



NATIONAL RESEARCH UNIVERSITY  
HIGHER SCHOOL OF ECONOMICS

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**PERFORMANCE INCENTIVES  
AND ECONOMIC GROWTH:  
REGIONAL OFFICIALS IN RUSSIA  
AND CHINA**

BASIC RESEARCH PROGRAM

WORKING PAPERS

SERIES: POLITICAL SCIENCE  
WP BRP 18/PS/2014

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## **PERFORMANCE INCENTIVES AND ECONOMIC GROWTH: REGIONAL OFFICIALS IN RUSSIA AND CHINA<sup>5</sup>**

Scholars of performance incentives for regional officials in transitional states debate the appropriate degree of centralization and decentralization of political control. Decentralized administrative systems are said to encourage beneficial jurisdictional competition among regional officials, inducing innovation and growth, and reducing the likelihood of predation by central officials. An alternative perspective holds that centralization enables central governments to set overall policy goals, selectively rewarding regional officials who meet them, and restraining local predation. In this paper, we argue that the key to an effective incentive system lies in the way centralization and decentralization are combined. To investigate this issue, we compare the performance, careers and incentives of regional officials in China and Russia during the last 15 years. Both countries combine centralized personnel selection with substantial administrative autonomy for regional officials, but differ substantially with respect to economic outcomes. We argue that the difference in outcomes can be attributed to a number of organizational features of the two systems that make performance-based evaluations more difficult in Russia than in China. In particular, we find that in contrast to China, provincial leaders in Russia are unlikely to be promoted for performance, have a lower turnover, are almost never transferred from one region to another, have less experience in executive positions, are more likely to come from the region they govern than their Chinese counterparts, and are not encouraged to show initiative in economic policy making.

Keywords: China, Russia, bureaucracy, regional officials, economic performance, career incentives, centralization, decentralization

JEL codes: Z

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<sup>5</sup> We thank Joseph Fan and seminar participants at the 2014 ICSID conference in St. Petersburg, the 2014 ICSID September seminar in New York, and the political science discussion group at HSE Moscow for valuable comments.

## 1) Introduction

Regional and local officials represent crucial links in the chain of state administration in developing and transitional states. They implement the center's policies, provide local firms with access to infrastructure, and transmit information about local problems to higher officials. They are responsible for collecting taxes and sending them on to the center. In turn they may also lobby the central state for support for local projects or for permission to pursue their own policies. While regional administrations can play an important role in promoting economic development, corrupt and predatory officials can also significantly harm a regional economy, by extracting bribes or deterring entrepreneurs from investing if property rights are seen as insecure (see e.g. Frye and Shleifer 1997; Brown, Earle and Gehlbach 2009; Remington 2013a). In models of "market-preserving federalism," the capacity of regional and local officials to fend off confiscatory demands from central government officials is believed to explain successful growth-enhancing performance. On the other hand, if the threat of local private or public malfeasance is substantial, then central government control may be the principal constraint on local shirking, predation and corruption (Qian and Xu 1993; Cai and Treisman 2006).

A school of thought associated with the theory of "market-preserving federalism" holds that whether or not formal federalism characterizes a state's polity, the existence of sub-central territorial governments with significant jurisdictional autonomy can promote economic development through competition. Derived from the theory of fiscal federalism, the "market-preserving federalism" concept holds that regional officials compete to induce productive investment by establishing a favorable institutional environment; at the same time, they may ally to block attempts by central government officials to confiscate surpluses. In the absence of well-developed national market-oriented institutions, local jurisdictional competition can substitute for them and provide institutional conditions favorable to economic growth. In a series of works, Barry Weingast and others have applied this framework to explain how China has succeeded in stimulating high economic growth rates in the absence of well-developed property rights (Montinola, Qian and Weingast 1995; Weingast 1995; Jin, Qian and Weingast 2005). These studies contrast China's greater decentralization - sometimes linked to the "M-form" organizational structure it inherited from the pre-reform era - to Russia's greater administrative centralization from the "U-form" model it inherited from the high Soviet system (Qian and Xu 1993; Qian, Roland and Xu 1999; 2006). Finally, the decentralization school also pointed out how Chinese regional governments were allowed to keep most of the extra revenue earned due to high growth rates, while almost all extra income generated in Russia had to be transferred to the centre (Jin, Qian and Weingast 2005), leading to pro-growth fiscal incentives in China, but not in Russia. However, China's fiscal reform in 1994 greatly reduced the rights of regional governments to retain revenues, forcing them to find other ways to generate revenues to meet their obligations.

A competing perspective argues that not decentralization but centralization explains China's economic success. Central party and government structures set tasks, monitor performance, and promote officials based on their success in inducing growth (Cai and Treisman 2006). Blanchard and Shleifer (2001) argue that Russia's relative weakness in economic

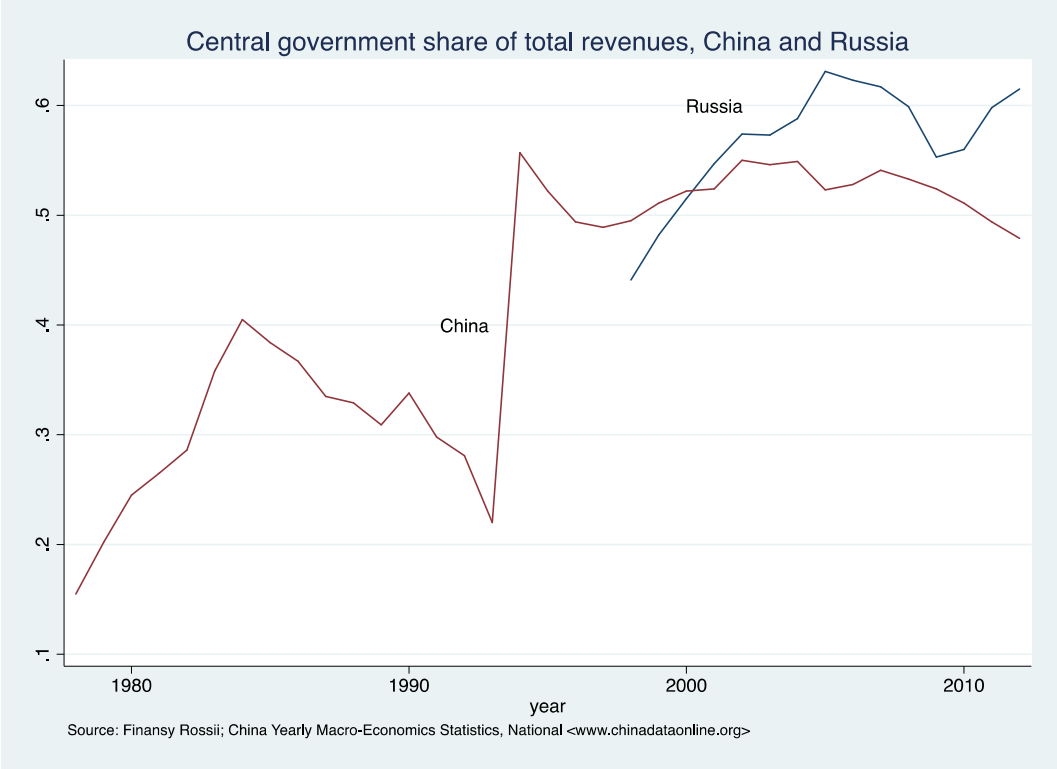
development compared with that of China during the 1990s was due to the fact that Russia's state was less centralized than China's. They claim that Chinese regional governments were more successful in fostering growth than their Russian counterparts because the strong political centralization in China made it possible for the Chinese central state to successfully discipline and induce local governments to favor growth, whereas the Russian central state was too weak to do the same. Writing in 2001, they argue that the election of governors weakened the Kremlin's ability to promote and demote officials based on economic performance.

While the centralization and decentralization theories both explain part of the story why China's economic transition was so much more successful than Russia's during the 1990s, they are less able to account for the continuing divergence in growth trajectories during recent years. In this paper, we argue that during the last 15 years, Russia and China have become more comparable with respect to a number of aspects central to the two theories described above. In particular, since the early 2000s the Russian central state has re-asserted its political authority over Russia's regional governors, bringing the Russian system closer to the Chinese one where centralized personnel control is combined with substantial administrative autonomy for regional officials. During roughly the same time, a recentralization of fiscal control took place in both countries. Whereas regional governors in Russia enjoyed significant financial and political independence from the federal center during the 1990s, this has changed during the 2000s as Putin imposed a substantially greater level of fiscal and political control over the regions (Stoner-Weiss 2006; Reddaway and Orttung 2004). Likewise, after the substantial fiscal decentralization of the 1980s, China adopted a major tax reform in 1994 that resulted in a significant increase in the share of tax revenues flowing to the central government. During the 2000s, the two countries have thus reached a similar level of fiscal centralization, with the share of the central government in total state revenues being 48% in China and 61% in Russia in 2012 (figure 1).

