

CHAPTER 3

Transition Aftermath on Economic Governance

Meaning of economic governance

As the previous chapter showed, the distinctive and divergent economic transition paths that China and Russia followed fundamentally altered the central government in China and federal government in Russia's influence and control over firms and other aspects of the economic system. It could be said that Russia and China's transition bequeathed institutional elements and processes related, but not limited to, ramifications on the framework for which economic governance is expressed. This framework comprises such elements as: policies, legislation, institutions, organizations, government capacity, predictability, accountability, transparency, participation. At this stage in their reform, according to Lin, the Chinese government should aid in the establishment of local and private initiatives – in what the author calls “institutional innovations”. According to the author, China has improved its economic governance in the following ways:

“Instead the Chinese leadership has by the beginning of the new century ached remarkable progress in streamlining and downsizing the government, divesting the state institutions of their business operations, and generally remaking the relations between state and business and leveling the economic playing field. Alongside these changes, the Chinese leadership has also strengthened the fiscal regulatory sinews of economic governance as well as introduced major public

management reforms designed to discipline the behavior of bureaucrats, create a fairer and more transparent economic environment, and curb corruption.”⁵⁵

Namely, the author believes that measures could be introduced that enhance the government to govern the economy as market reform policies are implemented. One strategy the author reckons is for the central government to empower lower level authorities, which in theory could promote a more efficient allocation of resources. One of Lin’s main suggestions is for the government to introduce a dual-track price and allocation system allowing the resources to be allocated increasingly by the micro units to the previously suppressed, more productive sectors, while maintaining the normal production of the SOEs. Since the central government is ultimately at the top of institutions of economic governance in China, the networks and chains of command created by the relationship between the central government and the lower levels creates the ability for the central government to promote state objectives. Moreover, while instituting these reforms, the government can liberalize the price when the commodity is largely allocated by the market track. Fourth, the government gradually introduces and strengthens the necessary market institutions during the above process.”⁵⁶

This brings us to our main contention regarding economic governance after the WTO. 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. 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. In fact, according to Simon who comments on precisely the potential to “catch-up” in development by exercising the power of government control: “Maintaining economic equilibrium cannot be left to the invisible hand of the market, it requires government attention...When markets are not at full employment equilibrium as they often aren’t, neoclassical theory does not explain why, nor what to do about it.”⁵⁷ In this light, China and Russia’s dynamics after WTO share several aspirations. For transitioning economies, however, as Yang note in explaining the interactions that create

⁵⁵ Yang, 17.

⁵⁶ Lin, 4.

⁵⁷ Simon, 755.

the relationships between the state and competing interests, the dramatic interplay of three major factors, internal politic/political leadership, changing economic conditions, and crises (perceived or real), have been the most important elements catalyzing the stream of policy choices to be described and analyzed.”⁵⁸

Understanding these dynamics would help to illuminate the extent to which the respective models can be applied to each other. Namely, Yang contends that The significance of the governance reforms as a whole may be larger than the sum of the parts. The individual reforms are generally designed to achieve certain specific goals, such as to attract more investment, save the government money, to close loopholes in government financial management, or to cut down on smuggling. Yet together they also alter the landscape for the struggle against corruption and the exercise of governmental authority in general.⁵⁹

Economic Governance in China

This section will give a historical account of China’s transition process in the reform period to highlight the ways in which the state institutions of economic governance have been adapted to the market reforms that were implemented gradually, allowing further reforms to be undertaken under central control. I will use an analytical framework that will stress three major factors: the changing economic conditions; the importance of leadership and the rhythm of domestic politics; and the role of crises as catalyzing events for politicians to adopt certain reforms.”

Until the late 1990s the Chinese leadership was not very successful in changing the functions of government and the nature of the Chinese state in general. It was the government at different levels and in various guises that sought investment opportunities in the 1980s and sought to protect their investment interests. The implementation of the dual-track reforms not only meant the continuation (albeit gradual shrinkage as a percentage of total economic activities) of the plan but also meant the persistence of bargaining relationship between the state (as well as collective) enterprises and their bureaucratic superiors.

⁵⁸ Yang., 2.

⁵⁹ Ibid.

The dynamic has bred relationships that were of mutual dependence. Namely, this meant that the enterprises relied on their upper government agencies for supply of credit grants and energy), protection from encroachment (including encroachment by other state agencies), favorable treatment in regulatory enforcement (environment, quality, and so on), and various forms of preferential treatment (such as tax and interest exemptions or steering protects their way). In return, the enterprises furnished their bureaucratic superiors with revenue (both in –budget and extra-budget as well as other forms of income), employment (which often served as a patronage benefit), and products for the plan. As a result, economic reform and administration reform were caught in a classic chicken-and-egg situation. As long as the government supplanted the market, state enterprises would do well to seek a bureaucratic umbrella.

