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**Show Me the Incentives and I Will
Show You the Outcome**

A Comparative Study of Incentives Effects on
Local Officials' Efforts to Promote a Business
Friendly Environment in China and Russia

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Norwegian University of Science and Technology
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Abstract

In this thesis I compare the use of the positive incentives promotions and negative incentives demotions toward Russia's regional and China's provincial governors, in the period 2004-2012. Further I look at how the different use of negative and positive incentives towards the local bureaucracy, effects their efforts to promote a business friendly environment.

Based on the findings in this study I argue that an important reason why China has been able to develop a more business friendly environment then Russia, can be answered by looking at the incentive structure local bureaucrats work under.

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Acronyms

CC	Control of Corruption
CCP	Chinese Communist Party
CRS	The Cadre Responsibility System
ES	Enterprise Survey (2012)
GDP	Gross Domestic Product
GE	Government Effectiveness
GEM	Global Entrepreneurship Monitor
GP	Government Programs
GRP	Gross Regional Product
KGB	Committee for State Security
NBS	National Bureau of Statistics of China
NTS	National Tax Service
NPM	New Public Management
OECD	Organization for Economic Co-Operation and Development
RL	Rule of Law
RQ	Regulatory Quality
SME	Small and Medium Size Enterprise
SOE	State-Owned Enterprise
TEA	Total Early-Stage Entrepreneurial Activity
TSS	Tax-Sharing System
TVE	Township and Village Enterprise
VAT	Value-Added Tax
WGI	World Governance Index
UR	United Russia
USSR	Union of Soviet Socialist Republics

Maps



Figure 1: Regional division of Russia.

Source: <https://sites.google.com/a/richland2.org/russia-jones-foti7/>

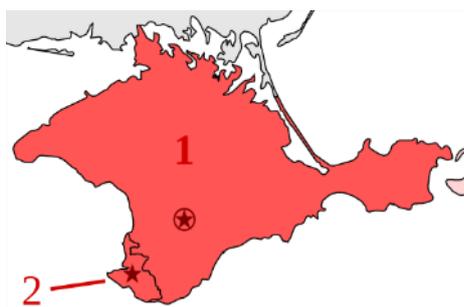


Table 1: Russia's regional division of annexed Crimea*

- 1 Republic of Crimea
- 2 Sevastopol

*Became its own Federal District in 2014 (Ryumin, 2014). Not internationally recognized as a part of the Russian Federation.

Figure 2: Russia Regional division of annex Crimea. Source:

http://www.sporcle.com/games/Go_rgilBonello/crimean-federal-district

Table 2: Regional division of Russia

Central	Southern	Volga	North Caucasian
31 Belgorod Oblast	1 Republic of	2 Republic of	5 Republic of
32 Bryansk Oblast	Adygea	Bashkortostan	Dagestan
33 Vladimir Oblast	30 Astrakhan Oblast	43 Kirov Oblast	6 Republic of
36 Voronezh Oblast	34 Volgograd Oblast	12 Mari El Republic	Ingushetia
37 Ivanovo Oblast	8 Republic of	13 Republic of	7 Kabardino-Balkar
40 Kaluga Oblast	Kalmykia	Mordovia	Republic
44 Kostroma Oblast	23 Krasnodar Krai	52 Nizhny Novgorod	9 Karachay-
46 Kursk Oblast	61 Rostov Oblast	Oblast	Cherkess Republic
48 Lipetsk Oblast		56 Orenburg Oblast	15 Republic of North
50 Moscow		58 Penza Oblast	Ossetia-Alania
77 Moscow Oblast		59/81 Perm Krai*	26 Stavropol Krai
57 Oryol Oblast		63 Samara Oblast	20 Chechen
62 Ryazan Oblast		64 Saratov Oblast	Republic
67 Smolensk Oblast		16 Republic of	
68 Tambov Oblast		Tatarstan	
69 Tver Oblast		18 Udmurt Republic	
71 Tula Oblast		73 Ulyanovsk Oblast	
76 Yaroslavl Oblast		21 Chuvash	
		Republic	
Urals	Northwestern	Siberian	Far Eastern
45 Kurgan Oblast	29 Arkhangelsk	4 Altai Republic	28 Amur Oblast
66 Sverdlovsk	Oblast	22 Altai Krai	87 Chukotka
Oblast	35 Vologda Oblast	3 Republic of	Autonomous Okrug
72 Tyumen Oblast	39 Kaliningrad	Buryatia	79 Jewish
86 Khanty-Mansi	Oblast	75/80 Zabaykalsky	Autonomous Oblast
Autonomous Okrug	10 Republic of	Krai*	41 Kamchatka Krai
(Yugra)	Karelia	38 Irkutsk Oblast	27 Khabarovsk Krai
74 Chelyabinsk	11 Komi Republic	42 Kemerovo Oblast	49 Magadan Oblast
Oblast	47 Leningrad Oblast	24 Krasnoyarsk Krai	25 Primorsky Krai
89 Yamalo-Nenets	51 Murmansk Oblast	54 Novosibirsk	14 Sakha Republic
Autonomous Okrug		Oblast	65 Sakhalin Oblast

83 Nenets	55 Omsk Oblast
Autonomous Okrug	70 Tomsk Oblast
53 Novgorod Oblast	17 Tuva Republic
60 Pskov Oblast	19 Republic of
78 Saint Petersburg	Khakassia

* 75/80 Zabaykalsky Krai. Merge of Chita Oblast and Agin-Buryat Autonomous Okrug, after a referendum in 2008.

59/81 Perm Krai. Merger of Perm Oblast and Komi-Permyak Autonomous Okrug in 2005, after a referendum in 2004. The city of Perm is the administrative center. Source:

<http://rulers.org/russdiv.html>

Administrative Divisions of China



Figure 3: Provincial and administrative division of China Source:

https://upload.wikimedia.org/wikipedia/commons/4/46/China_provinces.png

One day Deng Xiaoping decided to take his grandson to visit Mao. "Call me granduncle," Mao offered warmly. "Oh, I certainly couldn't do that, Chairman Mao," the awestruck child replied. "Why don't you give him an apple?" suggested Deng. No sooner had Mao done so than the boy happily chirped, "Oh thank you, Granduncle." "You see," said Deng, "what incentives can achieve." ("Capitalism," 1984, pp. 62; cited in Eisenhardt, 1989)

1. Introduction

Regional and local government officials¹ are the part of the government that private enterprises interact the most with. Particularly in large states, like China and Russia, where the share size makes some level of local autonomy unavoidable. Local officials are the ones that are responsible of implement politics at the subnational level. This makes them significant for the central government. Because the central government depend on local authority's abilities to implementing their central policy goals and facilitate local business's needs (Remington, 2016; Porter, 2000).

Since local officials are the part of the government that has direct contact with local enterprises they are also the ones with hands one knowledge of their needs. This knowledge and position makes local officials important actors for local enterprises. They can represent their interest toward central authorities, adapt local infrastructure to fit local needs and serve a consultative function. But they can also play a destructive role by abusing their position through rent-seeking. I argue local officials choose one of the two ways to act depending on how they perceive the payoff. Moreover, how local governments and local officials perceive this payoff depends on how the central government chose to incentivized the local level.

¹ *When I use the words cadre, official or bureaucrat I refer to the same. Also, in contrast to Max Weber, I do not differentiate between (elected) political and (selected) competence based appointment. In China there is no clear distinction and this is the de facto praxis for top level appointments in Russia too (Barabashev and Straussman, 2007, pp. 377).*

1.1. Research Question

The Russians are one of the most educated people in the world, surpassing the OECD average with a substantial margin (OECD, 2014). Despite this fact the Russian bureaucracy get accused of being incompetent, ineffective, corrupt, formalistic and rigid (Tretyakova, 2014; Gimpelson et al. 2009). The Chinese population is no wear near as well-educated as the Russian (OECD, 2011). Still the Chinese bureaucracy has been facilitating and helpful toward the private sector (Li, 1999; Li and Zhou, 2005). How can it be that the Russian officials with all that knowledge and competence are unable to create a well-function bureaucracy? While the undereducated Chinese officials has been able to utilize what they have of knowledge and abilities.

I argue it is because Russian bureaucrats has little to none incentives to utilize their superior competence, to facilitate the private sector. They are therefore hesitant in using their discretion or experiment with different policies. Moreover, this has foster the development of a culture where corrupt practices and receiving bribes has become accepted among local officials. It has become a norm new officials get socialized in to, and the way it is expected for bureaucrats to act. As long as you do not get caught, there is nothing wrong with bending the law or strait out brake it.

The Chinese officials on the other hand has gotten incentives to put in the hard work needed, to facilitate local businesses and entrepreneurs. The local governments in China has been incentivized to experiment. And the local governments have given the local officials incentives and room use their discretion, through a goal-orientated steering model (Edin, 2000). I argue that Chinese officials has through practical use developed autodidact competence in governance and use of discretion. In other word, using their common sense and having a pragmatic approach to governance. Instead of using an excessively rule-orientated approach, with makes the bureaucracy rigid. The Chinses approach has been pragmatic. Turning the bureaucracy in to a dynamic tool that is helpful toward the private sector. This has been beneficial for the development of the Chinese economy, and local businesses in the long-run.

When reforms started in China in the late 1970s there were no blueprint. Deng was “crossing the river while feeling the stones”. He had one clear goal, economic growth, but no clear idea of how to achieve it. So he did like a scientist would, he experimented. Or more correctly stated,

Deng incentivized his people and bureaucracy to experiment. Was the result of an experiment successful, it became a part of the central government's policy (Edin, 2000, pp. 52-81). He trusted that small positive incentives and a little more freedom could generate growth and development. In a state where there was no reason for the population to trust the government. The same government with had killed 65 million of their own people and starved the rest (Courtois and Kramer, 1999, pp. 4).

When Russia started their transition it was on the premise of Western neo-liberal ideas, that viewed the bureaucracy as the antagonist². Russia went from a communist dogma to a neo-liberal dogma. The role of Russian officials changed in to only being law enforcers, necessary evils in the free-market place.

Moreover, the ineffectiveness of the dogmatic approach is reflected in the fact that Russia is outperformed by China. On different indicators and surveys that measure the quality of countries governance, and businesses perception of the public sector. And this indicators and survey will be central to the analyses in this paper.

For example, on the WGI, with is used to measure the quality of countries governance through the indicators: "Control of Corruption", "Rule of Law", "Quality of Governance", "Regulatory Quality", "Voice and Accountability", "Political Stability and Absence of Violence" (The World Wide Governance Indicator, 2015). China is outperforming Russia on all of them, except the two last ones "Voice Accountability" and "Political Stability and Absence of Violence". With is due to the lack of freedom of speech and elections in China. In addition to a higher risk of terrorism, political violence and political instability in China. Further, the public sector is perceived as a lesser constrain for enterprises in China then in Russia (Enterprise Survey, 2016).

² *Milton Freidman, a Nobel Prize winning neo-classical economics that was central during Russia's transition in the 1990, has been important in promoting the notion that "the state is the problem not the solution" (Ellman, 2012). At the end of his life Friedman even admitted that monetarism has been an unsuccessful policy (Keegan, 2013). Jeffery Sachs, a neo-liberal economist with also was important in Russia's transition, argued that "...markets spring up as soon as central planning bureaucrats vacate the field" (Sachs, 1993, xiii). The trajectory of Russia and China's development has shown that there simply is more to the government's role in the economy, than controlling the money flow.*

China also outperform Russia when it comes to the share of the population that is nascent entrepreneurs³ or manager-owners of a new business (GEM, 2016). Lastly, SMEs⁴ the backbone for a country's ability to create sustainable economic growth and employment, contribute to 60 percent of China's GDP. In Russia they contribute to only 25 percent of the GDP (Leguyenko, 2015; Edinburgh Group, 2013). This indicates that there is a positive correlation between a well-functioning bureaucracy and a thriving economy. I argue there also is a causal link.

I argue the Chinese bureaucracy outperform the Russian because it is dominated by positive incentives. Like economic bonuses and upwards career mobility, at both the top and bottom level of the bureaucracy (Edin, 2000, pp. 115-150; Chen, 2010; Rochlitz, 2015; Rowney and Huskey, 2009).

The underpaid Russian bureaucrat is operating within a system with is dominated by a lack of positive incentives. In the Russian bureaucracy there is a lack of positive incentives like upwards career mobility or economic benefits, either through the local budget or based on individual performances (Rochlitz, 2015; Zhuravskaya, 2000, pp. 337-368; Barabashev and Straussman, 2007). During the Soviet era bureaucrats received fringes based on their position in the nomenclature hierarchy, this are mostly gone today (Barabashev and Straussman, 2007 pp. 376).

The Chinese bureaucrats are still under the mercy of the nomenclature. The system makes sure that high-level officials live a pleasant life on public pensions⁵. China has adopted the

³ *GEM defines entrepreneurship as: "Any attempt at new business or new venture creation, such as self-employment, a new business organization, or the expansion of an existing business, by an individual, a team of individuals, or an established business" (GEM, 2016). This will also be the definition and understanding of "entrepreneurship" and "entrepreneurs" used in this paper.*

⁴ *There is now globally recognized definition of SMEs. In China SMEs has 300-2000 employees, in Russia they have 15-250 employees (Edinburgh Group, 2013, pp. 9).*

⁵ *So pleasant that a retired some high level officials find it nagging on their social conscience (Song, 2016).*

nomenclature system⁶ from the USSR, but has developed it in to a kinder system (Rochlitz et al., 2015, pp. 424-426, Edin, 2003). Therefore, it has been more sustainable and efficient.

Further I argue that a system that is built upon positive incentives on the local level, crates a willingness for local officials to take risk and experiment. This can lead to both failure and success, in the short-run and on a subnational level. But in the long-run this has a positive effect on economic development on a national level. The reasoning behind this assumption is that taking risk and opening up for potential failure is a necessary precondition for development, be it in business or governance. If you know it will work, it simply is not an innovation and will not lead to development. Since it happens on a regional level, I assume it will have only limited effects on the national economy. When the risk associated with failing is small, the official will to a lesser degree fear been held personally accountable for her actions. She will be more willing to use her discretion. Since the potential benefit of making a good judgment will in many instances outweigh the potential disadvantages of making a bad one.

This makes the bureaucracy more dynamic, inclusive, not overly regulated and will minimize transaction costs. This is beneficial for the countries local businesses and entrepreneurs in the long-run and in aggregate. Local officials are therefore more capable at implementing the changes needed to achieve central policy goals in modern day China, then they were in bygone USSR.

In China high level officials are also rotated between provinces, the majority do not govern in the same province as they are born in. Moreover, no leaders on the township level govern in the same township as they are born. The same is also the case for the majority of township cadres (Goodman, 2000, pp. 172). This limits potential loyalty conflicts or group pressure, to give preferential treatment towards family and friends. When bureaucrats feel they have to choose between helping family and friends or being professional, they will start looking for ways to cheat the system so they can please their loved ones to a sufficient degree (Ledeneva, 2013, pp.

⁶ *The nomenclature system is a hierarchical organized list of all high-level officials. The central CCP use it for job assignment and evaluation. It provided the central CCP with an institutional mechanism they fully control. More specifically the leadership use it for awarding (promoting) officials in exchange for good results or demoting in cases of bad results (Edin, 2003a).*

64). This rotation of Chinese officials can also help diffuse knowledge between provinces. This brings in new ideas of both successful and failed local experiments. In addition, promising officials meet at CCP schools⁷(Jordan et al., 2013, pp. 19-20).

The Russians do not have a forum where governors meet or can exchange ideas. Moreover, the Russians have no tradition of rotating governors between provinces (Rochlitz et al., 2015).

A system built upon a fundament of negative incentives and lack of positive incentives create incentives to be risk-averse or avoid making an effort⁸. The survival mechanism of officials in this system becomes hiding behind rules and regulations. Alternatively, other mechanisms that can be used to push the responsibility over to other bureaucrats or private individuals.

This creates a static and slow bureaucracy that resists change. A system like this is frustrating, expensive and time consuming to navigate through. This fosters legal nihilism⁹, laws become no more than meaningless hindrances without legitimacy. It also makes corruption and bribery a viable option for frustrated entrepreneurs and business managers. Moreover, a rule based

⁷ *In China there are tightly knit networks of institutions that facilitate the flow of information between the provinces. The most important of this might be the thousand Party Schools. Most of these are district propaganda schools, with very limited funding. At the other side of the spectrum are well founded institutes where promising officials are regularly sent too. At these institutes there are open debates and examination of policy's. These institutes function as policy incubators where information and experience are shared. There also exist official think tanks with local divisions, like the Chinese Academy of Social Sciences, founded in 1977. Lastly at Chinese universities there are scholars that both seek out and research provincial experiments (Jordan et al., 2013).*

⁸ *Gosplan, USSR's State Planning Organ avoided making decisions during Stalin's dictatorship. They were afraid they could get killed if they made a wrong decision (Acemoglu and Robinson, 2012, pp. 129).*

⁹ *During a speech before the presidential election in 2008 a free-spoken Medvedev stated that Russia has a "culture of legal nihilism that in its cynicism has no equal anywhere on the European continent," (Horton, 2011). Notice he said European, indicating a view of Russia as a predominantly Western society.*

system with no room for discretion can lead individuals to justify corruption, since they perceive this as the only way to get things done (Shah, 2006, pp. 6).

The dysfunctionality in the Russian system was revealed through a WikiLeaks cable. According to this cable, there were rumors within the presidential administration that 60 percent of Putin's orders in 2006 was not followed through (WikiLeaks: cable 09MOSCOW2823_a, 2009).

Therefore, my thesis is as follows:

A bureaucracy that is built on predominantly positive incentives is more effective in reaching policy goals than one built on predominantly negative incentives.

As a consequence of this the Chinese bureaucracy is more business friendly than the Russian. Because the Chinese bureaucracy is built upon a fundamental positive incentives. While the Russian is built upon a fundamental of negative incentives.

This thesis is in accordance with de Figueiredo Jr. and Weingast (2002) argument about the importance of creating incentives of all agents in the economy to work against a common goal:

“A critical aspect of political development concerns how to structure the political game so that all the players have incentives consistent with improving social welfare. These players include not only economic agents, such as enterprise managers, but also political officials and consumer/citizens.”

2. Method

Before we start exploring other researcher's explanations of why the economic development in China and Russia differs, we have to ask why bother? What is the utility to science in comparing them? In section 2.3. I will answer this question.

Additionally, we have to find some method to measure the dependent and independent variable. We have to find some proxy measures, due to the intangibility and abstractness of both the dependent and independent variable. This leads to both reliability and validity problems. In

section 2.4. I will introduce the proxy measure and discusses the validity and reliability problems that accompany them.

But first of all in section 2.1. and 2.2. I will say a few words of the method I use both its advantages and disadvantages.

2.1. Comparative Study – The Method of Difference

In this comparative study I rely on the method of difference. Mill describes it as follow:

If an instance in which the phenomenon under investigation occurs and an instance in which it does not occur, have every circumstance in common save one, that one occurring only in the former; the circumstances in which alone the two instances differ, is the effect, or the cause, or an indispensable part of the cause, of the phenomenon (Mill, 1973, pp. 391).

This method rest on the logic of the experiment. Where every single variable except two are equal, one of them has to cause the change in the other. Meaning every relevant explanatory variable except for one are equal between the two cases. By doing this I can know that this variable is the one explain the diverging outcome on the dependent variable.

This is of course not a realistic assumption in the social sciences, or in the natural sciences for that matter. Then again my thesis is not that only the amount of positive/negative incentives that effect the performance of officials. What I do argue, is that this is and has been then most significant difference between the two cases the last ten or so years.

2.2. Benefits and Deficits with The Comparative Method

To scholars in the naturalistic (positivistic) tradition the comparative method is the second worst research design, with the experiment placed on a pedestal (Moses and Knutson, 2012, pp. 49-50).

The reason for this is first of all, in small-n studies the cases are chosen on the dependent variable, with in this case is the business environment in the two countries. This is creating selection bias. The reason for this problem is that in small-n (two-n) studies we can have only a few (one) explanatory variables or else we get another problem, over-determination (Moses and Knutsen, 2012, pp. 112-116). Over-determination accurses whenever have equally as may

or more independent variables than cases. Then we become unable to distinguish with explanatory variable(s) that effects the outcome on the dependent variable. This problem is dealt with here by having only one broad reaching explanatory variable, incentives.

Moreover, through the selection process I have tried eliminated the problem with alternative explanations. This is not obvious right away and will therefore demand a longer explanation. Through the historical review in chapter three and the review of previous used explanations in chapter 4 this will become clarified and evident. Besides this will show that this cases are so similar on other potential explanatory variables, that the one I purpose most the answer to the puzzle. By filtering the cases in this manner it is justifiable to select them on the dependent variables.

Secondly, according to the naturalistic tradition small-n studies are less generalizable than large-n studies. The reason for this is both the lack of variation on the independent variable and selection on the dependent variable (Hancké, 2009, pp. 61). This also true for this cases, both China and Russia are big countries with a communist and authoritarian legacy. This similarity increases internal validity, but at the same time it decreases external validity. Making the result less generalizable (Moses and Knutsen, 2012, pp. 60). At the same time, I will argue that the mechanisms we are exploring here are general enough to say something about bureaucracy in general. Incentives effect human behavior independent of with political regime they live under, but political regimes effect what form of incentives humans live under. In other words, political regimes do not affect human's innate abilities and predisposed behavioral inclinations, but the incentives effecting human behavior depends on the political regime humans are born into.

A benefit with small-n study is that we can get a more in-depth analyses of each case. We can get a better picture of the causal mechanisms at work, between the explanatory and the dependent variable. Therefore the small-n studies can be viewed as theory building or nuancing. Since the more detailed inspection of each case gives us a better insight in to the causal mechanisms at work. They are also ideal for refuting theories. A close inspection can be used to show that causal mechanisms might work in a different way than previously assumed or theorized (Hancké, 2009, 61-72). Large-n studies on the other hand are ideal for theory-testing, since they have a large variation on the independent variable and are not choose on the dependent variable. Moreover, large n-study's sees little or nothing about the causal mechanisms at work, except that there exists a correlation (Moses and Knutsen, 2012, pp. 93).

Through this study I refute the political centralization thesis and fiscal decentralization thesis, with I am not the first one to do. According to the political centralization thesis the diverging economic development comes from the fact that China kept central political control while Russia decentralized and tried to democracies. With enabled the former to control economic development on the local level, while the latter lost control with lead to rent-seeking and state capture. The fiscal decentralization thesis explains the diverging economic development by the fact that the CCP let the provinces keep a larger share of their revenues, and therefore the local authority's got incentivized to generate growth. While in Russia the local authorities were not able to keep large share of their revenues, and therefor got no incentives to promote economic development. I will delve deeper in to these two explanations in chapter four. But I would like to point out that I am not denying that some level of political centralization and fiscal decentralization might be necessary preconditions, for economic development and a well-functioning local bureaucracy. Rather I argue that they are not sufficient explanations in themselves, and the countries have become similar on these variables.

This study is theory building in the sense that it has a different perspective on the institutional features of Russian and Chinese bureaucracy, then other studies comparing this two cases. Here the main focus is not structures. The focus is more on the qualitative differences of the incentives built in to the structures, and the behavioral implications of these differences. But it is first and foremost theory testing. I use already existing theories, but they are put together in to a new framework. So I am not directly applying a theory that has been used to compare two other cases. Rather I have gone window-shopping in different fields of research and created my own off-brand creation. Its eclectic, but not *haute couture*.