As a consequence of political and financial re-centralization, Russia acquired a bureaucratic system that offered similar possibilities as the Chinese system to introduce performance-related incentives for regional officials. At the same time, the official policy objectives in both countries also became more comparable, with the state in Russia playing an increasingly active role in trying to promote economic modernization and diversification.

The question we ask in this paper is why Russia did not use these new possibilities to achieve its policy objectives. Why did Russia's regions continue to perform so much worse than their Chinese counterparts across a series of performance indicators during recent years, such as economic growth, the implementation of industrial policy or the modernization of infrastructure? We argue that at least part of the answer can be found in a number of specific features of the Russian system that make performance-related evaluation of regional officials more difficult in Russia than in China, while the informal policy priorities of the ruling elites in both countries also play a crucial role. Going beyond the specific context of Russia and China, answering this question can provide us with important insights about how, why and when performance-related incentives for regional bureaucracies work in states with a large number of sub-central territorial governments.

Figure 1: Central Government Revenue as % of Total Government Revenue, Russia vs China (1978 – 2012)



To answer the question, we have gathered and analysed a comprehensive dataset about the performance, characteristics and career paths of Chinese and Russian provincial leaders that held office between 1999 and 2012. We believe that a comparative study of the Chinese and Russian bureaucracy lends itself particularly well to gain an understanding of how different features of bureaucratic recruitment and monitoring affect the incentives for regional officials’ performance.

In many respects, the two countries vary markedly. The culture, language and long-term history of Russia and China differ significantly. China’s population is ten times larger than that of Russia. The starting points for liberalizing reforms could have scarcely been more different: China was a largely agrarian society, Russia a largely urban, industrial society; China's bureaucrats had just undergone the trauma of the Cultural Revolution, whereas Soviet bureaucrats were adept at resisting any loosening of control. While Chinese peasants were eager to respond to the opportunity to produce for market profit, Russian peasants, workers, and managers were fearful of liberalization and unsure of the leaders' commitment to it. Russia's economy was dominated by giant loss-making industrial firms, whereas China's was still heavily oriented to manual labour, and the share of defense production in the Soviet economy was far greater than that of China (Aslund 2007, pp. 4-5, 38-40).

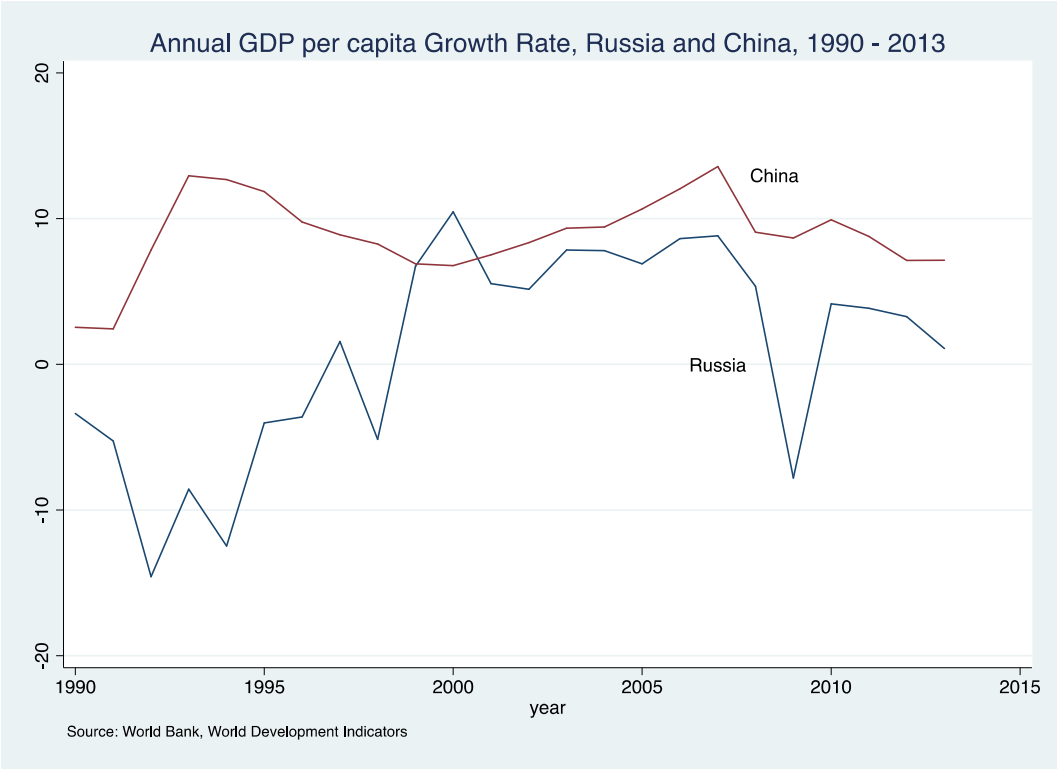
But at a closer look, China and Russia share a number of particular characteristics that make a comparison both possible and worthwhile. No other countries of similar size have undergone the transition from state socialism to capitalism. Size matters because the two countries both

feature a large number of regions and significant regional heterogeneity that makes it possible to examine variation both at the national and regional levels. Crucial for our purposes is the fact that China adopted most of the features of the Soviet Union's model of economic, political and social organization as it was building its communist economy in the 1950s. Although both countries have significantly changed since the onset of reforms, to this date socialist legacies still shape many aspects of their economies in a similar way, for example in the continuing centrality of state-owned enterprises to the economies and social fabric of many towns and regions (Remington 2013b).

As a consequence, despite different starting points for economic reform, regional officials in Chinese and Russian regions today face comparable economic and social policy challenges. In both countries, the center expects regional officials to promote economic development while preserving political and social stability. Regional officials in China and Russia have to attract investment, oversee economic planning, and meet fiscal targets, while simultaneously coping with such problems as a still large reliance on non-material social benefits, a high social tax on the formal sector, rising income inequality, and increasing dualism and informality in the labor market.

However, despite these similar environments and similar policy challenges, China's record of economic growth, industrial policy implementation and infrastructure development has continued to drastically outpace Russia's during the last 15 years and especially since the economic crisis. To a large extent, the country's regions have been China's growth engine, contributing to a remarkable, sustained period of high economic growth that is longer than that of any other country in history. In contrast, Russia's period of high-level growth during the 2000s (averaging about 7% per year from 1999 until 2008) looks in hindsight more like an episode of recovery-based growth than a longer-term trend. Russia's GDP fell about 8% in 2009 and its growth rate after the financial crisis is converging towards a level far below the potential growth rate for an economy at its stage of economic development (figure 2). What is more, Russia's growth between 1999 and 2008 was mainly caused by high oil prices, underutilized resources being put back to use after the slump of the 1990s, and positive effects of a number of fundamental reforms conducted during the early 2000s, while regional administrations played no major role in fuelling growth (Aslund 2007; Goldman 2008).

Figure 2: GDP growth Russia vs China (1990 – 2013)



Notes: Yearly and average growth rates (average growth rates for 1990-1999, 2000-2008, 2009-2014), Data from the World Bank Development Indicators for 1990 to 2012, data for 2013 is preliminary, data for 2014 are IMF forecasts for both countries made on April 30<sup>th</sup>, 2014.

To see to what extent this divergence in outcomes can be attributed to differences in bureaucratic organization, we distinguish among mechanisms by which the center may shape the incentives of regional officials. In particular, we will focus at the *recruitment, task assignment and monitoring* of regional officials in both countries.

*Recruitment* refers to the means by which officials acquire and lose office. Both Russia and China use centralized mechanisms for recruiting regional officials. China, following the Soviet model, uses the nomenklatura system. The nomenklatura system is a party-run hierarchically-structured institution for identifying, evaluating, training, selecting, rotating and dismissing officials who hold politically significant offices in party, state and society (Harasymiw 1984). It is managed by dedicated departments of the party apparatus operating at every level of the party hierarchy. All party and government officials in China are recruited through the nomenklatura system. In China, as in the USSR, elite recruitment is one of the most important functions of the communist party, along with policy-making and ideological control.