Yet the remaking of the administrative state stalled, because the webs of relationships engendered demands for administrative protection, coordination, and decision. The bilateral interdependence amid partial reforms provided fertile soil for government expansion during an era of rapid economic growth. Between 1978 and 1995, Chinese state revenue grew by 5.1 times while administrative expenses in state expenditure expanded by 17.8 fold.⁶⁰

Historical Foundations of Economic Governance

The effects of leadership, ideology and responses to cataclysmic events shaped the outcome of the state-enterprise relationships. According to Yang,

“For Deng, political stability, particularly the continuity of Communist Party leadership, was a necessary condition for further economic reforms. Deng clearly recognized that the promotion of economic development through further economic reforms would be essential if the ruling elite were to regain the sort of performance it had acquired in the 1980s.”⁶¹

According to Shlapentokh, Deng employed many different methods to preserve control of the state and stability, which included control over not only intellectual dissent from whom this dissent usually derives, but also political dissent. This might be one reason

⁶⁰ Ibid., 10.

⁶¹ Ibid., 6.

why Deng's government was punished common criminals so fiercely. The time period also saw significant ideological continuity between the Mao and post-Mao eras ... one reason why even indirect political dissent will put one in jail. This legacy about government action against open defiance, whether it is with the rebellious students of Tiananmen Square or ethnic minorities, is "is crushed with such bloodshed."⁶²

"Indeed, Jiang Zemin was then (early 1990s) most universally seem as a transitional and even transitory figure. To say the least, every Chinese leader at the turn of the 1990s must have remembered well that two Communist Party general secretaries had lost their post in the latter half of the 1980s for pursuing relatively more liberal policies." (p. 16) ... Even after announcing the goal of building a market economy at the prompting of Deng, Jiang and his colleagues would for several years to come continue to placate existing interest groups and tolerate the business operations of the military, the armed police, and other government and party institutions." ... Jiang's 1992 call for building a socialist market economy in China and later pronouncements by China's leaders to indicate that the leaders clearly saw the need to remake the Chinese state and the nature of economic governance, level economic playing field, and reshape the relationship between state and business. Yet it was one thing to present a goal for reform; it was quite another to achieve it. Given the existence of powerful vested interests in favor of the status quo, the relatively weak leadership, and in light of the international experiences as well as a hostile international environment, there was much to argue for a repeat of the pessimistic scenario in Chinese history that is captured in a common refrain: Those who reform will come to no good end."⁶³

In the eyes of some officials, however, pursuing economic reform while retaining control over the economy was a necessary trajectory, especially in terms of the societal changes that came to fore, partly as a result of the economic reforms. The events of nineteen eighty-nine will forever be remembered as one of the bleakest years in the history of Chinese political development. In fact, A decade into the post-Mao reforms era, the state and the society saw a significant confrontation, which culminated in bloodshed in Beijing. Even before the Tiananmen Protest on April 15, 1989, Deng Xiaoping had

⁶² Shlapentokh, 244.

⁶³ Yang, 17.

prevailed over more liberal leaders such as General Secretary Zhao Ziyang. Deng had heralded on the significant importance of promoting stability and warned against the dangers. During a meeting with visiting U.S. president George Bush on February 26, 1989, Deng argued that China, in the absence of a stable environment would not be able to achieve anything and might even lose what had been accomplished. Moreover, to help maintain stability and prevent chaos, Deng repeatedly called for maintaining central control. Moreover, The fears from Tiananmen, international economic sanctions, and the effects of the USSR breakup further made China's leadership to take measure to empower the center.⁶⁴

While Deng attempted to bolster the legitimacy of central control, China was not without contending voices in regards to the state-enterprise role. According to Yang, many economists and other commentator based in china, such as Qinglian and Yang Fan, have spoke out about the strengthening of the state and businesses relationship, noting the likely ill effects of organized crime and rising income inequalities. Notable scholars saw the union between business (shang) and officialdom (guan) as becoming a platform for both corruption and self-aggrandizement. It was also seen as providing a powerful means of rent-seeking, blocking the reforms. For instance, in an article written by Zhong Guoxing, it had been apocalyptically pointed out that the coalescence of corruption and markets would lead to bubbles, economic retardation, distortions, and unrest.” Moreover, with the coming of the 1997 Asian financial crisis and the absconding of power of corrupt leaders such as Suharto (a process that was sparked by his unquestioned authority over Indonesian affairs and the lowered standard of living resulting form the Asian financial crisis, leading to his fractured support among the nation's military, political and civil society institutions), scholars based in the West have become especially sensitive to the predatory aspects of China's developmental state. It was said that the effect of the undisciplined state tentacles of control has made it harder to promote fair competition within china and truly promote the country's global economic competitiveness.⁶⁵

However, the fall of Communism and the break-up of the former Soviet Union constituted a major driving force behind the Chinese leadership's aggressive pursuit of

⁶⁴ Ibid., 3-4.

