

# Social Policy Transformation and Business Environment Improvement: a Comparative Analysis Based on China and Russia

*Xu Deyou*

Guangdong Institute of Public Administration, Guangzhou, China, 18903018119@163.com

*Сюй Дэйоу*

Гуандунский Институт государственного управления, Гуанчжоу, Китайская Народная Республика; 18903018119@163.com

## ABSTRACT

Over the past four decades, the economy and society of China and Russia have undergone transformation. Relevant social policies and business environments have constantly changed. So have the ways of interaction among governments, enterprises and citizens. In the relationship between government and citizen, China and Russia have walked different paths in choosing and adjusting social policies, but both have steadily improved people's well-being. In the relationship between government and business, both countries have achieved significant improvements in business environment through supply-side reforms of public goods and institutions. The theoretical relationship between government and citizen and that between government and business are embodied in social policy and business environment in reality. However, the two are not parallel, but interact with each other and are nested in each other. The government plays a leading role, and its interaction with enterprise and citizen tests the governance systems and capabilities of Beijing and Moscow.

**Keywords:** social policy, business environment, China, Russia, government-business relationship, government-citizen relationship

**For citing:** Xu Deyou. Social Policy Transformation and Business Environment Improvement: a Comparative Analysis based on China and Russia // Administrative consulting. 2020. No. 7. P. 83–98.

**Для цитирования:** Xu Deyou. Social Policy Transformation and Business Environment Improvement: a Comparative Analysis based on China and Russia // Управленческое консультирование. 2020. № 7. С. 83–98.

## I. Introduction

Over the past four decades, China and Russia have gone through major changes in the political, economic and social sectors and are in transformation, during which process, the government has been playing a leading role. Generally speaking, the government plays its role mainly in two ways — one is that the government adjusts its relationship with citizens through social policy modifications, and the other is that it modifies its relationship with enterprises through business environment changes, both of which are done simultaneously. In other words, the interaction between government and citizen and that between government and enterprise constitute the main part of institutional changes in the two countries, which are also an important perspective for scholars to observe the institutional and economic transformation in China and Russia. In recent years, it has been an impressive fact that the two countries have made the fastest progress in the World Bank's Rankings on Doing Business, and they have sustained stable social development. Globally, it is not easy for countries in transformation to achieve rapid amelioration of business environment as well as social order and harmony at the

same time. China and Russia are comparable in many aspects, both in terms of business environment and social policy, for the two nations used to have similar state-planning management systems, they have experienced the transformation from planned economy to market economy, and are both faced with the problem of how to formulate appropriate social policies to match the country's social development with its economic advancement.

The differences between China and Russia are undoubtedly stark. In the mode of evolution, China's reform has two basic characteristics. First, China takes the reform of economic system as its major task — that is, through reforms, China has transformed itself from a planned economy into a market economy and achieved the combination of socialism and the market economy, and thus promote the reform of social policies, turning citizens from “unit men” into “social men”. Second, it has carried out reforms gradually, starting with areas where there were fewer obstacles and strong consensus, and progressively extending the reforms into other areas, and beginning trials in frontier areas and gradually scaling them up nationwide. In this process, the political structure of the country has remained basically stable with its administrative system and reforms existing side by side. China has explored a unique path of reform and development since 1978, which is not the paradigm of western theories, but has enabled China to continuously improve its business environment, boost rapid economic growth and citizens' welfare, and guarantee long-term social stability over the past 40 years. In comparison, Russia's institution has evolved in a very different manner. Beginning in the early 1990s, Russia has embarked on radical, shock-like political and economic reforms, promoting an institutional transformation in a fairly short period of time. In this process, there was clear theoretical guidance and implementation plans at the beginning with continuous adjustments and improvements, gradually bringing order out of chaos, getting its economic and social development back on track, and leading to the establishment of the market economy system, with social policies sustaining a high level of guarantee.

Social policy and the business environment should be judged on the satisfaction of businesses and people, not by some developed countries or existing theories. The paths of reform in China and Russia differ greatly in the ways they manifest themselves and in the results they have produced. It is not fair to simply decide who is better or who is not, because an identical best option doesn't exist for countries with different political, economic, social, historical and cultural foundations. China's reform and development model has greatly enhanced both the country's overall national strength and its people's quality of life. There is no doubt that it has been very successful. However, the model is also prone to path dependence, and subsequent reforms will thus be more difficult. Russia's all-round subversive institutional transformation has made coordinated advancement of various supporting systems, but the short-term economic and social shocks require a long recovery. At present, the economic and social transformation in China and Russia is still under way.

Through the analysis of social policies and business environment, the main contexts of institutional changes in China and Russia can be observed. The key lies in the government and its role, and the play of the government's role mainly depends on the one-way relationship between the two groups — government-business relationship (government → business) and government-citizen relationship (government → citizen). The former is embodied in the business environment, while the latter in social policies. According to the World Bank Group's *Doing Business 2020*, China's business environment continues to improve significantly and it is now ranked 31<sup>st</sup> in the world, up 15 places from last year. Russia has moved up to 28<sup>th</sup> place from 31<sup>st</sup> last year, and has been climbing for years. It should be noted that in the World Bank's 2012 rankings of 183 economies on doing business, China ranked 91<sup>st</sup>, while Russia ranked 120<sup>th</sup>. At the same time, under the influence of social policies, the social security and public welfare

levels of China and Russia have also been continuously increasing. The employment, medical care, education and old-age security of the Chinese people have gone from “a low level and wide coverage” to “a higher level and full coverage”. Social policies have been increasingly functioning as support for those most in need. Significant progress has been made in poverty alleviation, and the minimum standards will be kept at “having enough to eat and to wear, and ensuring compulsory education, basic medical care and housing”. Compared with China, Russia had better social security and welfare systems from the start. Relatively high standards have been maintained in public services highly relevant to people’s lives, such as housing, water supply (both tap water and hot water), heating, power supply, gas supply, health care and education. A large number of free and low-charge services have greatly eased the financial burden of the people, but the excessive social welfare policies have also brought an albatross for the Russian government, and reform is hence imperative.