Lastly, what I am trying to figure out is something that is hard to operationalize. It is not viable to study it in a large n-study, given the data available on this issue. There exists no index that measures career mobility in the public sector, the share of demotions to promotions or the use of performance bonuses. At current date the answer to my question lurks in the shadow of the structures. Positive and negative incentives are a result of systematic differences, not explicitly stated policy goals or physical objects. With this study I will pull them out of the shadow and in to the spotlight, giving them the attention they deserve.

I am not able to measure the incentives and incentives structure effect on the business environment directly. But I will be able to use different indexes and surveys, in addition to other scholar's research. I argue the result on this indexes and survey are partly the result of the differences in the incentives structures in the bureaucracy, and consequently the business environment that comes with the differences in this incentives. Moreover, there is no denying that validity problems are present and that is always problematic. Luckily, the indexes and surveys are publicly available and easily accessible, making this paper open to scrutiny. If you choose to inspect them, you will find that that the values on them follows fairly close the pattern of those I have included in this paper. But do not trust me on this, I have incentives to select the ones that fits my thesis best.

I also like to point out that the effect of qualitative differences in incentives are inherently hard to measure in the real world, outside the experiments setting. Incentives always work indirectly, giving the subject the freedom to choose how to react to them. This freedom to choose also makes it so important to understand how qualitative difference in the incentives themselves effect the choices being made. If we can show that qualitative differences in incentives effect subjects and consequently third parties differently, in this case local officials and businesses. We can increase the ability of central governments to implement central policy goals on local and regional levels. It can give central governments better tools to secure top-down policy implementation of their central policy goals.

Since it is so hard to measure, it might seem odd that I do not look at the micro level. But by looking at the macro level I hope to be able to show how the micro level effects the macro level. Also there are already done studies on the micro level of both countries¹⁰. I can utilize that research and build on it. Moreover, my goal here is first and foremost to explain a phenomenon, secondly to look at China and Russia in particular. The reason I use China and Russia to explore it is because they diverge strongly on the dependent variable, there is a lot of literature on both countries and their similarities enable me to exclude other potential explanations.

¹⁰ *Edin, 2000; Ledeneva, 2013*

Therefore, this study binds together the micro and the macro level. By theorizing and illustrating the causal link between incentives that effect the individual bureaucrat's actions and the systematic consequences of it on a third parties, local businesses and entrepreneurs. Lastly, this study illustrates that looking at subtler differences to systems can be just as useful in explain different outcomes, as looking for concrete structural differences. This subtler differences can be easy to overlook, if we exclude different levels of analyses and confine us to research done only within our own field of science.

2.3. Why This Two Cases – What Makes Them Comparable?

China and Russia has some obvious similarities. They are big states both geographically and demographically. They are multi-ethnic with occasionally has led to violent conflicts and disagreements about sovereignty. Still, the majority population is substantially larger than all the minorities combined¹¹. Moreover, they have a common heritage of communism and dictatorial regimes. Also there is no clear distinction between political and administrative positions in their bureaucracy (Barabashev and Straussman, 2007).

Just as there are obvious similarities there are also obvious differences. This include language, culture and religion. The most critical here is the gapping difference in industrial development when their economic transition started. China was an agrarian and rural country. Russia was an industrialized and urbanized countries with massive industrial complexes.

But the transition in neither of the countries started yesterday and the countries development has converged. So much that the diverging point of departure no longer is an “excuse” for Russia's pore business environment, compared to China. And Chinas surging development cannot just be brushed-off as catch-up. I argue that all sorts of economic growth need a supporting and cooperative bureaucracy, be it innovation, catch-up, investment or export driven.

¹¹ *In China the majority are Han Chines, they constitute more than 90 percent of the population. The majority in Russia constitute over 75 percent of the population (CIA: The World Factbook).*

As we will see in the next chapter the fiscal relation between the central and regional level in the two countries has converged. Moreover, they have a similar level of centralization of political control.

Lastly, in a comparative study of regional incentive structures size matter. Both China and Russia are big countries with many provinces and regions. Because of this we are able to control for regional differences both between the countries and the regional level within each country. It is also large economies, with a corresponding large bureaucracies. Therefore, aggregated data about local officials and the bureaucracy are built on a large number of observations. This increases the reliability of the independent variable. It also limits the risk of drawing conclusion on random or insignificant correlations. This also increases internal validity of the study. We have many observations working under the same conditions, eliminating other potential explanations.

2.4. Validity and Reliability

Here I will describe the proxy indicators I use to measure both the independent and the dependent variable. As mentioned, this study is sensitive to validity problems. I am studying something that I cannot measure directly. Therefore, I will argue for the benefits of using the proxy measures that I use. I call them proxy measures because I argue they are measuring the effect of what I am looking at, incentive structure in the bureaucracy and business environment.

2.4.1. The Independent Variable

The independent variable in this thesis is positive and negative incentives effecting all of the regional and provincial bureaucracy of Russia and China, which interact with or effect local businesses indirectly through their work. By positive incentives I mean promotions, economic bonuses or salary increase. Analogously, negative incentives are defined as demotions, salary decreases and even financial penalties.

But because of limited time and resources I look at the turnovers of regional governors in China and Russia between 2004 and 2012, instead of the whole bureaucracy. By turnover I

refer to position change, with are categorized by whether the next position is a promotion or demotion (or mandatory retirement in China's case). These turnovers are used as proxies for the independent variable, incentives. Because promotions in the bureaucracy increase a person's power and prestige in society. I assume that they therefore are the strongest positive incentives the government can use. Analogously, demotions are the strongest negative incentives the government can use. Therefore, the government's use of this steering tool is telling for its inclinations to use positive and negative incentives in general.

Moreover, I argue that the result on the turnover proxy is generalizable to the rest of the government, which means it can tell us something about the what kind of mechanism they use to steer the bureaucracy in the two cases. This assumed generalizability is not just built on data about the governors, but also previous research on Chinese and Russian bureaucracy.

Still, there is no denying this is a weakness that the data do not cover all levels of the bureaucracy. After all this is a common problem in the social sciences. We have to use the evidence we can get our hands on and to the best of our abilities find ways to compensate for what we do not have. My way of compensating is to the best of my abilities, thoroughly examine relevant literature and research on lower levels of the Chinese and Russian bureaucracy. I will go through this literature in the analyses to bolster and verify my own findings and argument.

By leaning on other researchers in addition to what I have dug up, I will hopefully be able to utilize it from a different perspective and within a different framework. Thereby adding to science as a cumulative process, not just falsify or verifying old hypotheses. This will hopefully lead to a deeper understanding of the Chinese and Russian bureaucracy as a whole. Maybe even bureaucracy in general.

2.4.2. The Dependent Variable

In this study I use indicators from three different sources: WGI, ES and GEM, to measure the dependent variable, business environment.

The Worldwide Governance Indicators (WGI) cover 215 countries and is published by The World Bank. It is built on reported aggregate and individual governance indicators. This

indicator combines the views of a large number of enterprise, citizen and expert survey respondents, they are based on over 30 individual data sources produced by a variety of survey institutes, think tanks, non-governmental organizations, international organizations, and private sector firms. The WGI measure six dimensions of governance through the indicators: “Voice and Accountability”, “Political Stability and Absence of Violence”, Government Effectiveness (GE), “Regulatory Quality” (RQ), Rule of Law (RL), Control of Corruption (CC). As mentioned in the introduction I use all of them except the first two. I do this not because they are the only two Russia outperform China one, but because they are less relevant as proxies for the dependent variable: Business Environment.

The Enterprise Survey (ES) is a firm-level survey of a representative sample of an economy's private sector. The surveys cover a broad range of business environment topics including access to finance, corruption, infrastructure, crime, competition, and performance measures. The ES is conducted by The World Bank and covers 135 countries. In this study I utilize the answer to too what the businesses identified as major obstacles in the 2012 ES.

The Global Entrepreneurship Monitor (GEM) study entrepreneurship, through centrally coordinated and internationally executed data collection in over 100 countries. In each economy, GEM looks at entrepreneurial behavior and attitudes of individuals, and the national context and how that impacts entrepreneurship. I include two indicators from this source in this study: “Governmental Programs” and “Total Early-Stage Entrepreneurial Activity”. I will explain them closer in the analyses. Additionally, I will refer to other data from GEM, with I have not included a corresponding figure to.

The reason I use three different indicators is to increase both reliability and validity. Business environment is such a multifaceted concept. Effecting all aspects of a business's or entrepreneur's interaction with the public sector directly and indirectly. Indirectly through laws, infrastructure, official's competence and established norms of bureaucratic conduct. Directly through interactions like consultations, meetings, negotiations and applications for permits or financial support. Moreover, both direct and indirect aspects of the interaction effect each other.

For example, how effective and useful direct interaction like consultations are depends on already established norms, competence and infrastructure. Therefore, to catch the effect of business environments we have to cover a lot of ground. Regulatory quality has in itself little

importance if there lack norms or incentives within the bureaucracy to act in accordance with regulations. Having a law that say it shall take maximum three days to register a business has little value if it is completely ignored, because bureaucrats have no norms or incentives for effectively processing application.

Consequently, a good business environment cannot be captured by only looking at the formal structures. Moreover, ineffective formal structures can be compensated for by a bureaucracy that has norms of conduct that is more effective. The local governments acceptance of “red-hat” enterprises in China during the 1980s and 1990s is an example of this (Chen, 2007). Economic growth (the goal) was more important for the local officials than, then (the method) strictly enforcing rules against privatization.

Therefore, the perception of the public sector by subjects interacting with it can be both worse and better than what one would predict, by exclusively looking at formal structures, officials work descriptions or laws and regulations.

Two of the indicator I use are gathered from the Word Bank, that is WGI and ES. With also means that they are not completely independent, there is an overlap. Not just because they are gathered from the same organization, but because WGI builds on multiple sources and ES is one of them. I use both, because WGI build on so many other sources that it captures a broader range of facets ES do not capture. But, what ES captures is particularly interesting in this study. Since it is a survey where business manager of both SMEs and LEs has been asked about their perception and experience with interacting with the public sector. I also like to note that The World Bank is an internationally recognized organization that are transparent with the methods they employ.

The rest of the indicators are gathered from GEM. This organization are also transparent about their methods, and have high methodic standards as far as I can tell. GEM are also widely used in published academic research. Some of their survey data are built on surveys of ordinary citizens and/or entrepreneurs. Other are built on carefully chosen expert. Giving us data about both layman and experts perception of the country’s ability to stimulate SMEs and entrepreneurial development. A benefit with this surveys compared to the ES is that they capture the perception of potential entrepreneurs and business managers, in addition to

established business managers. By doing this we get a window in too the country's potential for economic and entrepreneurial development. This indicator therefor captures the perception of the part of the private sector that is the most sensitive to the quality of the business environment, new entries. Therefore, this is arguably the most sensitive of the indicators.

The fact that the indicators consistently show fairly the same pattern is positive for the reliability and validity of the dependent variable. It also is to prove that there is no selection bias. It does not matter if you ask entrepreneurs, established business managers, lay people or national experts. The pattern in clear, China consistently outperforms Russia.

Lastly, there is two form of bias I am not immune against, that is culture and language biases. There is a risk that there is something with Russian culture that makes them consistently more negative in their answers of subjective question, than the Chinese. Maybe the Russians have higher expectations, maybe there is a higher barrier for the Chinese to give a negative response. There is also a risk of semantic differences in the questions, due to translation. The fact is I cannot avoid these methodic problems. What I can do is to urge you to check out the methods employed. Use your own discretion and make up your own judgment about their quality.

3. The Context - Converging and Diverging Development

Nothing political scientists study happen outside a context, in some closed logical system. Therefore, this section will start with outlining the relevant feature of the administrative and political structure of China and Russia. I do this to highlight similarities and differences, but as you will see the political machineries have converged. Secondly, I run you through a rough draft of the reforms done to the tax systems in the two systems. As you will notice the sharing of taxes between the national and subnational authorities also has converged between the two. Lastly, I am tracing reforms or lack of reforms done to the bureaucratic systems. Here on the other hand the dragon and the bear diverge. I argue that this is where we can find the independent variables, that creates the two countries diverging development on the dependent variable. I make this outline to bolster my theoretical argument.

3.1. Administrative Division in China and Russia

Both China and Russia has five administrative levels. While Russia abandoned the nomenclature system, with the end of communist rule. China adopted the nomenclature system from Soviet and has kept it. With the nomenclature system public officials are selected, trained and appointed through a party-run hierarchic structure (Edin, 2003b; Jordan et al., 2013). With the constitution of December 1993, Russia became a federal state with local elections and federal authorities (Russian Constitution Article 5). In 2004 Putin violated the constitution by revoked the populations right to select their own federal leaders, this band lasted until late 2012. But even after 2012 Putin has kept a tight control over regional elections (Moses, 2015).

At the second administrative level in Russia there are krays (krai), oblasts, federal cities and okrug, all of them have their own charter and legislation. All these constituent entities are according to the constitution equal in the relations to the federal state government bodies (Russian Constitution Article 5) Because of their equal legal status, I am going to treat them equally and refer to all of them as regions. The heads of this regions are refereed to with different names, but I am going to refer to all of them as governors.

The second administrative level in China constitute of provinces, autonomous regions and municipals. I am going to refer to all of them as provinces. Even though China is not a federal state we can see from Table 3 that the structure is similar to the Russian Federations structure. Both countries are also too big for the central government to micromanage the regional level. Putin has also violated the federal constitutional sovereignty, by revoking regional elections of governors. Therefore, neither Chinese provinces or Russian regions are in praxis safe from direct meddling from the central government.

Table 3: Administrative structure of China and Russia

<i>Position in the administrative hierarchy</i>	<i>China</i>	<i>Russia</i>
<i>1</i>	Central	Federal
<i>2</i>	31 Provincial (Autonomous Regions, Municipal Provinces)	92* Regional (Krai, oblast, autonomous regions, municipal)
<i>3</i>	621 Prefecture	2 550 First tier local (including cities and rayons)
<i>4</i>	1 903 County	26 766 Second tier local (including cities within rayons and districts within cities)
<i>5</i>	73 064 Township or district	Third tier local (including districts within cities within rayons)

Sources: (Zhuravskaya 2000 pp. 340; NBS; Treisman, 2000, pp. 66-67)

** This number include the two regions in the annex Crimea, with is not internationally recognized as part of the Russian Federation.*

3.2. China's Context

3.2.1, Fiscal Decentralization and Re-Centralization

The fiscal relation between the central government and the provinces were highly centralized before Deng's reforms in 1980 (Lin and Liu, 2000 p

p. 3-4). Under Mao the provinces in China collected 80 percent of the revenues made in the provinces, with they handed over to the central government. This was some tax revenues, but

mostly revenues from SOEs. The collected revenues were redistributed by the central government together with a plan of how the provinces were going to spend and invest them. This system was referred to as unified revenues and unified expenditures (*tongshou tongzhi*), but got the nickname eating from one big pot (*chi daguofan*) (Lu, 2014 pp. 36) (Jin et al., 2005, pp. 1723).

With this centralized communist system there were given little incentive or legal openings for local officials to develop the local economy. According to Perkins and Rawski (2008, pp. 839) China's average annual GDP growth in the period 1957-1978 was at 3,9 percent, in 1978-1985 the average annual GDP growth rate had increase to 9,7 percent.

In 1980 the fiscal relationship between the central government and the provinces changed to a fiscal contracting system (*caizheng chengbao zhi*), also called “eating from separate kitchens”. The changes made the provincial government able to keep a larger portion of their revenues, making provincial budget more dependent on the province own revenues. Under this reform the provinces on average got too keep 66 percent of government budgetary revenues. This percentage differed based on the five-year contract between Beijing and the individual province. How the revenues were shared between the province and the local governments within the province were also contracted (Jin et al., 2005, pp. 1723). The problem with this system was that it left room for haggling and differential treatment of provinces.

Both in 1985 and 1988 did the central authority try to make the system more uniform to increase their revenues. But this effort to harden budgeted constraints between the center and the provinces were not sufficient to secure the central government the needed revenues to govern. By 1993 the provinces had managed to haggle and negotiate them self too such a big share of the government revenues, that the central government received only 22 percent of the state's fiscal revenues. This lack of revenues forced Beijing to launch a new tax reform (Liu, 2015, pp. 54).

In 1994 a new tax reform was launched, TSS (*fenshui zhi*). The reform increases the central government's revenues by restructuring the relationship between the central leadership and local authorities (Wong, 2000). It also aimed at limiting competition distorting taxes, simplified the tax policy, increase transparency and the VAT. This was done by eliminating the product

tax, taxing consumption and replaced the business tax by VAT. For some taxes they ended differential treatment of taxpayers and limited differential treatment of provinces (Wong, 2000). Under this reform the central authority's tax revenues included: custom duties, excise duties, VAT collected by the customs authority, consumption tax, income tax (from SOEs supervised by central authorities and financial institution) and export tax. The provincial and local authorities now set and received revenues from: turnover taxes, income taxes from regional enterprises and property tax. The shared revenues between local and central authority included: VAT (25% local, 75% central), resource tax and transaction tax. The reform effectively increased the central government share of the fiscal revenues up to 52 percent in 1995, which is about the same share it has collected since (Liu, 2015, pp. 55).

3.2.2. Administrative Restructuring and New Incentives

When Deng became *de facto* leader of the CCP in 1978, it was the beginning of a period of reforms, economic growth and experimentation. The charismatic and pragmatic new leader's top priority was economic growth. Now ideology had to take the back seat. He allowed local and provincial governments to try out different methods of governing and promote economic development. If a method, policy or implementation strategy proved to be a success it sometimes became a part of national policy guidelines. The liberalization of the economy and increasing local autonomy went hand in hand with a tax reform that increased local budgets.

At the same time a new management structure of local cadres was emerging. By changing the selection criteria and incentive structure the local cadres worked under. Through this changes Deng was able to incentivize provincial and local governments to use their new autonomy and economic resources to facilitate and develop the economy, instead of predation (Li, 1998).

The tax reforms both in the 1980s and 1990s were important in limiting transaction and production costs. But I argue that the tax reforms and other reform to the local economy would have been little more than paper constitutions, unless they had been followed up with a strengthening local cadre's incentives to implement them. Skill became relatively more important than loyalty. Before 1978 local officials position were dependent on political loyalty and conformity

too the CCP. This is still important in post-Mao China, but other factors have become increasingly important (Wang, 2013).

In December 1982 the first regulation of the CRP (*gangwei zerenzhi*) was issued, two years after the system had been implemented in some areas and department. The results from this trials showed promising results. The trails and the systems was a child of Deng's experimental approach to governance, and was based on a successful locally initiated experiment in a district¹². The CCP encourage all subnational government to implement CRP. By doing this the central CCP was able to combine decentralizations with a higher level of goal attainment. Under the CRP higher level officials evaluate lower level officials, and officials at the same level get compared (Edin, 2000, pp.115-145). By changing the incentive structure, the CCP has managed to use fiscal decentralization as a mean to strengthen their ability to implement central policy goals. Like economic growth, entrepreneurial development and increasing living standards.

This is in accordance with Hu et al. (2014 pp. 48):

“China's new cadre selection and promotion system has been arguably considered as China's most significant move in securing its implementation of reform strategies, (...) it has opened the door for many talented people who otherwise would not have had the chance to be even noticed by the upper management”

This system made the unexpected growth in TVEs and rural industries possible. With was neither expected or a part of CCP plans (Edin, 2000, pp. 62-63). The TVEs growth was purely a product of opportunities meeting capabilities. Because of their importance to the national economy and Deng's pragmatic approach too economic development, TVEs could from 1984 be registered as separate legal entities. This change in legislation made it possible to take up bank

¹² *This experiment was launched in a county in Ningxia autonomous region in 1980. There cadres at the commune, brigade and team level had to sign contracts with their party committee. In this contracts personal responsibility was specified together with provisions of both bonuses and penalties (Edin, 2000, pp. 125).*

loans for TVEs as separate legal entities. They also became included in government departments planning, and started receiving guidance and support from the government (Edin, 2000, pp. 63).

Arguably more important, this ability of the Chinese Leviathan to attain the people's normative expectations are reflected in their trust in the government and their institutions.¹³ Because trust develops only when legitimate institutions act according to predetermined rules (Monk, 2009, pp. 459). The source of this trust has, so far, come from economic development and has in itself been an important reason for why the economic development has been possible (Wang, 2005, pp. 168-169). The high level of trust the Chinese have in their institution, can further decrease transaction cost for Chinese businesses in interaction with the local cadres. Since entrepreneurs trust the local officials they will need less reassurance, documentation and contracts when they need to cooperate with or need services from the local government. I assume this logic also works in interactions in between businesses, not just in the cadre's dealings with businesses. When there is a high level of trust in between businesses, it will decrease transaction costs in their interaction with each other. Further if local cadres trust businesses they can trust that they follow up regulations and contracts with the government, limiting the local government need to use resources too control if local businesses follow up on regulations and contracts¹⁴.

¹³ *Result from Edelman Trust Barometer (2016) showcases that Russians trust people, institutions and the establishment in general to a far lesser extent than the Chinese people. This difference applies both to the general population and the informed public with a college education. Moreover, the results from all of the six World Value Survey (collected within the time frame 1989-2014) indicate that Chinese trust people in general far more than the Russians (World Value Survey, 2016).*

¹⁴ *This assumed causal relationship is in accordance with Dyer and Chu (2003) empirical evidence. They studied the effect of trust between supplier and the buyer on transaction costs and information sharing. This research was conducted by looking at supplier-automaker exchange relationships in the United States, Japan, and Korea. Their findings indicate that perceived trustworthiness reduces transaction costs and is correlated with greater information sharing in supplier-buyer relationships. Further, their findings suggest that the value created for the subjects in the transaction, in terms of lower transaction costs, may be substantial. Particularly because they found that the least-trusted automaker spent significantly more of its*

All in all, this changes made the main priority of the local official in China to generate economic development and growth in their district, township or province. But more importantly this reforms have been significant in lifting 800 million people out of poverty (The World Bank, 2016).

3.3. Russia's Context

3.3.1. Political Decentralization and Fiscal Centralization under Yeltsin

Before the collapse of the USSR the fiscal relationship between Moscow and the regional governments was similar to the relationship between Beijing and the provincial authorities under the Chinese Fiscal Contracting System. The revenues at the subnational level depended on contracted rates and haggling with central authorities (Zhuravskaya, 2000).

After the collapse of the USSR, the same fiscal relation between state and regions has persisted in Russia. But there was a decentralization of responsibility toward local authorities after the collapse of the USSR. In post-USSR Russia it was local authority's responsibility to subsidies food, medicine and transport, in addition to financing public utilities and welfare. To enable the subnational government to finance this the central government increased their share of the countries budgets. But simultaneously the public sectors formal involvement in the economy was severely limited through regulations, that was meant to secure privatization and liberalization of the economy. This lead to a rapid decrease in the public sector expenditures, both at the federal and regional level. In 1992 public expenses was equivalent to 52 percent of the GDP, two years later it was only equivalent to 42 percent of the GDP (Martinez-Vazquez Boex, 2001, pp. 5).

face-to-face interaction time with suppliers, than the most trusted automaker. This time was spent on contracting and haggling. Their study provided empirical evidence of the importance of trust to lower transaction costs and may be an important source of competitive advantage.

3.3.2. Political Recentralization under Putin

Since the 2000s it has been made efforts to implement NPM reforms and merit based appointment in the Russian bureaucracy. NPM were introducing under Yeltsin in the 1990s, but the implementation ran out in the sand during his presidency. Yeltsin's advisors underestimated the importance of changing the norms and ethical values of the bureaucracy (Иванов and Ким, 2015). Something the CCP did in the 1980, by buying out old cadre. They were replaced by more educated cadres with were socialized in to being more positive to the reform process (Li, 1998). Further in contrast to China, Russia removed the nomenclature without a sufficient juridical framework to replace it. Therefore, making it hard to implement performance and merit based incentives, like bonuses and promotions.