Russia abandoned the nomenklatura system when it eliminated communist party control of the political system. However, it has revived some of its elements, including the use of a cadre reserve system that Eugene Huskey has termed “nomenklatura lite” (Huskey 2004). The presidential administration has taken over the function of identifying, vetting, selecting,

rotating, and dismissing officials in the state apparatus (such as governors and ministers), and other state-related bodies. Although there was a period between the mid-1990s and mid-2000s when regional governors were selected by direct popular election, the presidential administration continued to maintain tight control over governors, for example by granting or withholding its material and political support from particular governors and governor-candidates (Ross 2003; Goode 2011). And even though gubernatorial elections were restored in 2013, the Kremlin continues to maintain tight control over the selection of candidates and election outcomes.<sup>6</sup>

*Task assignment* refers to the specification of policy outcomes that regional and local officials are held responsible for achieving; these can be arranged as a simple list of evaluation criteria or a set of targets ranked by priority. The targets may be more or less formalized and more or less individualized (China uses a system of performance contracts, for example, whereas Russia has experimented with a list of detailed performance criteria that at a certain point in time included more than 300 different points). An important aspect concerning evaluation criteria is the possible divergence between formal criteria (as written down in official documents) and informal criteria that are not formally acknowledged, but are understood by everyone involved, and therefore do in practice often take precedence over formal criteria.

Finally, *monitoring* refers to the means by which superior officials acquire and assess information about performance. These may include reports by statistical and security agencies; press reporting; public opinion surveys; reports by specialized departments summarizing complaints that flow in from the public in the form of letters and visits (eg in China, the *xinfang* system); monitoring of social media; annual reports submitted by officials themselves; site visits; and informal channels. In this paper, we will accord special attention to the incentives faced by those officials responsible for the monitoring and evaluation of regional officials, and how these incentives might influence the monitoring process, the evaluation criteria used, and through this the incentives and performance of regional officials. In particular, we argue that the larger degree of initiative-taking and economic experimentation of regional officials in China (see e.g. Heilmann 2008a, 2008b) is a result of the evaluation-criteria used and the way officials are monitored in the country.

We consider the mechanisms of recruitment, task assignment and monitoring based both on a detailed review of the relevant literature and on a comprehensive original dataset of leading regional officials who served in Chinese and Russian regions between 1999 and 2012. The dataset includes both a range of outcome indicators for the time an individual official was in office, and detailed biographical information for each official.

We find that the two systems have become comparable in the degree of centralization of political control over regional officials' careers during the last 15 years, and therefore argue that the centralization/ decentralization axis is no longer the relevant factor in explaining differing outcomes and incentives for regional officials in both countries. We then analyze

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<sup>6</sup> For example, in the fall of 2014, 28 gubernatorial elections are to be held. In twenty of these regions, the incumbent governors asked President Putin for permission to step down early in order to run for office (a sitting governor may not run) with the advantage of incumbency and the president's endorsement. Of these twenty, fourteen were granted permission by Putin to resign and run again.



the relationship between performance in economic and social development and officials' careers in order to infer the nature of the task environment that officials face. Here we find significant differences between both countries, with high economic growth being associated with career advancement for regional officials in China, but not in Russia. For the latter, a growing empirical literature has instead underlined the importance of political loyalty as the main evaluation criterion. Finally, we also argue that institutional rules regarding career mobility and monitoring shape the performance incentives in the two systems to a significant degree. Specifically, the existence of clear term and age limits in China and not in Russia, and the effective absence of higher offices available to high-performing governors in Russia leads to Chinese regional officials facing an "up or out" rule tying economic performance to career horizons, whereas Russian governors are largely held responsible for ensuring political support for the central leadership, with the fear of demotion rather than the hope for promotion serving as the main incentive for performance.

The paper is organized as follows. Section 2 presents an analysis of the existing empirical literature on how China's and Russia's regional bureaucracies are organized, with a special focus on recruitment, task assignment and monitoring. Section 3 introduces our own data. Section 4 discusses our findings from both the literature review and the data analysis, and looks at the longer-term determinants of both systems. Section 5 concludes.

## **2) Regional Bureaucracies in China and Russia**

Although the literature on regional bureaucracies in China and Russia is vast, no systematic comparative review of this literature has been undertaken to date. Taking a comparative perspective can provide us with valuable additional insights which do not seem obvious when focusing only on the system of a single country. Below, we will review the theoretical and empirical literature on both countries by focusing on the three topics of recruitment, task assignment and monitoring.

### **2.1 Recruitment**

In a comprehensive and widely cited literature review, Xu (2011, page 1078) defines China's system as a "regionally decentralized authoritarian (RDA) regime". Most reforms and economic tasks are carried out in the country's 31 provinces and lower subnational governance-units, i.e. prefectures, counties, townships and villages. However, appointments, promotions and demotions of subnational officials are ultimately determined by the central government. While the centre directly appoints governors and party secretaries at the provincial level, each level of government then controls the positions of leaders one level below it, forming a direct chain of personnel control. Thus, while the system is economically decentralized, it remains centralized politically, with the Chinese Communist Party (CCP) keeping the monopoly on defining the criteria by which regional leaders are evaluated.

One notable particularity of the Chinese system is its dualism, i.e. at each position we find both a government executive, and a representative of the CCP, a system based on the model of administration used in the former Soviet Union. Thus, a Chinese region is simultaneously

headed by a regional governor, and a party secretary, with the party secretary always ranked slightly higher (Zang 2003).

In Russia, the country's then still 89 regions<sup>7</sup> managed during the 1990s to gather a significant degree of autonomy with respect to the federal centre in Moscow (Stoner-Weiss 1999). An important role in this respect was played by Russia's regional governors, who since the mid-1990s until the end of 2004 were publicly elected in their respective region (with the 1996/1997 election cycle being the first time that direct gubernatorial elections were held throughout all of Russia's regions).

The fact of being publicly elected, as well as the pivotal position governors occupied as arbiters between regional and federal interests, made them into powerful players in Russian politics. Governors played an important economic role in their regions, as their position permitted them to conduct, participate in and benefit from the extensive economic restructuring that took place during the 1990s in Russia (Stoner-Weiss 2002, Hale 2003). They also played an important role on the federal level, as from 1996 onwards governors were automatically guaranteed ex officio membership in the upper chamber of the Russian Federation, the Federation Council (Ross 2010).

When Vladimir Putin came to power, one of his stated objectives was to reconsolidate the federal state, and to re-establish the so-called "vertical of power". Shortly after coming to office, he introduced a series of measures to curtail the power of regional governors. From 2000 onwards, governors were no longer automatically members of the Federation Council. Seven (later eight) federal districts were formed to increase the direct oversight of the presidential administration over regional governors, and regional laws and charters (often favouring specific regions) were streamlined and brought into conformity with federal law. A new tax code rendered even donor regions dependent upon federal transfers, and regional political parties - often serving as electoral vehicles for the governors - were eliminated (Goode 2007, page 373). At the same time, big business corporations, often with the implicit approval of the presidential administration, were moving increasingly into the regions, challenging the economic control acquired by regional governors during the late 1990s (Orttung 2004, Zubarevich 2005).

Finally, a reform in late 2004 replaced the elections of regional governors with appointments by the federal center. One of the objectives of the reform was to make governors more accountable to the federal centre. Indeed, during the debate around the 2004 reform, one argument in favour of the reform was to make the Russian system more like the Chinese one, with governors being now able to focus much more than before on regional economic development, as they no longer had to care about specific interest groups and elections. For example, Moscow mayor Yuri Luzhkov noted in 2004, in support of the reform, "that a governor should be concerned with the regional economy first and foremost, acting as a manager first, and to a lesser degree as a politician" (Goode 2007, page 373).

An important assumption we make in this paper is that despite a relative loss of power under Putin, Russia's regional governors still have sufficient policy autonomy to have an impact on

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<sup>7</sup> Since then, some of Russia's regions have been merged, so that by the beginning of the year 2013, Russia had 83 regions.

economic and social development in their regions. We argue that this is indeed the case, and that therefore Russian regional governors can be compared to their counterparts in China, both before and after the 2004 reform. The fact that Russia has 83 federal regions<sup>8</sup> makes it impossible for the center to keep tight control over every region, and leaves regional administrations with a significant degree of autonomy. A number of examples such as the governor of the region of Kaluga Anatoly Artamonov, who has played a significant role in attracting foreign direct investment to his region, show that regional governors in Russia can have a significant impact on growth and development, if only this is in their interest. In other words, the question is not so much if Russian governors have the possibility to positively influence growth and development in their region, but why so many Russian governors do not seem to care about these issues as much as their Chinese counterparts do.

## 2.2. Task Assignment

A central question when studying the performance of regional administrations are the tasks and objectives set by the center. Here it is important to distinguish between formal policy objectives, as published on government websites, outlined during official speeches or determined by national laws and regulations, and informal policy objectives. By informal policy objectives we understand rules that are not officially acknowledged, but that are understood and acted upon by those involved, and may take precedence over formal rules and regulations.

China's current evaluation system of regional leaders stems from the mid-1990s. The Chinese civil service law states that all government officials shall be estimated by their superiors in terms of morality (*de*), competence (*neng*), efforts (*qin*), achievements (*ji*) and incorruptibility (*lian*). The law contains a specific list of activities that are either rewarded or punished, and includes a "target responsibility system" (*mubiao zeren zhi*), which consists of a series of indicators in the three areas of economic performance, social performance and party construction.