This article will study the changes in “government-business” and “government-citizen” relations in China and Russia based on the comparison of social policy changes and business environment improvements in the two countries, so as to shed light on the economic and social transformation they have been going through. Hopefully, this analysis offers experience and inspirations so that the two nations can learn from each other and make up for each other’s shortcomings to further promote economic and social development.

## II. Analytical Framework

This paper intends to study the social policies and business environments in China and Russia from the perspective of the complex relationship among governments, enterprises, and citizens. A basic consensus has been reached that the relationship and interaction between governments, businesses, and citizens vary across countries. There are no two identical patterns in any two different countries in terms of the relationship between the three above-mentioned parties. Despite the fact the three parties are interacting with each other, researchers, for the sake of practicality, often focus on one specific relationship (i. e. government-market relationship, government-citizen relationship, and market-citizen relationship). It is worth noting that such a research method is bound with limitations as the interplay of different relationships may exert more impacts than one single relationship. For example, the government-market relationship is often investigated in the field of economics. However, whether it is reasonable and effective depends largely on the order of the society, such as the stability and harmony of the society, and the accessibility of development achievements. Many countries have been stuck in the “middle-income trap”, a phenomenon where economies stagnate when their per capita income reaches between 5,000 and 10,000 US dollars but the economic development results have not benefited the general public. It is characterized by intensified social conflicts and political unrest, as well as government and market failure.

As shown in the analytical framework (Fig. 1), the study will only probe into the unidirectional relationship between the government and market players as well as the government and citizens. The government-market relationship is conceptualized as the government-business relationship and presented as the business environment, which includes the governance competence and the government-business relationship. The government-citizen relationship is realized by social policies and manifested in the public goods and social well-being available to citizens. Besides, social organizations (e. g. NGOs) are another non-profit structure independent of government organizations, market players, and citizens. They can be categorized under “the institutional space between government and private enterprises”. Since they do not have a major bearing on citizens’ social well-being and business environment, they are excluded from this study.

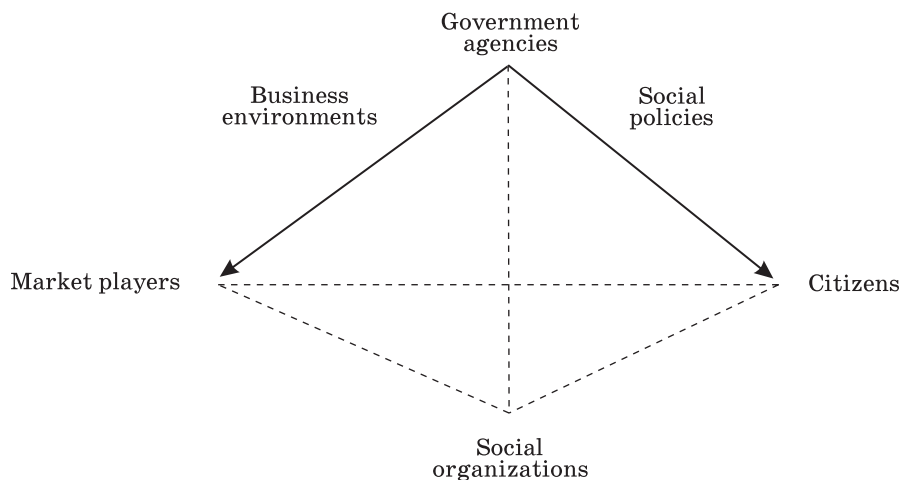


Fig. 1. Analytical Framework

### 1. An Analysis of Business Environments from the Perspective of the Government-market Relationship

Market players are decentralized decision-makers that operate according to market mechanisms. Profitability is the most essential characteristic of market players. Another feature of market players is independence, mainly including the independence of property rights and the independence of the management right. The discussion on market-based resource allocation can be traced back to Adam Smith, who argued that the market is an “invisible hand” that can make the optimal allocation of various resources through price signals. Therefore, governments should not interfere with business practices and other economic activities, and the government that interferes least is the best government. Many subsequent economists have developed, through their research, a set of systematic theories of the efficient allocation of resources through market mechanisms. Those theories of classical liberalism have injected a great impetus to the development of capitalism. As time went by, however, the “myth of the free market” has been hit hard by reality, especially by the massive economic crisis that erupted in the capitalist world in the 1930s. The economic crisis seriously undermined the then existing economic order. And classical liberalism was no longer able to explain the problems of massive unemployment and product surplus, nor was it able to offer effective countermeasures. Against this backdrop, Keynesian Economics, based on state intervention and demand stimulation, was developed. It covers an array of aspects, including natural monopolies, externality, public goods, inadequate information, inequitable distribution, and economic fluctuations. In the face of market failures, governments must provide adequate institutional supply and guarantees for the policy implementation. Institutional supplies can be understood as the business environment for enterprises and social policies for citizens.

