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# **The phenomena of after socialist institutional transformation: China and Russia comparison**

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## **Abstract.**

*The author presents an approach to the comparison of fundamental institutional changes in China and Russia attributed to the after socialist countries. Proceeding from the analysis, the trend of the institutional divergence between China and Russia considered in the nineties later changed to the trend of convergence. A unifying feature of the both economies concludes in the prevailing institutions of state capitalism in combination with the attributes of socialized market. In the current moment, there are discrepancies with respect to fundamental institutional changes between two countries, which may result in the emergence of new divergence trend.*

**Key words:** *after socialist countries, state capitalism, socialized market, convergence, divergence*

**JEL classification:** *O43, O57, P30, P52*

## **1. Introductory remarks.**

Institutional changes in China and Russia in the aftermath of the socialist era continue to evoke a keen interest. Selected issues related to this topic consider in a huge number of publications, which are simply impossible to list. At the same time, the phenomenon of the fundamental institutional transformation remains out of sight, including the recent resonance publications (Garnaut, Song and Cai (ed.), 2018; China systematic country, 2017; Russia's economy, 2018). Let us try at least partially to fill this gap.

First, about theoretical foundations of the research. The initial approach to the study of the phenomenon of transformation of root institutions in the course of a comparative cross country study grounds on the recognized criterion of institutional dominance, proceeding from the outstanding fundamental works (Schumpeter, 1942; Kor-

nai, 1992). In accordance with this criterion, the nature of the national institutional system, primarily in the economic field, may be distinguished on the base of two groups of root structure-forming institutions. The first group consists of the institutions of property: private, public and state property, corporate (group) property. The second group includes the institutions of self-regulation, public (state) regulation and corporate regulation.

The consequences of root institutional changes objectively display in other institutional shifts of system value, including at the micro level. However, by the widely spread opinion that the author shares, the trajectory of the national economy transformation is also to a large extent predetermined by its structural originality, taking in account a long historical period of time. Specific structural resource shifts, primarily sector and spatial-regional, have accompanied by induced and interconnected changes of formal and informal institutions, largely autonomous from the initial root changes. In accordance with the recognized theory (North, 1990), in the usual period, after the system transformation turn, the incremental institutional changes mainly correspond to the condition of stability and acceptable adaptation.

Our comparative study mainly concerns the problem of transformation of root economic institutions. At the same time, the complementarity of the economic transformation by transformations on other areas of social actions - societal (status) and political - has an exceptional importance. It predetermines the degree of stability of the existing trajectory of the root institutional changes.

In addition, I would like to focus on the next point. Of course, institutions do not define everything in economic and other social systems. Thus, the key role of technological innovations as a partly exogenous factor that initiates, ultimately, large-scale economic changes associated with institutional shifts is widely recognized. Besides, the processes of demographic and climate change have a significant autonomous influence on economic and overall social development. They act as special corresponding factors of the institutional transformations, which should embrace.

In the context of the foregoing one cannot ignore the well-known topic of the transitive economy (Balcerowicz, 1995). A large number of fruitful case studies of transitional economic processes had been completed. They comprehensively summarize in a well-known publication (Roland, 2002).

It is appropriate to state. In the nineties, the outcome of the transformation in the former socialist countries that were not EU members was the approval of the so-called “transitional” institutions (Stiglitz, 1999; Qian, 1999; *The First Ten Years*, 2002, p. 26-32). Actually, they include the mutually opposing institutions of state capitalism and socialized market performing as institutions of the emerging market economy.

Now about the accepted hypotheses of the study. Proceeding from the trends that have been developing up to now (*The Global Competiveness Report*, 2018), it is legitimate to suppose that the emerging markets possibly will very incrementally turn into developed markets by world quality criteria. At the same time, there is good reason to believe: the root and other mature formal institutions, which may arise in a result of such incremental transformation, will differ significantly from the institutions of existing developed countries, additionally taking in view the deep divergence of their national economic systems (Whitley, 1999; Hall and Soskice (ed.), 2001; Amable, 2003). For at least two valuable causes. Firstly, the functioning of informal institutions inherited from the socialist era and dependent on cultural national dominants. Until now, these institutions do not come close to the patterns prevailing in the Western world. Secondly, the exclusive role of the ruling elites, genetically different from the existing elites in Western countries.

Our own research hypothesis is as follows. The further transformation of institutions in the emerging market economies into mature ones will be achievable if a mutually complementary of the root structure-forming institutions would be established. It will correspond with overcoming the contradictory coexistence of state capitalism and socialized market as the institutional orders.

The imperative of the objectivity of a comparative study of the problem of institutional transformation in countries that attributed to the after socialist ones predetermines the logic of exposition of the manuscript in a temporary chronological sequence. In the initial part, the tendencies of fundamental institutional changes in China and Russia have compared from the moment of the collapse of the Soviet bloc in the initial period of adaptation and further in the period of zero. On this basis, in the following part the similarities and differences of institutional changes in both countries in the present period have revealed. At last, the final part discusses the prospect of further institutional transformation in the leading after socialist countries, corresponding to economic and overall social progress. A brief conclusion has presented at the end.

## **2. The after socialist transformation: recent past.**

In order to understand today's collusions of institutional transformation in above countries it is first appropriate, following a recognized theory, to turn to its starting period of the early 1990s, marked by the collapse of the Soviet Union. During the designated period, there was a definite institutional divergence of development within the former socialist world, clearly manifested in the two groups of countries - Russia and other CIS countries, on the one hand, and China and Vietnam, on the other.

As is known, in Russia and other CIS countries a big-bang turn, albeit temporary, to the neoliberal model of development had taken place (17th International Seminar, 2000), stunned many Western intellectuals. It would seem that China's experience should have been the desired model, since everyone recognized its successful market reorientation. Let me to remember, that Deng Xiao Ping during the reign of Gorbachev named the great Chinese reformer.