Potentially more important than these rather vague criteria and targets (and different from the centralized Russian system) is how these targets are individualized in personal "performance contracts" (*gangwei mubiao zeren shu*). Performance contracts are signed by the heads of regional, county and city administrations and consist of different indicators reflecting economic and social development, environmental conditions and party development, with every indicator being weighted depending on the specific period and province (Wang 2010). Table 1 shows an example for a performance contract for Shaanxi province in 2007.

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<sup>8</sup> 85 regions from March 14<sup>th</sup> 2014, if we count Crimea and the city of Sevastopol as subjects of the Russian Federation.

Table 1. 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 organisation	2
	Establishing loyal and incorrupt party organisation	3
	Creating non-material civilization	2

Source: Wang (2010)

Officially, all the above mentioned criteria are taken into account when the performance of regional governors in China is evaluated. During the evaluation process, apart from being assigned different weights, targets are also ranked in three different groups of soft (*yiban zhibiao*), hard (*ying zhibiao*) and priority targets with veto power (*yipiao foujue*). Priority targets (e.g. keeping social order or observing the one-child policy) are obligatory, and not following them leads to the demotion of an official, even if all remaining hard and soft targets have been achieved.

While all these criteria together make up the formal policy objectives for Chinese regional officials, we do not know to what extent they are actually taken into account by the center in Beijing to determine the promotion of regional officials, as the decision-making process within the party is not public. However, by empirically determining which (observable) policy outcomes have an impact on the promotions of regional officials, it is possible to approximate the criteria that really matter for promotions.

For the period between 1977 and 1987, Maskin, Qian and Xu (2000) find that the economic performance of a given region has a positive effect on the number of the region's representatives in the CCPs central committee. They argue that better performing officials had

higher chances to be promoted to a post in the central committee, and thus faced pro-growth incentives. Using data from 1978 to 1995, Li and Zhou (2005) show that regional economic performance during the time an official is in office has a strongly positive and significant effect on the probability to be promoted, while having worked before in a position at the central government also has a certain effect. Similarly, economic performance relative to the immediate predecessor of a governor or party secretary also positively affects the probability of promotion (Chen, Li and Zhou 2005). Case study evidence on selected towns and villages confirms that economic performance is a crucial determinant of promotions also at lower levels of the administrative hierarchy (Edin 2003, Whiting 2004).

While economic performance thus seems to be a target of central importance, a number of more recent studies maintain that political connections remain important as well. Thus Jia, Kudamatsu and Seim (2013) argue that connections and performance are complements in the Chinese political selection process. For Shi, Adolph and Liu (2012), factional ties as well as education and revenue collection are actually *more* important than growth performance in determining an official's rank in the CCP.

A possible answer to this puzzle is provided if we look at party officials and government executives separately. Once party and government officials are examined on their own, it appears that while for government officials economic performance criteria play a dominant role, for leading party officials factional ties and political criteria become at least equally important (Walder 1995; Zang 2003; Tan 2006; Sheng 2009; Choi 2012), even though performance remains important as well<sup>9</sup>. This is consistent with the model developed in the Soviet regime, under which government executives were largely responsible for managing economic and social affairs, while the party secretaries performed functions of monitoring, guiding, and political leadership (Hough 1969). In China, this model persists but has been substantially adapted to the imperatives of a market-oriented economy.

While the importance of economic performance and political loyalty is found by many studies, evidence that other formal evaluation criteria might play a role in determining promotions is rather mixed. For example, Wang (2013) argues that environmental protection has in recent years become a hard target comparable to economic growth. However, Wu et al. (2013) find that between 2000 and 2009, city leaders preferred investments in transport infrastructure over investments into environmental protection facilities, as infrastructure investments were directly related to economic growth and promotions, while spending on environmental amenities actually negatively affected the odds of promotion. Similar examples where less observable targets have been sacrificed for the sake of GRP growth have been found for social welfare spending, regional inequality, China's low share of domestic consumption, rural farmers' land rights or air and water pollution (Zhao 2010; Du et al. 2013; Feng, Lichtenberg, Ding 2013; Kung and Chen 2013, Jia 2014). In short, it seems that in China's system of bureaucratic promotions, economic growth and a certain degree of political loyalty are for the time being the most important evaluation criteria, whereas most other formal criteria continue to play a much less important role.

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<sup>9</sup> Indeed, Xu (2011) argues that as most regional party-secretaries were regional governors before becoming party secretary, a precondition for them becoming party secretary was high economic performance when being governor.

While China's personalized performance contracts differ from province to province, Russia's regional governors are formally evaluated according to a centralized list of performance criteria. Following the 2004 reform that replaced gubernatorial elections with appointments, a first formalized assessment system was introduced in 2007, consisting of 43 different economic and social indicators<sup>10</sup>. During subsequent years, the original 43 indicators were continuously subdivided into new categories, so that by 2010 Russia's regional governors were formally evaluated by a list of 319 different performance criteria<sup>11</sup>. As this system was continuously criticized for its complexity and impracticability<sup>12</sup>, it was eventually replaced by a new system of 12 general indicators in August 2012, shortly before elections of regional governors were re-introduced in Russia's regions<sup>13</sup>. As from late 2012 onwards Russia's governors were again elected instead of being appointed by the president, this reformed evaluation system is not directly used to determine the promotion of regional officials. Instead, it is supposed to determine which regions are eligible for special grants from the federal budget, with the best performing regions getting the highest transfers. At least in theory, a direct incentive structure where regional officials are promoted or re-appointed according to their performance has thus been replaced by an indirect incentive structure, where high-performers are rewarded with federal transfers that might be seen as a signal by regional voters, and might thus help incumbents to secure their re-election.

However, even more than in the case of China, the formal and informal criteria used for the assessment of regional officials in Russia differ significantly. Initially, one of the main arguments in favour of replacing gubernatorial elections with appointments in 2004 was to make Russia's regional leaders more accountable to the center. However, it appears that the Russian federal center missed this opportunity to introduce a system of personnel control with performance-related incentives. Governors that have been elected up to 2004 differ only marginally in their characteristics in respect to those appointed from 2005 onwards (Buckley et al. 2014). In our own analysis in part 3, we do not find any significant differences in the number of promotions and demotions, and in the way performance influences promotions and demotions in Russia for the periods before and after 2004.

The only post-reform change noted in the literature is the increasing importance of political loyalty as an informal criterion determining the appointment or re-appointment of Russian regional governors. A number of empirical papers have shown how political loyalty in the form of election results for the Kremlin party United Russia has become the decisive criteria for governors to keep their jobs since 2005, while most of the formal performance criteria

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<sup>10</sup> Decree No. 825 of the President of the Russian Federation, signed on June 28<sup>th</sup>, 2007, "On Evaluating the Effectiveness of Executive Agencies in the Subjects of the Russian Federation".

<sup>11</sup> This list was accessible online (as of June 19<sup>th</sup>, 2014) on the website of the Russian Ministry for Regional Development ([http://www.minregion.ru/154/exec\\_evaluation?locale=ru](http://www.minregion.ru/154/exec_evaluation?locale=ru)).

<sup>12</sup> Kushubakova (2010), Кушубакова Б.К. Оценка деятельности органов исполнительной власти субъектов Российской Федерации с учетом эффективности использования государственных активов. // Государственный аудит. Право. Экономика, 2010. №4. С. 72-81.

<sup>13</sup> Decree No. 1199 of the President of the Russian Federation, signed on August 21<sup>th</sup>, 2012, "On Evaluating the Effectiveness of Executive Agencies in the Subjects of the Russian Federation". The 12 indicators are life expectancy at birth, population growth, capital investments (excluding budget money), small enterprises production, tax and non-tax fiscal revenues, average annual unemployment rate, real disposable incomes, the share of residential buildings, the number of high-school graduates failing the unified state exam, mortality rate (excluding external causes), people's estimation of the regional government performance, and share of children deprived of parental care.

listed above do not play a notable role (Reisinger and Moraski 2012, Reuter and Robertson 2012).

Instead of promoting economic and social development in a given region, the ability of a regional governor to manage a political machine in order to mobilize the regional electorate, for example by encouraging regional firm directors to mobilize their workers, has become a key competence (Frye, Reuter, Szakonyi 2014). In this respect, it seems that the attempt by the Kremlin to gradually replace governors that were elected before 2005 by supposedly more politically loyal candidates from the federal centre actually produced adverse results, with new appointees lacking the necessary political skills to successfully manage political machines (Reuter 2013). The return to gubernatorial elections in Russia in late 2012 might thus also be motivated by a desire to strengthen again the political machines of pro-Kremlin regional leaders.