For enterprises, the business environment is the institutional supply of the government, whose role is mainly reflected in four aspects, namely organizing the supply of public goods, protecting enterprises' property rights, formulating laws and macro decisions as well as rectifying the market order, resolving enterprise disputes, and supervising the implementation of laws to maintain market fairness. These four aspects are the major building blocks of the business environment. Compared with the market, the

government enjoys several unparalleled advantages such as the rights of taxation, prohibition and penalty imposition. By making the government responsible for certain tasks, transaction costs can be reduced. Besides, the absence of government will result in the free-rider problem, inadequate information, and adverse selection in the market, which would raise transaction costs. However, these costs can all be saved by the government through the provision of public goods and the establishment of social welfare systems.

However, the role of the government is limited. One of the representative theories for the study of government failure is the public choice theory, which was developed by Nobel Laureate James McGill Buchanan [1, p. 464]. It's different from Keynesian Economics and can be generally summarized into three aspects, that is, the inefficiency of government policies, the inefficiency of government institutions, and the rent-seeking of government. The public choice theory has put the shortcomings of government under the spotlight despite its efforts to improve the business environment as an institutional supplier.

It should be pointed out that a conducive business environment does not necessarily lead to economic prosperity, because economic development is also contingent on other factors, such as market structure, market size, factor characteristics, and resource endowment. Yet, the unfavorable business environment will certainly result in poor economic performance. Capital flight, lack of innovation, and brain drain are inevitable consequences of the deteriorating business environment.

## *2. An Analysis of Social Policies from the Perspective of the Government-citizen Relationship*

Social policies are the most direct embodiment of the government-citizen relationship. They are also the most important livelihood issue in every country. Specifically, social policies cover such aspects as social security, culture, and education, health, urban planning and housing, population, employment, etc. In short, social policies refer to policies that are provided by the government and have a direct impact on the welfare of citizens. At present, social policies worldwide almost have formed a spectrum. In light of the difference in development stages, countries are faced with different social problems and thus have developed different understanding of social policies. In the face of diverse social problems, different principles of social policies and policy systems can be observed in different countries. Even one country's perception of social policies (i. e. connotations and value) may vary across different development stages. Although markets, families, and other social organizations may offer some public goods in modern society, the pivotal role of the government in social policies remains unchanged.

In addition to its leading role in formulating social policies, the government is also responsible for the development of other policies, such as economic policies, which are an important part of the business environment. In light of the complex relationships between the various types of policies, the trade-off between different policies is a test for governance competence. For example, in some developing countries, social policies are introduced to address social and livelihood issues that arise in the course of development. Therefore, they are seen as an adjunct to economic policies. Since the redistributive function of social policies is to shift resources from the productive sector to the non-productive one, the decline in the productive investment will have a negative impact on economic development. Then when the welfare states are faced with the economic recession, their governments are often criticized by the people because they think the bloated social spending has dragged down the economy. Therefore, social policies and economic ones are often seen as incompatible with each other during the period of economic downturn [2, p. 163].

Obviously, such opinion is one-sided as it fails to realize that social policies also perform the function of social investments. Social policies, such as education and

health ones, can help people to realize their potential, which can be deemed as the investments in human capital. By investing in production factors, social policies can improve the total factor productivity. At present, social policies and economic policies are no longer considered to be incompatible but interactive. For example, the close alignment of social policies with the labor market can improve social productivity and boost economic development. Accordingly, economic growth can also promote social stability.

In reality, appropriate social policies can enable the citizens to fully enjoy the public goods at a given level of national economic development, such as the increased quantity and quality of education services, health care, pensions, and unemployment protection. More often than not, they are major indicators used by the general public to evaluate the performance of the ruling party and its leaders since they can be easily observed and felt. Such personal feelings will in turn be translated into votes at elections. Thus, in an electoral democracy where “the vote comes first”, leaders or the candidates tend to make over-the-top promises on public services so as to meet the public expectations. Such social policies, with a lack of rigorous reasoning, will incur enormous fiscal pressure if implemented to the ground.

### *3. The Evolution of the Government-market Relationship and Government-citizen Relationship in China and Russia*

As China and Russia are currently in transformation, the government-market player relationship, and the government-citizen relationship in the two countries exhibit different patterns. But both countries are steadily moving toward greater optimization in terms of the business environment and social policies. Moreover, their goal orientation is highly similar, which is to build an enabling government, an effective market, and an ordered society.

Since the implementation of reform and opening up, China's economic system has transformed from the planned economy with the unitary public ownership to the market economy with diverse forms of ownership, leading to rapid industrialization and urbanization. China has basically realized the transformation from an agricultural country to an industrial one, with the share of agricultural output falling to 7.1% and the resident population in rural areas to 39.4%<sup>1</sup>. As a result, China's social structure has witnessed a dramatic change. People who used to be bound by their employers, who was called “unit men” have become “social men”. The relaxed household registration system has greatly improved the freedom of population movement. At the same time, the accumulation of capital and the “Matthew effect” of the market economy has broadened the gaps in income and wealth between the rich and the poor. The above-mentioned changes in the economic base and the superstructure, as well as the large-scale population movement between urban and rural areas and between regions, have led to a fundamental change in the relationships between the government, market players, and citizens. China has continuously explored the transformation of government functions through economic system reform, so as to clarify the boundary between the government and the market. Government leaders have repeatedly stressed on many occasions that the transformation of government functions is to solve the problem regarding the relationship between the government and the market and that between the government and society. It aims to further leverage the fundamental role of the market in resource allocation through streamlining administration and delegating powers, thus unleashing the creativity of market players and enhancing the internal forces powering economic growth. The government needs to focus on creating a sound development environment, providing quality public services, and maintaining social justice [3, p. 293].