⁶⁵ Ibid., 12.

economic reforms – particularly fiscal reforms – in redoubling the ideas about the state’s role in the economy, which had already existed prior to the Tiananmen Protests. In addition, the fierceness of the 1997 Asian financial crisis and the fall of governments in South Korea and Indonesia were markedly negative examples that stimulated the Chinese leadership to reform the central banking system and more generally the financial system, and strengthen other governance mechanisms, seeking to use institutional reforms to curb corruption. Moreover, the currency realignments during the Asian financial crisis severely worsened China’s smuggling problem and caused the leadership in China to take great measures and created a long-awaited divestiture of business operated by the military and other institutions as well as major changes in organization of the Customs Administration. According to Yang, “Within an authoritarian political framework and amid changing economic conditions, it has required leadership often responding to crises, real or perceived, to remake the Chinese state.”⁶⁶

Disadvantages

The forces, just described, which are based on the changing economic conditions; the importance of leadership and the rhythm of domestic politics; and the role of crises as catalyzing events for politicians to adopt certain reforms, are major aspects of the motivations for the persistence of economic control during gradual reforms. According to Yang, “Partial reforms did not just beget strong state-enterprise ties but also big government. In contrast, the arrival of buyer’s market eroded state enterprise profits and provided incentives for governments to reduce their liability in the state sector and remake the government in line with changing circumstances.”⁶⁷ According to Simon, institutionalization of markets without the concomitant introduction of socially enforced rules of the game for the operation of the market and the affiliated creation of feasible and effectively managed organizations cannot make a productive economic system, specifically in terms of modern sound monetary policy and law enforcement.⁶⁸

⁶⁶ Ibid., 20.

⁶⁷ Ibid., 21.

⁶⁸ Simon, 755.

In this context, there was a competing tension in the extent to which government control would be instituted. This tension manifested itself in the first decade of reforms, which were characterized by the decentralization in many spheres of government affairs. But in the 1990s, the forces perpetuating the logic of control began to swing back, According to Yang, “not toward central planning, but toward a sort of strong central authority the post-Tiananmen leadership sought to balance local initiatives with central authority.”⁶⁹ In fact, it is the belief of the author that for the 1980s and most of the 1990s it wasn’t only government departments that participated in business dealings. The armed forces, the police, and the courts – and many others involved with the CPP and state agencies – “could convert its power, assets, and privileges into lucre were running business operations and aggrandizing themselves. Not only did efforts streamline the government still, but the flouting of political power and privilege also easily translated into the flouting of the rules.” Local governments were in competition to deal out preferential treatment to attract investors from overseas and cajole state banks to grant loans to local enterprises. This often meant that local and state agency officials tried to extract economic gain by collecting fees and levies. “Judges, accountants, and others were at the beck and call of the rich and powerful. Corruption became rampant.”⁷⁰ The author warns, however, about slandering a system, which resulted in significant economic payoff. After all, Chinese economy saw rapid growth rates. According to Yang, some scholars have even contended that “corruption helped to soften cadre resistance to market reforms, serving ‘the function of delaying political while permitting economic reform.’”⁷¹

Advantages

For Stephen Holmes, based on an intensive analysis of an immense amount of published materials from China as well as voluminous field interviews suggest, however, the gloomy scenario of the negative effects of state-enterprise relations to so far turned

⁶⁹ Yang, 22.

⁷⁰ Ibid.

⁷¹ Ibid., 13.

out to be not true.⁷² Moreover, the transition significantly deepened the market. For instance, Xu points out:

The emergence of new financial instruments and markets during the (1979-94 reform) period was apparently not the outcome of an explicit government policy. In fact there was no official blueprint to create and develop financial instruments and markets at the time. Economic reforms which resulted in a breaking up of the old system brought opportunities, as well as created new demands, for more financial instruments to come into existence. The spontaneous and rudimentary nature of these developments was further reflected by the fact that the government and financial authorities lacked clear policy orientation to guide the use of the new means of finance. Nor did they provide any, even tentative, market regulations and rules.⁷³

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.