### **2.3 Performance Monitoring**

We thus see that regional policy regimes in both China and Russia are characterized by formal and informal task environments established and enforced by the central leadership. While in China it is primarily the growth performance of a region that counts for the regional executive, in Russia it is their ability to successfully manage regional political machines. Although the central governments in both countries repeatedly emphasized additional policy objectives, such as environmental protection and the reduction of inequality in China or economic diversification and modernization in Russia, in practice these additional criteria do not seem to play a notable role. In part, this might result from different policy objectives of the ruling elites in both countries, with the legitimacy and popularity of the CCP in China being tightly linked to the country's growth performance, while Russia's ruling elites seem to be very concerned about the risk of the ruling party United Russia performing badly in elections.

In addition, however, the way regional bureaucracies are organized in both countries also makes it more difficult to put into place incentives towards several policy objectives at a time. In particular, the way performance is monitored in both contexts results in growth in China and political loyalty in Russia becoming the dominant objective, with other aspects being relatively neglected by regional administrations.

In the Chinese system, it has been argued that the re-shuffling and cross-rotation of regional leaders, apart from being a tool to promote well-performing officials and providing incentives for regional initiatives (Xu 2011, page 1087), is used to disentangle the personal performance of regional officials from regional fixed effects (Xu, Wang, Shu 2007; Zhang, Yao 2012), by making regions comparable. To do this, the actual number of leaders that are moved from province to province does not have to be exceptionally high, with Zhang and Yao (2012, page 6) finding that about 15% of city leaders were moved from city to city for this purpose during the period 1994 to 2008. In our data, we find a comparable percentage, with 12% of governors and 23% of party secretaries moved from one province to another between 1999 and 2012.

In comparison, in Russia only two officials have served in two different provinces during the same period (see section 3). Sergey Sobyenin was governor of Tyumen Oblast from 2001 to 2005, before becoming head of the presidential administration and then replacing Yury Luzhkov as mayor of Moscow in October 2010. The other case is Nikolay Merkushkin, who was appointed governor of Samara Oblast in 2012, after having served as head of the Republic of Mordova from 1995 onwards. The absence of systematic reshuffling of regional leaders makes it difficult in Russia to compare different regions and disentangle the economic performance of a particular person from regional fixed effects.

While reshuffling is used in China to elicit the personal performance of regional officials, the country's provincial party secretaries also play an important role with respect to recruitment and performance monitoring. Whereas governors are primarily responsible for the implementation of economic and social policies in a given region, the regional party secretaries "serve as a key link between the CCP elite in Beijing and various government organizations in the country," with "the supervision of provincial government officials performing routine administrative duties" being a central task (Tan 2006, pp. 6-7). China's regional party secretaries thus monitor the performance of China's governors and report upon it to the centre in Beijing, probably constituting the single most important source of information informing the decisions of the CCP elite to appoint and promote regional governors. Indeed, Tan (2006, p. 8) notes that party secretaries "play a key role in selecting candidates for the post of governor."

Here an important point is that although party secretaries are not primarily assessed with respect to provincial economic performance, regional growth still plays an important role in determining their further career advancement (Choi 2012). This is a key difference from Russia, where regional governors are monitored and evaluated by the presidential envoys<sup>14</sup> that head the country's eight federal districts, as well as by the regional security services. While the presidential envoys and regional security services are to a certain extent responsible for keeping social stability and avoiding political unrest in the regions, they are not responsible for the economic performance of a region. Instead, Russia's regional security services are evaluated with respect to the number of successfully conducted inspections and controls they carry out, with the number of fines and penalties administrated positively entering the evaluation score (the so called "palochnaja sistema", see Nazrullaeva, Baranov and Yakovlev 2013). These monitoring agencies thus have significant possibilities to disrupt the activities of regional administrations, but at the same do not face any incentives to encourage regional governors towards better economic performance.

A notable feature of the two countries' regional administrations is the fact that Chinese regional officials have been much more active in experimenting with different economic policies than their Russian counterparts, to the extent that regional experimentation has become a cornerstones of China's growth model (see Heilmann 2008a, 2008b). As we have seen, regional leaders in China face strong incentives to foster regional growth, and are also in need to secure new sources of income after the financial reform of 1994. At the same time,

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<sup>14</sup> Russia's 83 regions are grouped into 8 federal districts, which are each headed by a presidential envoy called *polpred*, or "Plenipotentiary Representative of the President of the Russian Federation in a Federal District". The *polpred* is directly appointed by the Russian President.



they benefit from a lot of autonomy to chose different ways of generating growth and revenue, as long as they seek the informal backing of a central leader in support of a new initiative (Heilmann 2008b, page 9). As party secretaries are also in favor of promoting regional growth, they usually support regional initiatives, which if successful are then scaled up and translated into national legislation.

In contrast, regional initiative and experimentation are not encouraged in Russia. While some rare examples exist of governors actively trying out new ways to attract investors, supporting small and medium business development or experimenting with new mechanisms to foster growth, the majority of Russia’s regional administrations are characterized by a passive or skeptical stance with respect to experimentation. The problem lies in an overly regulated environment, as reflected in the 319 criteria used to evaluate regional officials. If a Russian governor wants to implement a new project that might potentially bring significant economic benefits to his region, the regional administration has necessarily to transgress a large number of contradictory regulations to get the new initiative going. As we have seen above, those agencies monitoring Russia’s governors are themselves not evaluated upon economic performance, but are rewarded for the number of transgressions they discover, resulting in an environment that effectively stifles most attempts at regional initiative and experimentation.

Table 2: Organization of Regional Bureaucracies: China vs Russia (1999 – 2012)

	<b>China</b>	<b>Russia</b>
<b>Recruitment</b>	Central appointment	Central appointment (2005-2012), elections until 2004 and from late 2012 onwards
<b>Formal criteria</b>	Personalized performance contracts	Centralized list of (up to 319) performance criteria
<b>Informal criteria</b>	Economic growth & party loyalty	Election results for United Russia
<b>Regional Experimentation</b>	Yes	No
<b>Reshuffling between regions</b>	About 12% of provincial governors and 23% of party secretaries are moved between regions	Only 1% of governors are moved between regions
<b>Monitoring</b>	Those doing the monitoring are also evaluated for performance	Those doing the monitoring are not evaluated for performance, but for uncovering regulatory transgressions

### 3) Data Analysis

We will now use our own original dataset to test some of the arguments made above. In particular, we intend to test to what extent different organizational and monitoring structures make it easier within the Chinese system to evaluate individual performance and to put pro-growth incentives into place.

### 3.1 Data

We conduct our analysis for the time period between 1999 and 2012, as the period was politically relatively stable in both countries. In Russia, Vladimir Putin came to power in 1999, and has dominated Russia's politics ever since, whereas in China the period covers the end of the Zhu and Jiang administration, and the full length of the Wen and Hu administration.

We consider officials that were in office during the given period, including those that started before 1999, and those that kept and keep serving after 2012. For China, we limit ourselves to regional governors and party secretaries, where a governor is the leader of a province's People's Government (the main administrative body in a region), and a party secretary is the leader of a province's Central Communist Party Provincial Committee. Within this dual system, party secretaries are considered to be ranked slightly higher than governors, and serve as a link between central and local government. Our sample includes governors and party secretaries for 22 provinces, 5 autonomous regions and 4 municipalities.

For Russia, we collected data for governors in 81 Russian regions, excluding the region of Chechnya and the Autonomous District of Nenets for reasons of data availability. For simplicity we call all regional leaders "governors", although in practice some are named "presidents" or "mayors" (as for example in the case of the president of Tatarstan, or of the mayor of Moscow and St. Petersburg).

Our sample includes 201 observations for China, and 205 observations for Russia. The number of observations is bigger than the actual number of officials (governors and party secretaries in China and governors in Russia), as one person can be a governor in one region, and then again in another region, which we would count as two observations. Moreover, in China a person could be promoted from being governor to the post of party secretary in the same province, which we also count as two different observations. In our sample for China, we have 101 observations for governor positions (76 provincial governors, 13 chairmen of autonomous regions and 12 mayors of municipalities), and 100 observations for party secretary positions (78 provincial party secretaries, 11 in autonomous regions and 11 municipal party secretaries). For Russia, the majority of our observations are governors serving in oblasts and krajs (143), with 57 observations for leaders of autonomous regions and republics (that are generally characterized by a lower share of ethnic Russians), and 5 observations for the two federal municipalities of Moscow and St. Petersburg.

To test to what extent performance-related indicators have an influence on the career trajectories of regional officials, it is necessary to get an idea about the personal performance of regional officials during their time in office. At least judging by the official criteria discussed in section 2, what is valued primarily by the respective central administrations in both countries is economic performance and social development. We therefore gathered a range of economic and social indicators in these areas. We then took the average value of a respective indicator for the time a regional official was in office, as well as the average value of the same indicator for the whole country during the same period. The difference between

both average values gives us the personal performance of a given regional official, relative to the average performance of the country as a whole.