However, the interests of the elite and the formed bourgeois stratum (including criminal circles) in legitimizing their wealth turned out to be above all in the conditions of the prolonged dominance of informal institutions of so-called nomenclature socialism (inbox 1). The factor of strength that the elite had in the person of the former KGB was also of great importance. Actually, elite, but by no means democratic choice occurred, contrary to official propaganda.

*Inbox1. The phenomenon of nomenclature socialism had an obvious historical under-stitch (Voslensky, 1984; Shlapentoch, 1989). After the constant Stalinist purges had sunk into oblivion, the order on the rights of real owners the main part of the formally public ownership passed to the highly established bureaucracy. Quite naturally, the new Soviet bourgeoisie began to replenish, at first place, at the expense of representatives of the nomenclature stratum.*

*The dominant position in the society of representatives of the nomenclature directly expressed in their real incomes, received, as it were, in accordance with the communist principle by needs and tens of times higher than the incomes of ordinary citizens. This inequality decisively explained by the enormous size of "free" privileges in the form of consumption of food and other products, the use of public summer residences, high-quality medical*

*and sanatorium-resort services and other benefits distributed through closed channels, compared to the obviously low wages of workers. In essence, the nomenclature acted as an exploiting class.*

*Private shadow capital, with the direct support of the authorities, has long been rooted in Moscow and the Moscow region during the Soviet era. For a long time, the creation of big capital and a large personal fortune turned out to be possible only with close mutually beneficial cooperation with representatives of the Moscow authorities. In essence, the Soviet bourgeoisie nomenclature, which had enormous administrative and financial resources, was the main interested social force in the fall of the socialist state in 1991.*

The system turn in Russia in the early 1990s decisively manifests in the transformation of the root institutions of ownership and coordination, affecting all fields of social action.

Corporate and personal property, as if inherited from the socialist era, occupied the largest share in the national wealth. It was this huge property that, in the course of the unprecedented Russian privatization, check and monetary, had redistributed in favor of representatives (including family members) of the old and new nomenclature. They had taken key positions in former socialist enterprises in the real sectors and in the banking sector. A particularly significant contribution to the redistribution of national wealth had enclosed by the privatization of natural monopolies within the framework of raw materials industries, coupled with the appropriation of huge super-profit owners, new and former chief managers of relevant organizations.

Institutions of coordination had also changed dramatically. Due to the one-time liberalization of prices according to the type of “shock therapy” and ultra-fast banking liberalization, the market parameters of economic activity became unconditionally dominate. At the same time, the limited potential that arose during the liberal reform of the legal field of market self-regulation had filled by the spreading of huge shadow, largely criminalized, markets. An unprecedented "piratization" of the Russian economy occurred (Goldman, 2003).

Under the conditions of the deepest industrial recession and inflation in 1992-1995 maintaining the policy of radical liberalization itself was determined by the general interest of well-known international / domestic circles that had fostered the former Soviet bourgeoisie, including the tycoon of criminal business, and the leaders of former socialist enterprises in super-profits and their profitable capitalization (Martynov, 2016). The full effect of the initial accumulation had manifested in this period.

The difference between the formal norms implanted from the outside, which ensured market liberalization, and informal institutions, coupled with organizational mechanisms inherited from the socialist economy, became especially acute. As follows from the argument of Douglass North (North, 1994, p. 366), this discrepancy manifests itself in a strong bias in the results of economic activity in comparison with the countries-recipients of imitated norms.

The expectations for favorable changes in the social structure by the formation of an entrepreneurial stratum in the course of frontal market liberalization and privatization were not justified either. In Russia, as in most post-Soviet states, the entrepreneurial middle class did not really have the economic and, especially, political resources sufficient for public leadership. The leading position in the status pyramid belonged to the existing integrated stratum of old and new nomenclature and shadow, largely criminal business, closely related to many representatives of a high-ranking state bureaucracy.

There was no formation of a democratic order of coordination in its traditional sense. For a long time, Russia's political life in the nineties distinguished by frank populism combined with "new" authoritarianism that violated legal and other normal conditions for business activities. The most serious authorization of state policy manifested at the level of individual regions, whose leaders gained real independent power because of the "distribution of sovereignties" as if on a democratic basis.

In contrast to Russia, the economic model reformed in China has definitely stood the test of time. Here there was a radical transformation of property relations. It reflected in the historic decision of the Assembly of People's Representatives in 2002 on the legalization of private property.

Privatization in Chinese wore the natural nature of the reform "from below". It mainly affected cooperative urban and rural enterprises (TVE), where property had taken over by internal insiders - managers and, to a lesser extent, working personnel and local administrations (Naughton, 2007).

In parallel, a fundamental incremental change of the institutions of economic coordination took place, clearly manifested in the transition to full-fledged price and tax market mechanisms. It makes particular sense to pay attention to the successful implementation of dual-track reform (Lau et al., 2000; Streeck and Thelen (ed.), 2005;

Garnaut, Song and Cai (ed.), 2018), which was expressed in creating conditions for effective market liberalization while maintaining social stability.

In the course of market reforms, complex changes occurred in the stratification structure (Bian, 2002). The role of the working class has weakened considerably. Simultaneously, the status of administrative and managerial personnel, as well as entrepreneurs and qualified technocrats, increased. There was also an emergence of business elite, which immediately became a partner of the party and state elite. According to the generally recognized opinion, not all these changes had a destabilizing effect on economic development, contrary to Russia.

The co-storage of absolute political power in the hands of the Communist Party of China (CPC) remained an integral feature of the life of nation. At the same time, there were signs of the spread of civil liberties and contemporary cultural values, accompanying with weakening the orthodox character of the communist ideology. Democratization had affected virtually all directions of government activity. Apparently, it most pronounced in the implementation the election of heads of local administration.