According to Yang, from an organizational perspective, following the Tiananmen incident and the tensions that have arisen from competing interests in China,

“the government has sought to turn back towards central control through vertical integration of different aspects of state organization. Among the institutional restructuring efforts are fiscal and taxation reforms, the reconfiguration of the regulatory systems for banks, securities markets, and insurance, as well as the revamping of regulatory agencies concerning environmental protection, food and drug production and distribution, quality and technical supervision, coal mine and maritime safety, and others.”⁷⁴

Taken together, these reforms represent major steps to strengthen the central government's fiscal prowess and provide the foundations for a modern regulatory state. In terms of the central government's share of total budgetary revenue, this could be seen. Thus, according to Yang, “...the alarmist central leadership, particularly Jiang Zemin and Zhu Rongji, chose to bite the bullet and push for revamping the taxation and fiscal systems in 1993.”⁷⁵ According to the author, the new fiscal and tax assignment system designated different categories of taxes to the central and local governments, respectively. The new system also standardized the taxation system and simplified tax categories and

⁷² Stephen Holmes, “What Russia Teaches Us Now: How Weak States Threaten Freedom.” *The American Prospect* 8, no. 33 (July-August 2001).

⁷³ Xiaoping Xu, *China's Financial System Under Transition* (New York: St. Martin's Press, 1998), 95.

⁷⁴ Yang., 22.

⁷⁵ *Ibid.*, 72.

tax rates (particularly through the replacement of complex product taxes with a uniform value-added tax). Most importantly, the new system was designed to help the central government benefit from the marginal growth in the economy and in revenue generation. The following figure shows the results:

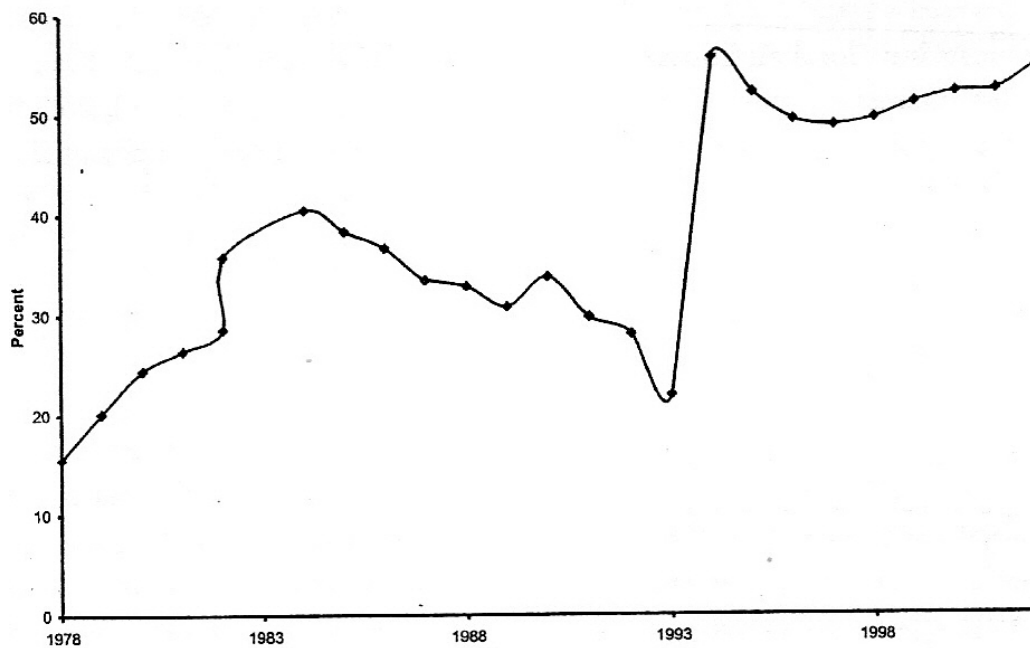


Figure The Central Government's Share of Total Budgetary Revenue.⁷⁶

Thus, these are main why many scholars such as Lin who notes the merits China's style of reforms. "Chinese experience demonstrates the superiority of evolutionary, experimental, and bottom-up reforms over the comprehensive top-down big bang approach."⁷⁷

While the Chinese have made massive strides in the way it conducts itself – exemplified by the transparency requirements of the WTO, much remains to be done. The evidence suggests that, that contrary to widely held beliefs and allowing for good and bad regional variation, China's leaders have made significant progress toward making the state into a regulatory state suited to the function of a market

⁷⁶ Ibid., 73.