The previous KGB agent and mayor of St. Petersburg Vladimir Putin, got selected by Boris Yeltsin as his successor as president in December 1999. On march 2000 the people elected him, with 53 percent of the votes.

In his attempt to gain control over the bureaucracy and promote economic development Putin has reshaped the federal structure. He has established a “vertical of power” (*vertical vlasti*). This has turned the regions in to subordinate units underneath the central state, despite the constitutional federal structure of Russia.

On of Putin's first acts as president was to establish seven federal regions¹⁵, as an important first move in establishing his vertical of power. The new regions were accompanied by the establishment of new administration, “the Authorized Representatives of the President” (*polpred*). The administration job is to strengthen Putin's ability to monitor governor's performance, without being dependent on self-reported information. The new administrative level has not been included in the constitution, making the President able to do with it as he please. The skill level of the official vary greatly between the different district, reflecting different levels of

¹⁵ *This districts are: Northwest, Central, Southern, Volga, Urals, Siberian and Far Eastern. In 2011 seven became eight, when North Caucasus Federal District became a new unit, it had previous been a part of the Southern District (Slider, 2014, pp. 159).*

priority. The first assignment of the new administrations was to streamline the regions legislations to fit in to the federal legislation. As a result of this the ethnically diverse republics special laws, established under Yeltsin, has for the most part been removed (Silder, 2014, pp. 157-172).

In 2003 Putin lanced a civil service reform aimed at strengthening performance incentives at the individual level. It was followed up with budgetary and administrative reforms the subsequent year. The last two reforms have made public statistics and information more transparent and easier accessible. But the implementation of the civil service reform has been unsuccessful (Verheijen and Dobrolyubova, 2007). Wages in the public sector are still low and the public sector is an unattractive employer among the younger generations. Further upward career mobility is low, reflected in the fact that many leave the public sector after ten or so years (Barabashev and Straussman, 2007).

But it was first in September 2004 Putin was able to severely increase his power over regional governors. In the weak of the Beslan massacre, which killed 300 people half of which were school children. Putin blamed the local authorities and censured the media coverage of the massacre. By using the political leverage that came with the brutal terrorist attack. Putin was able to generate enough political momentum to justify ending local elections of governors (Ambrosio, 2016, pp. 37-38). He argued that the central government needed to reassert its authority. Further he argued that local government were incapable at fighting terrorism and undermined his ability to govern (Slider, 2010, pp. 172). After this tragic incident until late 2012 all governors in Russia was appointed by the president. After massive criticism, governor elections were reinstated, but even after this Putin still has a large influence over appointments and elections of governors (Moses, 2015).

Accompanying the centralization of governor appointments was the introduction of the performance evaluation system. Under this system governor got evaluated based on standardized

scheme with consisted of 319 criteria¹⁶. Moreover, the ones evaluating the governors get rewarded based on the number of law transgressions they can find. This stands in contrast to the simpler and custom made evaluation shames used in China. Also it is worth noting that the ones doing the evaluation in China get evaluated based on their performance (Rochlitz et al. 2015).

In 2008 Putin had to budge for the constituent and find someone else to take the presidential post. He selected, just like Yeltsin, his loyal protégé. Dimitri Medvedev functioned as *de jure* president between 2008 and 2012. Putin took the prime minister post, but his *de facto* power was more far reaching than his formal position (Willerton, 2014). Putin and Medvedev worked closed together during this period, blurring the lines of the power relation between the president and the prime minister.

Still, Medvedev with his more Western leadership style and mild charisma made some modest mark on fighting corruption. Medvedev showed great insight in to Russia's structural and institutional problem. He is also showed interested in receiving help and advice from the whole population, not just the elites in the UR (Barabashev and Straussman, 2007, pp. 380; Hill, 2012, pp. 13-26). In contrast to Putin, Medvedev has a negative outlook on the communist past, which the former has shown tendencies to admire (Gill, 2012, pp. 27-32).

In 2012 Putin was ones again elected to the *de jure* and *de facto* president of the Russian Federation. This was a move back to the future, but with an increased focus on foreign affairs and conservative values (Willerton, 2014).

4. Alternative Explanations

When Deng Xiaoping started economic reforms in 1978 it was not accompanied with political reform. When Mikhail Gorbachev started reform in USSR in 1980 it started with political and was followed up with economic reform. At the end of the 1990s it was apparent that Deng's

¹⁶ In 2012, when elections were reinstated, the scheme was simplified to a scheme with 12 general indicators (Rochlitz et al. 2015).

strategy had been more successful (Shirk, 1993, pp. 4). After all Yeltsin asked his people for forgiveness when he resigned the presidential post.

There are two main explanations for why this diverging policies lead to diverging economic development: political centralization and economic decentralization. I will go through this explanations, since they are necessary preconditions for economic development. Today both countries have a similar level of both economic decentralization and political centralization. This means that both governments have a similar potential to promote economic development. The different lays in how UR and CCP choose to wield their hegemonic power.

4.1. Fiscal Decentralization and “Market-Preserving Federalism”

According to the theory of “market-preserving federalism” China’s and Russia’s diverging development can be explained by the competition aspect of China’s governing structure. Scholar within this theory has made us aware that a strong state can be both a blessing and a curse for the free market. We cannot simply assume that the bureaucracy and the state will protect Adam Smiths “invisible hand”.

The dilemma comes from the fact that the market forces depends on strong state to protect property rights. At the same time a strong state can easily expropriate private property. Officials that represent the state can use their position to work for their own self-interest. These scholars argue if local officials have a significant level of autonomy, competition between officials and regions can be used to incentivize them to prioritize economic development. Particularly in countries without well-established private property rights or rule of law. In such states competition can function as a substitute. It can also be a way to make it beneficial for local officials to institutionalize rule of law and protection of property rights, because that will decrease transaction cost. The core of this argument is that the state most design its institutions in a way that makes it credible that it will preserve the interest of actor on the free market (Weingast, 1995).

At the same time political decentralization is a way to limit the power of the central government. When the local administrations are given some autonomy from the central government, power struggles within the central government will have limited effects on regional development. Unless this power struggles are followed up with changed fiscal incentives (Qian and Weingast, 2006).

Zhuravskaya (2000) research support this thesis. She studied regional budgets in Russia in the period 1992-1997. She finds that during this period redistribution of regional budgets, by the central authorities, completely removes regions incentives to promote economic development. With stand in contrast to China's distribution of regional revenues before 1994, as we saw in section 3.2.

But, since Putin came to power central authorities has introduced mechanisms to evaluate and compare regional governors. This is as we saw in section 3.3. a part of Putin's "vertical of power". With means that Russia and China are both partly govern after the "market-federal" method.

The power balancing aspect of decentralization was important for Deng during the 1980s, when conservative forces within the CCP worked against his bold reforms. It also helped increase his popularity from the bottom-up, since the policy of "reform and opening" benefited all classes in China (Nathan and Scobell, 2012, 243-251). By increasing his popularity in the regions and giving them more autonomy, Deng was able to block the influence of conservative forces within the CCP. Deng was effectively increasing his power within the central government, by limiting its influence over policy implementation at the regional level.

Edin (2003a) argue that the CCP is withdrawing and are no longer directly involved in policy implantation. The CCP are even outsourcing different administrative duties to private organizations. By limiting it involvement to providing strategic guidance and outsourcing different functions, the CCP can focus on core responsibilities. This evolvment has made the CCP more effective at controlling highly prioritized issues. Instead of implementing and taking on duties that private actors can do, the CCP is focusing on controlling and incentivizing both local officials and enterprises. Therefore, the withdrawal of the central state in China is not synonyms with a weakening CCP. In fact, what we see is a reconstruction that strengthens the central government.

4.2. Political Centralization

Blanchard and Shleifer (2000) tries to explain why the Chinese bureaucracy has functioned as an active helping hand, while the Russian bureaucracy has actively hindered economic development during their transition to a market economy. According to them there are two main reason why the bureaucracy in Russian stood in the way for new businesses and entrepreneurs. The first is state capture, with has given the bureaucracy in Russia incentives to protect established businesses and hinder new entries. The second is that rent-seeking officials makes transaction cost so high that it makes it impossible for new establishment to make a profit.

They then go on to argue why this did not happen in China. According to them it was because the central government kept control and did not decentralize political control. By keeping the control, the central government has been able to punish and reward local administration based on performance. In Russia on the other hand, the lack of control has disabled the central government's ability to incentives local administrations to implement their policies. This lack of control and incentives from the central government has given the local officials few incentives to resist capture and rent-seeking.

Many scholars would in accordance with this argument, argue that it is the semi-authoritarian feature of Russian politics that makes it harder to generate economic growth and development for them. While it is easier for their south-eastern neighbor, with is a "proper" politically centralized authoritarian regime (Reuter, 2015; Reuter and Robertson, 2012). They argue that the Russian system makes generating votes the main priority of local high level officials and governors. But despite this assumption, Reuter (2013) research indicated that the Russian government has not appointed governors based on their ability to generate votes.

4.3. Evidence Against Fiscal Decentralization and Political Centralization Thesis

A big deficit with the centralization argument is that it implicitly assumes that political competition and elites do not exist in China. I argue this is not the case, there are powerful groups in China. As part of the economic growth tycoons has built up enormous wealth. Reflect

in the fact that in 2015 Mainland China had 335 USD billionaires, only beaten by US (Flannery, 2015)¹⁷. This tycoon has different interest than the leadership in the CCP. They are a group of rich and outspoken individuals, influencing politics and the public discourse.¹⁸.

There is also strife within the CCP that effect both regional and central policy. The political elite and Chinese academics are fully aware that China no longer can depend on catch-up to continue its economic growth. With has also been CCP most important source of legitimacy. There are disagreements about how to deal with this development among the political elite.

Moreover, even if the central CCP do allow for political competition at the top level yet, the party has slowly liberalized and increased local elections (Ma, 2013, pp. 80-87).

In Russia on the other hand Putin has restricted local political autonomy and centralized political control, by controlling the selection of officials. Further, currently 90% of Russian governors are members of UR. The party is also dominating both legislative and presidential elections. Moreover, the fall in the oil and gas prizes has severely decreased the power of the oligarchs in Russia (Rutland, 2009). Additionally, as mentioned Reuter's (2013) research indicate that governors in Russia has not be appointed based on their ability to generate votes

¹⁷*On Forbes list of USD billionaires in 2016, there were 251 Chinese and 77 Russians billionaires (Kroll and Dolan, 2016).*

¹⁸*The social media account of the tycoon and party member Ren Zhiqiang, also known as "The Cannon", got shut down for 'spreading illegal information'. This happened after he used it to criticizing the CCP's tightening grip on media (Lin, 2016). This is not the only controversy that has earned him his nickname. He has made controversial statements about the state-run broadcaster CCTV, calling it "the stupidest pig on earth". Moreover, he has made statements in support of economic inequality (The Guardian, 2016).*

A more well-articulated tycoon, Ren Zhiaping, publicly ridiculed Xi Jinping's for demanding the media too be completely loyal to the CCP. Overnight his microblog account, where he had posted it was erased and on the webpage of the CCP he was labeled a "capitalist traitor". Despite this reaction from the CCP, both scholars and politicians publicly defended Ren and a letter signed by employees at the state news agency supporting Ren spread online (Buckley, 2016).

to UR. The development in both cases have been draining the political centralization argument explanatory powers as time has gone by.

Further, research results on the effect economic performance has on promotions of governors in China are ambiguous. Indicating that it is not just UR that care about support from the regions (Reuter, 2015; Reuter and Robertson, 2012). With also indicating that China is not driving its regions exactly after the principals of “Market Federalism”, then economic performance would be the only criteria for promotions. Also there are research on the effect of economic performance and promotion of governors in Russia. As you will see this research results indicate that the UR does in fact try to promote economic development, not just UR loyalty.

Opper and Brehm (2007) comprehensive study of 1101 provincial career changes from 1985-2005 indicate a negative correlation between economic growth and promotions, while political connections increase the probability of being promoted. They do not deny that economic performance is important for career advance for low level officials, but at the top of the hierarchy connections and loyalty is more important. This is in accordance with Li’s (2010) research on turnovers of governors in China in the period 1999-2007. His research shows that both economic development and political connections are important in determining the probability of whether high level officials get promoted or not.

Li and Zhou (2005) provides empirical evidence of the role of economic performance on promotions of governors in China between 1979 and 1995. Their research contradicts Opper and Brehm (2007). The findings show that the probability to be promoted increases with economic performance. Moreover, the evidence shows that average annual growth over the whole tenure effects the probability of being promoted, more than the annual growth within a singular year. This result is also sensitive for different sensitivity test. These result support the thesis that China’s economy is driven like a big enterprise and the regional leaders function as middle managers. In their conclusion they also argue that the importance of the personnel management system has at been overlooked by scholar. Instead the focus has been on the fiscal decentralization that happened at the same time. This leads scholars overlook the interaction of this two reforms and the importance of the of local official’s incentives to implement the reform.

Rochlitz et al. (2015) study turnover of both Russian and Chinese governors from 1999 to 2012. Their study showed that both in China and Russia did governors get promoted based on performance. Based on this result, they argue that it is no longer the level political centralization and fiscal decentralization that can explain differences in economic development in China and Russia. Instead they argue that it is different incentives put into place in China and Russia that explain the differences. Further they argue that political loyalty is prioritized in Russia while in China economic growth and development is the top priority.

Based on the research of Opper and Brehm (2007) and Li (2010) I dispute Rochlitz et al. (2015) conclusion that political loyalty are prioritizes to a higher degree in Russia then in China.

But I agree with Rochlitz et al. (2015) argument that Russia's political system has become closer to China's, since Putin became president. As a consequent of this the divergent economic development the last 10-15 years can no longer be explained by differences in degrees of political centralization or fiscal decentralization (Blanchard and Shleifer, 2000) (Jin et al., 2005). Moreover, Chinese authorities limited the regions tax revenue with a tax reform in 1994. Russia has kept the regions on a tight budget since the dissolution of the USSR. As we can see from Figure 4 this has made the fiscal relationship between the central and regional level comparable in the two cases.

Further, the central governments in both countries has economic development and political stability as publicly stated goals Rochlitz et al. (2015). Thus, the local authorities in China and Russia has a similar political power relation and degree of financial autonomy in relation to their central governments. The striking difference lays in the incentives used by the UR and CCP to implement and control local authorities and officials.

I find it plausible that Chinese central authorities has been able to increase their share of the tax revenues in 1994, without ruining local official's incentives to be business friendly, due to the incentive structure. In contrast to the Russian, the Chinese authorities use personalized positive incentives, like promotions and economic bonuses based on performance. So even if the economic development in the province has had smaller effect on the provincial budgets since 1994, it is still beneficial for the individual bureaucrat/governor to generate growth and development. Further, Table 4 illustrate why smaller budgetary incentives is less harmful in China, then in

Russia. Because in contrast to the Chinese bureaucracy, the Russian do not use personalized positive incentives to compensate for a lack of budget based incentives. Rather Russia use personalized negative incentives.

This indicate that it is positive incentives that is needed to make local governments generate economic development. While negative incentives do the opposite. What is detrimental is to chiefly reward good performances, while to a lesser degree punish bad performances. The opposite will hamper economic development.

As you can tell from the research in this chapter both countries prioritize political loyalty and economic development, when demoting or promoting local officials. Also the use of “market-federal” mechanisms through budget revenues is today limited in bought cases. Moreover, the “Market-Federalism” thesis sees nothing about the direction the incentives that are used. You can have market-federalism and just use negative incentives. Which I argue is the way Russia is governing their regions. Punishing bad performances, but at the same time not rewarding good ones. Moreover, this is arguably the most distinctive difference between the two cases when you review previous studies of them (Rochlitz et al., 2015; Reuter and Buckley 2015; Li, 1998; Li and Zhou; 2005; Reuter and Robertson, 2012, Edin 2000).

In the next chapter I will go through research and build up a theoretical framework with show-cases way Russia’s version of “market-federalism” is less effective then China’s version.

That being said I would like to ad that I am not denying the importance of political centralization and fiscal decentralization. Political centralization is necessary to enable the central government to control the local level. Also “market-federalism” can be an effective mechanism to distribute rewards and punishments. What I do argue is that the countries have become more equal on these variables and they are therefore not sufficient explanations today. The difference therefore lays in how the central UR and CCP are wielding their power.

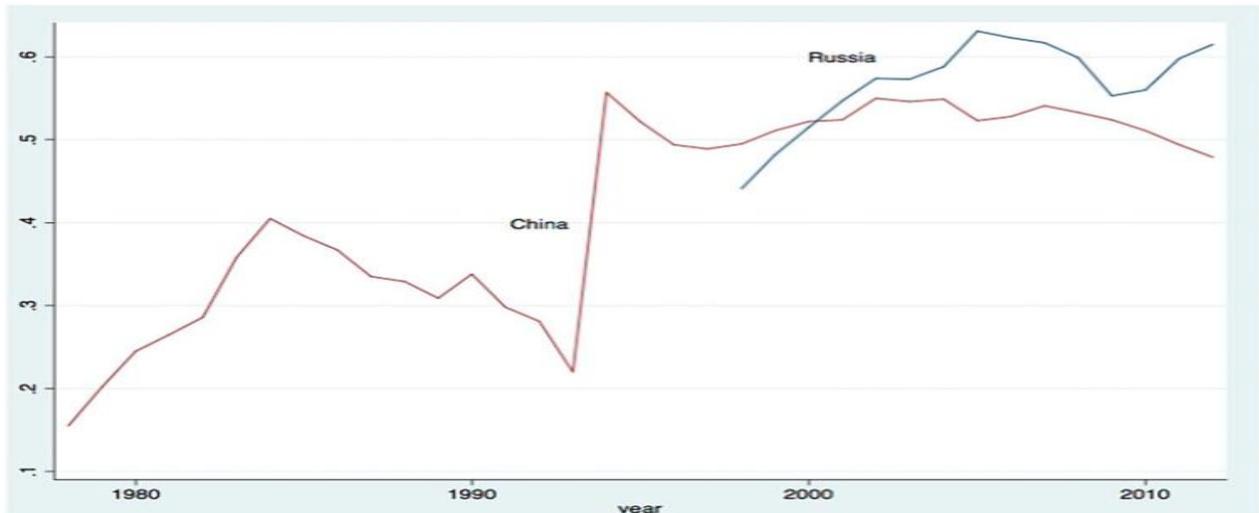


Figure 4: Central government Share of Total Revenues, in China and Russia (Rochlitz et al. (2015)).

Table 4: Controlling mechanism of bureaucracy in China and Russia (1999–present)

	China	Russia
Recruitment of high level officials	Central appointment of high level officials.	Central appointment of governors (2004–2012). Strongly controlled elections until 2004 and from late 2012 onwards.
Recruitment of new officials	Based on exam test results and education.	Based on interviews and networks.
Criteria	Simple personalized performance contracts on all levels of the bureaucracy.	Centralized list of (up to 319) performance criteria. No signing of contracts on beforehand.
Regional experimentation	Yes	No

Incentives	Promotions and performance based bonuses	Demotions
Monitoring	Those doing the monitoring are also evaluated for performance	Those doing the monitoring are not evaluated for performance, but for uncovering regulatory transgressions

Source: (Rochlitz et al., 2015; Edin; 2000; Ledeneva; 2013; Jarret and Huihan, 2009; Barabashev and Straussman, 2007; Gimpelson et al., 2009)

5. Theory

In the first (5.1.) and the second (5.2.) section I put forward definitions and theories, that will be important in the last section (5.3.). In the last theory chapter, I showcase my theoretical framework. This framework is built upon and binds together the theories and definitions in the two preceding theory chapters.

More specifically in 5.1. I am first going to define different forms of incentives. In chapter 5.1.2 I will put forward research done to show how incentives effect human behavior, both as individuals and as social beings in group interactions. I do this to make sure we have the same theoretical tools and same understanding of different incentives.

Further, in section 5.2. am going through theories that tie the performance of public institutions together with the economic performance of the private sector. Central to 5.2.1. and 5.2.2. is North's well-written book *Institutions, Institutional Change and Economic Performance* (1990). He has a fundamental and profound understanding of the importance of a public sector that waters and nutritious the private economy in just the right amount, in order for it to flourish. In 5.1.3. I will build on North by using Schumpeter and Baumol. They write about the same issues as North, but with a different perspective and focus areas.

In 5.3. I build my theoretical framework in to a two sequential game theoretical model. First the rules of the game will be postulated in 5.3. 1.. Lastly in 5.3.2. I will showcase that the game

plays out differently when the first player (local officials) are working under a predominantly positive incentive structure, compared to when they are working under a predominantly negative incentive structure.

But first of all I like to start off with arguing for the benefit of the perspective I use and its contribution to society. It can make a contribution to the research on the performance of bureaucratic institutions in China and Russia (and bureaucratic institutions in general). The reason is that, as we have read in the introduction, previous research on this subject has focused on structural frameworks and correlations between career and performance. Here the focus is more on the qualitative differences of the incentives themselves, and the behavior implications that follows from this differences. Both on the individual subject and the organization as a whole. By looking at how this is manifested in enterprises perception of the public sector, we also gain a deeper understanding of why China is outperforming Russia. Instead of the mere fact that they are.

5.1. Incentives

5.1.1. Defining Incentives

Incentives does not work by directly by on individual by forcing them to act a certain way, but it works indirectly by changing an individual's mind. Thereby incentives change the probability of how an individual will act, depending on inherent personality traits, knowledge and already internalized norms and values. Positive and negative incentives are two sides of the same coin. When you are receiving a reward (punishment), not receiving it is implicitly a punishment (reward) (Stone, 2012, pp. 271-288).

Even though positive and negative incentives are in principle two sides of the same. The direction of the potential change in utility from *status quo*, can be used to define them as negative or positive. Further this differences have behavioral implications, that are too important to ignore (Baldwin, 1971).

I define positive incentives as something that increases the utility of an individual, compared to the *status quo*. It is something that encourage or motivates someone to do something. In this

context it means promotions and economic rewards. Therefore, a system based on only positive incentives encourage action, because a potential failure will not make you worse off.

Analogously, negative incentives are defined as something that decreases the utility of an individual, compared to the *status quo*. Therefore it is something that discourage or demotivates a person to act a certain way. In this context it manifests itself in demotions and economic losses. Therefore, a system based on only negative incentives discourage action, because a potential failure will make you worse of.

Economic incentives can be changes in the share of tax incomes going to regional government. It can also be economic bonuses like increased wages, personal bonuses, government payed cares or other fringes.

A promotion is defined positive incentive, while a demotion is defined as a negative incentive. Because a move up the ranks increases a person's political power and prestige. If the next position lead to an increase in income, is therefore irrelevant when it comes to defining a position change as a promotion or demotion. This is based on an assumption that people value power and prestige more than being rich in itself, as long as basic needs are meet.

Incentives can be viewed as a system that works in three parts.

The first is the incentive giver. For the regional government this is the central government, with rewards or punish performance through economic transfers and promotions/demotions. For enterprises and entrepreneurs, the local government is the incentive giver, by creating a more or less business friendly environment. With effect whether local entrepreneurs and businesses choose to be law-abiding or not. The second is the receiver of the incentives, with is the regional government in relation to the central government. The enterprises are the ones receiving the regional governments incentives. Lastly, we have the content and strength of the incentives in themselves (Stone, 2012, pp. 271-288).

The incentives the central government use works indirectly on local enterprises, through the regional governments. A crucial intermediate subject with its own goals and perceptions. By looking at the regional governments incentives to implement policy we lift the lid of the "black-

box”. Because the relationship between central policy decisions and (the lack of) policy implementation on the local level depends on local governments incentives, resources and autonomy to implement it to the best of their abilities.