It is appropriate to put the question squarely: what is the cause of the fundamental difference in the fate of late socialism at the turn of the nineties in Russia and the majority of post-Soviet countries, on the one hand, and China, on the other?

At first place, it makes sense to focus on the following issue. In the former USSR, as well as the former socialist European countries, the tendency of a dead-end evolution, which continued for several decades, acquired a huge inertial mass. Perhaps most significantly, this phenomenon manifested itself in the existence of a powerful nomenclature stratum, interested in maintaining the status quo and not at all interested in system institutional changes. As a result, grandiose expenses were required to overcome the discrepancies between the command institutes and legitimate institutions of a market economy and partial political democracy.

At the same time, the period of real socialism in China was much less long. Thus, a little more than a 10-year period separates the Cultural Revolution and the implementation of system institutional reforms begun by Deng Xiao Ping and his like-minded people who had returned to power as early as 1978. Just two years after the death of Mao Tse Dong and long before the attempt to drastically reform socialism in the Soviet Union in the mid-1980s. The market reformation of socialism with Chinese characteristics took place essentially from a “clean

slate”, being not burdened by the presence of informal bourgeois forces, as in the period of Gorbachev ruling (Chow, 1985). Speaking in a mundane language, the bureaucracy was young and simply did not have time to consolidate as a social force capable of opposing the reforms “from above”. The will of the party leadership remained the supreme law, taking in a view a great fear of a new round of mass repressions as in the period of the Cultural Revolution.

It is impossible not to take into account and the following circumstance. China, at the eve of the collapse of the world socialist system, included largely traditionalist society. Society, where the peasant way of life with a very low population mobility played an extremely important role.

Radically different influence on the course of institutional transformation in China, on the one hand, and in Russia and other CIS countries, on the other, had a course of neoliberal globalization.

China had consistently implemented a gradualist strategy of slow market liberalization by means of incremental institutional changes, aimed at minimally burdensome adaptation to global economic changes and attaining maximum competitiveness of national producers in foreign markets. Long phased economic reform characterized by incremental changes in the formal institutions, which were in line with changes in the informal institutions (Chavance, 2008).

Consequently, crisis perturbations in the course of world economic development at the end of the 90s almost did not seriously touch the Chinese economy. The successful radical technological transformation in the existing "mixed" institutional environment was also quite achievable, visibly manifesting in accelerating the introduction and diffusion of advanced technological innovations in civil market sectors.

According to the generally accepted opinion, a unique demographic dividend was effectively used during the eighties and nineties (Cai and Wang, 2005). The huge increase in the number of people employed in market sectors turned out to be one of the drivers of very high economic growth.

At the same time, the state of the environment has not undergone improvements in comparison with the socialist past. The negative effect of climate change had definitely been seen though it had not significantly influenced on the course of economic transformation.

Quite a different story - the institutional transformation in Russia in the nineties. The insolvency of the institutions of liberal capitalism imported from abroad by the IMF patterns had recognized by the government with great delay only on the eve of the devastating financial crisis in August 1998, essentially resulting from the global crisis of 1997-1998. This crisis expressed in a lot of brief decline in commodity prices and a concomitant tremendous increase in loan defaults and other debt obligations, to which the Russian economy was not ready.

The result of the neoliberal stage of transformation was a dramatic decline in the resource potential of the national economy. In a long period of radical market reform the deep crisis state of the main production sectors remained, comparable only to the state of Western economies during the Great Depression.

Besides, without any exaggeration, the costs usually called social were enormous. They directly manifested themselves in the expansion of the poverty zone and the increase in its absolute level, a sharp decrease in the average life expectancy and expanding the incidence of serious diseases.

In parallel right up to the 1998 crisis in Russia clear erosion of high technologies and over simplification of the technological base on whole took place. The demographic failure also turns out very harmful. It had complemented by adverse environmental changes in many regions and, ultimately, a strong deterioration in the state of human capital.

The initial period after the fiasco of neoliberal globalization course in above countries characterized by a cardinal increase in state intervention. The most widely used well-known, called Keynesian, instruments of government regulation. Among them, a special role assigned to stimulating economic activity due to state investment accompanied by spreading of a holding form of corporate ownership with state participation. It is worth noting that this practice had objectively dictated by global experience of improving corporate governance institutions on the principles of vertical and horizontal integration for the sake of enhancing market competitiveness.

In fact, a specific modern model of national state capitalism had implemented. Its distinguishing feature concludes in the direction and control of key production flows from the state precisely on capitalist principles. At the same time, the institutional area of state capitalism turned out to be limited. It complemented by other institutional areas, including the inherited socialized market.

The institutional turn to state capitalism in Russia had distinguished by two main consequences. First, the activity of oil and other raw oligopolies (monopolies) has become the object of strict external corporate control by the new government. This control expressed in the strengthening of tax discipline and the application of specific methods of state interference, accompanied by organizational and personnel changes and the tightening of internal corporate control. Second, the market power of private banks has sharply decreased, and the federal and state-owned regional banks have become dominant in the main money and credit markets. As a result, the way had opened for the long-needed large-scale investments in real sectors.

Apparently, the most positive institutional shift was the improvement of corporate governance, which had a significant macro effect. This shift incrementally took place mainly at the initiative of corporate management due to the successful debugging of legal regulations on the base of previously adopted framework laws. In a result, it became possible to harmonize the interests of the main subjects of corporate governance.

At the same time, according to the case studies, a negative environment for legal entrepreneurial activity outside the corporate sector had preserved in Russia (e.g. Aidis et al., 2008). The existing institutions did not protect entrepreneurs from administrative arbitrariness; unwritten norms of the illegal economy continued to dominate. It can state that the approval of the state-capitalist mode contributed to a rapid recovery (relative to the pre-reform level) economic growth in Russia in the middle of zero. Truth, according to all estimates, this phenomenon had decisively explained by the increase in the prices of oil and other raw materials, coupled with an unprecedented scale of foreign lending, including shadow, at low interest rates.

