1. Introduction

*Heaven is High, and the Emperor is Far Away*

(Chinese saying, Yuan Dynasty)

The way center–regional relations are organized in contemporary China has often been presented as a potential role model for other countries (Bell 2015), and in particular for other authoritarian states. As a consequence of the reforms introduced under Deng Xiaoping, the Chinese state has managed to combine an authoritarian political system with a meritocratic and performance-oriented bureaucracy. Although political leaders in this system are not democratically selected, they face strong performance-related incentives, and are promoted with respect to social and in particular economic performance criteria, especially at lower administrative levels. Despite the lack of elections, China’s model of authoritarian federalism also features elements of democratic accountability, high levels of competition, as well as quite a lot of flexibility and room for experimentation. As a result of these features, the Chinese system has demonstrated better results in dealing with the principal–agent problem that lies at the bottom of each federal system than most other authoritarian states, although it did of course not solve it entirely. This, in turn, has helped China to generate one of the longest periods of sustained economic growth in human history.

The central research question of our book is how large authoritarian states, with federalist-type institutions, can attempt to solve the principal–agent problem between the center and the regions. This problem has existed for a long time – indeed, the Chinese saying at the top of this chapter dates back to China’s Yuan Dynasty (1271–1368). In its essence, the question at hand is how to leave the sub-national entities of a federal state with enough autonomy for them to efficiently perform their tasks, while keeping enough control to avoid the disintegration of the country, and to prevent excessive rent-seeking at lower administrative levels. To answer this question, we have adopted a comparative research strategy,

---

by comparing the Chinese model of authoritarian federalism to the model characteristic for the Russian Federation. Our choice of these two countries has been motivated by a paradox stemming from the recent development experience of both countries. As we will show in this book, the way center–regional relations and formal bureaucratic institutions are organized in both China and Russia is surprisingly similar (in part as a legacy of China adopting many Soviet institutions after 1949, and in part because both countries feature vast territories and a large number of heterogeneous regions). The paradox we as researchers are confronted with is that despite an apparent similarity in formal institutions, the growth performance of both countries differs markedly. While China grew at an average rate of 9.6 percent between 1978 and 2017, Russia only grew at a rate of 0.76 percent during the same period of time, despite a much higher availability of natural resources (Figure 1.1). In this book, we argue that this difference can be explained – at least to a significant extent – by looking at the way formal and in particular informal institutions and center–regional relations are shaped and organized in both countries.

*While the growth rate for China is GDP growth, for the RSFSR (1972–1991) and the Russian Federation (1992–2017) we took the growth rate of industrial production from Smirnov (2015), as data for GDP growth is not available for the whole period. The growth rate of industrial production is however closely correlated with GDP growth. From 1971 to 1991, we use the alternative rate calculated by Smirnov (2015), as he argues that the official Soviet rates inflated growth by about 2.5% between 1961 and 1990 (Smirnov 2015, p. 135). From 1992 to 2017, we use official statistics. For the 40 years from 1978 to 2017, China grew at an average rate of 9.6%, a rate of growth unprecedented in recorded human history. On average, industrial production in Russia grew by only 0.76% over the same period, a dismal performance that can at least partially be explained by adverse incentive structures.*

Figure 1.1 Economic performance in Russia and China (1971–2017)
Comparing the respective systems of center–periphery relations in Russia and China also has substantial potential with respect to ongoing scientific debates. There have been numerous studies of Chinese and Russian center–regional relations. However, almost all books and articles treat these countries in isolation from each other, with the few existing comparative studies covering only individual aspects of the topic. As a result, many of the discussions on Russia and China proceed without influencing each other, for example the debates on the Chinese local state and on Russian local autocracies (which we will compare in Chapter 5). At the same time, the interest towards comparing these two countries is very large, and has been continuously growing over time. Furthermore, a comparative analysis can also help us to better understand a number of questions with respect to more general debates in political science and economics. Indeed, China and Russia appear to be a natural case for comparison if one intends to look at how large autocracies deal with their sub-national units. Throughout the book, we present and discuss a range of institutions of center–periphery relations that are adopted by non-democracies, and examine their consequences in terms of economic performance and regime stability. We also discuss in detail whether durable systems of decentralized governance are feasible at all in authoritarian states, or whether the specific features of autocratic politics ultimately always lead to a return of more centralized forms of governance.

