three institutions, i.e.
central-local fiscal arrangement, regional competition, and industrial
linkages have constrained local officials’ choice sets and led to a
particular form of local developmentalism in China. A wide range of
phenomena in China’s economic development and transition, such as the
rise of TVEs (township and village enterprises), local protectionism, SOE
(state-owned enterprise) privatization, and massive industrialization and
urbanization, can find logical and parsimonious explanations in our
framework. Beginning with the incentives for local officials enables us to
build a micro-foundation for analyzing China’s political economy. From a
policy perspective, while the two existing approaches assume that local
governments make efficiency-enhancing policies, our approach points to
how the revenue imperative has often driven local officials toward a more destructive path.

This analysis certainly explains many of the problems in China’s development story. Yet there are still crucial differences with Russia. Feng et al. (2013: 574) note that China’s regime now emphasizes centralization of revenue, but expenditure remains highly decentralized. Chinese local governments spend about 70% of budget revenue, while the OECD average is 32%. The contrast with Russia’s rigid central ministerial control over even small amounts is striking.  

The entire MPF debate directs attention to the wrong question. The “federalism” label is far less important than the incentive structure for local officials. Some unitary systems have regions with high growth; others have been less successful. The two largest economies in the EU, France and Germany, are examples of a unitary and a federal system, respectively. While overall Germany has a stronger economy, French regions like Lyons have performed far better not only than East Germany, but also some Länder in the West.

What induces regional officials to promote development rather than seeking to enrich themselves and move on? Olsen (1993) would say that tying them to the region is a key—stationary bandits are preferable to roving bandits (cf Schiefer). Yet if this were the sole answer, term limits and rotation of officials would be far less prevalent. A more plausible solution is to develop mechanisms tying officials’ career advancement and personal economic situation to successful regional economic policy. Elections are one way to accomplish this, based on an assumption that voters will reward officials who improve the economy and punish those who fail. This was the case in Russia during the years (1996-2004) when regional leaders were elected (Konitzer; Hale; cf. Tucker 2006). In regimes with appointed regional officials, promotion decisions and financial incentives tied to economic performance indicators may work. No system works perfectly. Elections may turn on other factors, including race, gender, personal behavior, media control and party salience. Economic and career incentives may be undermined by rent-seeking opportunities, especially when the prospects for punishment are remote.

When officials’ career success is tied to local economic performance, they are more likely to refrain from purely destructive rent seeking that inhibits growth. When they share some of the benefits of economic success, they are more likely to promote development. The crucial issue is whether they take a share or an excessive share of the proceeds.  

Jin, Qian and Weingast (2005) found that fiscal incentives for provincial governments, allowing them to retain a greater proportion of the tax revenue they
generated, accelerated both the development of the non-state sector and reform in state sector enterprises located in the province. This was both a positive outcome and a reason why SOE administrators might have favored curtaining the fiscal contracting system. No one likes being forced to reform by competition. It is often easier to eliminate the competitors when this is an option, a phenomenon hardly limited to China.

Zhuravskaya (2000) found that Russia’s system offered few incentives to regional officials to develop the local economy. Despite far more privatization than in China by the end of the 1990s, inadequate fiscal incentives prevented “meaningful economic reform.”? (Jin, Qian and Weingast 2005: 1722). The China-Russia comparison complicates analyses asserting that privatization produces superior corporate governance and better economic performance. Russia privatized early, but since Putin became president the balance shifted from 2/3 private to 2/3 state. In China, by 2012 the economy was 70-75% non-state (the Chinese still do not like to use the word private (Ong &). Yet China’s economic performance has been far better.

When Putin began restoring Presidential appointment of regional leaders, their incentive structure became overwhelmingly focused on Moscow. The Russian incentive structure emphasizes political loyalty; maximizing the vote for the party of power; and social stability, including maintaining employment at economically inefficient enterprises and in economically difficult locations. These priorities emphasize control rather than dynamism. Officials and their regions compete for redistribution of a share of the rents, and for financing through state programs. The result is predatory behavior toward businesses. There is little incentive for innovation. The regime rejects decentralization. Sharafutdinova (2009: 673-4) finds that Putin’s principal-agent model may have reimposed bureaucratic control, producing governors who are publicly loyal, but has not been effective in implementing either federal or regional policies.

In this environment, funds for regional budgets, participation in lucrative state programs, and officials’ career advancement all depend not on how the local economy fares or how satisfied the voters are, but rather requires satisfying the Kremlin, and the President in particular. This relegates developing the local economy to a much lower place on the list of priorities. Even when Putin deigned to promote local economies, the vehicle was inevitably a large or “mega” state program, offering enormous opportunities for graft. Regions competed ferociously to become the focal point of these mega-projects. But top-down initiatives rarely stimulated significant local development. Even when infrastructure was built, sustainable development remained elusive. Programs for the Far East, Sochi, Skolkovo, and the North Caucasus have each received hefty funding, but corruption has consumed a significant share of the allocations, and the results have not generated sustainable growth.