Meanwhile, in China, the establishment of state capitalism in the period 1995-2003 was a direct consequence of the corporatization of the large-scale state-owned enterprises (SOE) with the involvement of private capital, but with the state control retained (Naughton, 2007). Later, targeted restructuring had carried out, in many cases on the ground of vertical integration, in the SOE sector accompanied by the closure and sale of property of unviable monster enterprises. Actually, the state had turned into the main capitalist - the owner/manager of countless corporate share capital with the participation of private investors, both domestic and foreign.

The giant SOEs in key industries benefit from economies of scale that reduce costs at all levels, and provide a myriad of small and medium production units with inexpensive inputs that ensure competitive manufacturing conditions in the markets. China's export success had attained largely due to the cost of inputs, provided by SOEs. TVE's cooperative enterprises sector also became an important component of the state-capitalist structure. It should be borne in mind that in a large degree TVE had incorporated into regional industrial clusters created by means of public investment and controlled by government organizations.

The possibilities of foreign economic expansion also realized thanks to direct government support and direct participation of the state in corporate business (Kurlantzick, 2016). In this way, competitive advantages had achieved, in any case temporary, of corporations with state participation in comparison with ordinary private corporations in individual markets.

Consequently, the role of the state and the CPC in the process of economic coordination dramatically increased. In fact, the concept of new authoritarianism became official, in accordance with which the development of market relations should mature gradually and under the auspices of a strong, that is, still authoritarian party-state power. The assertion of state capitalism in both countries turned out to be associated with the phenomenon of growth of existing emerging markets distinguished by imperfect institutional arrangement (Marquis and Raynard, 2015). The advantage of these markets due to high current profitability and return on investment has fully manifested itself.

In the "after liberal" period significant shifts in the social (status) structure occurred in above countries. Thus, poverty has decreased in Russia; the share of the middle class in the population has stabilized. The number of the middle bourgeoisie had relatively reduced. This cannot be said about the rich bourgeoisie which families began to prefer living abroad, placing the capital there (Novokmet et al., 2017). At the same time, China had successfully adapted itself to employment in a rapidly growing private sector. In parallel, a complex stratification structure had established, characterized by the polarization of the rich and the poor (Lin and Wu, 2009).

The turn to state capitalism in the economic field explicity accompanied by the strengthening of an authoritarian political course. It had contributed, one can recognize, to the achievement of economic stability and an acceptable climate for investors, including foreign ones. In addition, on the external political arena a shift towards opposition

from both countries to the course of the United States and NATO took place finally formed after the events in Yugoslavia and Libya.

At the same time, a situation of uncertainty regarding the final choice of the economic development model of both countries persisted for a long time. The following circumstance was of critical importance. The Chinese and Russian economies had faced with the need to adapt to the global capitalist order, being highly dependent on mutually complementary global financial and commodity markets. Amid the speculative boom, the capitalization of the corporate sectors in these countries had increased dramatically, with a decisive impact on state-owned corporations and corporations with significant state participation. Their multibillion-dollar assets in the form of privatized share holdings had invested in the share capital of other corporations, even in the media.

However, all this happened before the global crisis of 2008–2009. After it, the growth trend of corporate capitalization soon weakened, as so as the dependence on the global stock market and foreign investment flows. The situation in the internal economic space had fundamentally changed in terms of the unconditional transformation of the state into the main coordinator and investor.

The result is logical: in general, the trend of institutional divergence in the considered after socialist countries has changed to the opposite - the trend of convergence (Carlsson et al., 2015).

### **3. The present stage of after socialist transformation.**

First, turn to the current economic transformation of China. Some researchers, until recently, expressed the opinion that the Chinese economy would inevitably come closer to the existing economies of Western countries. They proceeded from formal indicators - the share of private capital in total financial assets and the share of income of rich families. The distribution of property in key sectors, as well as the mechanisms for regulating the movement of resources, which were in the hands of the state and simultaneously the CPC, had not taken into account.

The phenomenon of the current Chinese state capitalism may be representing throw the positioning of the root institutions of ownership and coordination.

As known, the state-corporate sector of SOE still constitutes the skeleton of a multi-dimensional Chinese economy, predetermining the performance of other sectors, and primarily the TVE sector. Chinese corporations remain in the dominant part in public ownership: approximately 60% of their assets belonged to the state, 30% to

private owners and 10% to foreign capital (Piketty et al., 2017). It is significant that the share of public ownership ceased to decrease after the last global crisis of 2007–2008.

Obviously economic coordination within the framework of the preeminent state-corporate sector and other sectors dependent on it has mainly carried out by means of institutions of state regulation. In the zone of their operation, a large private capital also is actually located since all well-known Chinese billionaires - the owners of private corporations work closely with the authorities (Cendrowski, 2016).

Besides, an integral feature of the Chinese economic model concludes in a comprehensive government control of the banking system and financial markets. The Chinese state banks leading in world ratings play the extraordinary coordinating role in the main sectors of the national economy. Simultaneously they serve as agents of the monetary and credit policy of the most powerful state of the East abroad.

From the previously mentioned, however, it does not follow to deny the weighty influence on the economic life of the socialist heritage. Significant arguments evident in favor of retaining the institutionalized attributes of market socialism.

Thus, public ownership of land and natural resources, which is a combination of state ownership at the national level and collective ownership at the local level, guarantees rural producers access to land (Long et al., 2018). In addition, the state now everywhere and tightly controls the minimum wage and remuneration of SOE managers, regulates the prices of everyday consumer products, monitors the implementation of the remaining targets for many commodity items, especially in pure regions.