Before giving a short outline of the contents of each chapter, it is important to provide some key definitions to introduce the reader to the specifics of center–regional relations in both China and Russia. First, while Russia is formally a federal semi-presidential republic, China is officially not a federation, but a unitary state. De facto, however, China features many elements of a federal state that make it comparable to other large authoritarian federations. Since the early 1980s and until today, China is organized along five levels of regional and local government: provincial, prefecture, county, township, and village. In this book, we will mainly focus on the provincial level, although lower levels will also be addressed when necessary. The 33 provincial-level divisions in the People’s Republic of China include 22 provinces, five autonomous regions characterized by a higher percentage of an ethnically non-Chinese population, the four municipalities of Beijing, Shanghai, Chongqing and Tianjin, as well as two special administrative regions, Hong

---

Kong and Macao. For simplicity, we will refer to all provincial-level divisions as “provinces.” Chinese provinces enjoy a significant level of autonomy with respect to economic policy, which is why China can be seen as a de facto federation, although de jure – as mentioned above – the country is a unitary state.

As in the case of China, Russia’s 85 regions come with a variety of names. In 2018, Russia was composed of 46 oblasts and nine krais, as well as 22 ethnic republics, one autonomous oblast, four autonomous okrugs and the three federal cities of Moscow, St. Petersburg and Sevastopol. The oblasts and krais are legally identical, and have populations that are mostly ethnic Russians. In most ethnic republics, on the other hand, the majority of the population is of non-Russian ethnicity. In the past, they enjoyed somewhat larger autonomy, but currently most of them do not have any additional privileges as compared to other Russian regions. One important difference to be highlighted between China and Russia is that Chinese provinces are of course much larger in terms of population than Russian regions, with an average population of 44 million, as opposed to an average population of 1.7 million for Russian regions. Still, the fact that regional leaders in both countries are appointed by the center, while enjoying relatively large amounts of autonomy with respect to policy implementation in their respective regions, makes it worthwhile and interesting to compare both systems, in particular as the outcomes produced by both models vary substantially.

Chapter 2 starts the analysis of our book by outlining the formal models of fiscal federalism in China and Russia. We find that while both systems share many similarities, one crucial difference is that Chinese sub-national governments have a residual claim on revenues, which is not the case with Russian regional administrations. The ability to retain some of the resources generated in the region is a first crucial factor explaining why Chinese regions feature higher growth incentives for regional officials than their Russian counterparts. Chapter 3 continues our study of center–regional relations, by looking at the mechanisms used to appoint regional officials. Here again, both countries are very similar in the way formal institutions are organized: leading regional officials are appointed by the federal center, but enjoy relatively large amounts of autonomy in their regions (although the space for maneuver by Chinese officials is higher than that of Russian officials). However, one crucial difference consists of the performance criteria used by the central government when deciding upon appointments. While in China economic performance (in particular at lower levels) as well as personal connections (at higher levels) play a key role, in Russia regional leaders have to keep their...
regions quiet and under control, while using their political machines to deliver electoral support for the government during elections.

Chapter 4 then addresses the principal-agent problem every large federal state is confronted with, i.e. the question of how to monitor and control the performance of regional officials. We document how both China and Russia have been using a variety of strategies to collect information about what is going on in the regions. Again, the monitoring strategies used by China until fairly recently were more conducive to create a pro-growth environment than those used by the Russian central state. However, with the onset of the extensive anti-corruption campaign initiated by Xi Jinping in 2012, this has started to change. We show how China’s increasing focus on control is changing the incentive structure faced by local and regional officials, and how as a consequence the Chinese system of monitoring and control is becoming increasingly similar to the Russian one.