5.1.2. The Behavioral Implications of Incentives

There is little risk for a system built upon more positive than negative incentives will lead to moral hazard. Because the majority of human being value potential losses higher than potential gains (Kahneman and Tversky, 1979). Even if losing or finding 100 rubles has the logical equivalent value for an economist, a psychologist will tell you the perceived value is different. In other words, the negative effect of losing 1000 yuan is bigger than the positive effect of finding 1000 yuan. This is true for both very small and very big potential gains or losses (Holt and Laury, 2002).

Secondly, there exist clear evidences that punishment is less effective in promoting cooperation in low trust society's, like Russia. While in high trust society, like China its more effective (Balliet and Van Lange, 2013; Edelman Trust Barometer, 2016). Balliet and Van Lange (2016) goes on to argue that trust and cooperation reinforcing each other, as two parts of social capita¹⁹. This is creating norms for group cooperation, generating growth and stability.

Tocqueville was one of the first scholar to grasp the concept of social capital. He saw, as a foreign observer in a 19th century USA, that a society built on majority rule leads to conformity, for better or worse. Already than did he make us aware that a system constructed in a way were the majority of the players benefit from playing by the rules, there will be a pressure on the minority to play along (Ebenstein and Ebenstein, 2000, pp. 557-563). Thereby creating a self-enforcing system, unless some external force comes in to play.

¹⁹ *Social capital is a web of cooperative relationships that helps us solve the collective action problems in societies (Brehm and Rahn, 1997).*

Analogously, one can assume that a system constructed in a way where the majority of the players benefit from not playing by the rules, this kind of conduct will become socially acceptable. It can even become expected to cheat, bend or only selectively enforce rules.²⁰

The negative effect of conformity, that young Tocqueville observed, manifest itself in conduct of anti-social and atypical punishment. Moreover, this is why transgender people get harassed in public, we find hard working colleagues annoying and kind people are viewed with suspicion.

Atypical punishment is when people punish actors that act in a way they seldom observe, even if the action they punish is neither harms or benefits anyone else. This is punishment that happens just because the gregarious animal in us are uncomfortable with people that do not conform. But if we observe the same action multiple time we will start viewing it more positively and expect others to behave more positively towards it too. Anti-social punishment happens when we punish people that behave in a way that is beneficial to the collective, but does not conform to the norms of the society (Irwin and Horne, 2013).

Herrmann et al. (2008) conducted experiments across different societies that demonstrated that people tend to punish both people who contribute less and a more than average in the provision of public goods. Further, the punishment of people who did not contribute tended to be equal across different societies, in contrast to the distribution of anti-social punishment. The latter was more frequent in society with weak norms for rule of law and civil cooperation.

²⁰ According to Yury Korgyunok, an employee at INDEM (Information Science for Democracy), a Russian think tank and NGO that promotes the ideals and values of democracy, only a "revolution" can change Russia's current trajectory. He argues that the system had become too sclerotic and too many benefited from it to make change possible. Moreover, he noted that corruption has become a positive factor for a substantial portion of society. This development has according to him taken merit out of the equation for success, it is simply easier to pay for entrance to a university, for a contract, etc. (WikiLeaks: cable 09MOSCOW2823_a, 2009).

Wu et al. (2014) has conducted experiments that indicate systems depending on both punishment and reward foster more cooperation in public good provision, than systems that is either only built on punishments or rewards. Additionally, their study showed that only using punishment is less effective in promoting cooperation, than a system built on just rewards. In their conclusion they argued that intrinsic values and conformity in combination with reward/punishment better explain why individuals cooperate in the long-run. Rather than just looking at the rewards/punishment structure. This is not a contradiction, since Balliet and Van Lange (2016) showed that cooperation and trust is mutually reinforcing. With means building a system based on predominantly positive incentives can foster trust and cooperation. Analogously, I assume that distrust and antagonism also mutually reinforce each other. Moreover, I assume that a system built on predominantly negative incentives will foster antagonism and distrust.

Lastly, in many international relations studies the distinction between the behavior implications of deterrence (negative incentives) and (positive) incentives has been central. I argue that the relationship between a powerful and a less powerful stat, are somewhat comparable to the relationship between the central government and a region or a province. Therefore, evidence from this field on the behavior implications of deterrence and incentives, can broaden our understanding of relations between the central state and its subdivisions. Scholar within international relations has shown that credible commitments to (positive) incentives crates a sense of goodwill and trust between states. While (negative incentives) deterrence create conflict and divide (Dorussen, 2001).

This is in accordance with the finding from both the behavioral economists and organizational psychologist in the paragraphs above. Therefore, I argue that a central state that has managed to build up a credible commitment of more positive than negative incentives, will have more compliant and transparent local bureaucracy. While a state that has built up a credible commitment of more negative or at least the threat of more negative than positive incentives, will have less compliant and less transparent local bureaucracy.

While this explicit distinction has been important in international relations and in understanding states behavior in the international arena. This has not been the center of studied of the performance of Chinese and Russian subnational bureaucratic institutions. Nor has it been explicitly stated as an important feature in itself, in explaining their diverging performance.

Despite the fact that this is arguably the most distinctive difference between them in previous studies²¹.

5.2. Business Environment

5.2.1. Transaction costs

When the term “business environment” is used in this study it refers to the direct interaction between local businesses and local officials or indirectly through bureaucratic procedures. A good business environment simply means that the interaction between the two induce low costs on the enterprises. Moreover, that it is beneficial for the growth and development of the private economy, in aggregated and in the long-run.

Business Environment = Transaction Cost + Facilitating Businesses

When I am using the term “Transaction Cost” I am referring to North’s (1990) definition of it. The term “Business Environment” is something I have come up with. “Facilitating Businesses” simply refer to help and support of local entrepreneurs and businesses, like counselling and cooperation. Also things like including businesses and entrepreneurs in policy development and decision processes. This does not affect transaction cost directly. In fact, it can increase transaction cost in the short-run, but it will decrease transaction cost in the long-run. Since it will enable the local government to take more informed decisions and make more sound policy plans.

To fully appreciate what transaction cost is and is not, we will briefly go through all of North’s categories of economic cost. North (1990) divides economic costs in to three categories: resource, transformation and transaction cost.

²¹ Rochlitz et al., 2015; Reuter and Buckley 2015; Li, 1998; Li and Zhou; 2005; Reuter, O. and Robertson, G.; 2012, Edin 2000.

Land, labor and capital are categorized as resource cost. Transformation cost is categorized as the cost associated with using the resources to create a product with the right physical attributes. Right physical attributes are things like size, color, weight and transporting to the marketplace. In a perfect free market place this are the only forms of cost in the economy (North, 1990, pp. 28).

Everyone that has taken a course in socioeconomics, knows that this assumption is the fundament the subject is built upon. But basing our understanding of the market economy on this assumption tells us only half the story. An economy's ability to utilize resources and the process of transforming them is the last part of the story. It tells us the consequence of the working of the invisible hand. We also have to understand the first part of the story, that is where transaction costs come in. This part tells us how and why the invisible works the way it does. It tells the story of the necessary preconditions; the market economy is built upon.

Transaction cost is the cost of enforcing the property rights of goods. This include the right to produce, right to derive an income form the production and the right to exchange (North, 1990 pp. 28). Transaction cost is in other words the cost of protecting the market place and the rights of the agent operating within it. This include the seeking out information about rules and regulations and enforce punishment of rule violations. Therefore, transaction costs are the costs associated with exchange of product and services, but are not a part of the value of the goods and services that gets exchanged.

To understand how transactions cost affect us in our daily life an example is in order. Say if person A is selling a house and person B is buying a house. Transaction cost for person A include paying for an advertisement space in a newspaper, and fees to the surveyor and a real estate agent. In addition to the time spent writing the advertisement, and looking for and interacting with the surveyor and real estate agent. For person B transaction cost include researching advertisements and the price level of houses in the area, taking the bus to viewing and interacting with the real estate agent. Time spent by person B on this activity I also included in his transaction costs. For the society the transaction cost associated with house buying and selling, include making sure that person A gets payed by person B. The real estate agent and the surveyor gets payed their fees, but at the same time are hindered from forcing person A to pay more than the fee. Further making sure person B gets the house in his possession when he

buys it, and his private property right to this house is respected. Moreover, if someone occupies person B's house the society pays for the removal and punishment of this person, maybe even a compensation to person B.

As a part of transaction costs there are enforcement costs. Enforcement costs are the cost of making sure people follow the formal rules, through activities like policing, auditing, notified and unnotified inspections of businesses, institutions and private individuals. In the example above enforcement costs are the transaction costs the society pays for.

The part of transaction cost that is not a part of enforcement cost, include time spent navigating through bureaucratic procedures, filling out schemes and waiting for licenses being processed. In other words it includes all the frustrating things ordinary people associate with the loaded word bureaucracy. In the example this are the transaction costs person A and B pays for.

The frustration associated with interacting with the bureaucracy is captured through the writing of the bureaucrat and Max Weber's contemporary, Frank Kafka. He had a keen eye for the informal workings that could develop in a highly formalized Weberian bureaucracy. Kafka experienced and understood that a highly formalized system alienated people and left room for power abuse (Hodson et al. 2012). Just as North he was aware of the importance of both formal and informal structures, and the interaction between them. Kafka therefore gives us a good understanding of the consequences of when the formal and the informal rules communicate badly, or in a way that do not serve the public interest. Therefore, the Kafkian state can stand to illustrate the workings of a "business unfriendly" state, the antithesis of a well-functioning bureaucracy. In Kafka's nightmare state the bureaucracy has incentives to actively work against the interests of businesses and entrepreneurs. Moreover, in this state the bureaucracy has incentives to create and enforce laws and procedures that increase businesses and entrepreneur's transaction costs.

5.2.2. Formal and Informal Constraints

North claims that both transformation and transaction cost are part of the production cost, but it is only the latter of the two that formal and informal constraints effects directly.

Formal constraints are the quality and amount of rules, and how easy it is to find and navigate through them. This is to a large degree shaped by the structure of public institutions. It is the written rules of society and the formal hierarchal structure of instructions. Informal constraints are norms and conventions (North, 1990, pp. 36). They are unwritten rules of society and the personal relationships between humans. The difference between the two are not clear cut, but is mutely effecting each other. Formal rules can change as a result of pressure from society and informal rules can change due to changes in formal rules. Often the direction of the causal link goes both ways.

Take for example the strict and long prison sentences. Are they a result of a society where violent behavior is viewed as a legitimate response to non-violent attacks or insults, so by default we need strict sentences as a deterrence? Or are the society violent because the strict and long sentences brutalize and alienate people from the rest of society? If the latter is true, the strict formal rules are ineffective. Enforcement cost associated with limiting violence in the society would be lower if the formal rules were better adapted to society and human behavior. Or there was an informal norm of not enforcing the strict formal rules. More importantly a lot of human suffering would be avoided by changing the formal rules.

Other times changes in the informal rules can lead to removal of formal rules or hinder formal rules from being enforced. Like removal of laws that limits women's right to inherit property, as a result of secularization. Or acceptance of illicit work if people find the tax system illegitimate. In instances like this formal and informal rules works against earth other, leading to high enforcement costs.

All of this interaction happens with an institutional framework. North defines institutions and institutional constraints as follows:

“Institutions are the rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction. [...] Institutional constraints include both what individuals are prohibited from doing and, sometimes, under what conditions individuals are permitted to undertake certain activities. As defined here, they therefore are the framework within which human interaction takes place (North, 1990 pp. 3-4).”

5.2.3. Schumpeter and Baumol: Cooperation and Norms

North focuses on how formal and informal constraints affect transaction costs and how transaction cost effects growth. While in *The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle* (1934) Schumpeter focuses on the entrepreneur. He assigns the entrepreneur the role of being the one who capitalizes on innovations. Through this role the entrepreneur becomes the driving force in economic development. Because she uses economic resources to create a net profit and is pushing the Pareto efficient line outwards. North has an equilibrium perspective on the relationship between the public and private sector. The equilibrium might float as time goes by, but there is an ideal relationship between formal and informal rules, given this and that precondition.

Schumpeter has a more cyclic view; he is Marx upside down. For Schumpeter it is important that the public sector support and protect small businesses and new entries, from big powerful corporations or interest groups within the state itself. In Schumpeter's narrative the bourgeoisie are the heroes through their roles as entrepreneurs. That being said according to Schumpeter's theory you are not born into an entrepreneurial or bourgeoisie class. What you can do, is move up the class hierarchy by commercializing an innovation (Schumpeter, pp. 78-79). But Schumpeter's entrepreneurs are no superheroes, they need help, support and protection.

If entrepreneurs are not able to materialize their creative ideas, there will be no innovations and therefore no long-term economic growth. If big business and their vested interest stand in the way for new entries the economy will collapse, since it is new entries that create innovation. This collapse is what Schumpeter refers to as “creative destruction”. From the rubble of the broken economy the entrepreneurs emerge with new innovations. The cycle repeats when these

entrepreneurs have become the new power hubs in the economy and has become the ones hindering new entries.

This cycles of destruction and rebuilding are ineffective and harsh ways to generate growth and development. It is better to limit the power of big corporations and protect new entries from big cooperation's trying to squeeze them out. This is done by having a public sector that do not give preferential treatment to established businesses and actively support SMEs and potential entrepreneurs. This will also give the entrepreneurs a bigger access to financial resources, then if they had to build up their business from the rubles of a collapsed economy.

Baumol (1993) builds on and develops Schumpeter's theory by making a distinction between productive and unproductive entrepreneurs. Baumol looks at how structures in the institutional environment effects the productivity of entrepreneurs. For him there is no direct link between entrepreneurial activity and economic growth. Sometimes the entrepreneurs are the "bad guys" in the narrative of economic growth and development. He even goes as far as too argues:

"the entrepreneurs often make no productive contribution at all, and in some cases plays a destructive role, engaging in what Veblen describes as "systematic sabotage" of production. This does not happen fortuitously, but occurs when the structure of payoffs in the economy is such as to make unproductive activities that such as rent-seeking (and worse) more profitable than activities that are productive (Baumol, 1993, pp 1)."

When it comes to productive entrepreneurs Baumol focuses on the importance of creating an institutional environment that enables them to spread, disseminate and adopt new ideas through productive activity. How fast this happens depends on the institutional structure the entrepreneurs operate within, like communication infrastructures, business clusters and support from officials. This illustrate that catching-up is not something that just happens in developing economies ones the knowledge is available. There has to be incentives to use his knowledge to be productive and easy access to the knowledge. It further shows that commercializing an innovation is not the only important way entrepreneurs' effects economic development. Speeding of new ideas to established enterprises or potential new entrepreneurs is equally as important.

Like Schumpeter, Baumol assumes that the entrepreneur starts up a business because she wants to make a profit. But Baumol do not assume being productive is equal to being the best way to make a profit. The consequence of this is that we can assume that if it is more profit to gain by being unproductive or even counterproductive the entrepreneur will choose one of the latter. This important point nuances and adds to Schumpeter theory of entrepreneurship. It shifts focus towards the incentive structure the entrepreneurs operate within. As a consequence, where the entrepreneurs allocate their resources. Schumpeter describe entrepreneurs as individual that are ingenious at creative at adding to their own wealth, power and prestige. There is nothing in this characterization that indicate that they have a positive effect on the economy or society in aggregate (Baumol, 1990). An innovation can be a new way to launder money, finding new loop-holes in the law, changing chemical structures of narcotics, or new ways to bribe or bully people. This is innovations that does not get patented or registered, but are just as much innovations as the ones that has a positive effect on the economy and society. This also means that individuals that fits Schumpeter's description of entrepreneurs might not choose to become entrepreneurs. An ill-fit incentive structure can make it more utilizing for creative people to use their abilities and ideas to make a profit in a counterproductive way.

Arguably, the climate degrading and unsustainable economic growth the world economy is based upon is a result of an ill-fit incentives structure. A result of an incentive structure where both formal rules and informal norms promote counterproductive businesses and entrepreneurships.

The opportunist and the Italian immigrant Al Capone, fits neatly in to Schumpeter's description of an entrepreneurs. A man from a Catholic country where drinking was a natural, and not a sinful, part of life. He used the prohibition, pushed through by Anglo-Saxon protestants that viewed drinking as sinful, to enrich himself. For the Italians, Jewish and Irish immigrants the prohibition (formal rules) was in contrast to their internalized norms (informal rules). The Italian immigrant were also viewed as stupid, incapable of rational thinking and discouraged from taking higher education (Hipango, et.al. 2014). From Al Capone's entrepreneurial point of view, the prohibition was a possibility to make a profit from something he did not view as immoral. In a society structured in a way that limited his possibility to achieve the American Dream through formal institutions. But where the prevailing view in society was that everyone could achieve it through hard work. For him the most profit-maximizing way to utilize his entrepreneurial inclinations was by illegal and counterproductive activities. The Anglo-Saxons

discriminating attitude towards Italians, gave him little incentives to try to become a businessman within the bounds of the law. This formal and informal structures also lead to high enforcement costs. There was much to be gained by breaking the prohibition rules, because of the high demand after moonshine. Also there were little to be gained by being a law-abiding citizen, neither economically or for the sake of conscience pangs.

This example illustrates that just because a country has few SMEs or entrepreneurs does not mean there is a lack of entrepreneurial culture, innovations or potential entrepreneurs. The source of problem lies in the incentive structures built in to the institutions. In other words, there is a lot of potential in Russia, but little incentives to utilize it in a productive manner.

5.3. Theoretical Framework

Here I will contrast the difference between a bureaucratic system built on predominantly negative incentives and a bureaucratic system built on predominantly positive incentives. I will put the two systems in to one theoretical framework This framework builds its assumptions on the concepts and definitions from the chapter above. It will be illustrated in a two sequential game theoretical model.

5.3.1. The Rules of the Game: Ends and Means

Weber understood bureaucracy as a particular type of administrative structure, based on a rational-legal form of authority. In his works the bureaucracy is often just described by a list of administrative tasks. According to him the bureaucracy should have:

- Clearly specified jurisdiction.
- Organized in a hierarchy.
- Stability in rules, so the bureaucrats are able to learn them.
- Filing information, making sure all is out in the open.
- Rights, privileges and tangible assets follows the office, not the office holder.
- Officials are selected (not elected) and get compensated on the basis of technical qualifications.

- Employment in the bureaucracy is lifelong career. After a trial period the bureaucrat is protected against being arbitrary dismissed (Scott, 2002, pp. 43-55).

The market orientated model is similar to the Weber's model. The most important difference between them can be found in the emphasis they put on different aspects of the official's task. While the Weberian model focuses on rules and merit, the market orientated focus on goals and results (Edin, 2000, pp. 20-49).

I argue that it is more effective to focus on incentives than rules in societies where the rule of law is a weak norm and there are low levels of trust. Moreover, this can increase cooperation and build trust in a society (Balliet and Van Lange, 2016). In the long-run this can lead to changes in the officials and the populations internalized norms and values. Thereby starting the long and demanding process of changing the populations intrinsic values and perception of the public sector.

According to Weber a system based on rational-legal structure with clear hierarchical defined tasks would enable officials to exercise discretion. He argued that this would protect low level officials from arbitrary meddling from high level officials. The clear hierarchical structure would also make career advancement possible in the long run. Kafka pointed out the problem with this argument. It is not only direct interference from greedy or self-seeking high level officials that can hinder low level officials from doing a good job. Rules can themselves become a strait jacket for low level officials and alienate people in interaction with the bureaucracy.

Moreover, in a Weberian model acting in accordance with rules are what legitimize an action. Therefore, a high level bureaucrat can change or bend wordings of an Act to fit her own personal preferences, instead of the collective good. This sort of elite legal-tailoring is defined as legal corruption by Kaufmann and Vicente (2011). We encounter this problem in a bureaucratic system where the high level officials lack incentives to help politicians and decision-makers in creating sound rules, that are beneficial to the local business environment. High level bureaucrats are able to do this because they have intimate knowledge of the system and the jurisdiction they are responsible for. Because of this information asymmetry, politicians or committee members in the law making process might agree to pass laws high level bureaucrats benefit from. It is also more likely that high level bureaucrats will use this possibility to be

self-seeking, at the expense of the collective good, in societies with weak norms for cooperation and rule of law. It will simply not nag official's conscience as badly if they are brought up in a society where people generally feel they cannot trust others, and have to look out for themselves. In the Kafkian state cynicism prevails, there is nothing wrong in grabbing what you can. In such a state you get a pragmatic relationship to power abuse. The important thing is to not get caught, not the fact that it is wrong or unprofessional (Ledeneva, 2013, pp. 63-64)²².

Now let us turn to the lower levels of the hierarchical structure. If there is little possibility of upwards career mobility there will be few incentives for putting in the extra effort. Moreover, as we saw in the previous chapter, negative incentive fosters antagonism and suspicion, rather than cooperation and trust (Balliet and Van Lange, 2016). Further, the laws the low level bureaucrat has to enforce will be less than optimal for the collective good. Because of legal corruption in the law-making process. The focus turns to following procedures and laws meticulously. Since the low level bureaucrat is risk-averse and has nothing to win by using his discretion, but might have something to win by finding loopholes in the legislation. This also makes the process time consuming, with makes bribes a viable option for business women and entrepreneurs on a tight schedule.

Moreover, in a system where corruption and bribes are the norm there will become a social pressure to become corrupt. Low level bureaucrats that genuinely tries to act within the bounds of the law and do a good job, can be viewed with suspicion and get pressured to conform. Officials that has been socialized in to a Kafka's system will feel that new comers that are law

²² *That this attitude prevail in Russia is reflected in Elena Panfilova, Director of Transparency International Russia, conversation with US Foreign Service Officer Matthias Mitman. "the GOR [Government of Russia] may have waited too long [to fight corruption]. Panfilova said that a few years ago, when only millions had been "stolen" from the Russian people (as opposed to today's billions), the GOR could have acted and not sparked public outrage. She said that the [financial] crisis had made the GOR's task more difficult and the scope of corruption has become unmanageable. As the crisis reduced the size of the pot and the anti-corruption rhetoric increased, some Russians felt that they had best grab as much as they could while the going was good. WikiLeaks: Cables 09MOSCOW2823, 2008)*

abiding makes themselves look bad. Therefore they will use anti-social punishment to make newcomers act as they do. Thereby legitimize and feel better about their own self-seeking ways (Irwin and Horne, 2013). It is also plausible that this will be reflected in the recruitment of potential new arrivals, by selecting those with already internalized norms that fit the bureaucracy (Ledeneva, pp. 85-114). Therefore, being corrupt and excessively rule orientated not only becomes about maximizing leisure and material gains or minimizing risk. It will become a way to fit in. This system will persist and become self-enforcing, unless some external change shifts the payoff structure. Like a change in the incentives used by the political leadership toward local authorities.

Under the market-orientated model there is put a lesser emphasis on rules and a greater emphasis on incentives, particularly positive incentives. Instead of regulating the system by mainly rules, it is regulated through performance based contracts. The marked inspired version of Weberian model therefore works better than the original Weberian model, in a society where the rule of law is not an internalized norm and/or are low on trust. This is in accordance with the research we went through in the previous chapter. Positive incentives are more effective in low trust societies. Further, we learned that cooperation and trust reinforces each other. Therefore a contract system that give local officials stronger incentives to cooperate with local businesses, than defect from cooperation will have a positive effect on trust in a society. Thereby creating a virtuous circle, where the different element maturely reinforces earth other. Instead of a viscous circle, where distrust and punishment crates increasingly strong feelings of antagonism and aversion against cooperation. The difference between this states are illustrated in Table 5.