<sup>1</sup> [http://www.stats.gov.cn/tjsj/zxfb/202002/t20200228\\_1728913.html](http://www.stats.gov.cn/tjsj/zxfb/202002/t20200228_1728913.html)



Since the collapse of the Soviet Union, Russia has been in the process of economic transformation. And in the 1990s, the imperfect domestic laws and regulations and economic system, as well as frequent problems such as corruption, and abuse of power, made Russia an unfavorable investment destination. The abrupt turn to the market economy by the government marked radical approaches in pursuing privatization. With a lack of supporting regulations to restrain illegal activities, the management of state assets was stuck in chaos. As a result, appropriation of state assets as well as the corruption of government officials and businessmen occurred frequently. It not only discouraged the inflow of foreign capital but also led to the outflow of domestic capital. Since the beginning of the new century, the government of the Russian Federation has been committed to improving the market economy system, increasing administrative efficiency, and law-based governance, leading to an improved business environment. Although Russia is renowned for its “radical” reforms in the political and economic fields, public policies related to people’s livelihood are in many respects consistent with those in the era of the Soviet Union. The essence of some policies remains unchanged. It is clear that there is an inevitable connection between the public policies on housing, health care, employment, and education during Russia’s political and economic transition period and its smooth social transition. It is precisely those public security policies, which remain fundamentally unchanged, that have weakened the impact of the radical social transition and enabled Russia to survive multiple crises.

### **III. A Comparative Analysis of China and Russia in Social Policy Transformation**

#### *1. China’s Social Policies: From Economy-driven to Science-based*

Under the planned economic system before the reform and opening up, two sets of social policy systems respectively for urban and rural areas were established in China. In rural areas, farmers received basic security in various fields through collective economic organizations, mainly including product distribution, medical and health services, basic education, and other social relief and aid. In urban areas, citizens and employees received basic livelihood services mainly through government and state-owned institutions, which covered employment, rationing of basic daily necessities and low-cost supply, medical and health services, education services, housing, and relief for employees in difficulty. This set of social security systems and policy systems was inclusive and comprehensive, but due to the limited financial capacity at that time, the supply of basic daily necessities was in shortage, the level of livelihood security was low, and there was a significant urban-rural gap and regional imbalance.

Since 1978 when the reform and opening up started, China’s social policies have developed and improved. By now, this process can be roughly divided into three stages.

Stage One: The economic social policies for rural areas alleviated poverty, while those for urban areas helped in stabilizing. The household contract responsibility system with remuneration linked to output implemented in China in the early 1980s delegated power to rural areas, which motivated farmers and lifted more than 300 million of them out of absolute poverty. This reform benefited farmers and improved their basic living conditions. It was an economy-oriented social policy and did not feature the welfare and redistribution of general social policies. However, such an economy-oriented social policy increased farmers’ income by giving them autonomy and providing them with development opportunities, which made also it a social policy. In the mid-1980s, the reform of state-owned enterprises (SOEs) in urban areas promoted the efficiency of corporate operations, but it also caused problems such as unemployment and loss of pensions for employees. At that time, the government introduced a series of social security policies, with the ultimate

goal to change the existing practice of “SOEs undertaking social security” to reduce the burden on SOEs. Specifically, it was about implementing market- and society-oriented reforms of the original social security system. Those reforms promoted the development of urban communities, which started to undertake the settlement of the unemployed, the assistance to impoverished households, and pensions. Social services relying on urban communities eased the impact of the SOE reform.

Stage Two: Social policies complemented social transformation under the accelerating marketization and urbanization. Entering the 21st century, marketization, industrialization, and urbanization accelerated in China. During the transformation of social structure, more social conflicts escalated. A large number of social problems caused by the one-sided emphasis on economic growth concentrated in urban communities. Since 2003, the government has formulated a large number of social policies to solve the most pressing and immediate problems of interests that concerned the people most, including measures for the administration of relief, legal aid services, urban medical insurance, rural cooperative medical insurance, minimum subsistence allowance, and social pension insurance. In 2006, the agricultural tax in place for thousands of years was cancelled. The promulgation and implementation of these social policies improved people’s well-being by satisfying people’s basic needs. But at the same time, to a certain extent, those social policies still lagged behind economic development, serving only as complements and remedies. They made up for the social problems caused by the one-sided emphasis on economic growth and the neglect of social transformation and played a role in promoting social progress [4, p. 71].

Stage Three: Social policies are more scientific, standardized, and institutionalized, which satisfy people’s needs for a better life. With the social and economic development in China, people had higher demands on material and cultural life, and more demands on democracy, rule of law, fairness, justice, and environment, while the supply of institutions and services from the government in this realm was relatively insufficient. After the forming of the new Central Government in 2012, in response to the changing social needs, the formulation and implementation of social policies have become more scientific, standardized, and institutionalized. For example, social assistance, social security, and poverty alleviation policies have been more targeted so that everyone who is entitled to such allowances receives them. Medical care and old-age care have shifted from “a low level and wide coverage” to “a higher level and full coverage”. At the same time, deviations in the implementation of policies have been corrected for greater social justice. In the resolution of the 19th National Congress of the Communist Party of China, it was pointed out that to secure and improve people’s living standards in development, we should do everything in our capacity; we should see basic needs are met, prioritize key areas, improve institutions, and guide public expectations.<sup>1</sup> The reformed social policies have greatly improved people’s well-being, seeing the gains of economic development benefit all our people in a fairer way, and the people’s sense of fulfillment has been greatly improved.