These changes have also started to affect the way political and economic relations are organized within the regions. In Chapter 5, we compare the Russian concept of "sub-national political regimes" with the Chinese concept of the "local developmental state." While Russia features a wide array of different sub-national regime types, which range from quasi-democratic polities to autocracies of the Central Asian type, China’s regions are organized in a much more homogeneous way. Especially during the 1980s and the 1990s, China’s regions and localities were characterized by growth coalitions between an emerging class of entrepreneurs and local and regional officials, which became known as "local developmental states." In Russia, on the other hand, the local regimes were and are much less focused on growth, and more on rent-seeking and preserving their autonomy from the center. From the early 2000s onwards, however, the Chinese local state has evolved and lost many of the characteristics that had made it a growth engine in earlier years, in particular because of ever larger opportunities for corruption and rent-seeking at the local and regional levels (Ong 2012; Pei 2006, 2016).

Finally, we look in Chapter 6 at the underlying determinants for the differences between China and Russia that we have identified in this study. Here, we pay particular attention to the way national politics is organized (especially the existence of vertical elite networks), to differences in ethnic composition, resource endowment and economic geography, and to the beliefs and ideologies of central elites. We also show how historical path dependencies and the mutual learning between China and Russia have influenced the specific models of authoritarian federalism that have become characteristic for both countries.
As mentioned above, one of the starting points for our analysis was to understand the reasons for the variation in the growth performance between China and Russia, as well as the question if China’s model of central–regional relations could serve as a role model for Russia and other large federal countries. Our analysis has revealed that there are indeed a number of features conducive to increase the growth performance of a federal system. With respect to fiscal relations, giving regions a residual claim to the revenues created at the regional level can play a crucial role in incentivizing regional governments. Similarly, appointment and promotion criteria for regional officials that are linked to economic performance certainly have an important effect. Another useful ingredient is a monitoring system that does not excessively rely on punishment and control, but allows room for policy flexibility and experimentation. Finally, the experience of the Chinese local developmental state has shown how a meritocratic bureaucracy in combination with competition and experimentation can release unexpected levels of economic dynamism.

Somewhat ironically, however, our study has also revealed how during the last six years, instead of Russia learning from China, the Chinese model of center–regional relations has started to look increasingly like the Russian one. While a growing problem with corruption has changed the way the local developmental state is operating, Xi Jinping’s authoritarian tendencies and his reaction to China’s corruption problem have started to undermine the very features that made the Chinese model successful in the first place. As we show in Chapter 4, the ongoing anti-corruption campaign has paralyzed a bureaucracy that had previously distinguished itself by its dynamism and proactive implementation of development projects. In addition, by abolishing term limits for the Chinese president, Xi Jinping has sent a dangerous signal that might undermine one of the pillars of China’s meritocratic bureaucracy – the obligatory retirement age of 65 for state officials. Indeed, the recent developments in China have revealed the instability of an institutional system that until some years ago seemed to be surprisingly stable. Thus, the possible end of the institutionalized change of power at the top of Chinese politics might well announce the “End of an Era,” as argued by Carl Minzer (2018). Instead of being an exceptional case of an institutionalized autocracy with a meritocratic bureaucracy, China might rejoin Russia among the ranks of “ordinary” autocracies, with a leader who clings to power and local and federal elites engaged in rent-seeking. However, one should also not underestimate the dynamism still inherent in the Chinese state – as argued by Sebastian Heilmann (2018), things could also go the other way, with China staying a successful exception. In this respect, taking a comparative perspective can help us to better
understand the challenges faced by large authoritarian federations, and consequently form a more informed opinion about the possible future development of two of the world’s most important countries.