Table 5: Characteristics with the Weberian and Kafkian State		
<i>Model</i>	<i>Weberian</i>	<i>Kafkian</i>
<i>Incentives from above</i>	Positive (promotions)	Negative (demotions)
<i>Focus in governance</i>	Achieving goals (ends)	Following rules (method/means)

<i>Dominant strategy for local officials</i>	Use discretion in addition to rules (Risk-taking)	Strictly following rules (Risk-averse)
<i>Dominant strategy of enterprises</i>	Cooperate	Network building and bribes
<i>Advantages</i>	Flexible, simple, quick bureaucratic process	Easy to get thing done if you got the cash, network and lack moral constraints
<i>Disadvantages</i>	Inconsistent, situation and context dependent	Rigid, complex and slow bureaucratic process

Moreover, an increasing emphasis on procedures and rule of law can be implemented, if desired, in a society in a virtuous trust circle. As time goes by this will become increasingly easy. Since a rule based system depends on high levels of societal trust.

In a high trust society, the choice between a rule or contract based system becomes more a question of what is most beneficial and practical. In some instances, a rule based system might be the most effective. Lending a book from the public library or paying taxes would be quite a hassle had there been no formalized routines on how to do it. In other instances, it might be better to give the officials more room to use their discretion and cooperate with the ones that are the most effected by their decisions. Like in development of infrastructure, facilitating the development of business clusters, elder care or controlling the quality of outsourced services.

At the end of this theoretical walk through I would like to note that you can have a rule based system in a low trust society. Given you are willing and able to use massive amounts of suppression, force, violence and terror. And have neighbor that pumps in aid and financial support, because a collapse would lead to a massive refugee crisis and regional instability (Nathan and Scobell, 2012 pp. 132-137). But this brutal system has not turned North-Korea in to an Asian Tiger, like South-Korea. Rather North-Korea is like stray cat China feeds to stop its irksome scratching at the door.

5.3.2. How the Game Plays Out: Weber vs. Kafka

Now let us look at how the local official's incentives structure effects the interaction between businesses and the local government. I will start with the assumptions and that go one to explain the outcome.

Since the bureaucracy is part of an already existing institution the entrepreneur's action depends on the bureaucrat's action. We are therefore in a two sequential game situation, where the actions of the entrepreneur are dependent one the action of the official. If we assume that the majority of local officials are utility maximizing, in both the state using predominantly positive incentives, and the one using predominantly negative incentives. The dominant strategy will differ, because of the incentive structure they work under differs. By utility maximizing I refer to maximizing both materialistic and normative goals. Let us from her on out call the state with a bureaucratic system built on predominantly positive incentives for the Weberian. While the state with the bureaucratic system is built on predominantly negative incentives for the Kafkaian.

If we also assume entrepreneurs are utility maximizing their strategy will differ in their interaction with the bureaucracy in a Kafkaian and Weberian state. I assume entrepreneurs and businesswoman in both the Weberian and Kafkaian state has the same strategy. In other words, they would prefer to cooperate with a cooperative bureaucracy. But since they are the second player in a sequential game were the strategy of the first player differs, the dominant strategy of the second player will be different. Even though the second players in both games are identical.

In the Weberian state the dominant strategy of both local officials and entrepreneurs is the one with maximize both groups utility and minimize transaction costs in the economy. Since local officials has grater incentives to cooperate and facilitate than, defect.

In the case of the Kafkaian state the dominant strategy for local low level officials is to strictly follow rules and regulations. Unless bribes are big enough. Then they will take the risk of using their discretion, or jump hoops over the excessive amount of rules and regulations put on them

by high level officials. This forces entrepreneur to choose a strategy that maximize transaction costs in the economy. This choice of action by the first player maximizes the second player's utility, but not the first player's utility. This relation is reflected in Figure 5.

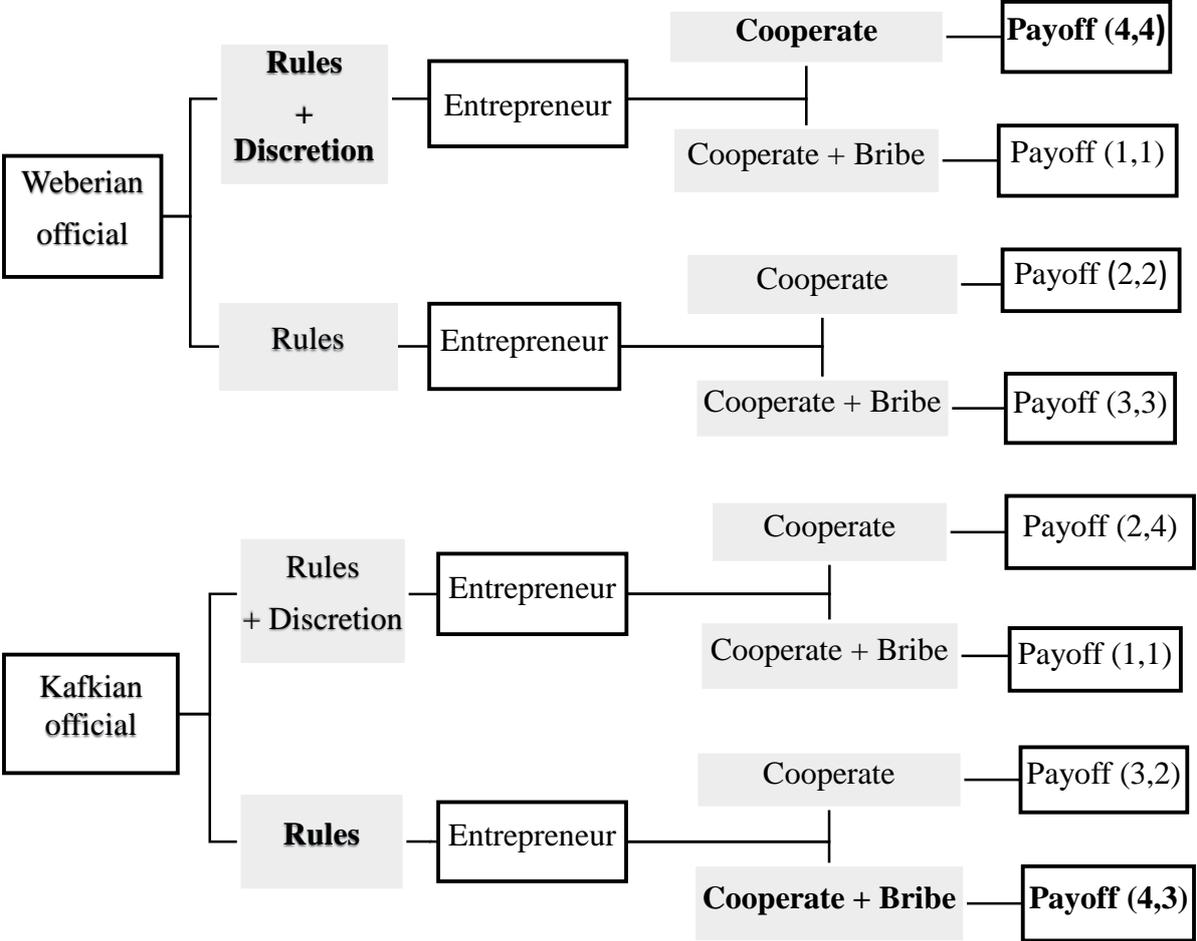


Figure 5: The Weberian and Kafkian Game

Two sequential game in a Weberian (market-orientated) state (based on predominantly positive incentives) and a Kafkian State (based on predominantly negative incentives). The payoff for the first player (official/bureaucracy) stands first and differs in the Weberian and Kafkian state. The payoff of the second player (businesses/entrepreneurs) stand last and is identic in the Kafkian and Weberian state. The payoffs in boldface letters are represent the end result in the respectively Weberian (on the top) and Kafkian (on the bottom) game.

6. Analysis

Here I will analyze how Russia and China fits in too the theoretical framework from the previous chapter. I will start with some descriptive statistics. After that I will analyze how Russia and China fits in to the first sequences of the game. Lastly, I will look at whether the result from the second sequence correspond as expected to how the cases play the first sequence of the game.

6.1. Descriptive statistics – Career Data

The regional economic data for Russia is collected from the website of the Russian Federations Statistics Services *gks.ru*. The career data of Russian governors is collected from different Russian online newspapers, but mostly from *viperson.ru*. The historical data of governors in China and Russia is collected from *rulers.org*. Economic data for China is collected from the website of Chinas National Bureau of Statistic *data.stats.gov.cn*. Most of the career data of Chinese governor is gathered from *chinavitae.com* and with a few exceptions from European and American news sources. Since the economic data from China and Russia was based on nominal growth I had to take inflation out of the equation. I did that by calculating real GRP growth, based on inflation data from *inflation.eu*. The election data in the Russian dataset is collected from *electoralgeography.com*. The dataset I crated based on this sources can be found in the appendix.

Provincial governors in China are defined as “promoted” if their next position is governor in another province, mayor of another municipality, provincial party secretary of the same or another province or head of a minister or secretary. They are counted as “demoted” if their out of politics, their next position is vice-chairman, vice-minister, chairman of a committee under the State council, president of a university or any other provincial position that is not provincial secretary or governor. If they are out of politics or becomes members of a committee when they are over 65 years old they are counted as retired, not demoted.

Regional governors in Russia is defined as “promoted” if their next position is minister, diplomat, vice-president, presidential advisor or head of a multi-governmental organization. They are defined as “demoted” if their out of politics, their next position is vice-minister, chairman of a state cooperation, any other regional position or member of the Federation Council. Membership in the Federation Council is defined as a demotion because it lost most of its power in the 2000s (Rochlitz et.al., 2015, pp. 434) (Russian Politics Atlas, 2015, p 95).

Even though I have dug up some empirical data of the career of governors in China and Russia, there are validity problems on the explanatory variable too. Since I argue that the tendency I find among governor’s career path is valid for all parts of the bureaucracy that interact with businesses and entrepreneurs. This is where others scholars research comes to my assistance, to bolster my argument in the next section.

In Table 6 and 7 you can see the descriptive statistics of Chinese and Russian governors in the period 2004-2012. The data clearly shows that there is a far higher rate of promotions in China then in Russia.

Table 6: Provincial governors in China between 2004-2012	
<i>Number of governors</i>	84
<i>Number of governors at same position at current time (as of all observations)</i>	6 (7%)
<i>Number of promotions (as % of all observations)</i>	44 (52%)
<i>Number of promotions among those not retired (as % of all not retired)</i>	44/70 (63%)
<i>Number of promotions to provincial party secretary (as % of all observations)</i>	32 (38%)
<i>Number of governors ending term at the mandatory retirement age (as % of all observations)</i>	14 (17%)

<i>Number of demotions (as % of all observations)</i>	20 (23%)
<i>Number of governor's born in same province</i>	23 (27%)
<i>Average length of term (tenure)</i>	4
<i>Average age when assuming office</i>	56
<i>Average age when leaving office</i>	60

Table 7: Regional governors in Russia between 2004-2012

<i>Number of governors</i>	182
<i>Number of governors in office at current time (as of all observations)</i>	53 (30%)
<i>Number of promotions (as % of all observations)</i>	17 (9%)
<i>Number of demotions (as % of all observations)</i>	101 (57%)
<i>Number of governor's position thru the whole period (as of all observations)</i>	10 (5,5%)
<i>Number of governor's born in same region</i>	80 (44%)
<i>Died or killed during term</i>	8 (4%)
<i>Average length of term (tenure)</i>	8,5
<i>Average age when assuming office</i>	48,5
<i>Average age when leaving office</i>	57

Average share of governors with above regional average of votes to Putin or Medvedev during term (as % of all observations) 65 39%)

6.2. The First Sequence

By looking at the descriptive statistics I Table 6 and 7, we see that there is a much higher rate of promotions of governors in China than in Russia. In China 52 percent of governors get promoted and if we exclude those leaving office due to retirement the percentage jumps up to 63 percent. In Russia only 9 percent get promoted. The Chinese governors are also older than the Russian governors. Indicating that merit and experience are prioritized more in China than in Russia, when selecting high level officials. In China problems with role conflict is also less, since a smaller share of governors govern in the same province as they are born in. This limits the incentive or pressure to give friends and family preferential treatment. It will also be harder to build network when governors and lower level official are rotated (Edin, 2003b).

Summed up: the age, the share of promotions and share of governors governing in the same regions as they are born in, indicate that the China is governed in a way that is close to the Weberian state. Analogously, the result indicate that the Russia is governed in a way that is closer to the Kafkian state.

This is in accordance with the thesis in the introduction. We can conclude that there is a far higher rate of upward career mobility among provincial governor in China than in Russia. In the latter they also on average hold their position as governor for a longer time. This is not necessarily a bad thing, since it can enable governors to engage in long term project. But the flawed Russian system means that a governor and other officials can be sacked at any given moment. The potential benefit of long terms therefore disappears. Rather it becomes more important for officials (governors) to make sure that higher-level officials find nothing to demote him for (Ledeneva, 2013, pp.191).

One potential reason why there are a higher rate of promotions of governors in China than in Russia is because, as the result shows, they strictly follow the rule of mandatory retirement at 65 years old. This is freeing up positions and making career advancement possible for younger cadres (Li, 1998).

In Russia they have no mandatory retirement age for governors and the practice of limiting the number of terms is undermined (Moses, 2014). Another potential explanation for the young age of Russian governors might be due to Putin's lack of trust in his own employees (Ledeneva, 2013, pp. 213). Younger governors will have smaller networks and therefore will be easier to personally control. Due to the ineffectiveness of the Russian system this becomes Putin's quick-fix, rather than fixing the system.

Deng Xiaoping also rejuvenated the Chinese bureaucracy during the 1980s. But in contrast to Putin's approach, Deng's approach was more comprehensive and beneficial for all parties involved (Li, 1998).

As you can tell from Table 9 there is no clear correlation between average annual growth in GRP compared to previous governor in the region and promotions in China. This might be because GRP is not the only relevant factor effecting promotions. As you can tell from the performance contract for Shanxi province in 2007 in Table 8, there are a multiply of other factors that are prioritized in China. It could also be because the idea about "green GDP" has gathered momentum since 2006 (Jarrett and Huihan, 2009). Leading the Chinese government to focus more on the quality than the quantity of growth (Remington, 2016).

From Table 10 you can tell that there is a weak positive correlation between growth in GRP compared to previous governors and promotions in Russia. This indicates that Russia prioritizes economic growth, but the mere fact that there are so few promotions makes it ineffective. Another indicator that points in that direction is the fact that promotions do not follow votes in the presidential election. In the republics where UR receive the most votes none of the governors in the dataset get promoted.

This result is reflected in the lower levels of the bureaucracy in China and Russia. There is little support for introducing mandatory retirements or use of fixed terms among young low level bureaucrats in Russia. Even though their prevalent view is that there are few openings for

promotions. Also, they think they will only be able to be promoted two-three ranks upward through a career in the bureaucracy (Gimpelson, et al. 2009). This indicates a low career ceiling and might be the reason why many officials go over to the private sector after 11-15 years in the public sector. Moreover, wages in the public sector are still low and the public sector is an unattractive employer among the younger generations (Barabashev and Straussman, 2007).

It is plausible that this prevalent view of lacking promotion possibilities, is to a substantial degree the result of gender discrimination. About 70 percent of public employees in Russia are women, still the high ranking positions are dominated by men (Barabashev and Straussman, 2007). Both the gender gap and the fact that many leave after 11-15 years indicate that the Russian bureaucracy do not work in accordance with Weber's ideal. According to him a well-function bureaucracy should have possibilities of career advancement and bureaucrats should have long-term careers within the organization.

Further Gimpelson et al. (2009) finds in their research that 94 percent of Russian officials get their first job through interviews, which is the least effective way to find the most competent and best applicant.

This stands in contrast to China, which has used exam results as selection criteria since 1993, for those who want a junior position in the bureaucracy. In 2008 there were 57 people taken the exam per vacant junior position. This strongly indicates that a job in the bureaucracy is a much sought-after position. Moreover, promotions are to an increasingly degree dependent on professional assessment schemes, rather than public opinion and peer assessment. Today some positions also require a minimum level of education. Connections and membership to the CCP are still important, but the CCP glass ceiling is cracking up. For example, neither Health Minister Chen Zhu or Science and Technology Minister Wan Gang are members of the CCP (Jarret and Huihan, 2009). Moreover, the mandatory retirement and clear-cut hierarchical structure open up high ranking positions, and makes promotions a strong incentive in the Chinese system. The use of contracts and bonuses based on achievement, on all levels of the hierarchy, further fits the picture of a system using positive incentives to promote performance (Edin, 2000, Wang 2012). All the actors in the Chinese economy therefore benefit from generating a business friendly environment.

Table 8: Performance Contract in Shaanxi Province 2007

Area	Indicator	Weight %
Economic Development	GRP	10
	Budget revenue	10
	Direct investment	10
Social Development	Science and Education	6
	Culture, healthcare and sport	5
	Family planning	5
Living conditions	Average income	6
	City employment	4
	Social insurance	3
	Supporting people in need	2
Resources and environment	Energy saving	3
	Environment protection	5
	Land management	2
	Planting	2
Social Security	Social stability	7
	Safety	5
Establishing civil and military groups	Creating the governance	5
	Management according to the law	3
	Building the basis of party organization	2

Establishing loyal and
incorrupt party
organization

Creating non-material
civilization

Source: Wang 2010; cited in Rochlitz et al. 2015

Table 9: China best vs. worst performance (average annual growth in GRP compared to previous governor in the same region) in period 2004-2012.

	Province		Municipal		Autonomous Region	
	34 Best	33 Worst	4 Best	3 Worst	5 Best	5 Worst
Promotion	59%	54%	-	50%	40%	40%
Promotion too party secretary (%)	46,2%	39,3%	-	50%	-	20%
Same position May 2016	-	14%	-	50%	-	-
Same position May 2016 or promoted	59%	68%	-	100%	-	-
Demotion	17,9%	21,4%	66%	-	40%	60%
Retired	23%	7%	33%	-	20%	-
Length of term	4,1	3,3	5,5	7	5,5	4,5
Age starting term	56,5	56	54,5	55,5	61	58,5
Age ending term	60,5	59,5	59,5	61,5	55,5	54

Born in same province	18%	21,5%	33%	0%	100%	80%
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Table 10: Russia best vs. worst performance (average annual growth in GRP compared to previous governor in the same region) in period 2004-2012.

	Oblast and Krai		Autonomous Region/Republic	
	31 Best	31 Worst	12 Best	12 Worst
Promotion	13%	10%	-	-
In office May 2016	38,5%	42%	41,5%	83,5%
Promotion or same position (May 2016)	51,5%	52%	41,5%	83,5%
Demotion	46,5%	42%	50%	16,5%
Died/killed during term	3%	3%	8,5%	-
Age starting term	47	50,5	60	45,5
Born in same region	42%	35,5%	83,5%	50%
Votes Putin and Medvedev during Presidential election	8%	23%	66,5%	82%

Tabell career data of governors based on performance compared to previous governor

** No available data of growth in GRP of previous mayors in municipalities.*

6.3. The Second Sequence

Now we move over to the second players in the game, entrepreneurs and established businesses. Based on the results from above we can expect that Chinese businesses has a better perception of the bureaucracy, than their Russian counterpart. We can expect that the Russian officials has incentives to play a Kafkian game, while the Chinese officials has incentives to play a Weberian game. Further we can assume that it is reflected both in direct interaction with officials and indirectly through regulations.

In the Kafkian state there will be more legal corruption, than in a Weberian state. According to this we should expect that China has more efficient rules and regulation. This is confirmed by the GE (Figure 6) and RQ (Figure 7) indicators from WGI and the GP (Figure 8) indicator from GEM. Both GE and RQ capture both indirect and direct effects of how business friendly the government is. Indirectly through the quality of rules, regulations and policies. Directly through the ability and credibility of the government to implement these policies.

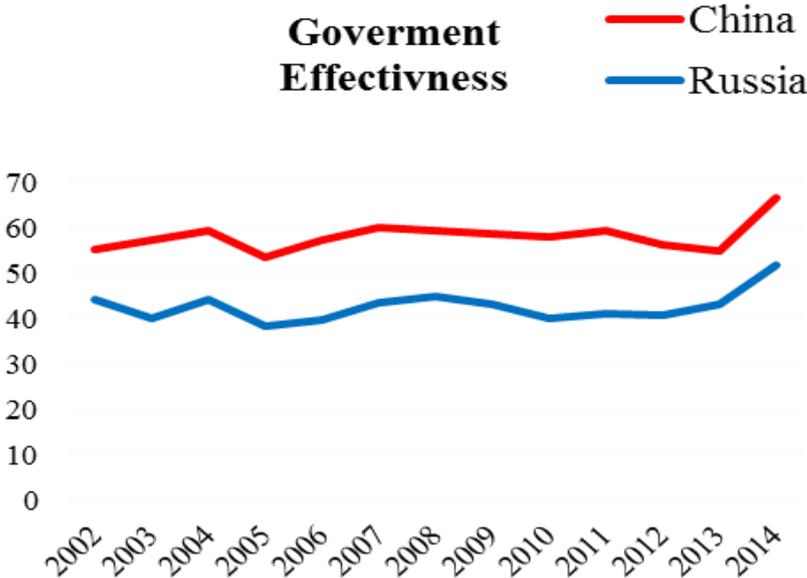


Figure 6: Capturing perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies Source: WGI.

When we look at GE (Figure 6) we can tell that China and Russia has had a stable ranking throughout the last 10-15 years. Russia has been right under the average of the 215 countries the WGI are based on, except from in 2014. If we compare Russia to other high-income countries, both OECD member and non-member countries Russia lags far behind. China on the other hand has had a stable value above the WGI average. Compared to other upper-middle income countries China scores above them. In fact, Russia is scoring under the upper-middle income average too.

This is despite the fact that there is no formal divide between political and bureaucratic institutions in China. But discussion of dividing it in accordance with the Weber's ideal started already in 1987, a decade marked by discussions of political reforms in China. In 1993 the CRS was established as a way to increase cadre's accountability. But it is still the case that this hierarchy contains positions that are more administrative in nature, and some with are more political in nature. A quick search on Chinese governors career on Chinavitea.com will show you that each and all of them has become governors by rising through the bureaucratic ranks. But to a large extent the *de facto* praxis on the local level is governed in a way with is close to the Weber's ideal. The CCP has limited itself to controlling high level officials at the local level, like governors and party secretaries. While lower level local officials are held accountable toward the provincial governor and township leaders on the township level, through performance contracts (Edin, 2003a).

The Party Secretary position is no doubt a political one. The person holding this position is directly responsible towards the central leadership. His job is securing the CCP's political position and legitimacy in the province. Moreover, he serves as a control and evaluations mechanism, reporting to the central CCP on the performance of the provincial government and governor. The Party Secretary position also frees the governor from focusing on political questions, he can rather focus on economic development and more administrative tasks (Forster, 2002, pp. 139-162).

This divide together with the contract based CRS makes it easy for Chinese authorities at both the local, regional and national level to administer economic bonuses and rewards through promotions. This give local authority incentives to implement sound policies.

This stand in contrast to Russia, with has been unable to implement a sound system to evaluate and administer rewards based performance. Therefore, local authorities and officials has more incentives to implement and formulate laws crated through legal corruption. Moreover, the implementation processes can be hampered by lower level officials risk-averseness. They care more about not making potential mistakes in the implementation process of a new policy. Rather than effectively implement it, and learn from potential mistakes as the implication process moves forwards.

