

Russia and China in the Global Economy

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Abstract: When Mao died in 1976, Russia appeared better poised than China to become an important commercial and industrial power in the global economy. Yet it is China rather than Russia that has embraced globalization and developed trade and manufacturing, exporting increasingly higher-value-added goods. The explanation for this surprising outcome is found in Chinese elites viewing globalization as their best opportunity to catch up and overtake developed nations, while Russian elites are far more guarded in their acceptance of integration. The differences are illustrated by comparing leading sectors, regional development, human capital, and corruption.

Keywords: China, economic development, globalization, Russia

In mid-December 2004, Baikal Finanz, a previously unheard-of Russian firm with no offices and no known officers, won a nontransparent auction to buy Yuganskneftegaz, the major oil production asset of Yukos, Russia's most efficient oil company. The same week Lenovo, a computer firm established twenty years earlier as a venture of the Chinese Academy of Sciences, purchased IBM's personal computer division. Most people looking at Russia and China when Mao died in 1976 assumed that Russia¹ was better positioned to become a major player in global technology industries. The Soviet Union was participating in the Apollo-Soyuz joint space missions and enjoying the benefits of détente and stability (not yet visible stagnation) under Brezhnev. The USSR was a superpower with many of the "requisites" for development. In literacy levels and numbers of scientific, technical, and other specialists with advanced education, Russia was far ahead of China's overwhelmingly peasant society just emerging from the chaos of the Cultural Revolution and accompanying isolation.

Since Mao's death China has generated high economic growth rates for three decades, fostering internationally competitive industries and lifting a significant number of people out of poverty. Beginning in the late 1980s, Russia experienced severe economic dislocations, and economic growth resumed only after a fall in living standards and the 1998 financial crisis. Most of the growth in Russia since August 1998 is attributable to the ruble devaluation and increased oil prices, raising questions about its sustainability. Despite windfall oil revenues, Russia's growth rate since Vladimir Putin became president has been among the lowest in former USSR countries.

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Growth based on industry has helped China overtake Russia on a range of human capital and development indicators. Internet and cell phone use among China's *urban* population is now roughly equivalent to that of Russia's city dwellers. Spending for education and research and development as a proportion of national budgets is at least equal. China is an important global player in a growing number of technology industries and in the international economic system, things Russian leaders merely talk about.

What accounts for an outcome that contradicts most people's expectations? My argument emphasizes differing approaches to integration with the international economy. China has embraced economic globalization and integration on a scale surpassing many other Asian countries, while Russia remains wary and peripheral. Russia's economy is open, but selling natural resources and arms generates few linkages leading to higher value-added production. Russia's economic integration is "thin." China's integration is "thick," involving participation in technology chains and participation in entire product cycles. China vastly overperforms in producing value-added products given its level of development; Russia markedly underperforms relative to the industrial base, educational system, and research and development potential inherited from the Soviet era. China joined the WTO in 2001; Russia has been a year or two away from membership since 1993.

These differences increasingly influence politics: China's thick integration has fostered regional, sectoral, and institutional interests that defended and expanded the policies of reform and openness; Russia's thin integration generates few countervailing forces to contest renewed administrative domination of the economy.

Conventional Wisdom Explanations for China's Rise

Prevailing explanations for China's economic success emphasize initial conditions and/or specific policies. Initial advantages include an abundant supply of low-cost labor not covered by the welfare system; the decision to begin reforms with agriculture; shorter duration of communist rule; less complete Communist Party penetration of society; qualitative differences in leadership; and communities of co-ethnics willing to provide investment capital. These explanations do not hold up when examined in a comparative perspective. Analyses emphasizing specific policies commonly stress a gradual and experimental approach to reform carried out in the stable environment provided by authoritarian leadership. Such accounts misread the contentious story of China's development.

The large supply of agricultural workers available to provide low-wage labor in export-oriented industries is frequently cited as the key factor in China's success. China's rural population was outside the state welfare system, so peasants made redundant by improved agricultural production following decollectivization were forced to seek employment in Township and Village Enterprises (TVEs) or the new industrial zones. Most Chinese were quickly subjected to hard budget constraints. In Russia, welfare and other alternatives persisted.² Arguments based on cheap labor and welfare systems, however, fail to explain why other Asian or Latin American countries with large numbers of potential low-wage workers unprotected by welfare systems have not emulated China's success. Central European and Baltic countries have performed better than Russia despite inheriting comparable Soviet welfare systems and demographic profiles.