⁷⁷ Lin, 6.

economy.”⁷⁸ According to Yang, key component of the Chinese communist Party’s longevity has been its authority to appoint personnel. Namely,

“The post-Tiananmen leadership has clung tightly to the Leninist nomenklatura system, the organizational sinew of the Communist party. In moves reminiscent of the 1970s transition from Mao, the central leadership has used its appointive power to reshuffle provincial leaders, armed police commanders, and PLA regional commanders to ensure that these officials follow the wishes of the central leadership and not become centrifugal forces.”⁷⁹

Namely, one dimension that this could be seen is in the administrative expenditure as a percentage of total government expenditure, showing the increased expenditure of the central government as evidence of its increased involvement:

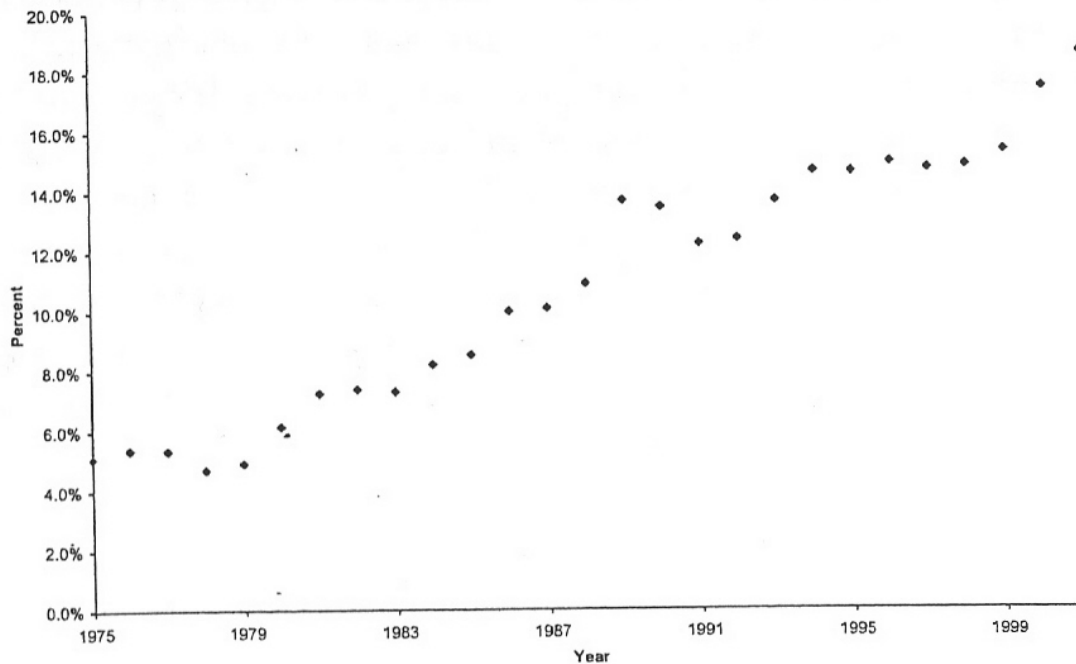


Figure: Administrative Expenditure as a Percentage of Total Government Expenditure (1975-2001) Based on budgetary expenditure data broken down by function.⁸⁰

In contrast, what I’m trying to show is that Russia’s experiences and constraints, and hence its transition processes, the government had problems with its governability ability, which stemmed from the weaknesses of the state. Namely, the policy choices of

⁷⁸ Yang, 18.

⁷⁹ Ibid., 4.

⁸⁰ Ibid., 30.

Yeltsin further provoked rather than mitigated problems of market reforms. For Aslund, economic integration created challenges to the countries of the former Soviet bloc and often manifested itself in the struggle between rent seeking and radical reformers. Democracy and market reforms cannot succeed where the state apparatuses lived on corruption.⁸¹ Moreover, the vested interests get benefits from early economic distortions of partly reformed economy want to maintain the partial reforms at the expense of the public good. In order to complete the reforms, the program is thus required to restrain the early winners rather than marginalize those of the losers. In consequence, Hellman notes, “political systems that are more inclusive of the loser have been able to adopt and sustain more comprehensive economic reforms than states insulated from popular pressures.”⁸²

The Relevance of Economic Governance in Russia *Economic Growth and Democratization*

The failure of Primakov’s government -- a member of the Soviet Communist party from 1959 to 1991 and a member of the central committee, head of the Central Intelligence Service after the August Coup, a hard-liner and Yeltsin’s foreign minister and the compromise candidate for prime minister when the Duma refused to approve Yeltsin’s first choice, Victor Chernomyrdin -- to translate sound policy decisions into actions a shortcoming of the central government’s power to affect economic changes. Russia’s unique transition path seems to highlight that its transition process has availed a state-enterprise relationship in which economic change cannot be effected in the absence of political change. According to Sapir,

Without a process of state rebuilding that would effectively prevent further private domination of public policies, Russia’s economy and be doomed to continued stagnation. State rebuilding, however, means not only refurbishing and improving the legal and constitutional framework, but also destroying private-interest tools that have been excessively interfering with national policy.⁸³

⁸¹ Anders Aslund, *The Rise of The Rest: Challenges to the West from Late-Industrializing Economics* (New York: Oxford University Press, 2002), 14.