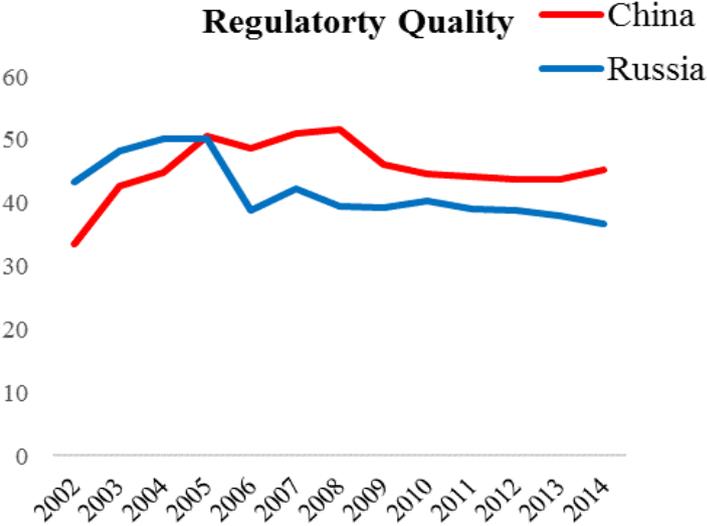


Figure 7: Capturing perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. Source: WGI.

In the early 2000 Russia outperformed China on the RQ (Figure 7), but after 2005 China has surpassed and stayed higher raked then Russia. Russia lags far behind other high-income countries. Both counties lie below the upper-middle income average on this indicator.

A potential explanation for this can be Chinas goal-orientated way of steering. This can lead to a down prioritizing of creating well-defined rules. Moreover, the provincial government may lack incentives to streamline rules and regulations. Since this can make it

easier for established businesses to establish new entities outside the province. Such a development will not positively affect the evaluation of the provincial governor and therefore governors in China lack incentives to streamline regulations. This can lead to a mosaic like law system. Well-functioning for businesses operating with one province, but not ideal for transprovincial corporations and businesses.

Russia outperformance of China in the early 2000s might be a result of Putin’s efforts to streamline regional and federal laws, to create his “vertical of power” (Slider, 2014, pp. 157-172). It is possible that this effort made it easier to do business or cooperate transregionally. But seemingly when Putin had firmly established his *vertical vlasti*, with revoking government election, the effort stopped. Indicating that Putin is more interested in increasing his own personal power than the long-term development of his country.

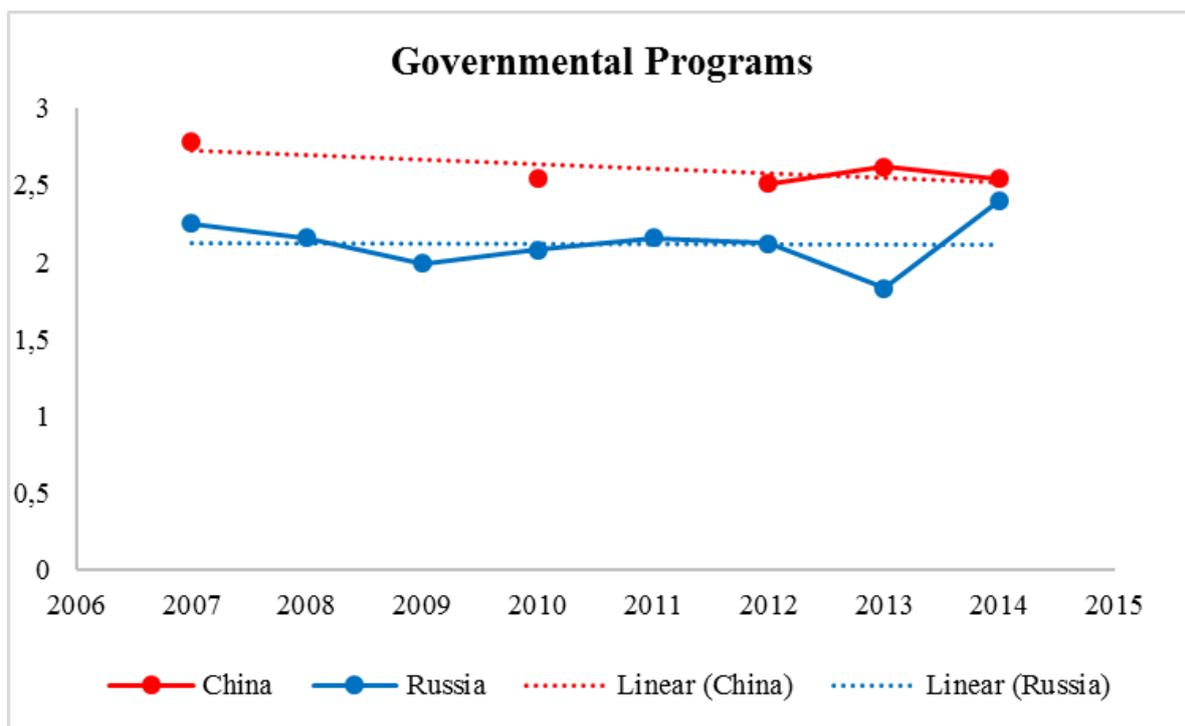


Figure 8: The presence and quality of programs directly assisting SMEs at all levels of government (national, regional, municipal). 1=Least Positive, 5=Most positive.

This data is collected from GEM National Expert Survey (NES) monitors the factors that are believed to have a significant impact on entrepreneurship, known as the Entrepreneurial Framework Conditions (EFCs). It is administered to a minimum of 36 carefully chosen 'experts' in each country. Source: GEM

As we can tell from the GP (Figure 8) there are no large difference in expert's assessments about the amount and quality of government programs directed directly toward SMEs in China and Russia.

At the same time specified programs directed toward some actor in the economy can increase transaction cost. I would argue that having a generally business friendly environment is more important than having programs directed towards specific groups. Programs directed towards SMEs can of course be beneficial for them, but it can also increase times used on applying for support, different forms of subsidies and lobbying. This are unproductive activity and will direct time away from productive activities. On the reserving end of this applications such programs can increase potential for rent-seeking and preferential treatment of some applicants. Simply because it creates a new channel for potential power abuse by officials and the local bureaucracy. Therefore, the results from this indicator is ambivalent, in terms of whether a low or high score indicate a good or bad business environment.

Sobel (2008) empirically tested Baumol's theory, by comparing 48 federal states in the US. The result showed that states with an institutional framework that economically rewarded going through the legal system by filing lawsuits, or had many openings for subsidies support had a higher rate of unproductive entrepreneurs. While states with an institutional framework that did not reward such activities, but rather focused on having a fair and effective bureaucracy had more productive and fewer unproductive entrepreneurs.

Therefore, the fact that China scores better than Russian on this indicator is not necessarily synonymous with a better institutional environment for businesses in general or SMEs in particular. At the same time, it is reason to believe that the potential harm of such programs is larger in Russia than in China. First of all, because processing applications will take longer time in a state where the officials processing the applications will need to control that the applicant is honest, due to lack of trust. Secondly the risk-awareness leads the official to use a lot of time just to make sure she is not breaking some rules or regulation, by choosing to grant or not grant the subsidy or some other form of support.

Now let us turn to the more direct effect of the game. In the Weberian state direct interaction with the state are supposed to be swift, effective, fair and predictable. In the Kafkian state it will be slow and the way to get thing done quicker will be through corruption and bribes.

Chinese officials has as we have seen, a greater incentive to cooperate and creating a business friendly environment then their Russian counterpart. Since low level Russian officials care more about not being blamed if they make a wrong move, they will use a lot of time to reassure they make no missteps. There is also a lower level of interpersonal and in institutional trust in Russia then in China (Edelman, 2016 and World Values Survey). This trust is a reflection of institutions that function well, with further reinforce norms of cooperation and makes the institution function even better. Therefore, we should expect China to outperform Russia on the WGI’s RL (Figure 9) and CC (Figure 10) indicator and score lower on major constraints on ES (Figure 11).

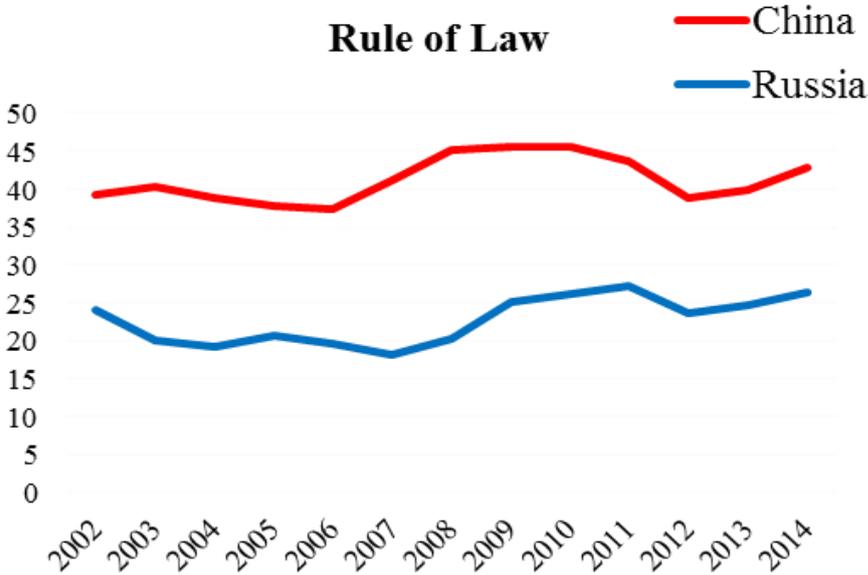


Figure 9: Capturing perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Source: WGI.

This indicator captures the qualities we associate with the state's role in a well-functioning market-economy. Particularly the protection of private properties.

Despite the fact that China still is a communist regime and Russia tried to become a liberal democracy in the 1990. The former outperform the latter with a substantial margin on the RL (Figure 9) indicator.

This strongly indicate that changing formal rules and regulations to fit liberal free-market values, has little to no effect if there is no incentive for officials to enforce it. The transition process in Russia worsened public official's socioeconomic status and position in society (Gimpelson and Lukiyanova, 2009, pp. 4). Because of this there is little reason to believe that officials were particularly enthusiastic about enforcing the changes. This is in contrast Chinas transition, were old officials socialized in to communist norms was not bought out and replaced with young officials. The new officials in China were socialized and schooled in to different norms and the buyout benefited old cadres (Li, 1998). Therefore, it is plausible that the communist legacy still effects norms and values, new officials gets socialized in the Russian bureaucracy. For example, norms of a "neutral" civil servant, in accordance with Weber's ideal, is still not an internalized norm in Russia (Barabashev and Strassman, 2007). Rather the Kafkian nightmare prevails, were informal and formal norms and positions are intervened in a complex and impregnable network, impossible to understand for an outsider (Ledeneva, 2013, pp. 1-18).

The Russian figures on the RL can also be interpreted as nod of approval to Medvedev efforts and genuine interest to better public institutions (Barabashev and Straussman, 2007, pp. 380; Hill, 2012, pp. 13-26). During the three first year of his presidency Russia scored a record high. Indicating that he was more than Putin's puppet, at least at the start of his term.

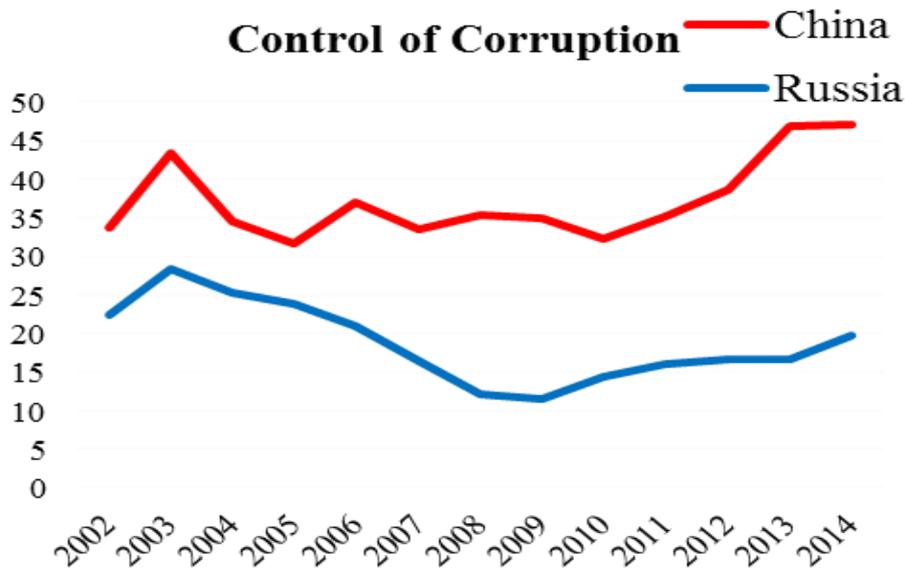


Figure 10: Capturing perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. Source: WGI.

China has climbed the ranks on the CC (Figure 10), Russia has done the exact opposite. This can partly be a result of the CCP's active anti-corruption campaigns (Li et al. 2016;). At the same time both Medvedev and Putin has fronted a hard-handed approach against corruptions (Obydenkova and Libman, 2015).

Rather the result is mostly due to the fact that Chinese officials has less to win by partaking in corrupt activity. In Russia officials have fewer moral constraints and incentives against receiving bribes or create laws that enrich themselves. As long as the Russian officials think they can get away with it they will act corrupt. Also, since "everybody" does it conforming means receiving bribes, and engaging in corruption becomes expected. Or else officials can become victims of anti-social punishment. Therefore, the reason for the large difference in corruption scores cannot be found by looking at anti-corruption effort. The difference can be found in the fact that China has been able to remove the root causes of corruption, to a larger extent then Russia.

Which by no means is the same as saying China has no improvement potential, there is still a lot to be done. If a corruption scandal can harm regime legitimacy or lead to social unrest it will be cover up. It can also be a bi-effect of its goal-orientated steering model. If an official is able to meet hard target (like the one that are the most weighted in the Shaanxi contract) she is more or less free to ignore meeting the soft targets (Birney, 2014). This is a serious cavity in the Chinese model. Luckily it is one with can be offset by taking anonyms complains from the local population seriously during evaluations (Edin, 2003a). The one effecting legitimacy on the other hand will demand democratization, that will be harder to do something about.

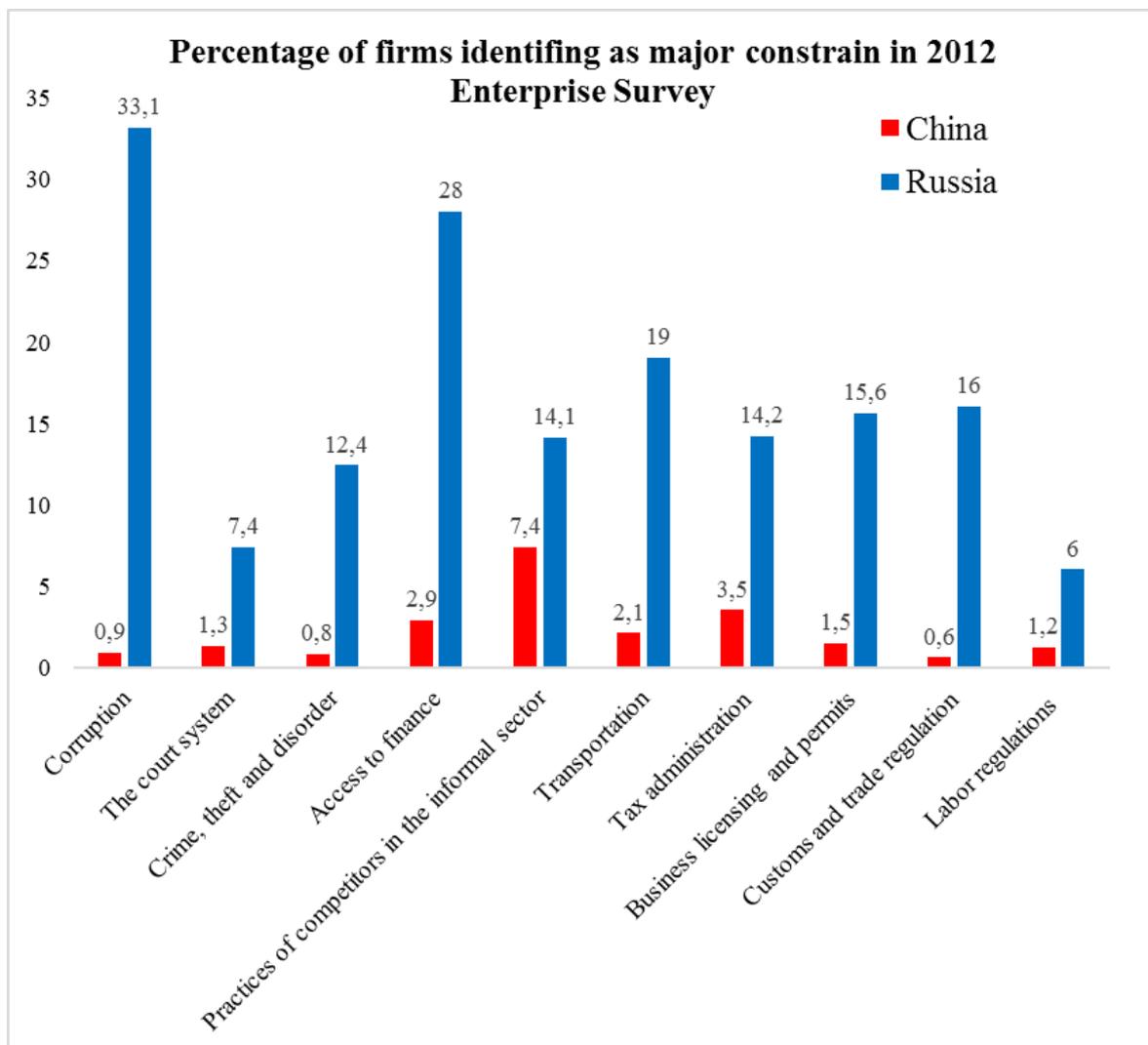


Figure 11: Enterprise Survey 2012. Source: *World Bank Group Enterprise Survey (2012)*

In general Chinese firms identify fewer major constraints in the ES (Figure 11). Not all of this constrain can necessarily be attributed to how business friendly the bureaucracy is. Labor regulations for ones are made to protect the interest of workers, therefor they will often stand in contrast to business managers interest. The fact that Russia scores worse on this one can be attributed to better and more humane conditions for workers.

Moreover, since this survey has been collected in Russia in the period 2011-2012, the lack of access to finance can be due to long-tail effect of the crash in oil and gas prizes.

Lastly, Russia covers over ten percent of the worlds landmass, is awkwardly placed and with a rough climate. China is a fare more densely populated country and its neighbors are also large with a strong and growing purchasing power. Therefore, it is literally natural that transportation will be a be a bigger contain in Russia.

Constrains from corruption, courts, crime, the informal sector, tax administration, licensing and trade regulations on the other hand can be attributed to more business unfriendly bureaucracy in Russia, then in China. With fits in to the thesis in this paper.

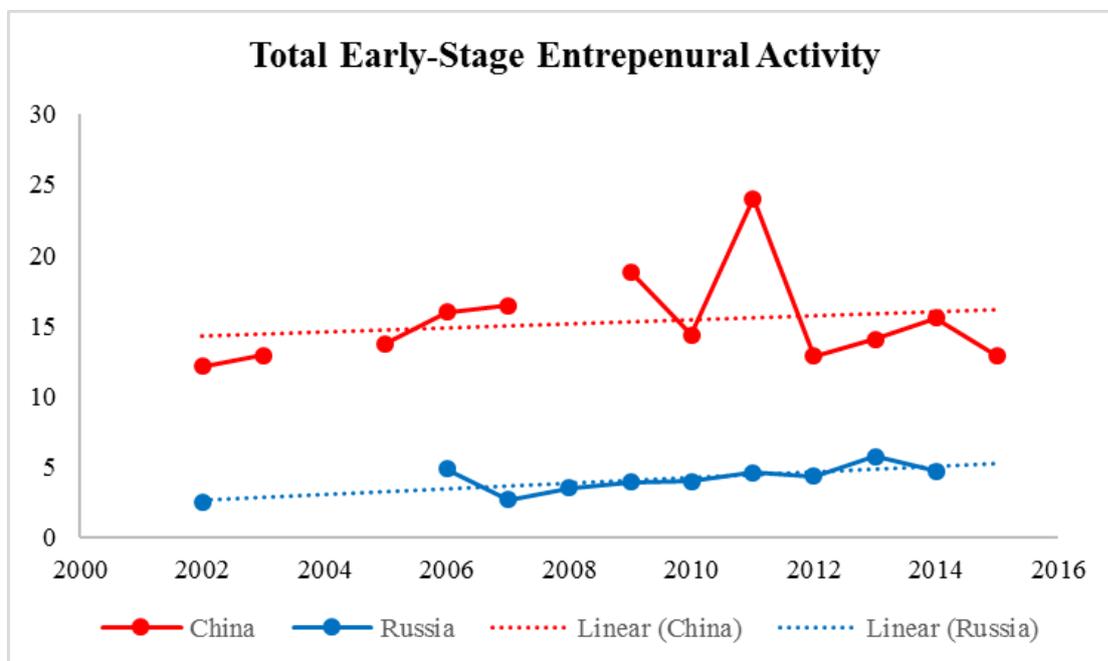


Figure 12: Total Early-Stage Entrepreneurial Activity. Percentage of 18-64 population who are either a nascent entrepreneur or owner-manager of a new business.

Nascent entrepreneurs are defined as people between 18-64 how are involved in starting up a business they own or co-own; this business has not paid salaries, wages, or any other payment to the owners for more than three months.

New business owner-mangers are defined as people between 18-64 how are owning and managing a running business that has paid salaries, wages, or other payments to the owners for more than three months, but not more than 42 months. Source: GEM.

The TEA (Figure 12) indicate that there is more nascent entrepreneurs and new business managers in China than in Russia. Further according the GEM indicators there are higher rate of the population between 18-64 with entrepreneurial intentions in China, then in Russia. This further indicate a better business environment in the former. Since entrepreneurs are arguably the private actor in the economy that is the most sensitive to the quality of the business environment.

But lastly, it worth noticing that while it is all well and good to have many entrepreneurs, it is also important that established businesses are able to keep their businesses going. Both the number of well-established and new entrepreneurs can be used as proxies to reflect the quality of the business environment. Therefore, I like to point out that it is not all rosy-red in China. The country is facing the middle income trap and it is visible on GEM indicators. From 2014 to 2015 the share of established businesses²³ in the population (16-64 years old) dropped drastically from 12 percent to three percent. This indicate a need to focus more on domestic consumption, production of welfare services directed towards an aging population and innovation driven growth. Moreover, China must learn from the mistakes of the Western world and manage this in a sustainable manner.

I will also contend people saying this reflect poor governance. It is still too early to say. Secondly I will argue that the legitimacy of Chinese authorities to an increasingly degree deepens on their ability to handle the climate challenge (Conrad, 2012). Thirdly this not something the CCP can censure or cover up, the whole world is watching. More

²³ *Established business is owner-mangers are defined as people between 18-64 how are owning and managing a running business that has paid salaries, wages, or other payments to the owners for more than 42 months (GEM, 2016).*

importantly everyone living in Guangzhou, Shanghai, Beijing or some of the other enormous cities of China can feel it in their lungs (Zhang and Smith, 2007).

7. Conclusion

7.1. Results and discussion

There is a negative correlation between promotions and votes going too Medvedev or Putin in the presidential election in the period 2004-2012. UR completely dominated both presidential and legislative elections in the period. Therefore, I argue that lack of political centralization is not what is stopping Russia from creating a business friendly bureaucracy. This does not mean that popular support is insignificant for UR, but it indicates that UR's position in Russia are becoming increasingly comparable to CCP's position in China. Both parties are so dominant that they can worry about other things than political competition, from forces outside the party.

