

CHAPTER 7

Conclusion

Due to unique political and economic circumstances resulting from the transition in Russia and China, the state is entrenched in relationships with economic agents through ownership and other connections. The divestiture of the central state's assets through the shock therapy reforms in Russia verses that in China created a significantly different context for the government to influencing its economy through exerting state power on the enterprises. For Russia, much of the power is exerted from Putin against the competing demands of the society, including the oligarchs as well as external pressures like the WTO in a way that seems to fracture society, which is a reality that both Russia and China must deal with. This reality should be seen as a product of the transition and divestiture of ownership. For China, the divestiture of political and economic power through the gradual transition has allowed the government to retain significant control over economic agents because of the persistence of hierarchical linkages between the state apparatus and various SOES and other entities.

In both countries, since power was vested in the government in the first place prior to the reforms, the state's economic governance ability can be seen as a product of the transition, as well as a major conduit toward instituting reforms or protecting key interests. Concomitantly, the governments must be able to balance the competing interests while promoting economic growth and stability. But uniqueness of the

countries' transition processes are put into sharp contrast when we consider how in China's gradual transition, the impact of any individual institutional arrangement cannot be ascertained *a priori* because the function of an individual institutional arrangement depends on the function of other institutional arrangements in the institutional structure. This adaptive feature unique to China's strategy creates a major challenge for us to apply the China model on Russia and dramatically changes not only the institutional landscape of the relationship between the state and economic agents. In China, the gradual approach allowed the state to grant partial managerial autonomy and profit sharing, as well promote micro incentives. These mechanisms allowed the economy to move close to the production frontier.

Although Russia and China diverge significantly, their distinctive development does not preclude the possibility that the latter might be able to learn much from the former. Taking an active role in its economic governance allows China, for better or for worse, to also take an active role in dealing with internal and external economic pressures from global economic integration, while pursuing its strategic objectives and the management of domestic issues.

If Russia were to attempt to mimic China's strategy it would be need to be mindful of its current economic capabilities and institutional capacities bequeathed by its shock therapy reforms. Namely, in both countries the transitioning processes left the two countries with spectacularly different competing interests which both hamper and promote a new arsenal of policy choices regarding reform. However, the quest to promote economic growth and stability in the context of globalization were both major overriding elements in the market reform process in Russia and China.

The gradual approach in China's transition, allowed the leadership to single-handedly create a financial system comprising of financial instruments that are mutually adapted, based on the performance of previously implemented instruments. In contrast, what I'm trying to show is that Russia's transitional experiences and constraints, and hence its transition processes, the government had problems with its ability to govern its economy, which stemmed from the weaknesses of the state and rent seeking. Because of these inefficiencies, dramatic institutional changes were required to spur economic. This necessitated the implementation of a sound institutional infrastructure.

The need to promote economic growth and stability as the Russian state remains in a key position that is intricately intertwined with economic actors in the context of the transition means that the government still retains significant control. Stamping out inefficiencies and corruption while making attempts to comply with the WTO help to bolster the state's legitimacy. Moreover, Putin's high approval rating further enhances the federal government's power. If the state is effective at instituting economic governance that helps to balance the new competing interests that arise because of economic integration and the WTO, would further be strengthened.

This WTO can be seen as a major conduit of globalization. WTO accession should be seen as a process that fundamentally alters the economic governance capability of the Russian and Chinese state. If Russia were outside the WTO framework, its situation will become complicated for Russian producers to find new markets, namely because, in the absence of WTO protection, producer would be susceptible to rigorous interpretations of anti-dumping rules. On the other hand, joining the WTO might eventually lead to concessions that might hurt vested interests.

As in China's case, where it has only recently acceded to the organization in 2001 WTO membership has already helped to bring in foreign competition, creating further impetus for firms to specialize in sectors that follow China's comparative advantage and delegating autonomy to micro-management units so they would be consistent with the traditional macro-policy environment, thereby helping to promote investment and job opportunities to the hinterland, promoting balanced growth. Moreover, foreign competition induced by the WTO, would promote more product variety and prices and better quality. It will also promote a more flexible prices system, better reflecting supply and demand of factor endowments and commodities, which would promote efficiency and move the economy closer to the production frontier. Foreign capital and technology has also been introduced. No doubt, the plight of "losers" even in China unfurling because of WTO compliance is an issue that China is attentive to. However, China has been able to comply with the WTO while overseeing spectacular economic growth partly resulting from the government's comparative advantage defying strategy and the maintenance of fairly stable society. In addition, much like in Russia, the WTO has availed to China new trade advantages; access to foreign markets and provision of non-

discriminatory treatment for Chinese exporters; access to the international dispute settlement mechanism, creation of a more favorable climate for foreign investments; creation of conditions for growth of domestic production' quietly and competitiveness as a result of increased flow of goods, services and investment and ; expansion of opportunities for Russian investors in the WTO-member countries.