⁸² Joel Hellman, “Winners Take All: The politics of Partial Reform in Post-Communist Transitions.” *World Politics* 50, no. 2 (1998): 203-234.

⁸³ Jacques Sapir, “The Russian Economy: From Rebound to Rebuilding,” *Post-Soviet Affairs* 17, no. 1 (2001): 19.

For Yang, these dramatic institutional changes required to spur economic growth in Russia's process involves the implementation of a sound institutional infrastructure is vitally important to sustain the development of the economy. a small number of political scientists have also emphasized the importance of a well-functioning state for the consolidation of democracy. Yang notes that for Jose Schumpeter who noted in his classic text, *Capitalism, Socialism, and Democracy*, an effective bureaucracy is not an obstacle to democracy but also vital compliment to it. Yang notes that in China, several of the reforms were concentrated in the area of economic governance. Therefore, according to the author, "China's governance reforms not only bear on economic growth but will also have major implications for political development."⁸⁴

One of the main differences in the experiences of Russia and China having significant implications on their economic governance is that whereas in Russia the Communist nomenklatura system dissipated and power fell into the hands of elected regional government not obliged to the Kremlin. In contrast, "the Chinese central leadership has been able to pull the levers of the nomenklatura system to enhance hierarchical discipline and curb localist tendencies that had become prominent with the decentralizing reforms so the 1980s."⁸⁵ Thus in China, in several aspects of its changes in economic governance, the bolstering of the fiscal sinews of central control, the rationalization of the administrative state and the including the rationalization of the administrative state, the strengthening of the fiscal sinews for the central state, the improvement of the regulatory apparatuses, the divestiture of business operated by the armed forces and other state institutions, the reforms of the administrative approval system and the improvement of transparency and governmental service, the ascendance of the institutional horizontal accountability, and the introduction of myriad institutional mechanisms to would "improve financial supervision, cut down waste, and curb corrupt practices."⁸⁶

Moreover, for Nolan, "The bureaucracy holds the key to any attempt to modernize and undertake a programme of large structural change. China and the USSR each

⁸⁴ Yang, 1.

⁸⁵ Ibid., 5.

⁸⁶ Ibid., 1.

was ruled by a huge, deeply conservative bureaucracy, with the communist party at its core. There were only two possible lines of reform. One was to attempt gradually to alter the nature of the Party through a programme of retirements, professionalization, slimming down and reorientation of Party work towards indirect rather than direct intervention in socio-economic affairs. This required a substantial period of time and a great deal of patient work by a clear-sighted leadership. The alternative was to attempt to quickly to alter the behavior of the bureaucracy by rapidly opening it up to public scrutiny, accountability and popular pressure. Gorbachev's reform programme resulted in just such an outcome."⁸⁷

Yang echoes Nolan by saying, "Those who have worked in the same locality or department for ten years must change positions with their counterparts in other localities. Such rotation can help curb localism, strengthen central control."⁸⁸

In contrast to China, the economic conditions of Russia, and because of the characteristics of path dependency, the changing economic conditions; the importance of leadership and the rhythm of domestic politics; and the role of crises as catalyzing events for politicians to adopt certain reforms, under Putin's administration began to assert Russian national interests more vigorously in its dealings with the international community. Above all, it reasserted the power of the federal government within Russia itself. White contends that with its action in Chechnya against terrorist, government control pressed forward; "all the republics and regions were obliged to bring their legislation into line with the federal constitution, and presidential representatives were appointed to head new federal districts."⁸⁹

Vladimir Putin

Sapir contends that For Vladimir Putin – a leader with a high approval rating – the population harbors "a high hope that the will steer the country onto a new economic course and deliver the fruits of change quickly. If these expectations are not met, he could quickly lose his legitimacy and authority."⁹⁰ No doubt, the unfolding of societal changes brought by the transition into the global economic system and the way in which

⁸⁷ Nolan, 238.