Therefore, calling Russia an authoritarian central state, rather than a federal hybrid state is more correct today. Besides, "full-blood" authoritarian and centralizes regimes, like China have to care about popular support, not just hybrid-regimes and representative democracies.

Moreover, China is no more or less a federal state then Russia. Both countries size limits how much the central authorities can control directly; some level of local autonomy will always exist in such big states.

Further, arguably Chinas economic growth can be attributed to a search after a more sustainable source of legitimacy, than one based on force and terror. Indicating that China is an authoritarian regime that goes to even greater lengths than Russia in securing popular support.

Through this search for legitimacy, as the analyses indicate, China has created a business friendly environment.

7.2. Conclusion

Based on the findings in this study I argue that an important reason why China has been able to develop a more business friendly environment than Russia, can be answered by looking at the incentive structure local bureaucrats work under.

By comparing turnovers of regional and provincial governors during 2004-2012 we get somewhat close to a natural experiment. I argue this experiment can be used as a window in to the priorities and mechanisms used by the central government in Moscow and Beijing to control the local governments high-level officials. Also other scholars research indicates that there is a lack of positive incentives in the Russian bureaucratic system as a whole (Gimpelson, et al. 2009; Barabashev and Straussman, 2007). While the Chinese has positive incentives effecting all levels of the system (Edin, 2000, Wang 2012).

But there has yet, as far as I know, not been a study that focus on the implications of having of a bureaucratic system based on predominantly negative or predominantly positive incentives.

In the descriptive statistics in Table 6 and 7 we see that while well over 50 percent of the governors in China get promoted, only 9 percent of the Russian governors get promoted.

Moreover, the data in Table 10 shows a negative correlation between votes to UR's presidential candidate and promotions. Indicating that political loyalty might not be the only important factor effecting promotions in Russia. With further indicate that the political centralization thesis is obsolete, in explaining this two cases diverging development.

The findings in Table 9 and 10 show no clear correlation between economic growth and promotions, neither in China nor Russia. Unless one compares the most common regions in both countries, the ones that are not Municipal or ethnic regions. This are called Provinces in China and Krai or Oblast in Russia. If we compare these regions exclusively in Table 9 and 10, we find a weak positive correlation between GRP growth and promotions in both cases. But no matter if we just compare the Provinces and Oblast/Krais in the two case, or all the regions collectively the finding discord with the market-federalism explanation.

All in all, the data contradict both the market-federalism and political centralization explanation. Thus, we can conclude that neither political loyalty nor economic growth can explain UR and CCP use of promotions and demotions. Rather, the most significant and strong

difference between the two cases is to with extent they use the positive incentive promotions and the negative incentives demotions.

I argue that the difference in the mere use of positive and negative incentives are so strong. That it is the most important reason for why the Russian bureaucracy are less able than their Chinese counterpart, in promoting a business friendly environment.

When we look at the countries scores on the WGI, ES and GEM, all three indicate that the Chinese bureaucracy outperform their Russian counterpart in both effectiveness and compliance. Indicating that building a bureaucratic system on a fundament of predominantly positive incentives, is beneficial for third parties interacting with it.

This is in accordance with de Figueiredo Jr. and Weingast (2002) argument:

“A critical aspect of political development concerns how to structure the political game so that all the players have incentives consistent with improving social welfare. These players include not only economic agents, such as enterprise managers, but also political officials and consumer/citizens.”

The lack of such structure has lead Russia on a path that is increasing transaction costs, and building personal networks becomes more important than cooperating and facilitating. This generate a business unfriendly environment. Promoting counterproductive entrepreneurship, hindering innovation and crating barriers for new business entries. This is in accordance with Ledeneva’s conclusion in her study of the Russian system (*sistema*):

“Its incentives prioritise short-term profit at the expense of long-term sustainability, loyalty at the expense of professionalism, safety and collective responsibility [risk-awareness] at the expense of leadership, and innovative circumvention of *sistema* constraints [unproductive innovation] at the expense of productive innovation. Self-made businessmen often comment on their success being achieved against the odds and despite the forces of *sistema*, whereas *sistema* businessmen prefer to avoid the subject of building close links with influential politicians, or deny the links altogether (Ledeneva, 2013, pp. 249).”

7.3. Suggestion to Further Research

I find it plausible that Russia's leadership demote so many of their governors, rather than promoting them, because it is easy to discover a misstep. While it is harder to discover a governor who consistently through a long period of time has made a small or a moderate progress, in developing his region. This might be due to Putin's lack of trust and a flawed evaluation system. Therefore, it would be interesting to research if the share of promotions is higher in a bureaucracy where there is high level of trust, and/or have a well-functioning evaluation system.

Further, it is clear from this study that China and Russia has more similarities than the obvious ones or the ones I have argued for. Both governments have a preference of putting men in high level position. Despite their communist legacy and the egalitarian ideals communism builds on. In the sample three out of 182 (less than 2%!) Russian and two out of 84 (right under 4%) Chinese governors in the period 2004-2012 were women. It would be interesting to investigate how this affects women performance and what is the reason behind this gender gap. Neither countries have high birth rates, with less than two children per woman (Globalis). Therefore, it is plausible that this is a result of systematic discrimination within the bureaucratic system. Not predominantly a lack of welfare services, which tend to force women with many children into the domestic arena and out of the public.

It would also be interesting to look into how different forms of incentives affect performance. Whether personalized incentives, budgetary, public recognition for efforts or promotions has different behavioral implications.

This study does give evidence in support of the thesis. A bureaucracy built on predominantly positive incentives are more effective than a bureaucracy built on predominated negative incentives. This can explain why the Chinese bureaucracy is more business friendly than the Russian. The question then comes: what is stopping the Russian leadership from credibly committing to sorely needed reforms? I am not going to give an answer to that question. What I will do is share with you what I think is a plausible explanation worth exploring.

I find it plausible it all boils down to top level political priorities and regime legitimacy. Dictatorships are more dependent on the quality of the leadership than liberal democratic states,

simply because the leadership in the former commands more power. Therefor they are often the root cause of the problems facing the system or the economy. I find it plausible that Russia is suffering under what Fukuyama (2012) refers to as the “Bad Emperor” problem²⁴, with China has not done since the death of Mao in 1976. China has since Deng became *de facto* leader been under good emperors. Russia on the other hand has gone from a bad tsar to an even worse, with Medvedev a good but weak tsar in between.

The CCP has since 1978 focused on economic growth and development and increasing the living standard of its people, to secure social stability and legitimacy. China has been in conflict with other countries and had internal strife since that time, but the dragon has been no wear near as aggressive as the bear. China has risen in silence, focusing on internal development and building a harmonious society (*hexie shehui*) and a harmonious world. (*hexie shijie*) (Zheng and Tok, 2007). Following a politic of non-interference in other countries system of government or sovereignty. The CCP has even been systematically restricting nationalist forces within their own borders (Reilly, 2012, pp. 1-21).

UR on the other hand gained their legitimacy by riding on a wave of oil and gas in the 2000s. The UR can no longer pump its legitimacy up from the ground, it has to find a new source of legitimacy and support. During his presidency, Medvedev truly tried to restructure the economy and bureaucracy, but his power within the UR seemingly were and still are marginalized (Anatonenko, 2008; Galeotti, 2012; Appel, 2005). Moreover, Putin is fully aware that Russia needs to increase its number of SMEs and has a malfunctioning bureaucracy (Interfax, 2012; Loiko, 2012). It is plausible that Putin prioritizes other issues more, that might even be counterproductive to increasing the number of SMEs and attracting foreign investments. Putin turn to nationalism, anti-Western sentiment, anachronistic gender roles and those sort of quick-fixes to legitimize his and UR’s position (Riabov and Riabova, 2014). Instead facing Russia’s deep-rooted structural problems.

²⁴ *The “Bad Emperor” problem is when a dictatorship with well-functioning bureaucracy comes under the leadership of a bad ruler. If this happens it all crumbles and we get macabre results like the Cultural Revolution in China. According to Fukuyama (2012) this problem has for more than 2000 years and still is the Achilles heel in the Chinese system.*

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Appendix

Russian Dataset

Governor	Died or killed when in office	In office at current date	Length of term	Age when assuming office	Age when out of office	Oblast=1, Autonomous Region=2, Republic=3, Federal City=4	Above regional average votes Putin/Medvedev	In office	Promoted	Demoted	Born in same region	GRP annual growth	GRP annual growth compared with previous governor	Promotion or same
Yevgeny Savchenko (1950)	0	1		43		1	0	1	0	0	0	7,05		1
Yury Lodkin (1938)	0	0	8	58	66	1	0	0	0	1	1	5,78		0
Nikolay Denin (1958)	0	0	10	46	56	1	0	0	0	1	1	4,27	-26,12	0
Nikolay Vinogradov (1947)	0	0	17	49	66	1	0	0	0	1	1	5,32		0
Vladimir Kulakov (b. 1944)	0	0	9	56	65	1	0	0	0	1	0	7,63		0

Governor	Died or killed when in office	In office at current date	Length of term	Age when assuming office	Age when out of office	Oblast=1, Autonomous Region=2, Republic=3, Federal City=4	Above regional average votes Putin/Medvedev	In office	Promoted	Demoted	Born in same region	GRP annual growth	GRP annual growth compared with previous governor	Promotion or same
Aleksey Gordeyev (1955)	0	1		54		1	0	1	0	0	0	1,41	-81,47	1
Vladimir Tikhonov (1947)	0	0	5	53	58	1	0	0	0	1	1	3,26		0
Mikhail Men (1960)	0	0	8	45	58	1	0	0	1	0	0	4,01	22,81	0
Anatoly Artamonov (1952)	0	1		48		1	0	1	0	0	1	4,99		1
Viktor Shershunov (1950 - 2007)	1	0	10	47	57	1	1	0	0	1	0	7,13		1
Igor Slyunyayev (1966)	0	0	5	41	46	1	0	0	1	0	0	-2,43	-134,13	0

Governor	Died or killed when in office	In office at current date	Length of term	Age when assuming office	Age when out of office	Oblast=1, Autonomous Region=2, Republic=3, Federal City=4	Above regional average votes Putin/Medvedev	In office	Promoted	Demoted	Born in same region	GRP annual growth	GRP annual growth compared with previous governor	Promotion or same
Sergey Sitnikov (1963)	0	1		49		1		1	0	1	1	0,31	-112,63	1
Aleksandr Mikhailov (1951)	0	1		49		1	0	1	0	0	1	3,16		1
Oleg Korolev (1952)	0	1		46		1	0	1	0	0	1	15,21		1
Boris Gromov (1943)	0	0	12	57	69	1	0	0	0	1	0	8,03		0
Sergey Shoigu (1955)	0	0	1	57	57	1		0	1	0	0	-0,60	-107,47	0
Yegor Stroyev (1937)	0	0	16	56	72	1	0		0	1	1	7,71		0

Governor	Died or killed when in office	In office at current date	Length of term	Age when assuming office	Age when out of office	Oblast=1, Autonomous Region=2, Republic=3, Federal City=4	Above regional average votes Putin/Medvedev	In office	Promoted	Demoted	Born in same region	GRP annual growth	GRP annual growth compared with previous governor	Promotion or same
Aleksandr Kozlov (1949)	0	0	5	60	65	1	0	0	0	1	0	-2,39	-130	0
Vyacheslav Lyubimov (1947)	0	0	7	50	57	1	0	0	0	1	0	9,26		0
Georgy Shpak (1943)	0	0	4	61	65	1	0	0	1	0	0	8,70	-6,04	0
Oleg Kovalev (1948)	0	1		60		1	0	0	0	0	0	-2,13	-124,5	1
Viktor Maslov (1950)	0	0	6	52	57	1	0	0	0	1	0	3,87		0
Sergey Antufyev (1955)	0	0	4	52	57	1	0	0	0	1	0	-1,57	-140,69	0

Governor	Died or killed when in office	In office at current date	Length of term	Age when assuming office	Age when out of office	Oblast=1, Autonomous Region=2, Republic=3, Federal City=4	Above regional average votes Putin/Medvedev	In office	Promoted	Demoted	Born in same region	GRP annual growth	GRP annual growth compared with previous governor	Promotion or same
Aleksey Ostrovsky (1976)	0	1		36		1		1	0	0	0	1,60	-201,49	1
Oleg Betin (1950)	0	0	16	49	55	1	0	0	0	1	1	6,20		0
Dmitry Zelenin (1962)	0	0	7	41	49	1	0	0	0	1	0	2,35		0
Andrey Shevelyov (1970)	0	0	5	41	46	1	0	0	0	1	0	2,08	-11,38	0
Vasily Starodubtsev (1931-2011)	0	0	8	66	74	1	0	0	0	1	0	7,30		0
Vyacheslav Dudka (1960)	0	0	6	45	51	1	0	0	0	1	1	1,61	-78,01	0

Governor	Died or killed when in office	In office at current date	Length of term	Age when assuming office	Age when out of office	Oblast=1, Autonomous Region=2, Republic=3, Federal City=4	Above regional average votes Putin/Medvedev	In office	Promoted	Demoted	Born in same region	GRP annual growth	GRP annual growth compared with previous governor	Promotion or same
Vladimir Gruzdev (1967)	0	0	5	44	49	1	1	0	0	1	0	5,62	249,61	1
Anatoly Lisitsyn (1947)	0	0	6	44	50	1	1	0	0	1	0	9,18		1
Sergey Vakhrukov (1958)	0	0	4	49	54	1	0	0	0	1	1	-6,86	-174,69	0
Sergey Yastrebov (1954)	0	1		58		1		1	0	0	1	2,39	-134,84	1
Yury Luzhkov (1936)	0	0	18	56	74	4	0	0	0	1	1	9,27		0
Sergey Sobyenin (1958)	0	1		52		4	0	1	0	0	0	2,00	-78,44	1

Governor	Died or killed when in office	In office at current date	Length of term	Age when assuming office	Age when out of office	Oblast=1, Autonomous Region=2, Republic=3, Federal City=4	Above regional average votes Putin/Medvedev	In office	Promoted	Demoted	Born in same region	GRP annual growth	GRP annual growth compared with previous governor	Promotion or same
Sergey Katanandov (1955)	0	0	12	43	55	3	1	0	0	1	1	3,17		1
Andrey Nelidov (1957)	0	0	2	53	55	3	0	0	0	1	0	13,77	334,11	0
Aleksandr Khudilainen (1956)	0	1		56		3		1	0	0	0	-1,25	-109,1	1
Vladimir Torlopov (1949)	0	0	8	52	61	3	1	0	0	1	1	0,22		1
Vyacheslav Gayzer (1966)	0	0	6	44	49	3	1	0	0	1	1	3,30	1408,56	1
Anatoly Yefremov (1952-2009)	0	0	8	44	52	1	1	0	1	0	1	10,83		1

Governor	Died or killed when in office	In office at current date	Length of term	Age when assuming office	Age when out of office	Oblast=1, Autonomous Region=2, Republic=3, Federal City=4	Above regional average votes Putin/Medvedev	In office	Promoted	Demoted	Born in same region	GRP annual growth	GRP annual growth compared with previous governor	Promotion or same
Nikolay Kiselyov (1950)	0	0	4	54	58	1	0	0	0	1	1	15,94	47,18	0
Ilya Mikhachuk (1957)	0	0	4	51	55	1	0	0	0	1	0	-6,31	-139,58	0
Igor Orloy (1964)	0	1				1	0	1	0	0	0	0,00	-100,03	1
Vladimir Butov (1958)	0	0	8	38	47	2	1	0	0	1	0			1
Aleksey Barinov (1951)	0	0	1	50	51	2		0	0	1	0			0
Valery Potapenko (1958)	0	0	3	48	51	2	0	0	0	1	0			0

Governor	Died or killed when in office	In office at current date	Length of term	Age when assuming office	Age when out of office	Oblast=1, Autonomous Region=2, Republic=3, Federal City=4	Above regional average votes Putin/Medvedev	In office	Promoted	Demoted	Born in same region	GRP annual growth	GRP annual growth compared with previous governor	Promotion or same
Igor Fyodorov (1964)	0	0	5	45	50	2	0	0	0	1	0	-4,72		0
Vyacheslav Pozgalev (1946)	0	0	15	50	65	1	1	0	0	1	0	5,97		1
Oleg Kuvshinnikov (1965)	0	1		46		1	0	1	0	0	1	-1,30	-121,72	1
Vladimir Yegorov (1938)	0	0	5	62	67	1	0	0	0	1	0	8,83		0
Georgy Boos (1963)	0	0	5	42	47	1	0	0	0	1	0	1,35	-84,68	0
Nikolay Tsukanov (1965)	0	1		45		1	0	1	0	0	1	3,48	157,29	1

Governor	Died or killed when in office	In office at current date	Length of term	Age when assuming office	Age when out of office	Oblast=1, Autonomous Region=2, Republic=3, Federal City=4	Above regional average votes Putin/Medvedev	In office	Promoted	Demoted	Born in same region	GRP annual growth	GRP annual growth compared with previous governor	Promotion or same
Valery Serdyukov (1945)	0	0	14	53	67	1	1	0	0	1	0	8,04		1
Aleksandr Drozdenko (1964)	0	1		48		1		1	0	0	0	-1,58	-119,6	1
Yury Yevdokimov (1946)	0	0	13	50	63	1	0	0	0	1	0	8,74		0
Dmitry Dmitriyenko (1963)	0	0	3	46	49	1	0	0	0	1	0	-11,68	-233,56	0
Marina Kovtun (f) (1962)	0	1		50		1		1	0	0	1	-0,31	-97,38	1
Mikhail Prusak (1960)	0	0	6	31	47	1	1	0	0	1	0	9,31		1

Governor	Died or killed when in office	In office at current date	Length of term	Age when assuming office	Age when out of office	Oblast=1, Autonomous Region=2, Republic=3, Federal City=4	Above regional average votes Putin/Medvedev	In office	Promoted	Demoted	Born in same region	GRP annual growth	GRP annual growth compared with previous governor	Promotion or same
Sergey Mitin (1951)	0	1		56	47	1	0	1	0		0	-0,56	-105,97	1
Yevgeny Mikhailov (1963)	0	0	8	33	41	1	1	0	0	1	0	10,77		1
Mikhail Kuznetsov (1968)	0	0	4	36	41	1	1	0	0	1	0	9,35	-13,19	1
Andrey Turchak (1975)	0	1		34		1	0	1	0	0	0	-4,76	-150,90	1
Valentina Matvienko (f) (1949)	0	0	8	54	62	4	1	0	0	1	0	5,98		1
Georgy Poltavchenko (1953)	0	1		58		4	0	1	0	0	0	-1,38	-123,01	1

Governor	Died or killed when in office	In office at current date	Length of term	Age when assuming office	Age when out of office	Oblast=1, Autonomous Region=2, Republic=3, Federal City=4	Above regional average votes Putin/Medvedev	In office	Promoted	Demoted	Born in same region	GRP annual growth	GRP annual growth compared with previous governor	Promotion or same
Khazret Sovmen (1937)	0	0	5	65	70	3	1	0	0	1	1	8,52		1
Aslan Tkhakushinov (1947)	0	1		60		3	0	1	0	0	1	2,32	-72,78	1
Kirsan Ilyumzhinov (1962)	0	0	17	31	48	3	1	0	0	1	1	9,45		1
Aleksey Orlov (1961)	1	1		49		3	1	1	0	0	1	9,84	4,15	1
Aleksandr Tkachev (1960)	0	0	14	41	55	1	0	0	1	0	1	3,58		0
Anatoly Guzhvin (1946-2004)	1	0	13	45	58	1	1	0	0	1	1	8,75		1

Governor	Died or killed when in office	In office at current date	Length of term	Age when assuming office	Age when out of office	Oblast=1, Autonomous Region=2, Republic=3, Federal City=4	Above regional average votes Putin/Medvedev	In office	Promoted	Demoted	Born in same region	GRP annual growth	GRP annual growth compared with previous governor	Promotion or same
Aleksandr Zhilkin (1959)	0	1		45		1	1	1	0	0	1	4,80	-45,16	2
Nikolay Maksyuta (1947)	0	0	13	50	63	1	1	0	0	1	0	4,76		1
Anatoly Brovko (1966)	0	0	2	44	46	1	0	0	0	0	0	8,36	75,74	0
Sergey Bozhenov (1965)	0	0	2	47	49	1	0	0	0	0	0	3,16	-62,18	0
Vladimir Chub (1948)	0	0	18	43	62	1	1	0	0	1	0	6,20		1
Vasily Golubev (1957)	0	1				1	0	1	0	0	1	4,61	-25,66	1

Governor	Died or killed when in office	In office at current date	Length of term	Age when assuming office	Age when out of office	Oblast=1, Autonomous Region=2, Republic=3, Federal City=4	Above regional average votes Putin/Medvedev	In office	Promoted	Demoted	Born in same region	GRP annual growth	GRP annual growth compared with previous governor	Promotion or same
Magomedali Magomedov (1930)	0	0	19	57	76	3	1	0	0	1	1	13,87		1
Mukhu Aliyev (1940)	0	0	4	56	60	3	1	0	0	1	1	4,30	-69,03	1
Magomedsalam Magomedov (1964)	0	0	3	46	49	3	1	0	0	1	1	4,84	12,59	1
Murat Zyazikov (1957)	0	0	8	45	51	3	1	0	1	0	0	14,48		1
Yunus-Bek Yevkurov (1963)	0	1		45		3	1	1	0	0	0	1,83	-87,35	1
Valery Kokov (1941-2005)	1	0	15	49	64	3	1	0	0	1	1	7,80		1

Governor	Died or killed when in office	In office at current date	Length of term	Age when assuming office	Age when out of office	Oblast=1, Autonomous Region=2, Republic=3, Federal City=4	Above regional average votes Putin/Medvedev	In office	Promoted	Demoted	Born in same region	GRP annual growth	GRP annual growth compared with previous governor	Promotion or same
Arsen Kanokov (1957)	0	0	8	48	56	3	1	0	0	1	1	0,29	-96,30	1
Mustafa Batdyev (1950)	0	0	5	53	58	3	1	0	0	1	0	11,71		1
Boris Ebzeyev (1950)	0	0	3	58	61	3	1	0	0	1	0	-19,90	-270	1
Rashid Temrezov (1976)	0	1		35		3	1	1	0	0	1	4,84	-124,29	1
Aleksandr Dzasokhov (1934)	0	0	7	64	71	3	1	0	0	1	1	9,63		1
Taimuraz Mamsurov (1954)	0	0	10	51	61	3	1	0	0	1	1	4,05	-57,95	1

Governor	Died or killed when in office	In office at current date	Length of term	Age when assuming office	Age when out of office	Oblast=1, Autonomous Region=2, Republic=3, Federal City=4	Above regional average votes Putin/Medvedev	In office	Promoted	Demoted	Born in same region	GRP annual growth	GRP annual growth compared with previous governor	Promotion or same
Akhmad Kadyrov (1951-2004)	1	0	4	49	53	3	0		0	0	0			0
Alu Alkhanov (1957)	0	0	3	47	50	3	1	0	0	1	0	27,40		1
Ramzan Kadyrov (1976)	0	1		31		3	1	1	0	0	1	4,16	-84,83	1
Aleksandr Chernogorov (1959)	0	0	12	37	49	1	0	0	0	1	1	5,75		0
Valery Gayevsky (1958)	0	0	4	50	54	1	1	0	0	1	0	-3,89	-167,58	1
Valery Zerenkov (1948)	0	0	1	54	55	1		0	0	1	1	3,25	-183,59	0