Other initial conditions cited to explain China's rise include investment by overseas Chinese, an "agriculture first" approach, and China's shorter period under communism. Comparison challenges these explanations. Diasporas with capital to invest are hardly

unique to China. Why did India lag? In the United States, people of Russian descent constitute the heritage group with the highest proportion of millionaires per capita.³ Clearly, diasporas invest only when conditions are conducive. Decades of agricultural reform did not produce economic miracles in Latin America. Some countries where communism was a post–World War II phenomenon have performed relatively well economically (Estonia, Slovenia, Slovakia), but others have not (Moldova, Serbia).

Some authors attribute the different outcomes in Russia and China to the leadership's character during the communist system's formative period, focusing on the dominant leader's personality (summed up as "Mao was no Stalin") or on weaker Communist Party penetration in China. Chang and Halliday's one-sided but revealing biography of Mao would lead to the conclusion that Stalin was no Mao, while Walder argues that China's was the most "neo-traditional" of Communist systems, with the greatest degree of party penetration.⁴ The Soviet economy misallocated resources, imposing an enormous cost on efforts to establish a market system. Yet China's economy was arguably more uneven and more severely misallocated, with the "Third Line" swallowing vast resources that a poor nation could ill afford. It is difficult to determine whether Stalin or Mao wreaked greater environmental havoc.

In the debate between "gradualists" and proponents of rapid reform, China's approach is portrayed as a case of successful gradual reform allowing trial-and-error approaches with mid-course corrections. Russian analysts have been particularly enamored of an "enlightened authoritarian" explanation for China's success. Official Chinese accounts understandably embrace these claims. But attributing China's economic success to guided gradualism misreads the story. If government tutelage was responsible for China's economic development, we should expect state-owned enterprises (SOEs) to be a success story rather than an anchor on the economy. China's initial "reform" was less a matter of administered policy than a series of experiments that spread rapidly and escaped government control.⁵ Some authors argue that the Chinese state retained capacity that the Soviet state lost.⁶ However, substantial evidence demonstrates that it was precisely in the realms where the Chinese state *partially lost* control that China's reforms have been most successful. Vivienne Shue goes even further, suggesting that China's leaders have taken credit for simply getting out of the way.⁷

Once Deng chose "reform and openness," the key to China's success was largely what the government did *not* do: it did not prevent local entrepreneurship or create obstacles that stifled development. The Chinese government followed this course not out of an enlightened sense of developmental responsibility, but rather because a combination of self-interest and strong pressure from groups benefiting from the changes compelled it to do so.⁸ During the 1980s, policy oscillated between support for and limitations on the openings. Economic retrenchment was repeatedly abandoned despite political repression, including after the Tiananmen Square violence in 1989, because economic forces benefiting from the reforms pushed back, helping pro-reform leaders to prevail.

A conundrum for those who emphasize China's nondemocratic path is that despite China's lack of democracy, local officials, entrepreneurs, and investors appear to have exerted a greater influence on some aspects of economic policy in Communist Party–ruled China than in ostensibly democratic Russia. Chinese leaders encouraged both outreach by TVEs and efforts to attract foreign direct investment (FDI). Subsequent development stimulated local initiative and intense competition, generating forces that initially circum-

vented and eventually began to influence government policy. The government's goals of stimulating production and providing employment were overfulfilled, but hardly in the ways originally intended.

Whether this arrangement can continue to sustain growth despite serious social strains, environmental disaster, and a proliferation of corruption is *the* question for China in the twenty-first century. Whatever the future trajectory, the key to China's economic success thus far has been openness and thick international integration, which provided resources, stimulated competition, encouraged high-value exports, and fostered coalitions to defend the opening. China's flexible approach to reform and openness was possible because Chinese leaders and elites embraced globalization. In this respect, the difference between China and Russia is striking.

Attitudes toward Globalization

Chinese discourse on globalization views it as their great opportunity to overcome centuries of relative backwardness. China's leaders are convinced that they are coping with and guiding China's integration into the international economy. While many Russian observers also view China in this way, Russian elite attitudes toward Russia's relationship with the global economy are profoundly ambivalent. As a former imperial power that derived its status from military and ideological, rather than economic, sources, Russia has found it far more difficult to embrace an environment that accords so little weight to its comparative advantages.