Over the past 40 years of reform and opening up, China’s social policies have grown from ambiguous and subordinate to clearer and independent. In the first 20 years of reform and opening up, social policies were mixed with economic policies, which can be called economy-driven economic policies. At the beginning of this century, the concept of social policies gradually became clearer under a deeper understanding of the importance of social issues. In practice, a large number of social policies were issued in a short period, which were complementary or compensatory. In recent years, social policies have become more scientific and institutionalized, when policy makers have recognized the dialectical relationship between economic and social policies, as well as

<sup>1</sup> [http://www.gov.cn/zhuanti/2017-10/27/content\\_5234876.htm](http://www.gov.cn/zhuanti/2017-10/27/content_5234876.htm)



the mutual support between economic growth and social progress. Appropriate social policies have promoted the political identity of the people and increased their sense of fulfillment and happiness. Comparatively, the current social policies are better adapted to the economic structural reform and social transformation. However, compared with developed economies, China's social policies and security capabilities are still in the initial stage at an overall low level. There is huge room for quality improvement and field expansion.

## *2. Russia's Social Policies: From a Stabilizer to a New Round of Reforms*

Russian social policies have run through the entire process of its political and economic transformation. Paragraph 1, Article 7, Chapter 1 of the Constitution of the Russian Federation states, "The Russian Federation is a social state whose policy is aimed at creating conditions for a worthy life and a free development of man"<sup>1</sup>. This is the most important definition from the constitution for the form of government of Russia and the practical legal basis for Russia's social policies. The Russian government believes that ensuring social welfare and security for residents to maintain a decent life and dignity is an important guarantee for economic transformation. After the start of the transition, Russia has not made significant changes to the social security system of the Soviet Union. Despite the difficulties in the transition process, the Russian government has never legally abdicated the fulfillment of the state's basic obligations to the society and insisted on the continuation of the free education and healthcare for all. Although there was a large gap of wealth in the Russian society at the time, the basic life of the majority in the society was guaranteed, adding with the mainstream unwillingness to return to the Soviet era, the society could well afford the high cost of the transition. In the Yeltsin era, despite the lack of fairness and efficiency in the nation's development, the society was still in order, which probably had much to do with the preservation and inheritance after the radical transition of the social security system established during the socialist period.

In the post-Yeltsin Russia, the government made huge investments in social security and improvement of people's living standards. The improvement of social security and welfare, including the increasingly improved social development indicators in education, medical care, health, and environment, partially flattened the political and economic fluctuations and cushioned the impact of changes in the internal and external development environment on the Russian society. When taking office, Putin further strengthened Russia's social policies, specifically, first to raise the income of residents, and second to improve and better implement the existing social security system. During the 2008 financial crisis, Russia transformed the gains of economic growth into welfare for the people. Those coping strategies endowed social policies with special missions, which not only eased the strong impact of the crisis, but also played a role as a social stabilizer. During that time, social policies promoted the development of the nation. To be specific, firstly, it promoted the accumulation of human capital for the long-term development of the nation; and secondly, it helped the society to expand reproduction. In this sense, Russia's social policies started to shift from maintaining social stability to promoting economic growth [5, p. 82].

In 2018, Putin was re-elected as President of Russia, which signaled that Russia's domestic and foreign policies were more stable. However, against the backdrop of overall stability, the social dissatisfaction accumulated by the negative economic conditions and the low living standards of the residents has not been released, and the effectiveness of the federal government in domestic governance is showing a trend of diminishing marginal effects. In addition to rising commodity prices and overall poverty in the eco-

<sup>1</sup> <http://www.ksrf.ru/Docs/Constitution/Pages/Chapter1.aspx>.

conomic aspect, the inefficient operation of the Russian social security system, increasing spending on housing and public utilities, and the polarization between the rich and the poor are also prominent social issues. Reform of social policies has now become the consensus of the entire Russian society. The major groups supporting the reform are young people, low-income groups, middle class, retirees, and civil servants, who almost form the backbone of the Russian society. In the view of Russian people, "the field most in need of reform" was people's livelihood, which meant increasing wages and pensions, and improving living standards, as showed in the public opinion follow-up survey for the past two years by Levada Center, a Russian polling organization. In addition, reducing the cost of housing and public utilities, monitoring the prices of necessities, and facilitating medical treatment were also reforms that Russian people thought necessary [6, p. 78]. Were the reform of social policies slow or unsuccessful, people's demands for social and economic reforms would spread to the political realm. Considering this, in recent years, Russia has taken maintaining social and economic development and improving people's well-being as the main direction of the work of the government. In his State of the Union Address 2020 released in January 2020, Putin also pointed out that "our society is calling for change". Again, focusing on issues such as the economy and people's livelihood, he proposed a series of specific policies on stimulating childbirth, increasing residents' income, and optimizing the medical care system.