For both countries, we took the yearly growth rate of gross regional product, as well as total regional investment as proxies for economic performance. As proxies for social development, we took the average wage, average unemployment rate and average food expenses share in total expenses for China as the indicator of poverty, and average wage growth, average unemployment rate and the percentage of the population living below the poverty line for Russia. Data for China have been gathered from [www.chinavitae.com](http://www.chinavitae.com) and the Chinese statistics service, while data for Russia come from the Russian Federal State Statistics Service ([www.gks.ru](http://www.gks.ru)).

In addition, we also looked at the evolution of the relative economic ranking of a province or region during the time a regional official was in office, by ranking all regions in a country according to their GRP per capita value. For example, when the governor of Moscow oblast Boris Gromov took office in February 2000, Moscow oblast had a GRP per capita value ranked 38<sup>th</sup> among all Russian regions. Gromov left his post in May 2012, and during the year 2011, his last full year in office, Moscow oblast was ranked 16<sup>th</sup> among all Russian regions. We thus assign Gromov a relative economic performance ranking of + 22.

Defining promotions and demotions was a challenging task in some cases, as it required a detailed study of both countries' power structures, with respect to which government bodies and consequently their leaders formally and informally play more or less important roles. We consider Chinese governors "promoted" if their next position is secretary of the same or another province, head of a ministry, secretary or mayor of a municipality; "demoted" if the next position is vice-minister, deputy secretary, vice-chairman, chairman of a subcommittee or any temporary structure, president of a university, and "rotated" in other cases (e.g. governor in another province, director of an organization or institution under the State Council). For party secretaries, promotions and demotions are the same as for governors, with the exception of becoming secretary of another province (which we count as a rotation), and becoming a governor in another province (which we count as a demotion). For the case of Russia, we defined a promotion as a move from the position of governor to a position as minister or above in the central government, whereas a move to a position in the Federation Council (which has largely lost its powers in the 2000s) or to another position in the region was counted as demotion.

### **3.2 Results**

A first glance at the descriptive statistics already shows us some distinctive differences between the Chinese and the Russian systems (table 3). In China, 50% of all provincial governors that were in office between 1999 and 2012 were promoted, while 29% of provincial party secretaries were promoted. In Russia, only 6% of all governors that served in the country during the same time period were subsequently promoted to a higher post, while 50% assumed a post that was less prestigious after stepping down as governors (for both countries, the remaining regional leaders are either still in office or retired).

Table 3: Descriptive Statistics – China vs Russia

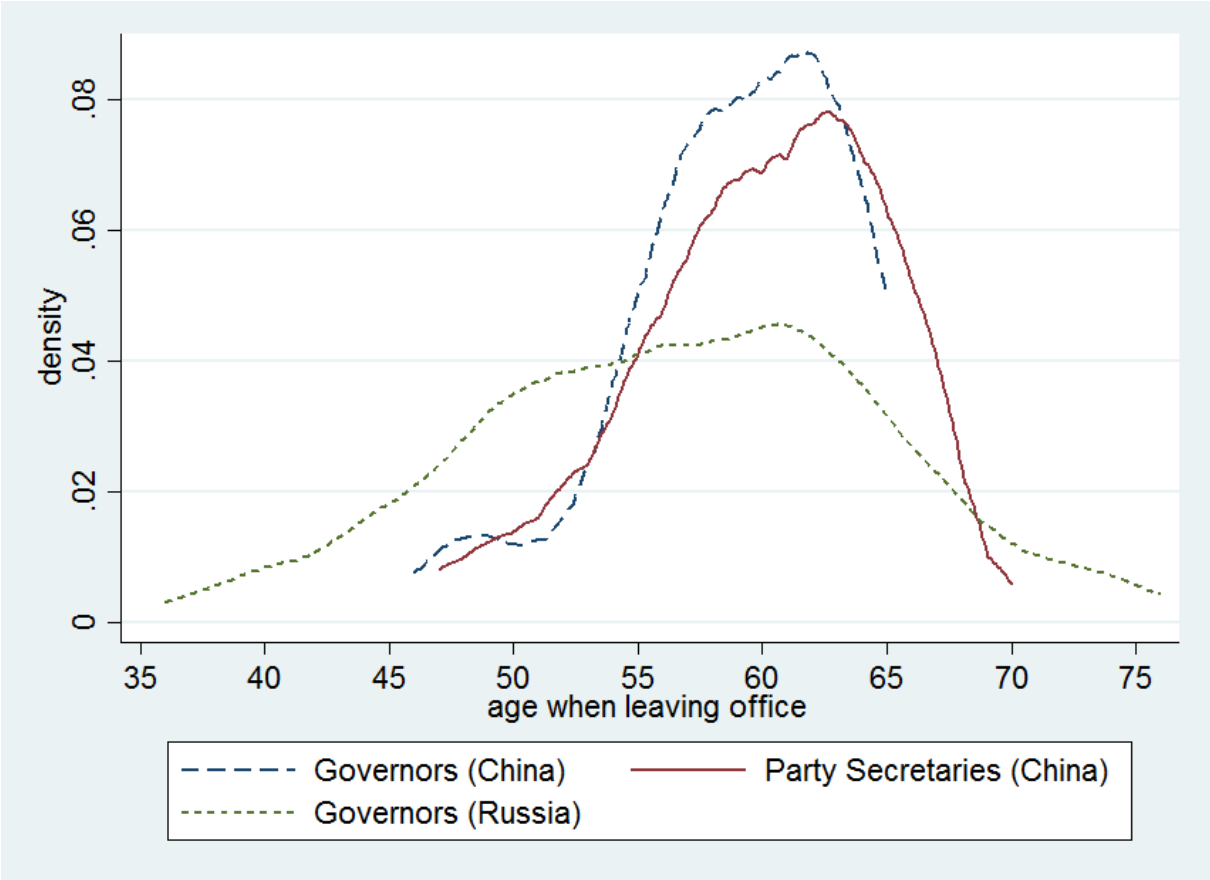
	<b>China</b> 201 observations (101 Governors / 100 Party Secretaries)	<b>Russia</b> 205 observations (Governors)
Number of promotions (as % of all observations)	40% (50% / 29%)	6%
Number of demotions (as % of all observations)	30% (31% / 30%)	50%
Average age of governor when leaving office	59 / 60	56,6
Average age of governor when assuming office	56 / 56	48,7
Average time in office (tenure)	4 / 5	7,9
Percentage of governors who were party members (CCP or UR) when leaving office	100% / 100%	65%
Number of governors that were promoted or shifted to another region (as % of all observations)	17% (12% / 23%)	0,5%
Number of governors with prior experience <sup>15</sup> in a region (“insiders”, as % of all observations)	53% (63% / 43%)	82%

We see that the Chinese system is characterized by a much higher degree of upward mobility than the Russian system. A governor in China has a good chance to move further upwards on the career ladder (often becoming party secretary in the same or another province). Party secretaries are less likely to be promoted, but still 29% of secretaries will subsequently assume a post at the very top of Chinese politics. In Russia, promotions are relatively rare, with the few exceptions being special cases not related to the country’s system of personnel control.

Russian governors are on average a bit younger than Chinese governors and party secretaries when assuming and leaving office. While the age distributions for Chinese governors and party secretaries are clustered on the right end of the distribution, the age distribution for Russian governors shows an almost perfect normal distribution, and has a wider range than that for Chinese provincial leaders (graphs 3). This nicely illustrates how the 65 years retirement age for state officials is strictly enforced in China, while in Russia no such rule is in place. It also shows that prior experience is more important in China, with the youngest governors and party secretaries being 44 and 45 years old respectively. In contrast, in Russia 20 governors in our sample (almost 10%) were younger than 40 years when assuming office, with the youngest (Michail Prusak) being only 30 years of age when becoming governor of Novgorod Oblast in 1991.

<sup>15</sup> A governor is defined as having prior experience in a region if he has been born in the region, or has lived and worked in the region for at least 6 months before becoming governor.