Internationalization has been a major theme of China's reforms from the outset. Deng advocated openness and integration almost immediately after Mao's death. In the 1990s, China's leaders embraced economic internationalization as the way to develop the economy and establish China's place in the world.⁹ By the end of the 1990s, not only the leadership but also most ordinary Chinese had come to accept globalization as an "inevitable stage in China's modernization as well as an opportunity to catch up with the developed countries."¹⁰

Russian commentators generally suggest that they have a choice about participating in globalization, and many would prefer to not exercise the option. Russians tend to equate globalization with Americanization, viewing it as a major threat to Russia's future. Some argue that Russia must protect itself from harmful influences until the leadership develops a strategic plan for coping with the global economy. Extreme nationalists such as Aleksandr Dugin pose a choice between shunning globalization or Russia ceasing to exist.

What accounts for Chinese elites embracing economic globalization while Russians question it? The answer is the mutually reinforcing interaction of historical legacy with political and economic conditions. Length of time spent under communism is less important than the timing of when communism was established and dismantled. Deng's policy of openness followed immediately after the Cultural Revolution. China was economically weak and Mao's heirs were on the defensive. In contrast, the Soviet cultural revolution of 1928–31 created a new elite that remained in power until the 1970s and bequeathed economic autarky and superpower myths to the next generation. A key segment of Russia's elites are the heirs of a Stalinist party faction that explicitly rejected the West and internationalism. Their heroic period came in the years 1927–45, encompassing the first five-year plans and the "Great Patriotic War." This period fell between the two modern eras of globalization (roughly 1870–1912 and since 1960), when autarky was a plausible strategy. When Gorbachev initiated perestroika, Russia viewed itself a co-equal superpower. The

problem is less that Russians have ambivalent attitudes toward the West than that many Russians believe the West has little to teach them.

China began its reforms after Mao's death with neither a self-confident ruling elite nor a horde of policy intellectuals invested in the old system. The Communist Party remained in power even as it accepted new economic approaches, and increasingly has been forced to adjust policies toward greater openness and competition, a change reflected in its membership.¹¹ In China, a consensus has developed in support of international integration, with debates focusing on the modes and consequences of integration rather than the process itself. Thickening international integration has induced China's leaders to accept the policies that have generated consistent economic growth. Russia's thinner integration has brought less benefit, whether measured as sustainable economic growth or improved living standards. Russia's new wealth remains hostage to global commodity prices; poverty reduction has been slow, and the growth of the middle class has not kept pace with the rising cost of entry.¹² The relative benefits of thick integration are evident from a comparison of leading economic sectors, regional development, human capital, and corruption.

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Leading Sectors

Leading sectors in an economy impact the quality of interaction with the international economy profoundly. Although both China and Russia have become major exporters, the nature of their exports differs markedly. China is a global manufacturing center; Russia is a petrostate.

Learning the practices and engaging in the competition required for success in the international economy is rarely a first choice. Both countries' communist leaders were schooled in similar principles of autarkic self-reliance. China's industrial development has encouraged significant reorientation. In Russia, the commodity economy would certainly benefit from greater internationalization, but rising prices in the early 2000s made it possible for economic and political interests to severely restrict the scope of internationalization.

China's industrial development is stunning both in quantity and quality. Often the data on sheer volume of production obscure the large share of value-added products in the mix. Movement up the production chains in turn helps explain China's thickening integration. China's evolving economic relationship with Taiwan demonstrates the key role leading sectors played in advancing openness. While national-level leaders in Beijing were initially ambivalent about business engagement with Taiwan, some local leaders were far less reticent. Over time, attitudes at the top changed. The story is not entirely edifying. Shared norms, a common linguistic and cultural environment, and familiar management practices that did not always conform to international standards or enhance transparency facilitated the relationship with Taiwan. The shared business culture includes a “common understanding of local bookkeeping, inventory management, and gift-giving practices.”¹³

In contrast to China's robust manufacturing sectors, finished goods represent less than 10 percent of Russian exports. Hydrocarbons and other natural resources account for an overwhelming share of both exports and state revenues. The character and political implications of economies based on commodities and on petroleum in particular are well understood. Although natural resources are not always negative, it requires unusual circumstances to embed them in a knowledge economy leading to balanced growth.