Russian people generally pin the hope of social policy reform on the government. They expect that the state power, symbolized by President Putin, can come forward to solve the existing social and economic problems. This attitude can be found not only among the middle-aged and elderly people, those with low-income and less-educated population and residents in small and medium-sized cities, who usually make positive comments on the current regime, but also among young people who are critical of the current regime and most of the high-income and well-educated groups. This is because, in Russia, the relationship between the state and society is understood differently from that in the West. The state power of Russia acts as a "parent" of the society, instead of an institution that establishes equal contractual relations with different social groups. This role of the government is manifested by both the state's control of social spheres and the corresponding responsibilities and obligations that it assumes. This reflects the pragmatic attitude of the public towards the state power, that is, the state power has the responsibility and obligation to meet the needs of the people, while the people are not willing to sacrifice personal interests for reforms. At the same time, there are still some people who want to solve their personal problems through active civic actions, including participation in elections, charity, volunteering, and opposition-organized protests.

#### **IV. A Comparative Analysis of China and Russia in Improvements of Business Environment**

##### *1. Business Environment and the World Bank's Doing Business*

The business environment is perceivable to companies. The decision of a company to invest in a certain place, in fact, is determined by two major factors, the market environment and the business environment. The former mainly includes market-related factors, such as industrial chain support, labor cost, transportation cost, etc. The latter is mostly about the government, such as the legal and policy environment, the administrative environment, fair competition, intellectual property protection, etc. In the above-mentioned analysis framework of the relationship between government and market players (enterprises), there is a clear logic lying in that the government improves the business environment through supplying public products (including both institutional

supply and the supply of specific public products such as electricity and roads), but in real economic operation, the relationship between the government and the market is not only unclear, but also changeable, possibly according to time, causes, places, and even people. This is especially common in economies in transition. Both China and Russia are economies in transition, where the relationship between the government and the market is still relatively unstable. The key to improving the business environment is essentially to handle the relationship between the government and the market. In short, the government must first achieve the “three noes”, namely no absence for necessary administration, no redundant intervention, and no misplacement of authority. “No absence for necessary administration” means that the government must do its job well, such as maintaining macroeconomic stability, optimizing public services, strengthening market regulation, ensuring fair competition, promoting common prosperity, and boosting eco-friendly development. “No redundant intervention” means that the government never does what it should not do, such as the intervention in the decision-making and operation of micro-entities. “No misplacement of authority” means that what the government should and should not do shall be very clear without any vagueness.

It is gratifying that in the past decade, governments of both China and Russia, two large economies in the process of institutional transformation, have provided high-quality public products and institutional supply to enterprises through comprehensive and in-depth institutional reforms, seeing great improvements of their business environment. It can be said that governments of both countries have reshaped the relationship between the government and enterprises, which provides the most solid institutional guarantee for the two countries to attract foreign investment and stimulate vitality in the future. To compare the business environments and their changes in China and Russia under the same framework, this article refers to *Doing Business*, a World Bank's report.

*Doing Business* is a flagship product published by the World Bank since 2003. *Doing Business 2020* is the 17th issue in this series of annual reports. Based on a set of methodologies and evaluation systems specifically designed and established by the World Bank, the report compares and evaluates the ease of doing business in 190 economies worldwide by collecting and quantifying policies and data under 12 key topics of business regulation that affect the life cycle of enterprises, including starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minor investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency, labor market regulation, and government procurement. Among them, the data of ten indicators (excluding labor market regulation and government procurement) are calculated to determine the score and ranking of the ease of doing business. This set of indicators is comparable, with more data collected from enterprises, which is designed in a scientific manner. Promoting reforms according to this set of indicators can help the government to improve the efficiency of work and facilitate business activities of companies. Thus, the report is considered to be the most authoritative evaluation system for the business environment in the world.

## 2. Performance of China and Russia in *Doing Business 2020*

China has a doing business (DB) score of 77.9 (which means that China has made 77.9% of the best of the world), up by 3.9 compared with that of last year; and a DB rank of the 31st, up by 15 places, according to *Doing Business 2020* (Table). Under the evaluation standards of the World Bank, the Chinese government has benchmarked developed economies and international norms, formulated special standing books for reform tasks, clarified reform goals, responsible departments, and time nodes, and completed over 130 reform measures. In China, recent years have seen significant breakthroughs in the reform of institutions and mechanisms such as protecting medium and minor investors and dealing with construction permits. Except the “getting

credit” indicator, which remains unchanged, the other nine indicators have all improved. Due to its vigorous advancement of the reform agenda, China ranks among the top ten economies with the largest improvement in the global business environment for the second year in a row. The performance in the indicators of paying taxes, getting credit, and trading across borders is still lagging behind. However, with the implementation of tax cuts and fee reductions since 2019, the ranking of “paying taxes” should further move up. There are also the “Regulations on Optimizing Doing Business Environment” formulated by the State Council, which came into force on January 1, 2020. Aiming at the prominent shortcomings of China’s business environment and the problems, difficulties, and obstacles reported by market players, the regulations set rules to improve systems and mechanisms, benchmarking developed economies, which will encourage China to intensify its efforts to deepen reforms and expand opening up, adhere to the principles of marketization, rule of law, and internationalization, and continue to advance toward the goal of building a world-class business environment.