Graph 3: Age when leaving office



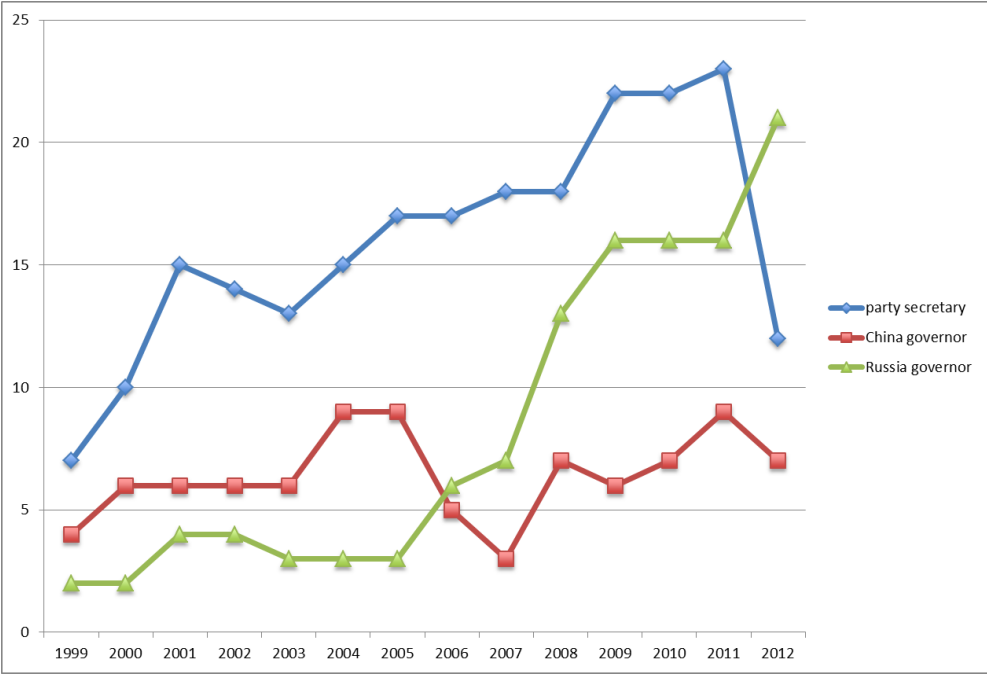
An important point to note is that governors in Russia stay on average almost twice as long in office as their Chinese counterparts. We thus have a much higher rate of turnover in China than in Russia. Together with the absence of promotions, this shows how for Russian regional governors time in office instead of promotions seems to be a reward for performance. While longer time-horizons can constitute a distinctive advantage when permitting state officials to engage in long-term projects and plan ahead, this is not necessarily the case in Russia, where a governor can be fired at any point in time if a project goes wrong (even after the formal re-introduction of elections that happened in late 2012). To a certain extent, the Russian system thus ends up with the worst of both worlds, with long-serving governors that are however characterized by permanent short time horizons.

We also see that about every fifth governor or party secretary in China is shifted to another province (or promoted, in the case of a governor becoming party secretary), while re-shuffling of governors virtually does not happen in Russia. Our data confirm the results found by Zhang and Yao (2012) for Chinese cities, where 15% of mayors are moved between cities, and suggest that re-shuffling is not only used in Chinese cities but also in the regions as a means to make regions comparable and better distinguish the personal performance of regional leaders from other factors. While studying the biographies of Chinese regional officials, it is also notable that almost all spent at least a couple of months some time during their career in a party school for further training. Jordan et al. (2013, page 19) argue that in addition to the

rotation of regional officials between provinces, the fact that they meet other officials during regularly scheduled training sessions at party schools plays a crucial role in disseminating information about successful and unsuccessful economic experiments in the regions, and thus is an important factor favoring institutional learning in China<sup>16</sup>.

A further interesting difference can be found when looking at the number of governors that have been born or have prior work experience in a given region (graph 4). In Russia, the number of insiders is relatively high, with outsiders only appearing as governors in the regions once Putin replaced gubernatorial elections with appointments in 2005. In China, the number of regional leaders that are insiders is much lower, with only 63% of governors and 43% of party secretaries having some prior experience in a region before assuming office during the period we study. The difference between governors and secretaries might partly be due to the fact that governors are often promoted to a post as party secretary in another province. However, it is also possible that because of their monitoring function, the CCP elite in Beijing prefers outsiders as party secretaries in the provinces, while for the post of governors who play a role as economic managers, local cadres are often preferred.

Graph 4: Governors and Party Secretaries without prior ties to a region



We then sub-divided our sample to look at the descriptive statistics for regional leaders in provinces, municipalities and autonomous regions separately (tables 4 and 5). For China, we see that that while the percentage of promotions for regional leaders approaches 50% for provinces and municipalities, it is much lower in China’s autonomous regions, with only 15% of government chairmen<sup>17</sup> and 18% of party secretaries being subsequently promoted. Interestingly, it thus seems that promotions are used as incentives in provinces and municipalities, but that in China’s autonomous regions other incentive mechanisms seem to be in use. In particular, being government chairman in an autonomous regions seems to be a

<sup>16</sup> On party schools and cadre training, see also Pieke (2009).  
<sup>17</sup> In China’s autonomous regions, governors are called “government chairmen”.

highly risky position, with 69% of government chairmen being subsequently demoted (as compared to 26% and 17% of governors and mayors in provinces and municipalities). Furthermore, while almost all government chairmen in China's autonomous regions (which are characterized by a high share of ethnic minority populations) are locals, most party secretaries in these regions are outsiders (table 4). For Russia, the differences between the three groups of oblasts and krajs (which in their characteristics are close to Chinese provinces), autonomous regions and ethnic republics, and federal municipalities are relatively negligible, with the exception that promotions are more likely in municipalities, and that autonomous regions are characterized by a higher degree of insiders (table 5).

Table 4: Descriptive statistics China (provinces, autonomous regions and municipalities)

	<b>Provinces (76 governors, 78 secretaries)</b>	<b>Municipalities (12 mayors, 11 secretaries)</b>	<b>Autonomous regions (13 chairmen, 11 secretaries)</b>
Number of promotions <sup>18</sup> (as % of all observations)	43% (57% / 29%)	48% (50%/45%)	17% (15%/18%)
Number of demotions <sup>19</sup> (as % of all observations)	28% (26%/ 29%)	13% (17%/9%)	50% (69%/27%)
Average age of governor when leaving office	59 / 60	60/63	60/59
Average age of governor when assuming office	56 / 56	56/58	55/55
Average time in office (tenure)	4 / 5	5/5	5/5
Percentage of governors who were party members (CCP) when leaving office	100% / 100%	100% / 100%	100% / 100%
Number of governors that were promoted or shifted to another province (as % of all observations)	19% (14% / 24%)	4% (0%/9%)	17% (0%/36%)
Number of governors with prior experience <sup>20</sup> in a region ("insiders", as % of all observations)	52% (58% / 46%)	48% (67% / 27%)	67% (92%/36%)

<sup>18</sup> We define that a governor has been promoted if we are reasonably sure that the position taken during the year after he or she steps down as governor is of higher rank than that of provincial governor.

<sup>19</sup> We define that a governor has been demoted if we are reasonably sure that the position taken during the year after he or she steps down as governor is of lower rank than that of provincial governor, or if the governor retired.

<sup>20</sup> A governor is defined as having prior experience in a region if he has been born in the region, or has lived and worked in the region for at least 6 months before becoming governor.

Table 5. Descriptive statistics Russia (Oblasts and Krai, Municipalities, Autonomous Regions and Republics)

	<b>Oblast, Krai (143)</b>	<b>Municipalities (5)</b>	<b>Autonomous regions, Republics (57)</b>
Number of promotions <sup>21</sup> (as % of all observations)	7%	40%	2%
Number of demotions <sup>22</sup> (as % of all observations)	51%	20%	51%
Average age of governor when leaving office	56	62	57
Average age of governor when assuming office	49	54	49
Average time in office (tenure)	7	8	9
Percentage of governors who were party members (UR) when leaving office	65%	80%	65%
Number of governors that were promoted or shifted to another province (as % of all observations)	0.7%	0%	0%
Number of governors with prior experience <sup>23</sup> in a region ("insiders", as % of all observations)	78%	80%	95%

Finally, we will look how the performance of regional leaders affects their probability to be promoted (tables 6 and 7). To do this, we build two groups of best and worst performing regional leaders. As described in part 3.2, we have gathered 6 performance indicators with a focus on economic and social development for both China and Russia. For each indicator and regional leader, we took the average value for the time during which the respective leader was in office, and then subtracted it from the national average value of the same indicator for the same period. The resulting indicator gives us the average performance of a regional leader in a specific area during his time in office, relative to the national average value.

We then select the 20 best and the 20 worst performing regional leaders for each indicator. Finally, we look if some leaders appear 2 or more times among the 20 best and worst performing leaders. The resulting two groups give us our two groups of best and worst performing regional leaders for both countries.

The resulting evidence supports in general the results found elsewhere in the literature. In China, the regional leaders in the group of best performers are indeed more likely to be

<sup>21</sup> We define that a governor has been promoted if we are reasonably sure that the position taken during the year after he or she steps down as governor is of higher rank than that of provincial governor.

<sup>22</sup> We define that a governor has been demoted if we are reasonably sure that the position taken during the year after he or she steps down as governor is of lower rank than that of provincial governor, or if the governor retired.

<sup>23</sup> A governor is defined as having prior experience in a region if he has been born in the region, or has lived and worked in the region for at least 6 months before becoming governor.



promoted than those in the group of worst performers, although the difference when looking on China’s 31 regions combined is not large (table 6). However, if we look on provinces, municipalities and autonomous regions separately (table 7), we see that the results for China are very much driven by the provinces. While in the provinces, best performing leaders are significantly more likely to be promoted than worst performers, there is no discernible difference between best and worst performers for municipalities and autonomous regions.