Resource-based economies frequently have a negative impact on human capital, encouraging private supply of education and health care rather than creating demand for public goods. High returns from resource sales divert investment away from productive or science-based industries. Energy firms' "pocket" banks, which have little interest in business-development lending, tend to dominate the banking system. Income disparities resulting from both the high returns to energy sector elites and extensive corruption stunt the development of a middle class that might demand public goods, transparency, or democracy.

Russia's vast natural-resource endowment is being used simultaneously to support the economy, underpin the projection of Russian power, and serve the interests of individuals in a position to reap enormous financial windfalls. Contradictions and corruption are inevitable, while the international linkages that are created do little to foster growth in other industrial sectors. Minimal success in diversifying the economy is clear from the character of regional development.¹⁴

Regional Development

Power devolved to regions in both China and Russia in the 1980s and 1990s. In some areas of China, this resulted in rapid economic development. David Zweig characterizes the processes in China as "segmented deregulation."¹⁵ Restrictions were removed in specific sectors of the economy and in discrete geographic locales not through the enlightened administration by a developmental state but because of fierce competition ("fevers") to take advantage of openings perceived as having uncertain time horizons. Regions and enterprises competed for FDI and workers competed for jobs. Rather than an "East Asian model" of enlightened bureaucrats overseeing development, China is a case where success derives from competition. Differences in degree of integration with the international economy now largely explain regional disparities in China.¹⁶

Russia's "thinner" economic integration generated few incentives to overcome deep and long-standing separation from international economic relationships. When regions were given the opportunity to establish free economic zones in the 1990s, it produced a flurry of special commercial privileges, tax evasion, and black market schemes rather than industrial development zones. Many regional leaders interpreted Yeltsin's "take all the sovereignty you can swallow" as *carte blanche* to loot their locality. Appointed by the president and using the threat of ethnic or regional separatism to enhance their autonomy, they had minimal accountability. When Yeltsin instituted a system of elections for regional leaders, it began to reward leaders who pursued successful economic policies and defeat those who did not.

The essential feature of successful federalism is a *division* of powers. Unfettered local power can lead to anarchy and unrestrained corruption. Unchecked central power raises equally serious problems of credible commitment. Russian and Chinese leaders now are reasserting central control. Attempts to concentrate power in the center are hardly unusual given Russia's resource wealth. By neutering the Federation Council, achieving a pliant

Duma, and abolishing gubernatorial elections, Putin has eliminated countervailing forces. Most seriously, he has undermined the regions' capacity to generate wealth through their own development projects. The central government controls natural resources, while regional integration with the international economy remains subject to Kremlin approval. Hu's attempts to rein in regional independence have been less damaging to the economy than Putin's because China's thicker international linkages created countervailing forces supporting continued integration. These forces include not only economic interests but also China's educational and scientific institutions.

Human Capital

Russia's thin international linkages and reliance on commodities have contributed to a very different human capital trajectory from that in China. There is no more striking example of China's relative improvement in development indicators than its advances in education, science, and technology. Starting from a much lower base in 1977, with perhaps 50 percent literacy and 1 percent of the population receiving higher education, China has generated substantial gains across the entire range of education and science and technology indicators. In contrast, Russia lost ground for more than a decade. The one significant Russian achievement, doubling the proportion of young people in higher education, was accomplished largely by adding fee-paying students, exacerbating corruption. Russia's increased tertiary enrollments coincided with reduced coverage at the secondary, primary, and preschool levels, and the current enrollments will not be sustainable as the school-age population declines in the coming decade. While aging and brain drain have severely affected both the Russian and Chinese scientific communities, they have responded quite differently.

At China's National Conference on Science in 1978, Deng proclaimed "Backwardness must be recognized before it can be changed. One must learn from those who are most advanced before one can catch up with and surpass them."¹⁷ This underscores a crucial difference with Russia: no Russian political leader could make such a speech and survive. Russians remain convinced that they have the best schools and best scientists in the world, and everyone else should learn from them.

Individuals took advantage of the opportunities Deng created and diverted the opening in directions different from what political leaders intended. Overseas Chinese wishing to aide relatives quickly expanded the programs' scope, while commodification of international exchanges gave bureaucrats incentives to support and intensify the process. In contrast to Russia, where foreign degrees and time spent on professional exchanges abroad can hinder professionals' career advancement, Chinese with foreign doctorates (*yangboshi*) frequently are given preferential treatment compared with those with Chinese degrees (*tuboshi*). Many Chinese research facilities still experience severe funding and housing problems; going abroad qualifies scientists for special housing and research funds when they return. Four of China's top universities now hire almost exclusively from among Chinese with foreign PhDs; Russian universities refuse to recognize foreign credentials.