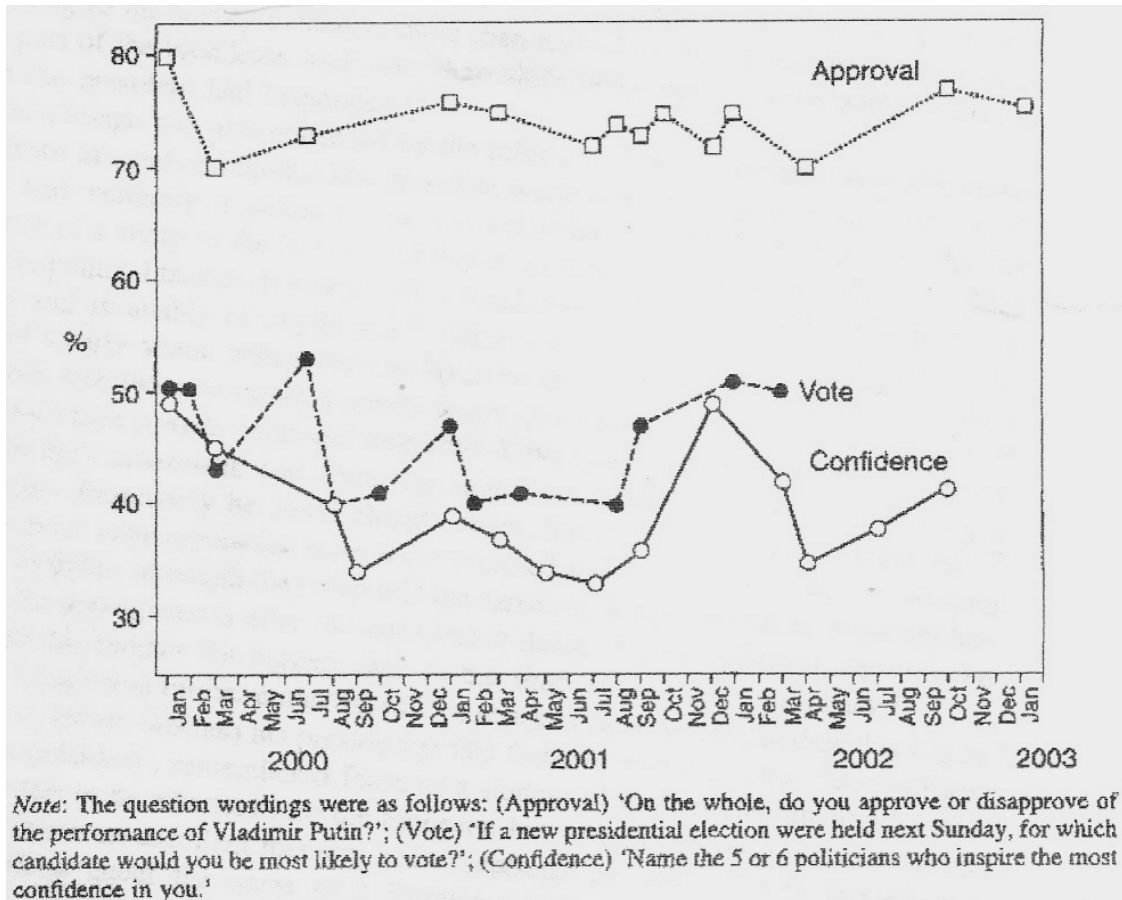
⁸⁸ Yang., 5.

⁸⁹ Stephen White and Ian McAllister, "Putin and His Supporters," *Europe –Asia Studies* 55, no. 3. (May 2003): 383.

⁹⁰ Sapir, 20.

government takes action by instituting effective policy will be major variables in Putin's legitimacy. Inevitably, when political crisis arise, members of the elite can be pitted against the central leadership. For Putin, this redoubles the importance of legitimacy as an instrumental facet for power, because of the institutional legacies of the transition process. Indeed, according to White, incidences like that of the Kursk incident involving a submarine disaster that killed 118 men, an incident that Gorbachev had highlighted was part of an 'an acute August crisis' which included the bombing of Moscow's Pushkin square killing, "had little effect on the new president's public standing, nor did the take-over of the commercial television station NTV in the spring of 2001, a development that appeared to threaten freedom of speech but in which 'the majority of the population did not see Putin as being actively involved.'" According to the author, Putin, for some political pundits, had become a 'teflon president', popular whatever he did. In fact, opinion polls put his approval rating at about 70% -- a figure as high as he had secured at the time of his election in 2001; and according to a major Russian magazine, he was 'man of the year' for the third time in a row"91 Please refer to the figure, which highlights Putin's approval rating, the extent to which the public would vote for him if the election was held 'next Sunday' and the extent to which Putin is among the 5 or 6 politicians that inspire the respondent most.