In Russia, we do not find a discernible difference between best and worst performers with respect to promotions, although Russia’s worst performing regional leaders are slightly more likely to be demoted than the group of best performers. This is consistent with our hypothesis that the fear of being demoted rather than the prospect of a promotion is a driving career concern for Russian governors.

In sum, the Chinese system thus seems to be indeed more likely to reward performance than the Russian system, although results are driven by the provinces, and not by the autonomous regions and municipalities, which seem to be subject to a different regime of performance incentives.

Table 6: best vs worst performers (China vs Russia)

	<b>China</b> 33 best performers	<b>China</b> 35 worst performers	<b>Russia</b> 32 best performers (20 top and bottom sample)	<b>Russia</b> 36 worst performers (20 top and bottom sample)
Promotions	14	12	2	1
Demotions (of which retired)	9 (5 retired)	13 (7 retired)	15	22
Similar position	3	4	1	2
Still in office	7	6	12	10
Died in office	0	0	1	1

Table 7: best vs worst performers China (Provinces, Municipalities and Autonomous Regions)

China	Provinces		Municipalities <sup>24</sup>		Autonomous Regions	
	30 best performers	25 worst performers	7 best performers	3 worst performers	7 best performers	11 worst performers
Promotions	16	7	3	3	2	2
Demotions (of which retired)	8 (7)	6(4)	2	0	3	5
Similar position	3	5	0	0	1	2
Still in office	3	7	2	0	1	1
Died in office	0	0	0	0	0	0

Table 8: best and worst performers Russia (Oblasts and Krai, Municipalities, Autonomous Regions and Republics)

Russia	Oblasts and Krai		Municipalities		Autonomous Regions / Republics	
	17 best performers	17 worst performers	3 best performers	0 worst performers	12 best performers	19 worst performers
Promotions	1	1	1	-	0	0
Demotions	10	13	1	-	7	11
Similar position	0	0	0	-	0	0
Still in office	5	2	1	-	5	8
Died in office	1	1	0	-	0	0

#### 4) Discussion

In the introduction, we asked why regional bureaucracies in China and Russia have continued to differ markedly in performance and outcomes produced during the last 15 years, despite a bureaucratic structure and formal policy objectives that have become more comparable over time. The answers emerging from the literature review in section 2 and our own data analysis in section 3 are twofold. Firstly, while the *formal* policy objectives stated by the federal governments in both countries are relatively similar (with a focus on economic growth and social stability), the *informal* policy objectives of the ruling elites in Beijing and Moscow differ markedly. In China, the need to keep growth going continues to overshadow most other policy objectives. In Russia, in contrast, regional governors have to prove their loyalty to the ruling elites by delivering sufficiently high election results for the ruling party United Russia, while economic and social development are accorded only secondary importance.

<sup>24</sup> For Chinese municipalities, two politicians figure both among the worst and best performers (Guo Jinlong and Bo Xilai). While Guo Jinlong was promoted, Bo Xilai was arrested in March 2012 and eventually sentenced to lifelong imprisonment, while being party secretary of Chongqing.

In the case of China, the fact that the legitimacy of the CCP is still tightly connected to its ability to deliver high economic growth certainly plays a role (Zhao 2009). In addition, a widely held opinion among China analysts is that a growth rate of around 7% is necessary in the country to keep unemployment from rising<sup>25</sup>. Although other policy objectives such as environmental protection have become more important in recent years, the fact that in practice growth continues to be the only objective that really seems to matter can be seen as an illustration of the multi-task theory of the firm (Holmstrom and Milgrom 1991), which predicts that higher powered incentives will lead to more neglect of the less measurable goals in a multi-task setting.

For the case of Russia, it seems that after the color revolutions that took place in a number of former Soviet republics during the mid-2000s, the ruling elites were genuinely afraid of a similar event occurring in Russia, even if this seemed unlikely to most external observers (Duncan 2013). As a consequence, it is possible that economic objectives were relatively neglected or even sacrificed during the 2000s in order to ensure the ability of regional elites to deliver high election results for the ruling Kremlin party<sup>26</sup>, especially as until the year 2008 high growth rates seemed to be guaranteed through a combination of high resource rents and economic catching-up.

Once Russia's economic growth slowed down after the financial crisis, the country found itself stuck with a number of institutional features whose primary purpose it was to secure political control for the ruling elites, instead of fostering economic growth, diversification and development. In this paper, we argue that some of these features constitute the second reason why the Russian regional bureaucratic system is less able to produce the kind of performance incentives we find in China.

In particular, the fact that most positions at the center have been occupied for some time by a relatively narrow group of ruling elites leads to a lack of upward mobility for regional elites, which in turn explains why we do not find performance related promotions in the Russian system. In addition, the significant investments in the Russian security apparatus that have taken place to control the political opposition (see e.g. Taylor 2011) have led to an oversized monitoring apparatus that stifles regional initiatives, as the security services continue to be evaluated according to the number of corruption cases and regulatory infringements they uncover (Nazrullaeva, Baranov, Yakovlev 2013). Finally, the presidential envoys that oversee Russia's 8 federal districts were put into place shortly after Putin came to power, with the specific objective to re-establish central control over Russia's regions. At the time, Putin still had to consolidate his power, and the battle between him, the oligarchs, and the strong regional elites headed by Russia's regional governors was still open-ended. In putting these new institutions into place, political control was clearly the main objective, whereas establishing institutions in support of sustainable long-term growth rates was not a priority.

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<sup>25</sup> The need for China to grow at about 7% is not related to population growth, but to the fact that China is making rapid productivity gains. As old inefficient state enterprises continue to be privatized and to lay off workers, new jobs have to be created to absorb this ongoing supply of labour (see e.g. *The Wall Street Journal*, November 5th, 2013, "China Needs 7.2% Growth to Ensure Employment", <http://online.wsj.com/news/articles/SB10001424052702303482504579179033609323974>)

<sup>26</sup> For example, Frye, Reuter and Szakonyi (2014) show how regional governors might favour large and inefficient firms, as these are most likely to mobilize their workforce to vote for the regime.

To a certain extent, the institutional features that are keeping Russia's regions from showing the same kind of dynamism as regions in China have thus been locked into place as a reaction of the central state and a new group of ruling elites to the institutional dissolution that took place in Russia during the 1990s. Here again, a comparison with China provides an interesting perspective. While Russia's institutions today are in part a reaction to the institutional environment of Boris Yeltsin's Russia during the 1990s, China's institutional structure during the reform period is very much a result of the experience of the cultural revolution and the 27 years China was ruled by Mao Tse-Tung (Vogel 2011). In particular, the decision to put into place a collective leadership that is regularly renewed due to a strictly enforced retirement age of 65 has played an important role in allowing the upward-mobility that has become a central feature of the Chinese system<sup>27</sup>.

## 5) Conclusion

In this paper, we looked to what extent different degrees of political centralization and decentralization can be responsible for diverging economic outcomes in states with a large number of subnational units. Building on a debate that has compared China and Russia during the 1990s, we find that the degree of centralization *per se* is no longer the main determinant of a persisting differences in administrative performance between both countries. Instead, we argue that certain organizational and institutional features put into place during the early days of reform in China and during the early 2000s in Russia make it until today much more difficult to introduce performance-related incentives in Russia as compared to China. In addition, we also find that the informal policy objectives of the central elites in both countries continue to shape these institutional features, leading to a focus on growth as the single most important objective in China, and on political loyalty as the most important objective in Russia.

One central result of the paper is that regional leaders are promoted for economic and social performance in China, but not in Russia. However, we find that this result only holds for Chinese provinces, whereas China's autonomous regions and municipalities seem to be subject to a different incentive regime. While for Russia an extensive literature has shown that instead of economic and social performance political loyalty in the form of election outcomes for the ruling party is important for regional leaders to keep their job, here an interesting question for further research would be to look if the country's ethnic republics (which are often characterized by election results for the ruling party ranging from 90% to 100%) differ in their incentive regime from other regions of the country.

More generally, the paper shows how performance-related incentives for regional bureaucracies are important to achieve policy results, but that putting such incentives into place is not an easy task. In particular, while policies of performance-related promotions seem to be able to motivate officials in case of a single dominating policy objective, once several objectives are at play (as in the case of economic performance and environmental protection

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<sup>27</sup> The fact that during the same time-period, the average age of the politbureau in the Soviet Union was far above 70 and growing every year while the country was stagnating might also have influenced Deng Xiaoping in his decision.

in China, or political loyalty and economic performance in Russia), systems that combine centralized personnel control with regional policy autonomy seem to be much less convincing in their performance.

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