Pei’s (2006) characterization of China’s provincial governments having evolved into “local mafia states,” and his (2016) discussion of “crony capitalism,” may be a reasonable characterization of the situation in the 21st Century. However, in the 1980s and into the 1990s the center-province relationship in China appears to have been
balanced in a healthier way than was the case in Russia.

China’s success was made possible by an incentive system that encouraged some regional officials to promote economic development and central government willingness to accept and increasingly embrace policies that worked. The Chinese achievement was aided by partial loss of control by the center. The CCP retained enough authority to punish some of the most egregious corruption cases, though this power was used only intermittently until Xi. Whether Xi’s ongoing campaign targets political opponents, all corrupt behavior, or some combination remains a disputed question (Wedeman). China’s development achieved enough momentum by the mid-1990s that the number of developing regions increased even when the regime curtailed the financial incentives.

While the Chinese incentive structure has produced results far surpassing Russia’s economic accomplishments, the “China model” remains far from ideal and is increasingly under threat. Most of the poverty reduction was achieved in the first two decades, and income inequality has worsened continually since the mid-1990s. The negative externalities of China’s growth remain gargantuan, with the environment among the major victims. The one-child policy ranks among the greatest government-caused disasters in modern history. Similar results could have been achieved with incentives for women to defer birth of their first child by 5-10 years. This would have prevented both the massive abuse of women and their families over four decades and the current threat of a crippling dependency ratio. Nearly everyone involved in economic policy understands that the Chinese model requires change, yet the current “winners” represent a powerful obstacle.

**Conclusion:**

In needing to implement reforms that will threaten powerful entrenched interests, China and Russia are not markedly different. Yet China is facing the problems with a far more diverse economy due overwhelmingly to dynamic regional development that has helped to shape economic policy.

Current regional policies in both China and Russia require significant change. Pastukhov (2017) argues that to survive in the 21st Century Russia must replace autocracy with a genuine federal system. Power must devolve to regions (though he opens the Pandora’s box of suggesting that the regions should be reconfigured). The alliance between the current autocratic political system and official religion makes real federalism both more difficult and more necessary. Although central state power has persistently been invoked as the only way to preserve Russia’s territory; Pastukhov is one of the growing number of voices arguing that now only a genuine federal system can ensure Russia’s existence in the 21st century.

Feigenbaum and Ma (2014) state that in China “the lack of alignment between
central and local goals has become endemic and unsustainable." Beijing’s success in clawing back much of the revenue has come at a significant cost: “provincial governments came to rely on other sources of income—namely, land seizures and sales to property developers as well as shadowy local financing vehicles and other off-the-books revenue sources” Feigenbaum and Ma (2014). The result is massive infrastructure spending, housing bubbles, and increasing local debt. If Xi’s ambitious urbanization program is implemented, it will require more public services and urban spending.

Pastukhov’s analysis does not address the question of why regions in unitary China have been more innovative and economically successful than regions in the Russian “Federation.” What Feigenbaum and Ma (2014) really demonstrate is the limited scope of centralization in China: Beijing has garnered the overwhelming share of revenue, but this does not make it capable of dictating policy. The center can dominate only by starving the regions, making them totally dependent on redistribution. This stifles sustainable economic development.

China’s embrace of globalization helped to foster a highly pragmatic acceptance of regional development. The Chinese government is happy to take credit for the successes, and to extract the maximum financial benefits, for both the national treasury and pocket-lining officials. Yet a careful examination of the process of economic development reveals a mixed and contradictory picture of central government guidance. Beyond allowing some regions to develop first, China’s government did not succeed in planning regional economic development, but accepted successful models even when they differed significantly from the government’s initial intent. Examples of the government directly fostering competing local projects to determine which worked better are difficult to find. More often, the government gradually came to accept practices that worked. This was not merely “getting out of the way.” Rather, it involved complex policy battles, adjudication of competing “mandates,” and disputes regarding how much deviation to tolerate in the process.

Russian leaders prefer to emphasize wise guidance by China’s authoritarian rulers—a narrative that the CCP is more than happy to embrace. China’s leaders do deserve credit for accepting a policy process in which the competing mandates produced outcomes encouraging economic development. Ironically, but understandably given both the narrative and self-interest, China’s leaders, beginning in the mid-1990s and more emphatically since the early 2000s, have sought to impose greater control over local economic initiatives. The impact has been significant and largely negative (Hong and Nong 2013; Huang 2008; Pettis 20??).