In contrast to China's increasing integration, many Russians continue to insist on following a "unique" path in science and education. At a time when internationalization and globalization are major items on the agendas of most national education systems, vested interests and path dependence constrain Russian leaders. The leadership of the Academy of Sciences remains intent on restoring its Soviet-era position and reversing the limited progress made in shifting to competitive peer-reviewed funding during the 1990s.

One feature common to both the Russian and Chinese education systems is increasing corruption in access to education and in evaluating performance. In this realm the education systems reflect a more general problem infesting both societies.

Corruption

Economic systems depend on governments to provide crucial public goods, but government involvement inevitably creates opportunities for cronyism and rent seeking. While no government has eliminated corruption, most seek ways to limit its extent and minimize the damage it causes. Analysis of corruption typically focuses on measuring its extent and

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finding ways to reduce its prevalence. Less attention has been devoted to exploring differences in its effects—in what might be called the *quality* of corruption.

Corruption levels in Russia and China as measured by available indices do not appear markedly different. But while corruption is a serious problem in both Russia and China, it has been perceived to be more damaging in Russia.¹⁸ Russian bureaucrats manifest a proclivity for slaughtering golden (or diamond or hydrocarbon) geese rather than encour-

aging egg production. In China, the goose is frequently all they have and they tend to be more solicitous, in part because without the goose, foreigners have little interest in investing.

China might have grown faster with less corruption, but even with markedly increased corruption since 1992, China’s economic growth shows no signs of slowing down. In Russia, natural-resource development and the “National Projects” are not transparent and are riddled with rent seeking. The cost of bribing government officials has increased with the commodities boom, hindering business development.¹⁹ So we are left with a dilemma: similarly high levels of corruption may coincide with quite different economic performance and trajectories.

The differences in economic performance and the effects of corruption lead to two questions. First, why did Chinese “development coalitions” focus on productive activity rather than (or along with) rent seeking and theft? Second, is the focus on productive activity what makes corruption in China less damaging to economic development? Russia certainly offered greater opportunities for rents and nonproductive activity. Natural resources are the paradigmatic source of rents, and hydrocarbons in particular invite abuse.

China created new industries; Russia redistributed the existing ones. Chinese industrial development was based on TVEs and special economic zones (SEZ). The TVEs were built from the bottom up, and this could be done only by attracting investors and reinvesting profits. China’s SEZs provided havens for dubious deals, but they had to attract investment and produce marketable products. China did not touch the SOEs for nearly two decades. Russia privatized most state enterprises quite rapidly, resulting in asset stripping by agents in control of unprofitable enterprises.

Much of the corruption in China’s early reform years depended on creating public goods or developing private industry. There were few opportunities to divert resource exports or

expropriate property. Value had to be created before it could be stolen. Network capital undermined central control through informal relationships with local governments. In many instances these activities could be called “dual benefit”: less good for the economy than honest activity, but not solely destructive.

Corruption should be viewed along a continuum between relatively productive and entirely parasitic. Key questions involve whether proceeds from corruption stay in country or flee, whether they are invested or consumed, and whether the amounts are so large as to seriously damage the economy. We need to examine how officials extract the funds, what they do with the funds, and the effects of corruption on public policy. David Kang’s comparative study of corruption similarly suggests that the crucial issue is not the extent of corruption but its quality. Both Korea and the Philippines experienced extensive corruption, but the two cases differed in social organization, constraints, and incentives. Korean state officials supplied public goods and supported investment, even if this was not their primary goal. Kang’s contrast of Indonesia and Taiwan has particular resonance for the Russian case:

*Indonesia was able to experience moderate economic growth because of the fortunate happenstance of having large oil reserves. Oil revenues provided the means for economic growth and allowed a semblance of order for more than twenty-five years. However, the growth was never deep enough to become self-sustaining.*²⁰

It is crucial to focus on both the character and the extent of corruption. Boris Yeltsin got it right in June 1996 when he fired Korzhakov, Barsukov, and Soskovets, saying that they “Took too much and gave too little.”²¹ The Russian and Chinese experience suggests that international integration strongly influences the character and scale of corruption.