Russia’s business environment was ranked the 28th, up by three places from the 31st last year, as showed in *Doing Business 2020*. In the past year, Russia undertook three important reforms, namely faster access to electricity, simplified taxation requirements, and increased requirements for company transparency to protect of the rights of minor investors. Russia business environment was ranked the 120th in 2012. In May of the same year, President Putin issued a decree, instructing the government to take measures to improve the ranking of Russia’s business environment. In 2017, Russia’s ranking rose to the 40th. In 2018, it further made it to the 13th, thanks to the improvement of the regulatory environment for small and medium-sized enterprises

Table

**World Bank’s DB Rankings and Scores of China and Russia**

Item	Ranking in 2020		DB Score 2020		DB Score 2019		DB Score Change (%)	
	China	Russia	China	Russia	China	Russia	China	Russia
Overall	31	28	77.9	78.2	74.0	77.4	3.9	0.8
Starting a Business	27	40	94.1	93.1	93.4	93.0	0.7*	0.1
Dealing with Construction Permits	33	26	77.3	78.9	65.2	78.4	12.1*	0.5
Getting Electricity	12	7	95.4	97.5	92.0	94.0	3.4*	3.5*
Registering Property	28	12	81.0	88.6	80.8	88.6	0.2	0
Getting Credit	80	25	60.0	80.0	60.0	80.0	0	0
Protecting Minor Investors	28	72	72.0	60.0	62.0	58.0	10*	2*
Paying Taxes	105	58	70.1	80.5	67.9	79.6	2.2*	0.9*
Trading across Borders	56	99	86.5	71.8	83.4	71.8	3.1*	0
Enforcing Contracts	5	21	80.9	72.2	79.0	72.2	1.9*	0
Resolving Insolvency	51	57	62.1	59.1	55.8	58.4	6.3*	0.7

Note: “\*” indicates significant reforms of business environment to make it easier to do business. The cities covered in China are Shanghai and Beijing, while those in Russian Federation are Moscow and Saint Petersburg. Weight allocation is adjusted according to population.

(SMEs). It is not easy to achieve this result. It may be easy to improve the ranking from the bottom position, but going up, all countries are trying to improve their business environment, which makes it more difficult to improve the ranking every year. Compared to the more mature markets of developed economies, the Russian market still has certain problems and hidden dangers in terms of security. Nevertheless, in recent years, the government of the Russian Federation has made continuous efforts to ameliorate the business environment, for example, by formulating laws and regulations that are in line with the interests of corporate development. Improving the business environment has become an important part of Russia's development goals. These efforts have brought remarkable improvement to its business environment, which is recognized by the World Bank.

### *3. Shared Features of the Business Environment Improvement of China and Russia*

The sample cities evaluated by the World Bank on the business environment are the two largest business cities in a country, which means that this index may not fully represent the business environment in all regions of the country. China has a large population and huge regional development differences. Russia is vast and has a large number of federal entities. For both countries, it is obviously not enough to improve the business environment for just the two largest cities. The practice to improve the business environment in the two cities shall be duplicated and popularized in other regions, which requires the governments to summarize experience (mainly from Shanghai, Beijing, Moscow, and Saint Petersburg). This article summarizes and refines these highly practical shared features into the following two "environments". To some extent, they are also the best form of the government-enterprise relationship.

Firstly, a good administration environment makes enterprises more "comfortable" and "easy". The core of a good administration environment is to create a transparent and efficient government and to strive to provide regulated, convenient, and efficient government services for market players. It is necessary to break policy restrictions to create a fair and just market environment for enterprises in terms of market access, approval and licensing, management and operation, as well as tenders and bidding. With a focus on the full life cycle of market players, it is necessary to comprehensively facilitate starting a business, dealing with construction permits, getting water and electricity, getting credit, registering property, and paying taxes, and realize "one-off procedures handled quickly at a nearby agency" for the whole process from registration to cancellation, which will release most enterprises in the market environment from unnecessary formalities. For example, in China, deepening the reform of streamlining the government, delegating power, and improving government services and accelerating the construction of the e-government have played a critical role in the comprehensive implementation of "handling at one window, through one network, with one certificate and one code, one-off at one place". China vigorously promotes the transformation of government functions and make efforts to create a service-oriented, efficient, and transparent government, so that enterprises and the people can deal with government-related affairs quickly and get them perfectly done without interpersonal networking, "back-door" deals, or bribery.

Secondly, a good environment for the rule of law is more "reassuring" and more "relieving" to enterprises. The rule of law makes the best business environment. Optimizing the business environment requires the security of the rule of law to consolidate the fundamentals, stabilize expectations, and benefit in the long run. It is necessary to adhere to the mindset and approaches of the rule of law in considering issues, doing things, making decisions, and tackling difficult problems. Governments shall perform the functions that have been prescribed by law while refrain from acting where the law has not authorized them to act. We should strive to create the most open, transparent, just

and fairest, world-class environment for the rule of law. At the same time, we should crack down on crimes to ensure social safety.

## V. Conclusion

This article analyzes social policy transformation and business environment improvements in China and Russia focusing on the government-enterprise and government-citizen relationships and their changes. The common ground in logic is that appropriate social policies ensure the basic needs of the people to be satisfied, including infant care, education, employment, medical care, aged care, housing, and aids for the vulnerable. This is not only what people yearn for, but also makes a more harmonious and resilient society, guaranteeing people a life with dignity. Moreover, only by creating a stable, fair, transparent, and predictable business environment can we release the momentum of innovation and entrepreneurship in the whole society, make the society more dynamic, and guarantee free and comprehensive development for the people. Forming a harmonious, resilient, and dynamic society is the goal of countries in transition in promoting reforms and pursuing development. The comparative analysis above leads to the following conclusions.