To sum up, the channels of independent use of private capital and personal wealth remain limited. Based on the mentioned criterion of institutional dominance, the state-corporate order in conjunction with the social market institutional order prevails. Therefore, there are weighty grounds for asserting that the economic transformation of China occurs to a decisive extent according to a specific model of the symbiosis of state capitalism and adapted socialized market.

How productive is the existing root institutional structure in terms of national economic progress?

According to the widely accepted opinion, a shift from the earlier export oriented investment pattern to the consumption-driven growth pattern has been taking place (China systematic, 2017). The macro structural and financial balances have definitely improved (Zhang, 2016). Over the past few years, the supply-side reform has been carried out, which consists in getting rid of excess capacity and housing, maximally reducing unsecured loans, reducing production costs and overcoming resource imbalances. It becomes a prelude to the ongoing reforming of the root institutions.

The economic expansion of the Celestial in a non-Western world will strong on all grounds. It is fundamentally associated with a move away from labor-intensive and ex-port-oriented manufacturing in favor of innovation and services, as evidenced by the advance of the grandiose Belt and Road Initiative in many countries of Asia and Africa (Johnston, 2018). To implement this Mega-Project with the participation of giant Chinese banks, the institutional concessional financed investing mechanism (based on the so-called “patient capital” model) has successfully used to date.

In addition, China retains overall technological leadership in the global arena. High-tech Chinese corporations occupy the first places in the use of the latest information and a number of other technologies that will determine the appearance of the twenties economy. Along with this, the impressive growth of the green economy continues within the regional clusters in accordance with the imperatives of sustainable development (Weng et al., 2018). Truth, the previously emerged environmental thrombus would not disappear (such as in Beijing).

At the same time, fundamental obstacles have arisen in the development of the Chinese economy. There has been a decline in the export advantages of the Chinese large corporate sector, previously based on cheap labor and economies of scale, with a concomitant slowdown in foreign investment in the face of the apparent aging of the population. There is also a huge regional gap, especially manifested in the west of the country with its poor peasant population.

The indicated factors limiting the development of the Chinese economy are largely explained by institutional flaws. At first place, over the economic dominance and monopolistic position of enterprises of the state-corporate sector in priority sectors thanks to the active support of the CPC. As a result, a depressive effect has induced on

other sectors, especially on the private sector (Batson, 2016). Here, until recently, a discriminatory credit regime actually operated (Xu, 2018).

The adverse effect of the “accumulation” of institutions of the state capitalist and socialized market orders in the main links of the Chinese economy is also very significant. Thus, soft budget and credit restrictions, which still apply to most SOE coupled with special social benefits, make it possible to maintain excessive employment and low productivity in world standards. In a large number of industries, in terms of growth rate, it lags behind wages. In turn, many provincial cooperative enterprises are under the pressure of regional plan targets and oversight by CPC representatives on the ground and are not competitive, even in the domestic market. In general, a distinctive feature of the current Chinese economy remains the constant “split-up” of the interests of managers of corporations and enterprises under state control.

The results of the status transformation in China in the period of the tenths are definitely ambiguous. The tremendous reduction in poverty and the concomitant increase in social mobility have definitely contributed to economic progress and increased prosperity.

At the same time, researchers rightly emphasize the specificity of the phenomenon of the “middle income” trap of a large part of the employed, specialists and skilled workers in China manifested in their low interest in increasing productivity (Holland, 2017). It adversely affects the results of economic transformation.

Besides, despite some reduction in the differentiation of current incomes, the trend of deepening social inequality in terms of disposable wealth persists (World Inequality Report, 2018). It can intensify and pose a system threat in the approaching period of digitalization and the spread of labor-substituting technologies associated with the widening of the gap in earnings of the main qualified personnel and the "auxiliary" employees.

Undoubtedly, the processes of institutional reform struck with political constraints, to a decisive extent due to the imperious authoritarian power of the CPC. It is appropriate to highlight the absence of significant democratic changes over the past decade, despite serious manifestations of opposition sentiments, primarily in local elections. At the same time, the intensification of confrontation with the United States and other international conflicts in the current period dictates the desirability of maintaining rigid political leadership.

What is the picture of the institutional transformation of national economy in today's Russia?

The structure of property distribution here in many respects similar to that existing in China. Formally, the share of private property in the main non-financial assets (funds) is very large (about 65%). However, in large part it belongs to leading corporations and their direct partners - banks, in turn, controlled by government departments and especially special services. In particular, the state acts as the holder of shares of military-industrial corporations, which are holding companies by organizational and financial form.

The ratio of the significance of root coordination institutions in the Russian economy also almost duplicates the Chinese pattern. Institutions of state coordination in a large degree determine the state of the corporate sector with its huge state / special-purpose assets — unconditionally leading in the Russian economy and the owners of a majority stake in a number of corporations - oligarchs - are completely loyal to the authorities (although some persons may be forced).

In parallel, the attributes of a socialized economy preserve. In fact, the socialization of employment in vast areas of low-paid and low-skilled labor takes place. In many ways, it is due to the need to employ a huge number of external and internal migrants in relatively prosperous regions (Moscow and several others).

Definitely, a revival of the socialist collective principle of wages occurs in certain types of non-profit activity in many regions. In addition, the informal institutions of cronyism's morals and the provision of well-paid jobs exclusively for "relative" people in the tradition of the Soviet era have strengthened their influence on economic performance.

The reproduction of the socialist distribution attributes in the market conditions has favored by at least three significant factors. Firstly, the unbelievably high proportion of people employed in low-skilled labor, in particular, as sellers in the most ordinary stores and auxiliary workers in construction. Secondly, the low payment of qualified personnel by world standards, especially in traditional market sectors. Thirdly, a huge number of external and especially internal migrants; due to their interest in any job, labor markets are fundamentally deformed. Thus, there is a weighty reason to believe that the socialized market order is very significant in a mixed Russian economy. Truth, it performs as a trustworthy one, essentially fulfilling the stabilization role in conditions of an undeniable primacy of the state-corporate order.