Conclusion

China’s embrace of globalization and the resulting thick international economic integration have been the key to its emergence as a commercial and manufacturing power. Russian resistance to integration makes it less able to overcome resource dependence. When Russian leaders suggest that they need to emulate China’s policies, they emphasize policies based on strong governmental control, rather than the diverse and independent local and regional economic activity that accounts for China’s early success.

China has neither solved all its problems nor discovered an optimal development model. Challenges and weaknesses are easily identified, particularly problems stemming from uneven development, environmental damage, growing corruption, social unrest, and demographic shifts. Minxin Pei now characterizes China as a case of “trapped transition,” fostering local mafia states.²² Many analysts point out that China must eventually confront the issue of genuine property rights. Foreign firms still resist moving software development and high-end IT operations to China because of inadequate protections against copyright infringement. All of these weaknesses could limit China’s future development.

Despite the accumulated problems, China’s industrial growth is something post-Soviet Russia has been unable to emulate. A few countries (Norway, Canada, Australia, and, more recently, Chile, Peru, and Brazil) have managed to embed their natural resources in knowledge economies. If any hydrocarbon producer had the scientific and educational potential to join this group, it was Russia, thanks to the human capital inherited from the Soviet era. That Russia’s scientific and educational endowment is being squandered is

hardly surprising, though this makes it no less tragic. The surprise is the success China has achieved in developing human capital and science and technology infrastructure. Both China's achievements and Russia's decline reflect the differing quality of their international integration.

China's current path may prove to be unsustainable, but the results of three decades of integration are not easily discounted. In contrast, Russian elites show enormous resistance to thicker integration, instead calling for a fundamental restructuring of existing international economic institutions. Outsiders have few sources of leverage. Neighbors need Russia's hydrocarbons. The leading (natural resource) sectors of the Russian economy are not permitted to accept levels of foreign investment that would compel greater transparency or restructuring. Terrorist threats make it easier for the government to pursue nationalist and isolationist policies at home while the international community focuses on cooperation to promote security (including energy security) rather than encouraging Russian leaders to alter their policies.

The character of integration with the international economy explains why China and not Russia is becoming a commercial and industrial power, and has profound implications for their future development trajectories. Both countries need greater societal involvement in political life to address daunting problems. By generating diverse economic interests that affect policy, China's thick international integration has created the potential for continued influence. Russia's thinner integration places fewer constraints on leaders who appear to be "dizzy with petroleum."

NOTES

1. The Russian Republic was the largest component of the Soviet Union until its dissolution in December 1991. For simplicity and continuity, I refer to "Russia" throughout this article, meaning the Russian Republic through 1991 and the Russian Federation thereafter.

2. Jeffrey D. Sachs and Wing Thye Woo, "Reform in China and Russia," *Economic Policy* 18 (1994): 101–45. Sachs and Woo cite "three interrelated flaws" in the Soviet economy: overbuilt heavy industry but too little light industry and services; almost all workers in state-subsidized jobs; and the entire population covered by the welfare system. Characterizing the welfare system as a "flaw" contradicts statements Sachs makes elsewhere about the importance of safety nets during transition.

3. Thomas J. Stanley and William D. Danko, *The Millionaire Next Door: The Surprising Secrets of America's Wealth*, (New York: Pocket Books, 1996), 19. The "poster children" for returning Russians are Boris Jordan, who was manipulated into helping disguise the Kremlin takeover of NTV, and Paul Khlebnikov, the *Forbes* journalist who was murdered in 2004.

4. Jung Chang and Jon Halliday, *Mao: The Unknown Story* (New York: Alfred A. Knopf, 2005); Andrew Walder, *Communist Neo-Traditionalism: Work and Authority in Chinese Industry* (Berkeley: University of California Press, 1988).

5. Jude Howell, *China Opens Its Doors: The Politics of Economic Transition* (Boulder, CO: Lynne Reiner, 1993); Minxin Pei, *From Reform to Revolution: The Demise of Communism in China and the Soviet Union* (Cambridge, MA: Harvard University Press, 1994); David Zweig, *Internationalizing China: Domestic Interests and Global Linkages* (Ithaca, NY: Cornell University Press, 2002).