While Chow has argued that the reforms in the economic structure in China after WTO membership would see the importance of state-actors relative to non-state actors, I argue that compared to Russia, the way in which China has already divested its state control on the non-state actors, the government still has significant capacity to steer many aspects of its economy because it has retained those rights through the residual control after the transition process. The state's relationship with banks, in particular, gives the government significant leverage in pursuing a comparative defying strategy with the issuance of credits and loans. helps the state to not only comply with WTO regulations (at times begrudgingly and not without intensive negotiations), while it pursues a comparative defying strategy, which takes into account the reality of globalizing forces.

The achievements of China in regards to economic governance shows that there is indeed much that can be gleaned from China's economic development, which has been significantly steered by the state, for countries transitioning from Soviet economic system.

There will inevitably winners and losers in the process. The structural changes that are occurring because of Russia's transition to the WTO has the potential to affect major sectors like natural resources (accounting for 75% of Russia's total exports), protected sectors like that of autos and smaller sectors like that of goods and services. Moreover, its mosaic-like distribution of economic growth are additional concerns.

However, for Russia, membership into the WTO would also create multifaceted concerns since the WTO agreements pertained to over 1,000 industries, they have the capacity to affect those industries that would either enhance or detract from the respective industry's vested interests. These vested interests culminate in a new entrenchment of competing interests for the state and economic agents. This is particularly the case because of the mechanism used for the transfer of ownership as a result of Russia's shock therapy reforms, namely the Loans for Shares Program, which has been notable in its lack

of transparency, thereby raising serious concerns within Russia and abroad about the fairness and equity of this type of privatization.

Since the expropriation of Yukos, one sees a clear strategy of takeover of the energy by the state. This is confirmed by the purchase of Sibneft by Gazprom. In contrast to China, where the reforms attempted to improve the incentive mechanism to improve economic efficiency by decentralizing power and to give up part of the profits to microeconomic agent. Lin et al. have pointed out how this led to “economic vigour.”²⁸⁷ That is, the creation of power for decision making at the micro-management level, along with the increase in retained profit and self-disposable product, required concomitant changes in the resource allocation system and the macro-policy environment. Though on the issue, Lin has that “the reform has not been thorough enough”, this appears to be a fundamental difference between the aftermath of Russia and China’s transition process, and what types of depends on the respective country’s economic and political contexts – two factors, which I showed that have been shaped by the transition.

Russia is pursuing strategies to become viable in the global economic system, and having WTO entry as a pre-condition to its vital existence there, the effects of globalization internally will be solidified through the outcome of its changing relationship with the other countries. These international efforts must also be concomitantly balanced with the requirements and influence of the growing complexity of competing interests. Russia’s strategy, reform process and economic governance must keep up to pace with these changes.

Both in Russia and China, their remains significant linkages between the state and economic agents; the composition of their respective business-state relations and the divestiture of state control create the space where economic governance can be leveraged. As our preceding has sought to highlight, economic governance is necessary to balance the competing demands of domestic interests further sharpened by Russia’s WTO membership. It is precisely at this critical juncture where Russia’s new trade relationships with the world brought about its WTO membership and affiliated bilateral trade relationships that we believe the government’s role in economic governance is redoubled.

²⁸⁷ Lin et al., 238.

Meanwhile, China is poised to contend with conflicts between the state and economic agents. However, China's gradualist reform has allowed it to make enviable economic performance, while the government continues to exercise economic governance. In Russia's present external and internal context, there are certainly pressures for Russia to significantly alter the way it conducts its economic governance to mimic that of China's.

However, while many of China's economic governance practices might seem attractive to Russia, the divergent reform strategies of both countries have created unique competing interests internally and externally – which are based in part by their political and economic institutions and it would be not incorrect to say that they also have very different development strategies and institutional means to solve problems. However, for both countries, economic governance will be a touchstone of their ways to promote economic development and social stability. How effectively that economic governance is exercised to promote economic growth and social stability in the context of their recalibration of internal and external pressures following compliance with the WTO, will be a major factor in the federal government's legitimacy.