In full analogy with China, it is safe to talk about the approval of the full market power of the largest corporations. In Russia, there is an excessive concentration of the largest corporate capital, unique for countries with a multi-dimensional economy. Thus, according to the results of a special survey in 2018, the share of capital of 100 largest Russian corporations in the total capitalization of the stock market was almost 90%; in previous periods it was even higher (Russia's largest companies, 2018). In fact, the domestic monopolies / oligopolies through their relative companies (daughters, grandchildren, etc.) own the overwhelming majority of the capital of all other enterprises. Almost all sectors of the national economy are highly dependent on the largest economic feudal lords, who, in turn, are strictly "taken care of" by the authorities.

In Russia, the number of potentially competitive companies with the middle capital by modern standards turned out to be scanty: the share of employed here is below 3% (Sector of small and medium entrepreneurship, 2018). The weak presence of modern medium-sized businesses is quite naturally associated with deep imbalances in the development of Russian regions, which have greatly increased over the past few years.

At least, the same applies to small businesses. The individual business sector especially deforms in ordinary regions distant from the Center. Here the activity of small enterprises is under the complete control of the provincial bureaucracy and organizations of the Single Russia party. The local economy has essentially in the pen. The independent entrepreneurial initiative at the regional and local levels actually suppresses. For this reason, the weak development of a green economy in Russia in most regions has observed.

The consequences of institutional "layering" - the links of state-corporate and socialized market structures in Russian economic life are also quite visible.

Thus, de-commercialization of construction activities carried out at the expense of state (municipal) investments has observed. In many cases, the economic effect of this socialized activity is quite ephemeral accompanied by the reproduction of a huge number of surplus jobs and simply a waste of resources, causing ecological damage in the spirit of the socialist era.

Generally, a very unfavorable dynamics of labor productivity in most sectors of the Russian economy reproduces (Russian Statistical Yearbook, 2017:115; 2018:115). As numerous case studies demonstrate, this process largely

explain the current resulting trends - a modest, little tangible and, to a large extent, brown economic growth and a long-term decline in the real incomes of the population.

I can argue that the continuing status transformation in Russia contributes to the root institutional stagnation in the economic field (Martynov, 2016). Indeed, the current model of social structure in Russia definitely represents an obvious pyramid. The main part of citizens is “the lower classes”, which are opposed by the elite stratum and the stratum of the rich bourgeoisie with a relatively limited middle class even in its broadest sense. As a result, the semi-poverty consumption pattern prevails meanwhile the existing zones of elite consumption are very narrow.

There is a profound “proletariatization” of society, when, by the number of the sexes, the semi poor strata prevail over other strata, including the extremely diverse social conglomerate in the middle class. Essentially, the limited level of the needs of the majority of Russian residents, who do not expect to achieve a high level of well-being and quality of life, has conserved. This majority deeply accustoms to a strong socialization of economic life.

The purposeful maintenance of political stability seems to have a stagnating effect on fundamental institutional transformation. In Russia, as in most post-Soviet countries, over the past decade the authorization of power has only increased with the formal preservation of the institutions of political democracy implanted after the collapse of the communist bloc. As is known, the functioning of authorized institutions well combines with the socialization of the labor activity of ordinary citizens.

Is the question of the imminent collapse of the existing institutional framework of the Russian economy legitimate?

Apparently not. The argument is obvious: in spite of all institutional flaws, up to now the positive shifts have produced that initiate the partial economic progress.

One can recognize achievements in the field of technological modernization of the economy that is taking place in parallel with the implementation of programs to create new weapons and military construction. Similar to China large-scale infrastructure projects have implemented on a new technological base, the full effect of which is likely to be very weighty. The state-capitalist economy of clearly Keynesian type turned out to be quite adequate for solving these ambitious tasks.

The potential for the future development of purely civilian branches of the Russian economy, estimated at the assumption that the institutional environment will insufficiently change (Russia's economy, 2018), is far from being exhausted. Thus, under the conditions of the Western sanctions the experts cite many examples of successful import substitution, especially with regard to investment goods. Sufficient favorable changes are also taking place in the urban economy in relatively prosperous Russian regions, which occurred largely due to the improvement of the institutional mechanism for the implementation of infrastructure programs and projects using public-private partnerships. In addition, one cannot ignore the positive effect of the appearance of new markets, in particular, initiated by the use of robots and artificial intelligence technologies.

Partial overcoming the demographic failure inherited from the late socialism and the nineties periods contributes significantly to the preservation of long-term stability in the course of the transformation of the Russian economy. Truth, in recent years there has been a sharp drop in the birth rate and a reduction in the own able-bodied population. However, this threat overcomes through a targeted increase in the influx of migrant workers, mainly from neighboring Asian countries. In the medium-term perspective, the effect of a reduction in the able-bodied contingent due to an aging population is likely to be neutralized by the spread of deserted and laborsaving technologies. It should note that the deterioration of the climate in some periods had a strong adverse effect on economic activity, especially in the agricultural sector and in a number of regions. However, in the last period, adaptation to climate change has observed largely due to targeted state policy.

Now it is logical to ask the central question: does the previously established trend of convergence of development between China and Russia persist?

We cannot give the affirmative answer, based on a comparison of economic transformation results. The common feature of both national economies concludes in the presence of a dominant state-capitalist or state-corporate order. At the same time, the Chinese economy is deeply reformed, but the Russian one is not.

Definitely, comparing the results of status transformation reveals the significant signs of divergence. In China in recent years, there has been an increase in the relative size of the middle class, with some reduction in the proportion of the big bourgeoisie (Wu, 2018; Martin, 2019). This is definitely not the case in Russia.