Governor	Died or killed when in office	In office at current date	Length of term	Age when assuming office	Age when out of office	Oblast=1, Autonomous Region=2, Republic=3, Federal City=4	Above regional average votes Putin/Medvedev	In office	Promoted	Demoted	Born in same region	GRP annual growth	GRP annual growth compared with previous governor	Promotion or same
Murtaza Rakhimov (1934)	0	0	10	56	66	3	1	0	0	1	0	4,59		1
Rustem Khamitov (1954)	0	1		56		3	1	1	0	0	1	5,73	25,03	1
Leonid Markelov (1963)	0	1		38		3	0	1	0	0	0	4,56		1
Nikolay Merkushkin (1951)	0	0	17	44	61	3	1	0	1	0	1	4,23		1
Vladimir Volkov (1954)	0	1		58		3		1	0	0	1	4,89	15,75	1
Mintimer Shaimiyev (1937)	0	0	20	53	73	3	1	0	0	1	1	5,37		1

Governor	Died or killed when in office	In office at current date	Length of term	Age when assuming office	Age when out of office	Oblast=1, Autonomous Region=2, Republic=3, Federal City=4	Above regional average votes Putin/Medvedev	In office	Promoted	Demoted	Born in same region	GRP annual growth	GRP annual growth compared with previous governor	Promotion or same
Rustam Minnikhanov (1957)	0	1		53		3	1	0	0	1	1	5,30	-1,39	1
Aleksandr Volkov (1951)	0	0	9	44	53	3	1	0	0	1	0	5,62		1
Nikolay Fyodorov (1958)	0	0	16	36	52	3	0	0	0	1	1	5,02		0
Mikhail Ignatyev (1962)	0	1		48		3	0	1	0	0	1	3,28	-34,72	1
Yury Trutnev (1956)	0	0	4	44	48	1	1	0	1	0	1	-2,79		1
Oleg Chirkunov (1958)	0	0	6	47	54	1	0	0	0	1	0	2,58	-192,41	0

Governor	Died or killed when in office	In office at current date	Length of term	Age when assuming office	Age when out of office	Oblast=1, Autonomous Region=2, Republic=3, Federal City=4	Above regional average votes Putin/Medvedev	In office	Promoted	Demoted	Born in same region	GRP annual growth	GRP annual growth compared with previous governor	Promotion or same
Viktor Basargin (1957)	0	1		55		1	0	1	0	0	0	-3,07	-219,19	1
Vladimir Sergeyenkov (1938 - 2014)	0	0	7	58	66	1	1	0	0	1	0	4,57		1
Nikolay Shaklein (1943)	0	0	5	61	66	1	1	0	0	1	1	10,65	133,07	1
Nikita Belykh (1975)	0	1		34		1	0	1	0	0	0	-4,58	-143	1
Gennady Khodyrev (1942)	0	0	4	59	63	1	0	0	0	1	0	1,20		0
Valery Shantsev (1947)	0	1		58		1	0	1	0	0	0	1,90	58,38	1

Governor	Died or killed when in office	In office at current date	Length of term	Age when assuming office	Age when out of office	Oblast=1, Autonomous Region=2, Republic=3, Federal City=4	Above regional average votes Putin/Medvedev	In office	Promoted	Demoted	Born in same region	GRP annual growth	GRP annual growth compared with previous governor	Promotion or same
Aleksey Chernyshev (1939)	0	0	11	60	71	1	0	0	0	1	1	7,81		0
Yury Berg (1953)	0	1		57		1	0	1	0	0	0	4,61	-41,03	1
Vasily Bochkarev (1949)	0	0	17	49	66	1	0	0	0	1	1	6,31		0
Konstantin Titov (1944)	0	0	16	47	63	1	0	0	0	1	0	7,39		0
Vladimir Artyakov (1959)	0	0	5	48	53	1	0	0	0	1	0	-2,57	-134,82	0
Nikolay Merkushkin (1951)	0	1		61		1		1	0	0	0	3,09	-220,12	1

Governor	Died or killed when in office	In office at current date	Length of term	Age when assuming office	Age when out of office	Oblast=1, Autonomous Region=2, Republic=3, Federal City=4	Above regional average votes Putin/Medvedev	In office	Promoted	Demoted	Born in same region	GRP annual growth	GRP annual growth compared with previous governor	Promotion or same
Dmitry Ayatskov (1950)	0	0	9	46	55	1	1	0	1	0	1	8,62		1
Pavel Ipatov (1950)	0	0	7	55	62	1	1	0	0	1	0	0,95	-89,03	1
Valery Radayev (1961)	0	1		51		1		1	0	0	1	1,40	48,44	1
Vladimir Shamanov (1957)	0	0	4	44	47	1	0	0	0	1	0	1,84		0
Sergey Morozov (1959)	0	1		46		1	0	1	0	0	1	2,52	36,82	1
Oleg Bogomolov (1950)	0	0	17	46	64	1	0	0	0	1	1	4,72		0

Governor	Died or killed when in office	In office at current date	Length of term	Age when assuming office	Age when out of office	Oblast=1, Autonomous Region=2, Republic=3, Federal City=4	Above regional average votes Putin/Medvedev	In office	Promoted	Demoted	Born in same region	GRP annual growth	GRP annual growth compared with previous governor	Promotion or same
Eduard Rossel (1937)	0	0	13	48	72	1	1	0	0	1	0	4,31		1
Aleksandr Misharin (1959)	0	0	3	50	53	1	1	0	0	1	1	13,60	215,41	1
Yevgeny Kuivashev (1971)	0	1		41		1		1	0	0	1	0,59	-95,67	1
Sergey Sobyenin (1958)	0	0	5	43	47	1	1	0	1	0	0	10,53		1
Vladimir Yakushev (1968)	0	1		37		1	1	1	0	0	0	-3,74	-135,5	2
Aleksandr Filipenko (1950)	0	0	18	41	60	2	1	0	0	1	0			1

Governor	Died or killed when in office	In office at current date	Length of term	Age when assuming office	Age when out of office	Oblast=1, Autonomous Region=2, Republic=3, Federal City=4	Above regional average votes Putin/Medvedev	In office	Promoted	Demoted	Born in same region	GRP annual growth	GRP annual growth compared with previous governor	Promotion or same
Natalya Komarova (1955)	0	1		55		2	1	1	0	0	0	-3,89		1
Yury Neyelov (1952)	0	0	16	42	58	2	1	0	0	1	1			1
Dmitry Kobylkin (1971)	0	1				2	1	1	0	0	0	9,15		1
Pyotr Sumin (1946-2011)	0	0	13	51	66	1	0	0	0	1	1	5,64		0
Mikhail Yurevich (1969)	0	0	4	41	45	1	1	0	0	1	1	4,98	-11,74	1
Mikhail Lapshin (1934 - 2006)	1	0	4	68	72	3	1	0	0	1	1	-0,29		1

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Aleksandr Berdnikov (1953)	0	1		53		3	1	1	0	0	1	3,21	-1206,9	1
Leonid Potapov (1935)	0	0	15	56	72	3	0	0	0	1	1	8,85		0
Vyacheslav Nagovitsyn (1956)	0	1		51		3	1	1	0	0	0	-5,98	-167,57	1
Sherig-ool Oorzhak (1942)	0	0	15	50	65	3	1	0	0	1	1	7,84		1
Sholban Kara-ool (1966)	0	1		41		3	1	1	0	0	1	-0,3	-103,83	1
Aleksey Lebed (1955)	1	0	12	42	54	3	0	0	0	1	0	5,76		0

Governor	Died or killed when in office	In office at current date	Length of term	Age when assuming office	Age when out of office	Oblast=1, Autonomous Region=2, Republic=3, Federal City=4	Above regional average votes Putin/Medvedev	In office	Promoted	Demoted	Born in same region	GRP annual growth	GRP annual growth compared with previous governor	Promotion or same
Viktor Zimin (1962)	0	1		47		3	0	1	0	0	0	-1,52	-126,39	1
Aleksandr Surikov (1940)	0	0	7	56	64	1	0	0	0	1	0	6,56		0
Mikhail Yevdokimov (1957-2005)	1	0	1	47	48	1	0	0	0	1	0	12,62	92,38	0
Aleksandr Karlin (1951)	0	1		54		1	0	1	0	0	1	1,12	-91,13	1
Ravil Geniatullin (1955)	0	0	17	41	58	1	0	0	0	1	1	4,48		0
Aleksandr Khloponin (1965)	0	0	7	37	45	1	0	0	1	0	0	2,31		0

Governor	Died or killed when in office	In office at current date	Length of term	Age when assuming office	Age when out of office	Oblast=1, Autonomous Region=2, Republic=3, Federal City=4	Above regional average votes Putin/Medvedev	In office	Promoted	Demoted	Born in same region	GRP annual growth	GRP annual growth compared with previous governor	Promotion or same
Lev Kuznetsov (1965)	0	0	4	45	49	1	0	0	1	0	0	7,03	204,33	0
Boris Govorin (1947)	0	0	8	40	48	1	0	0	1	0	1	5,11		0
Aleksandr Tishanin (1966)	0	0	3	39	42	1	0	0	0	1	0	14,26	179,06	0
Igor Yesipovsky (1960-2009)	1	0	1	48	49	1	0	0	0	1	0	-11,07	-177,63	0
Dmitry Mezentsev (1959)	0	0	3	50	53	1	0	0	1	0	0	-8,16	-26,29	0
Sergey Yeroshchenko (1961)	0	0	3	51	54	1		0	0	1	1	4,41	-154,04	0

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Aman Tuleyev (1944)	0	1		53		1	0	1	0	0	0	3,69		1
Viktor Tolokonsky (1953)	0	0	11	50	53	1	0	0	1	0	1	3,42		0
Vasily Yurchenko (1960)	0	0	4	51	54	1	0	0	0	1	1	11,27	229,53	0
Leonid Polezhayev (1940)	0	0	21	51	72	1	0	0	0	1	1	5,61		0
Viktor Nazarov (1962)	0	1		50		1		1	0	0	1	1,69	-69,88	1
Viktor Kress (1948)	0	0	21	43	64	1	0	0	0	1	0	4,51		0

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Sergey Zhvachkin (1957)	0	1		55		1		1	0	0	0	-0,04	-100,89	1
Vyacheslav Shtyrov (1953)	0	0	8	49	57	3	0	0	0	1	1	-4,14		0
Yegor Borisov (1954)	0	1				3	1	1	0	0	1	6,9	-266,67	1
Mikhail Mashkovtsev (1947)	0	0	6	54	60	1	1	0	0	1	0	5,14		1
Aleksey Kuzmitsky (1967)	0	0	4	40	44	1	0	0	0	1	0	-5,66	-210,12	0
Vladimir Ilyukhin (1961)	0	1		50		1	0	1	0	0	0	1,63	-128,80	1

Governor	Died or killed when in office	In office at current date	Length of term	Age when assuming office	Age when out of office	Oblast=1, Autonomous Region=2, Republic=3, Federal City=4	Above regional average votes Putin/Medvedev	In office	Promoted	Demoted	Born in same region	GRP annual growth	GRP annual growth compared with previous governor	Promotion or same
Sergey Darkin (1963)	0	0	11	38	49	1	0	0	0	1	0	3,8		0
Vladimir Miklushevsky (1967)	0	1		55		1	0	1	0		1	-2,22	-158,42	1
Viktor Ishayev (1948)	0	0	17	43	61	1	0	0	0	1	0	6,79		0
Vyacheslav Shport (1954)	0	1		55		1	0	1	0		1	-1,95	-128,72	1
Leonid Korotkov (1965)	0	0	6	36	42	1	0	0	0	1	1	1,92		0
Nikolay Kolesov (1956)	0	0	1	51	52	1	0	0	0	1	0	5,36	179,17	0

Governor	Died or killed when in office	In office at current date	Length of term	Age when assuming office	Age when out of office	Oblast=1, Autonomous Region=2, Republic=3, Federal City=4	Above regional average votes Putin/Medvedev	In office	Promoted	Demoted	Born in same region	GRP annual growth	GRP annual growth compared with previous governor	Promotion or same
Oleg Kozhemyako (1962)	0	0	7	46	53	1	0	0	1		0	-4,27	-179,66	0
Nikolay Dudov (1952)	0	0	11	50	61	1	0	0	0	1	0	0,82		0
Ivan Malakhov (1953)	0	0	4	50	54	1	0	0	0	1	0	34,08		0
Aleksandr Khoroshavin (1959)	0	0	8	48	56	1	0	0	0	1	1	0,67	-98,03	0
Nikolay Volkov (1951)	0	0	18	40	59	2	0	0	0	1	0	9,44		0
Aleksandr Vinnikov (1955)	0	0	5	55	60	2	0	0	0	1	0	4,2	-55,51	0

Governor	Died or killed when in office	In office at current date	Length of term	Age when assuming office	Age when out of office	Oblast=1, Autonomous Region=2, Republic=3, Federal City=4	Above regional average votes Putin/Medvedev	In office	Promoted	Demoted	Born in same region	GRP annual growth	GRP annual growth compared with previous governor	Promotion or same
Roman Abramovich (1966)	0	0	7	45	52	2	1	0	0	1	0	14,71		1
Roman Kopin (1974)	0	1		34		2	1	1	0	0	0	-4,89	-133,24	1

Chinese dataset

Governor	Length of term	Age when starting term	Age when ending term	Demotion	Same position	Promotion	Promotion to provincial secretary	Mandatory retirement age 65	Province = 1, Municipal = 2, Autonomous Region=3	Born in province	Annual GRP growth	Growth GRP last period	Annual GRP growth compared to previous governor
Bo Xilai (1949)	3	52	55	0	0	1	0	0	1	0	7,52	8,80	-14,54
Zhang Wenye (1944)	3	60	63	0	0	1	1	0	1	0	12,58	7,52	67,38
Chen Zhenggao (1952)	4	56	60	0	0	1	0	0	1	1	11,26	12,58	-10,52
Hong Hu (1940)	6	59	65	0	0	0	0	1	1	0	10,59	8,52	24,19
Wang Min (1950)	2	55	57	0	0	1	1	0	1	0	13,88	10,59	31,11
Han Changfu (1954)	3	53	56	0	0	1	0	0	1	0	15,80	13,88	13,87
Wang Min (1950)	3	53	56	0	0	1	1	0	1	0	13,55	15,80	-14,23
Zhang Zuoji (1945)	5	58	63	0	0	1	0	0	1	1	10,67	7,61	40,15
Li Zhangshu (1950)	2	58	60	0	0	1	1	0	1	0	10,81	10,67	1,33
Wang Xiankui (1952)	2	59	61	0	0	1	1	0	1	0	11,29	10,81	4,48
Wang Qishan (1948)	4	56	60	1	0	0	0	0	2	0	10,96	9,62	13,93
Guo Jinlong (1947)	4	61	65	0	0	1	1	1	2	0	4,85	10,96	-55,73
Dai Xianglong (1944)	5	49	54	1	0	0	0	0	2	0	13,83	10,45	32,33
Huang Xingguo (1954)		54		0	1	0	0	0	2	0	9,20	13,83	-33,47
Ji Yunshi (1945)	4	58	62	1	0	0	0	0	1	0	14,40	8,35	72,49
Guo Gengmao (1950)	2	57	59	1	0	0	0	0	1	1	12,33	14,40	-14,43

Governor	Length of term	Age when starting term	Age when ending term	Demotion	Same position	Promotion	Promotion to provincial secretary	Mandatory retirement age 65	Province = 1, Municipal = 2, Autonomous Region=3	Born in province	Annual GRP growth	Growth GRP last period	Annual GRP growth compared to previous governor
Hu Chunhua (1963)	1	56	57	0	0	1	1	0	1	0	8,34	12,33	-32,33
Chen Quanguo (1955)	2	55	57	0	0	1	1	0	1	0	12,70	8,34	52,25
Zhang Qingwei (1961)		51		0	1	0	0	0	1	1	3,35	12,70	-73,66
Han Yuqun (1943)	5	60	65	0	0	0	0	1	1	0	15,75	11,71	34,52
Jiang Daming (1953)	5	55	60	0	0	1	0	0	1	1	9,83	15,75	-37,58
Han Zheng (1954)	10	48	58	0	0	1	1	0	2	0	6,07	10,19	-40,38
Liang Baohua (1945)	5	57	62	1	0	0	0	0	1	0	14,91	9,41	58,44
Luo Zhijun (1951)	3	56	59	0	0	1	1	0	1	0	13,24	14,91	-11,22
Li Xueyong (1950)	5	60	65	0	0	0	0	1	1	0	8,73	13,24	-34,09
Lu Zushan (1946)	9	56	65	0	0	0	0	1	1	1	12,99	16,67	-22,09
Xia Baolong (1952)	1	59	60	0	0	1	1	0	1	0	4,30	12,99	-66,87
Lu Zhangong (1952)	2	50	52	0	0	1	1	0	1	0	9,82	11,27	-12,85
Huang Xiaojing (1946)	6	59	65	0	0	0	0	1	1	1	12,52	9,82	27,44
Su Shulin (1962)	5	48	53	1	0	0	0	0	1	0	9,36	12,52	-25,26
Huang Huahua (1946)	9	56	65	0	0	0	0	1	1	1	10,83	9,16	18,23
Zhu Xiaodan (1953)		58		0	1	0	0	0	1	0	5,41	10,83	-50,05
Wei Liucheng (1946)	3	58	61	0	0	1	1	0	1	0	11,29	7,13	58,34
Luo Baoming (1952)	5	55	60	0	0	1	1	0	1	0	13,93	11,29	23,40

Governor	Length of term	Age when starting term	Age when ending term	Demotion	Same position	Promotion	Promotion to provincial secretary	Mandatory retirement age 65	Province = 1, Municipal = 2, Autonomous Region=3	Born in province	Annual GRP growth	Growth GRP last period	Annual GRP growth compared to previous governor
Jiang Dingzhi (1954)	2	58	60	1	0	0	0	0	1	0	8,09	13,93	-41,97
Liu Zhenhua (1940)	4	60	64	1	0	0	0	0	1	0	12,28	9,09	35,11
Zhang Baoshun (1950)	1	54	55	0	0	1	1	0	1	0	18,00	12,28	46,64
Yu Youjun (1953)	2	53	55	1	0	0	0	0	1	0	14,12	18,00	-21,57
Meng Xuenong (1949)	1	59	60	1	0	0	0	0	1	0	8,84	14,12	-37,37
Wang Jun (1952)	4	56	60	0	0	1	1	0	1	1	8,60	8,84	-2,71
Yang Jing (1953)	5	51	56	0	0	1	0	0	3	1	24,72	14,59	69,37
Bagatur (1955)	7	54	61	0	0	1	1	0	3	0	9,65	24,72	-60,95
Li Chengyu (1946)	5	57	62	0	0	1	0	0	1	0	16,46	8,74	88,40
Guo Gengmao (1950)	5	59	64	0	0	1	1	0	1	0	8,97	16,46	-45,48
Jia Zhibang (1946)	1	57	58	1	0	0	0	0	1	1	15,12	10,01	51,08
Chen Deming (1949)	1	56	57	1	0	0	0	0	1	0	14,53	15,12	-3,90
Yuan Chunqing (1952)	4	55	59	0	0	1	1	0	1	0	19,09	14,53	31,39
Zhao Zhengyong (1951)	2	60	62	0	0	1	1	0	1	0	15,45	19,09	-19,08
Wang Jinshan (1945)	5	58	63	0	0	1	1	0	1	0	12,34	11,27	9,51
Wang Sanyun (1952)	4	56	60	0	0	1	1	0	1	0	17,31	12,34	40,23
Li Bin (f) (1954)	4	58	62	0	0	1	0	0	1	0	7,95	17,31	-54,07

Governor	Length of term	Age when starting term	Age when ending term	Demotion	Same position	Promotion	Promotion to provincial secretary	Mandatory retirement age 65	Province = 1, Municipal = 2, Autonomous Region=3	Born in province	Annual GRP growth	Growth GRP last period	Annual GRP growth compared to previous governor
Huang Zhiquan (1942)	6	59	65	0	0	0	0	1	1	0	12,36	9,42	31,19
Wu Xinxiong (1949)	5	57	62	1	0	0	0	0	1	0	15,52	12,36	25,54
Lu Xinshe (1956)		56		0	1	0	0	0	1	0	7,52	15,52	-51,55
Luo Qingquan (1945)	5	58	63	0	0	1	1	0	1	1	13,43	8,96	49,81
Li Hongzhong (1956)	3	51	54	0	0	1	1	0	1	0	16,55	13,43	23,27
Wang Guosheng (1956)		55		0	1	0	0	0	1	0	11,14	16,55	-32,72
Zhou Bohua (1948)	3	55	58	1	0	0	0	0	1	1	13,46	9,85	36,70
Zhou Qiang (1960)	4	46	50	0	0	1	1	0	1	0	16,22	13,46	20,43
Xu Shousheng (1953)	3	57	60	0	0	1	1	0	1	0	11,02	16,22	-32,03
Lu Bing (1944)	4	60	64	1	0	0	0	0	3	1	15,00	7,47	100,69
Ma Biao (1954)	4	54	58	1	0	0	0	0	3	1	14,81	15,00	-1,27
Wang Hongju (1945)	7	58	65	0	0	0	0	1	2	1	15,29	6,66	129,54
Huang Qifan (1952)		58		0	1	0	0	0	2	0	12,54	15,29	-17,98
Zhang Zhogwei (1942)	7	58	65	0	0	0	0	1	1	1	11,11	9,13	21,63
Jiang Jufeng (1948)	6	59	65	0	0	0	0	1	1	0	14,88	11,11	33,96
Shi Xiushi (1942)	6	59	65	0	0	0	0	1	1	0	11,30	7,78	45,38
Lin Shusen (1946)	4	60	64	1	0	0	0	0	1	0	18,98	11,30	67,88
Zhao Kezhi (1953)	2	58	60	0	0	1	1	0	1	0	18,66	18,98	-1,64
Xu Rongkai (1942)	5	60	65	0	0	0	0	1	1	0	10,29	5,20	97,86

Governor	Length of term	Age when starting term	Age when ending term	Demotion	Same position	Promotion	Promotion to provincial secretary	Mandatory retirement age 65	Province = 1, Municipal = 2, Autonomous Region=3	Born in province	Annual GRP growth	Growth GRP last period	Annual GRP growth compared to previous governor
Qin Guangrong (1950)	5	57	62	0	0	1	1	0	1	0	12,56	10,29	22,04
Li Jiheng (1957)	0			0	0	1	1	0	1	0	9,91	11,35	-12,70
Qiangba Puncog = Jampa Phuntsok (1947)	2	55	57	0	0	1	0	0	3	1	10,64	14,52	-26,72
Padma Choling (1951)	3	59	62	1	0	0	0	0	3	1	11,07	9,91	11,66
Lu Hao (1947)	6	54	60	0	0	1	1	0	1	0	13,03	7,72	68,73
Xu Shousheng (1953)	4	54	58	0	0	1	0	0	1	0	12,64	11,07	14,20
Liu Weiping (1953)	6	58	64	1	0	0	0	0	1	0	10,06	13,03	-22,81
Yang Chuantang (1954)	1	50	51	0	0	1	1	0	1	0	15,66	10,51	49,09
Song Xiuyan (f) (1955)	5	50	55	0	0	1	0	0	1	0	14,52	10,06	44,38
Luo Hunining (1954)	3	56	59	0	0	1	1	0	1	0	13,55	15,66	-13,50
Ma Qizhi (1943)	10	55	65	0	0	0	0	1	3	1	11,83	7,46	58,59
Wang Zhengwei (1957)	5	51	56	0	0	1	0	0	3	1	16,13	13,55	19,06
Ismael Tiliwaldi (1944)	4	60	64	1	0	0	0	0	3	1	11,35	7,87	44,29
Nur Bekri (1961)	7	47	54	1	0	0	0	0	3	1	10,23	16,13	-36,60