China’s economic performance in the first two decades was strongest in the realms, both regions and sectors, where the government partially lost control. This was not a formal legal process, but the results were in some instances more positive than in cases where federalism is enshrined in constitutions. Promising answers for China’s success may be found in discussions of what has been termed “market-preserving
federalism,” though with the emphasis on incentives rather than federalism.

In contrast, the Russian government had weaker control of the better-off regions and some non-Russian republics in the 1990s, then overdid centralization in the Putin era. The economy opened, but integration with the global economy was “thin.” Many regional leaders feared loss of control, causing them to eschew foreign investment. When the economy began to stabilize after the 1998 crisis, due to ruble devaluation and rising oil prices, Putin’s regime did little to encourage entrepreneurial local officials. Their incentive structure emphasized social stability and ensuring a vote for the “party of power,” with the reward being a share of the redistributed resource rent. Improving the local economy entailed risks and promised no particular reward. The treatment of business was more often predatory than developmental. Public goods atrophied.

The divergence between China and Russia continued through the 2000s, and became even more pronounced following the 2008 and 2014 economic crises. In the aftermath of 2008, China was the best G-20 performer; Russia the worst. In 2014 Russia created a crisis all its own. China increasingly sought to spread prosperity to some Central and Western provinces; in Russia, the number of donor regions contracted.

The Chinese case is hardly a model, either in the sense of something consciously planned or a successful policy deserving emulation. It evolved ad hoc. Many of the negative ramifications reflect policy disputes and compromises. Many incentives encouraged lobbying for special status rather than better overall policy. The list of negative consequences includes the environment, corruption, worsening inequality, resistance to needed reforms, and now a “Xi change” threatening established political conventions.

Despite the significant problems, the China story offers important lessons compared with Russia. Local/regional officials respond to incentives, both rewards and punishment. Allowing a reasonable degree of regional autonomy while maintaining constrains on serious malfeasance can improve economic performance. Encouraging thick international integration and willingness to learn increases the chances for success. Successful development is self-reinforcing, creating interests that lobby for better policies, though their victory in competition with a solidly entrenched state sector is far from assured. Similar policy contestation is less likely but even more necessary in Russia.
ENDNOTES:

1. Environmental studies by their very nature need to deal with all three. E.G. The anthropoene scho

2. Another variety of trans-border integration involves smuggling and the “shuttle trade” conducted by individuals. While these activities do generate exchange across borders, they also foster interests benefitting from restrictions on trans-border activity, and resist greater openness that would promote legal trade, wholesale exchange and competition. and

3. For a good recent summary of the phenomenon on a global scale, see Libman and Vinokurov (2016). The large number of regional economic organizations that continue to exist even while having minimal impact are what Julia Gray ( ) calls “zombies.”

4. For a good summary of the recent literature on security issues and their relationship to economic regionalism see Mansfield and Solingen (2010: 152-58).

5. Regionalism may also refer to local dialects or to historical and cultural identity. For the latter see Lauck (2017).

6. The growing economic dynamism along China’s borders includes expanding economic relationships with Central Asian countries that were part of the USSR and remain a major focus of Russian efforts to establish some sort of trade or customs union. Russian regions bordering the European Union have fared slightly better, but only slightly, and the 2008 financial crisis convinced some Russians that future economic opportunities are to be found in Asia rather than in Europe. Russia’s annexation of Crimea and military involvement in Ukraine since 2014 seriously impaired economic linkages with Europe.

7. The shift really began with Hu, but Xi has been both more assertive and more effective (source)

8. For an excellent case study, see Rivoli (2005). I might have preferred a slightly different formulation than Baldwin’s: Increasingly global marktes mean "made everywhere, sold everywhere."

9. The Russian Republic followed the model of the USSR, with popular election of a large Congress of People’s Deputies that then selected a portion its members to a Supreme Soviet that acted as the legislature.

10. In an interview with someone who claimed to have worked for the Russian Foreign Ministry, I was told that a working group had begun to prepare plans for military action in Tatarstan to bring the government there to heel. A decision was subsequently made that Dudaev's Chechnya was a greater danger. On Tatarstan see Balzer; Gulnaz; ??? On the Chechen war Lieven.
11. For Putin’s fixation on state-controlled hydrocarbons as the key to Russia’s development see Balzer 2006 and Balzer 2005.

12. OPEC and other producers sought to cut production to restore higher prices. However, this effort meant that prices would again make America’s shale oil competitive. Improved technology meant that Texas and Oklahoma were competitive at $30-39; North Dakota needed $70, but technical developments may well have lowered that number in those fields as well.