At the same time, the immanent closeness of authoritarian political regimes in China and Russia remains indisputable, to which their military-political alliance contributes. By now, the military-strategic parity of these countries relative to the United States and its closest allies has definitely achieved.

#### **4. What is next?**

Of extraordinary importance for fate of the after socialist world is the further institutional choice for the transformation in China. Regarding the medium-term prospects for the development of the economy of this country, the required key institutional shift concludes in liberation the corporate sector from government dictate and reduction the public sector itself while drastically expanding the space for independent entrepreneurship, especially innovation, in accordance with the global market competitiveness and adapting technological progress during the twenties. Following the objective interpretation of the official position (Jinping, 2017), in the observed future dominating the established institutions of state capitalism is not suitable for China. The threat of the loss of national competitiveness seems too great in many progressing world markets. The same concerns the threat of further increasing social inequality, casting doubt on the ruling of the CCP.

In the coming confrontational period of world development, of course, it would be wrong to ignore the possibility of implementing the scenario of the reverse movement, at least partial, to the market socialism of the nineties. It substantially connects with the inheritance of the socialist core values and the actual predisposition of poor Chinese to the socialist ideology (Naughton, 2017). The main political background of this alternative is completely understandable. It consists in the preservation of the social support of the CPC in the face of the employed in the state-corporate sector, which presumes the preservation of special privileges for them.

It is appropriate to assert. The idea of a “new socialism” causes skepticism relate to real implementation without a propaganda raid. According to most experts, in the event of the abandonment of the fundamental reform of economic sectors with state participation, strengthening CPC interference and directive planning while restoring the former attributes of socialist distribution, China will lose its acquired competitive positions on the world stage. They will inevitably aggravate in the conditions of continuing tough political confrontation and the unfolding trade war with the United States. Moreover, the plans to create a modern welfare society, which necessarily supposes overcoming regional imbalances and environmental clots, will postpone indefinitely.

There are prerequisites for a much more preferable scenario of transition to a new institutional model of development instead of the current controversial model of the bizarre symbiosis of state capitalism and market socialism in China. I would like to make weighty arguments in favor of this statement.

At present, mixed-ownership reforms in commercial SOEs has implemented, aimed at improving the competitive environment (China's 40 years, 2018). According to the stated intentions, these reforms will accelerate and deepen. In practical terms, this means that the strategic restructuring of SOEs is designed to be accompanied by the transformation of their property into a mixed one. In China, judging by the statements of officials, they intend to do without frontal privatization in its traditional understanding. The sale of SOE assets expects mainly to institutional investors representing already existing holding-type corporations with mixed ownership.

As a result, the necessary conditions will arise for the approval of a model of mixed heterogeneous corporate property. One should expect the preservation of wide participation of the state as an investor and shareholder, to whom considerable dividends have paid, with a parallel increase in the presence of foreign shareholders. At the same time, by all indications, the volume of investment in the activities of restructured former SOE private non-corporate capital will be deliberately limited.

In accordance with the declared plans, a deep institutional reform of the SME sector is also expected (Tax Reforms, 2018). A course has been determined to ensure the viability of individual entrepreneurs and the orientation of capital towards greater investment in small and micro enterprises.

The reform of property institutions intends to be complement by targeted changes in the structure-forming institutions of coordination.

Thus, an inalienable priority in the course of further restructuring of SOE concludes in maintaining the level of production capacity and, of course, technological potential. It is planned to strengthen the special regulation of the stock and other financial markets in order to neutralize the speculative movement of capital. The creation of the necessary framework financial and other conditions will make it possible for the institutional mechanisms of corporate regulation, exempt from state dictate, to function effectively with respect to the reformed former SOE sector, where the mixed form of ownership will establish.

In addition, the goal of implementing long-term efficient and transparent tax mechanisms for large, medium and small businesses, regardless of their form of ownership, is quite achievable. The plan concludes in expanding the coverage of small and micro enterprises with a 50% benefit in calculating income tax with the additional provision of credit benefits. If such stimulating innovations succeed, significant expectations of steady high growth of independent entrepreneurship based on the adapted mechanisms of self-regulation with equal coexistence with the reformed state-corporate and ordinary corporate structures will arise. Truth, much depend on how significant the existing institutional barriers of entrepreneurial initiative will manifest (high level of corruption, great government activity, etc.). In this regard, the result of rigorous econometric study (Estrin et al., 2013, p. 575), according to which the improvement of informal institutions that ensure the growth of local social capital allows weakening the effect of these restrictions, seems convincing.

There are no less weighty reasons for the speedy implementation of new mechanisms for regulating wages and social transfers, as well as the formation of personal incomes and private wealth on a strictly legal basis. At present, as is known, wages and salaries in the SOE sector have become to regulate in a uniform manner. In addition, new income tax system on a progressive scale has implanting.

In the course of the new phase of China's reforming, seemingly it will be possible to resolve the problem of shortage and replace old cadres in advanced industries through a wide influx of trained rural migrants. Therefore, the transition to a progressive distribution model will be associated with overcoming over exploitation and low earnings of migrants from poor provinces. Simultaneously, an ordinal reduction in regional gap in China will probably take place, especially due to the Belt and Road Initiative.

The optimists can assume that despite unfavorable external circumstances, at first place, the US-China trade war and the predicted global financial crisis, institutional reforming in the indicated areas will express in fundamental changes. The opposing institutions of state-capitalist, private capitalist and socialized property will replace by mutually complementary and mature institutions of state, corporate and individual-group (entrepreneurial) property. In parallel, mature root institutions of coordination will dominate in the economic field: state market regulation, corporate regulation, and entrepreneurial self-regulation, meanwhile the external power impact on economic life will drastically weaken, primarily from the side of the CPC.