Firstly, in countries in transition, which need to take into account reforms, development, and stability, the government still leads the transformation of political systems, economic development, and social policy changes. A powerful, effective, and capable government is the most critical element in the triple transformation of politics, economy and society, whose institutions and systems and governance capabilities determine the improvement of the business environment (economic development) and social policy changes (social development). China and Russia are typical cases. However, it is worth noting for the government that social policies centered on the improvement of citizen's welfare is fairness-oriented, while the improvement of the business environment centered on the convenience of business operations is efficiency-oriented. In the government-market relationship, enterprises are recipients of the business environment, who receive investment protection, contract enforcement, provision of public facilities, and other "public goods" provided by the government. In the government-citizen relationship, citizens are recipients of social policies, who receive education, medical care, pension, and other "public goods" offered by the government. The relations between citizens and enterprises are established through the market system. Citizens and enterprises make two-way selection to achieve job matching (Fig. 2). However, in countries with systems in transition, the establishment and improvement of the market mechanism are inseparable from government governance and the business environment. For example, in China, the improvement of the business environment is the transformation of government functions as well as the improvement of the market-oriented economic system. Moreover, a well-functioning market system also contributes to the implementation of social policies. It provides financial support for social policies. Besides, some market-based services introduced in social policies help to improve the efficiency of implementation and effects of the policies (such as the market-based supply of non-essential medical, education, and pension services).

Secondly, the government, enterprises, and citizens interact with each other constantly. Social policy changes and improvements in the business environment are only the results of this interaction. The first is the effect of enterprises and markets on the government. Only with economic growth, can citizens' needs for high quality products be met. Moreover, enterprises and markets are the main source of financial funds for the government. Only when the government has its financial capacity secured, can it provide better public goods and services and maximize the positive function of social policies. Also, market players can participate in the production of public services and



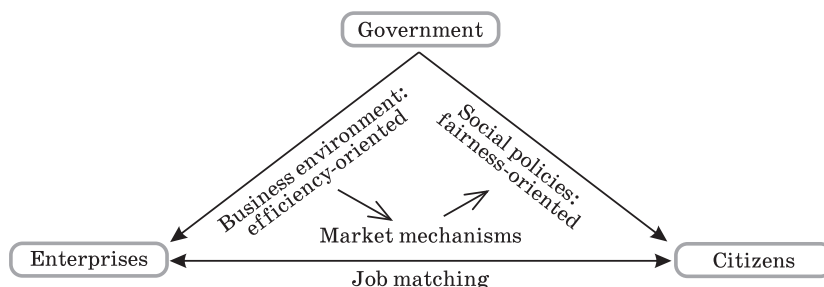


Fig. 2. Business Environment and Social Policies Led by the Government

take some load off the government. A good operating system or mechanism can further reduce the shortcomings in the implementation of social policies and lessen the difficulty of government management. The second is the effect of the government on the market. The government improves the business environment, conducts macro-control, and maintains stable and healthy development of the economy. At the same time, it carries out market regulation and improves the system of social security policies to lower business costs and enhance citizen welfare. Thus, the interaction in these relationships is not static, parallel, or unidirectional, but dynamic, nesting with each other, and bidirectional or multidirectional.

Thirdly, the government shall perform the functions that have been prescribed by law while refrain from acting where the law has not authorized it to act. It shall improve the business environment to allow enterprises to create wealth more efficiently and optimize social policies to allow people to share social wealth more equitably, ultimately achieving a good situation of an effective market, a capable government, and a well-ordered society. A good business environment requires the government to do something by facilitating business operations and reducing institutional transaction costs, while not to do something — not to interfere with the micro-operations of enterprises, allowing the market to play a decisive role in resource allocation. At the same time, the government must take the initiative in social policies. The market improves the efficiency of resource allocation, which, however, may lead to a widening disparity between the rich and the poor. The imbalance of distribution will ultimately affect the efficiency of economic development, which is not conducive to the smooth progress of social reproduction, even resulting in increased cyclical fluctuations in the economy. Therefore, in countries in transition, especially those with stable governance conditions, the government needs to improve citizens' welfare with appropriate social policies, promote the improvement of citizens' income and consumption capacity, avoid the periodic ups and downs in economic operation, and ensure the long-term stable development of the society and economy.

## References

1. Burkhead J., Buchanan J.M. Fiscal Theory and Political Economy [J]. *Journal of Finance*, 1961, 16(3):464. (In Engl.)
2. Huang Chenxi. Understanding the Concept of Social Policy: Reviews and reflections [J]. *Sociological Studies*, 2008, 000(004):163–181. (In Chin.)
3. Document Research Office of the CPC Central Committee, Selected Documents of Important Documents since the 18th National Congress of the CPC (Part 1) [M]. Beijing: Central Party Literature Press, 2014:293. (In Chin.)
4. Wang Sibing. The Development of China's Social Policy since the Reform and Opening up and its Social Construction Implications [J]. *Society*, 2018, 038(006):64–72. (In Chin.)

5. Hou Tiejian. Economic Crisis, Social Policy and Economic Development: the Russian Experience [J]. Russian Studies, 2010(02):78–87. (In Chin.)
6. Ma Qiang. What is Russian Society Expecting from Reform? [J]. World Knowledge, 2020(04):76–79. (In Chin.)

**About the author:**

**Xu Deyou**, Deputy Director of Department of Economics, Guangdong Institute of Public Administration (Guangzhou, PRC), PhD in Economics, Professor; 18903018119@163.com

**Об авторе:**

**Сюй Дэйюу**, Заместитель директора департамента экономики Гуандунского института государственного управления (Гуанчжоу, КНР), доктор экономических наук, профессор; 18903018119@163.com