13. In Russia, the number of relatively successful (“donor”) regions has fluctuated since 1991, reaching a peak of 14 but shrinking to only two during the 2008 financial crisis [SOURCES]. Moscow is in a class by itself, reaping enormous benefits from a tax system in which the headquarters location of a corporation determines their tax home. The vast majority of Russia’s (formerly 89 and now) 83 regions received funds redistributed from the Center. In China, the coastal regions have boomed, while the Western provinces have lagged badly and central provinces have lagged somewhat less. This differential was particularly acute during the first two decades of reform and openness, and has been addressed somewhat since the mid-1990s [SOURCES].


15. The most recent is a new technology city, intended to alleviate the crowding in Beijing, but described by some as overreach.

16. [fn 3 nos]

17. Xu and Zhang 2009: 5-7. Hunan, [check this—Sunan?] near Shanghai, became a major supplier for that city’s extensive network of SOEs; Guangdong, in the Pearl River Delta, received substantial FDI from Hong Kong and Taiwan. In both Sunan and Guangdong, the TVEs were closely tied to local governments. Wenzhou, one of the most-studied Chinese regions, had few natural advantages, yet managed to compensate by developing innovative approaches to financing and production. The “Wenzhou model” eventually served as one of the catalysts for recognizing private ownership. (See Nee and Opper; Fewsmith; article.)

18. Tsai; others. [much more in Western literature than in Chinese work on the topic. Informal in general more studied in West. For example Xu and Zhang (2009: ??) mention it almost as an afterthought, rather than a major feature of TVE development.

19. [ADD DATA]

21. FN: can argue that initial conditions were vastly different. Equipment. Lost Black Earth belt. Portion of the labor force—though this cuts both ways. But Central Europe fared better.

22.add note

23. Some of the best analysis of Russian agriculture is by W. [erratic weather patterns. No help from thawing permafrost. Colder.]

24. Russian workers were less skilled and less disciplined. Electronics industry moved to Baltics in Brezhnev era due to lack of qualified labor in RSFSR.

25. [NOTE THAT FOCUS ON DOMESTIC MARKET CREATED CONDITIONS FOR RED QUEEN MODEL—both advantage and problem.)

26. Wenzhou’s success has spawned a cottage industry of studies on the region. Fewsmith; Nee and Opper; others]

27. Comments at CEIP conf.

28. [specifics on first zone? Slider?] 

29. Delaware continues to enjoy a special status in the U.S. due to its more favorable tax regime, but its impact is nothing like that of Russia’s offshore regions.

30. MPF lit. Montinola, Q & W 1995; de Figueiredo and Weingast 2002. Etc. Economists appear quite satisfied with definitions of federalism that emphasize competition and decentralization. China in the warlord era had lots of competition and decentralization, but it would be a stretch to call it “federal.” Federalism has to be differentiated from anarchy. That is why federalism is always a balance between the center and regions, and the balance is always in flux. [add?]

31. This topic is discussed in two manuscripts by Balzer and Ganga currently under review.

32. When working with the Basic Research and Higher Education Program, we found that Russian Universities competed intensely for relatively small supplementary grants. The reason was that this was one of the few sources of fungible funding that could be used for unanticipated needs in research projects.

33. Moderate vs. excessive share is, of course, a highly subjective assessment. Richistan notes just about everyone thinks they need double the wealth they possess. But there are ways to measure whether corruption merely reduces growth or stifles it altogether. There will inevitably be endless debate about whether growth rates would be higher with less predation.


Jin, Hehui, Yingyi Qian, and Barry R. Weingast. 2005. "Regional decentralization and fiscal incentives: Federalism, Chinese style." Journal of public economics Vol. 89, no. 9,


Pastukhov, Vladimir (2017) "Manifest federalisma. Kak Rossii izbavit’sia ot samoderzhaviia? (A Federalism Manifesto: How can Russia Escape from Autocracy?"


Petrov, Nikolay. 2013. "Governance and the types of political regimes in the ethnic regions in Russia." Managing Ethnic Diversity in Russia, May, pp. 111-29.


Sachs, Jeffrey D. and Wing Thye Woo (1994) "Reform in China and Russia," Economic Policy 18, pp. 101-45. Sachs and Woo cite “three interrelated flaws” in the Soviet economy: overbuilt heavy industry but too little light industry and services; almost all workers in jobs subsidized by the state; and the entire population covered by the welfare system. Characterizing the welfare system as a “flaw” contradicts statements Sachs makes elsewhere about the importance of safety nets during transition.
Balzer, Why China Not Russia 4 ISA Hong Kong 2017