6. Yan Sun, "Reform, State and Corruption: Is Corruption Less Destructive in China than in Russia?" *Comparative Politics*, October 1999, 1–20; Steven Lee Solnick, "The Breakdown of Hierarchies in the Soviet Union and China: A Neoinstitutional Perspective," *World Politics*, 48 (January 1996): 209–38; Andrei Shleifer, "Federalism with and without Political Centralization: China versus Russia," in Shleifer, *A Normal Country, Russia after Communism* (Cambridge, MA: Harvard University Press, 2005), 147–55; Barry Naughton, "Chinese Economic Success: Effective Reform

Policies or Unique Conditions?" in *The Evolutionary Transition to Capitalism*, ed. Kazimierz Z. Poznanski, 135–53 (Boulder, CO: Westview, 1995).

7. Vivienne Shue, "Legitimacy Crisis in China?" in *State and Society in 21st-century China: Crisis, Contention and Legitimation*, ed. Peter Hays Gries and Stanley Rosen, 24–49 (New York: Routledge, 2004).

8. My discussion here draws on the works by Howell, Pei, and Zweig cited in note 5; Mary Gallagher, "Reform and Openness: Why China's Economic Reforms Have Delayed Democracy," *World Politics* 54, no. 3 (2002): 338–72; and Yongnian Zheng, *Globalization and State Transformation in China* (New York: Cambridge University Press, 2004). For a different perspective see Dali L. Yang, *Remaking the Chinese Leviathan: Market Transition and the Politics of Governance in China* (Stanford, CA: Stanford University Press, 2004).

9. Thomas G. Moore, "China and Globalization," in *East Asia and Globalization*, ed. Samuel S. Kim, 105–32 (Lanham, MD: Rowman and Littlefield, 2000); Lee Branstetter and Nicholas Lardy, "China's Embrace of Globalization" (National Bureau of Economic Research Working Paper 12373, July 2006).

10. Yunxiang Yan, "Managed Globalization: State Power and Cultural Transition in China," in *Many Globalizations: Cultural Diversity in the Contemporary World*, ed. Peter L. Berger and Samuel P. Huntington, 19–47, quoted passage 20, (Oxford, UK: Oxford University Press, 2002).

11. David Shambaugh, *China's Communist Party: Atrophy and Adaptation* (Berkeley: University of California Press, 2008, forthcoming).

12. Most of the growth of the middle class from 1995 to 1998 was a result of trickle-down from oil revenues. See Thane Gustafson, *Capitalism Russian-Style* (Cambridge: Cambridge University Press, 1999). It is likely that the increase in oil prices during 2000–6 has produced a similar situation, though we will know for certain only when prices fall. A recent study by the Russian Academy of Sciences found that the middle class shrank from 25 percent to 22 percent of the population between 2003 and 2006. Half of the Russians included in the middle class by this study worked for the government.

13. Merritt T. Cooke, "The Politics of Greater China's Integration into the Global Info Tech (IT) Supply Chain," *Journal of Contemporary China* 13, no. 40 (2004): 491–506, quoted passage 497.

14. I. P. Gurova, E. V. Zykova, and E. B. Skliarova, "Diversifikatsiia rossiiskogo eksporta [Diversification of Russian exports]," *EKO* no. 9 (2007): 29–42.

15. Zweig, *Internationalizing China*.

16. Sylvie Démurger, Jeffrey D. Sachs, Wing Thye Woo, Shuming Bao, Gene Chang, and Andrew Mellinger, "Geography, Economic Policy, and Regional Development in China" (National Bureau of Economic Research, Working Paper 8897, April 2002); Becky P. Y. Loo, "Export Expansion in the People's Republic of China since 1978: A Case Study of the Pearl River Delta," *The China Quarterly* 177 (March 2004): 133–54.

17. Quoted in Zweig, *Internationalizing China*, 165.

18. Sun, "Reform, State and Corruption"; Solnick, "The Breakdown of Hierarchies."

19. World Bank, *Anticorruption in Transition 3: Who is Succeeding . . . and Why?* (Washington, DC: IBRD/World Bank, 2006), 38; INDEM, "Vo skol'ko raz uvelichilas' korrupsiiia za 4 goda: rezul'taty novogo issledovaniia Fonda INDEM" [By how many times has corruption increased in 4 years: Results of new research by the INDEM Fund] (Moscow: INDEM, 2005), 3–4.

20. David C. Kang, *Crony Capitalism: Corruption and Development in South Korea and the Philippines* (Cambridge: Cambridge University Press, 2002) 190, emphasis added.

21. Russian television broadcasts on ORT and NTV, June 20, 1996.

22. Minxin Pei, *China's Trapped Transition: The Limits of Developmental Autocracy* (Cambridge, MA: Harvard University Press, 2006).

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