⁹¹ White et al., 386.



Sources: Stephen White & Ian Mcallister (Authors' survey conducted by Russian Research, fieldwork April 2001).

Figure: Measuring Putin's Support, 2000-03

The table clearly shows that in addition to his high level of approval that never dipped below 70% between 2000 and 2003, over 40% of the people during the time period would vote for him if the election were carried 'next Sunday' and at least 1/3 of the respondent pool thought he was one of 5 or 6 most inspiring politicians.

Thus, for now, Putin wields significant power over society and the way in which the government steers its course in light of competing interests, will largely determine its effectiveness. Concomitantly, legitimacy is also based on public support. According to a recent report from the Economist, Putin's formal challenger is Viktor Gerashchenko, who they see as a 'implausible presidential candidate', "old, adaptable, unpopular, and has little chance of uniting the opposition ... Even in Moscow his rating is no more than 10%." Behind Gerashchenko of potential competitors is former Russian Prime Minister

Kasyanov. According to the report the lack of competition “testifies to the sad state of Russia’s political opposition, which lacks unifying leaders and ideas.”⁹²

Putin’s supporters ... were astonishingly even distributed across the different spectrum of educational achievement. It also included both members of the CPSU and those who were not. The supporters were also evenly distributed in terms of income, with most support of from those who owned close to the average in income.

Moreover, they were also evenly distributed in terms of how they weighed the economic position of their family as well as their place of residence as a whole.⁹³ For instance, Putin supporters were overwhelmingly in favor of public order over democracy in the country’s current circumstances – but so were the electorate as a whole. For White, “They thought the best chance of uniting the society was around the values of stability and law and order.”

If it is true that “entering the later stages of his first term there seemed no prospect of a serious challenge to Vladimir Putin in 2004, or at a later date if his term were extended beyond its constitutional limit,”⁹⁴ a committed constituency could create more political space to make decisions that are unpopular for the vested interests. According to the author,

On our evidence, however, there was no distinctive body of Putin supporters at the time of his original selection, and a year later there was even less of a dedicated following, least of all a ‘Putin party’. Putin supporters – in either the presidential election or the subsequent evaluation of his work as president – were in fact an all but perfect cross-section of the electorate as a whole.”⁹⁵

What I’m trying to say is that in light of present circumstances, including the transitional legacies and public opinion, the federal government not only wields significant power, but also its legitimacy is based on the instituting of the power effectively, a task requiring the balancing of new competing interests, resulting from the transition process, a process that we will show, is brought to high relief because of WTO accession.

⁹² “Victor the Unvictorious,” *The Economist*, June 9-15, 2007, 57.

⁹³ White., 386

⁹⁴ Ibid., 387.

⁹⁵ Ibid.

Conclusion

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. 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. Namely the Soviet legacies availed a system where as long as the government supplanted the market, state enterprises would do well to seek a bureaucratic umbrella. Yet the remaking of the administrative state stalled, because the webs of relationships engendered demands for administrative protection, coordination, and decision. The bilateral interdependence amid partial reforms provided fertile soil for government expansion during an era of rapid economic growth. It is in this context that the economic governance of Russia is significantly shaped.

In this context, there was a competing tension in the extent to which government control in China would be instituted. This tension manifested itself in China's economic governance in the first decade of reforms, which were characterized by the decentralization in many spheres of government affairs. But in the 1990s, the forces perpetuating the logic of control began to swing back.

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 experiences and constraints, and hence its transition processes, the government had problems with its governability ability, which stemmed from the weaknesses of the state. Namely, the policy choices of Yeltsin further provoked rather than mitigated problems of market reforms. For Aslund, economic integration created challenges to the countries of the former Soviet bloc and often manifested itself in the struggle between rent seeking and radical reformers. Democracy and market reforms cannot succeed where the state apparatuses lived on corruption.⁹⁶

Because of these inefficiencies, dramatic institutional changes are required to spur economic growth in Russia's process involves the implementation of a sound institutional

⁹⁶ Aslund, 14.

infrastructure is vitally important to sustain the development of the economy. Moreover, an effective bureaucracy should not be seen as an obstacle to democracy but also a vital compliment to it.

What I'm trying to say is that in light of present circumstances, including the transitional legacies and public opinion, the federal government, including Putin, not only wields significant power, but also its legitimacy is based on the instituting of the power effectively, a task requiring the balancing of new competing interests, resulting from the transition process, a process that we will show, is brought to high relief because of WTO accession.