The mutual complementarity of market coordination institutions and institutions of public regulation instead of their opposition will fulfil. This kind of complementarity can be sustainably reproducible, subject to the full and unambiguous demarcation of the action areas of the relevant institutions. Of all the real-life models, the middle (in relation to recognizing capitalist and socialist) development paths models - the Scandinavian and Malaysian/Singapore - correspond to this condition to the greatest extent (Barth et al. 2014; New economic model, 2010; Tan and Bhaskaran, 2015). They distinguish by a harmonious combination of purely market institutions and welfare society institutions for all.

As a result, in the future, in principle, it seems possible to achieve the very long-standing goal: the conversion of emerging markets into developed markets. At the same time, the performing institutions will probably differ by their social environment from the institutions in Western countries.

In case of success of the designated institutional transition, the necessary conditions will arise for sustainable overall social progress in China in the coming twenties period. At first place, there will be an ordinal reduction in the differentiation of income and wealth in relation to various social strata, taking into account the expected demographic dynamics. Besides, opportunities for the growth of green economy and green non-market sectors, providing a favorable social climate, and neutralizing adverse climate change based on the rational use of natural resources will improve.

We can expect the emergence of a new generation of entrepreneurs with modern education and, more importantly, the approval of a powerful stratum of technocrats, including managers, in the conditions of the expected technological boom in the twenties. It is reasonable to predict the dissemination of post-materialistic consciousness and post-material values, expressed in freedom of expression and quality of life within the existing society and the natural environment, among representatives of educated and wealthy strata of society.

In the future, although not close, the fulfillment of the forecast of the further democratization of society, in the course of which the CCP will eventually give up its monopoly on power, seems likely. The transition to a pluralistic political regime will dramatically expand the possibilities of harmonizing the interests of various social groups, primarily the elite, middle and low-income strata.

In a result of the designated economic, status, and political transformational changes the necessary conditions will arise for the sustainable overall social development of China. The implementation of the principle of balancing the structure-forming institutional orders obviously fully meets the currently recognized imperatives of the sustainable development of society in its main directions.

In the unanimous opinion of experts, the choice of China will very seriously influence the further root institutional transformation in Russia and other post-Soviet countries. Definitely, a rejection of the wasteful state participating in the economy and inefficient employment in the spirit of Soviet socialism, which has officially proclaimed, would contribute to a departure from the current development model of Russia. The requirement to increase the efficiency of market activity and especially investment dictates the expediency of forming mature institutions in a truly independent corporate sector. This outcome clearly stipulates by a reduction in the weight of the state-corporate sector in Russia due to a fundamental change in relative world oil / raw material prices.

As in China, the forming of the prevailing corporative sectors with a heterogeneous mixed share capital structure seems rather realistic. The presence of the state will remain significant, but it will not interfere with business initiatives.

Also in relation to the Russian economy, the cardinal increase in the role of small and especially medium-sized businesses and achieving its equal position with other sectors in all regions may fulfill. It will open the way to desired accelerated economic development of backward Russian regions and, especially, the resolution of their purely social problems.

According to all forecasts, in the event of successful restructuring of the economy in the period of digitalization of the early twenties, an ordinal increase in the number of well-paid professionals may occur. It will entail a long-awaited shift in the social structure in favor of the middle class - the most important prerequisite for a gradual transition, following China, to a more preferable institutional model of national development. Besides, many representatives of the younger generation will join the ranks of highly skilled professionals, technocrats and managers. They do not suffer from the inveterate miserableness of the older generation and are likely to be susceptible to the experience of progressive institutional transformations.

However, the scenario of the desired institutional transformation with respect to Russia and other post-Soviet countries that depend on it evokes great doubts. First of all, for quite a transparent reason. The current (exactly the current) authoritative establishment in Russia, represented by the chiefs of the ex-KGB and the highest federal / regional bureaucracy and the business elite allied with them, is quite satisfied with the status quo in terms of the distribution of capital and income. This establishment does not attract by the cardinal overcoming the standard of semi-poverty and the low level of quality of life in most of the Russian regions as inherited attributes of Soviet socialism that probably would result in a consolidated public demand for democratization of state ruling.

One can take into account also the phenomenon of the immanent conservatism of the provincial Russian bureaucracy, which continues to remain corrupt according to the old “Soviet” pattern and budget-socialized. She is quite satisfied with the preservation of the current state policy and its institutional setting in the form of bizarre state capitalism with socialist seasoning and is not at all interested in establishing a favorable institutional framework for the growth of independent entrepreneurship within the own regions.

Semi-poor society is easier to manage; moreover, the methods of such management have long tested. Especially successful practice concerns targeted deafening of the poor, especially young people, with the help of mass media, which virtually monopolized by the authorities.

It would be wrong to completely exclude the possibility of the new privatization of the corporate sector in accordance with the private interests of its management, the remaining super-rich bourgeoisie and, of course, the power establishment. The implementation of such root institutional turn in Russia will be clear confirmation of the well-known collision. The factor of power, taking into account the presence of military-political potential, can suppress the needs in appropriate institutional changes, based on the criteria of economic and social progress towards sustainable development.

## **5. Resume.**

To sum up: three main conclusions follow from our research.

The first. In the prolonged period after the neoliberal globalization failure the trend of institutional divergence between the main after socialist countries changed to the opposite — the trend of institutional convergence.

The second. Institutional transformation in China and Russia continues according to the symbiosis model of state capitalism and the socialized market, adapted to the external economic and social environment.

The third, which should treat hypothetical. The required long-term progress in the countries under consideration would correspond to the transformational transition to the middle path institutional model. In the future, it seems feasible in China. At the same time in Russia, such an institutional metamorphosis seems doubtful because of the “above economic” fundamental factors.

Of course, the author does not seek to impose his point of view on other researchers. A relative scientific consensus concerning after socialist institutional transformation will become available in the course of further fruitful discussions.

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