

ENTREPRENEURSHIP IN CHINA AND RUSSIA COMPARED

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Abstract

We compare results from a pilot study on entrepreneurship in China and Russia. Compared to non-entrepreneurs, Russian and Chinese entrepreneurs have more entrepreneurs in their family and among childhood friends, value work more relative to leisure and have higher wealth ambitions. Russian entrepreneurs have a better educational background and their parents were more likely to have been members of the Communist Party but Chinese entrepreneurs are more risk-taking and greedy and have more entrepreneurs among their childhood friends. (JEL: M13, O12, P12)

1. Introduction

The recent development and transition literatures have emphasized the importance of a strong and healthy small and medium enterprise sector for economic growth and development. Endogenous growth theory (Aghion and Howitt 1997) has emphasized the Schumpeterian approach to growth which advances that entrepreneurial dynamism is fundamental for innovation and growth.

We have launched a research project trying to better understand the determinants of entrepreneurship using surveys of individuals that are being conducted in five large developing and transition countries: Russia, Brazil, China, India, and Nigeria. The samples include both entrepreneurs and non-entrepreneurs in order to understand how these groups differ in terms of three broad sets of variables put forward in social sciences as factors that potentially affect entrepreneurship: (1) individual characteristics such as skills, education, and intellectual and personality traits; (2) sociological variables such as family background, social origins, social networks, values, and beliefs; and (3) perceptions of the institutional,

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social, and economic environment that businesses face. Whereas recent economic research has very much emphasized the role of credit institutions (Banerjee and Newman 1993) or of institutions securing property rights (Johnson, McMillan, and Woodruff 2002; Besley 1995; Che and Qian 1998; Djankov, Glaeser, and Schleifer 2002; Frye and Zhuravskaya 2000; Roland and Verdier 2003), we want to take a more comprehensive approach and try to disentangle the role these factors play in promoting entrepreneurship across a variety of settings.

This paper reports and compares some findings from a pilot survey conducted in Russia in 2003–2004 and in China in 2004–2005.

2. The Data

In both Russia and China, we surveyed individuals in seven large cities in four different regions. To capture some of the regional heterogeneity in these countries, the regions were selected to maximize the cross-regions variation in the business climate. In Russia, the survey was done in Moscow; in Nizhny Novgorod and Dzershinsk in the Nizhegorodskaya Oblast; in Perm and Chaykovsky in the Permskaya Oblast; and in Rostov on the Don and Taganrog in the Rostovskaya Oblast. In China, the survey was conducted in Beijing; in Wuhan and Huangshi in Hubei Province; in Guangzhou and Zhongshan in Guangdong Province; and in Xi'An and Baoji in Shaanxi Province.

In each country, we first surveyed a random sample of about 400 entrepreneurs—100 in Moscow and Beijing metropolitan areas and 50 in each of the other six cities. These surveys were conducted in the fall of 2003 in Russia and in the fall of 2004 in China. We define *entrepreneur* as an owner-manager of a business with five or more employees because we wanted to make sure that individuals who we call entrepreneurs in our sample are more than just self-employed. After completion of the surveys of entrepreneurs in the respective countries, we conducted a survey of about 550 non-entrepreneurs in the same cities using a similar instrument.¹ We defined *non-entrepreneurs* as individuals who are not working for their own business. Non-entrepreneur surveys took place during the spring of 2004 and 2005 in Russia and China, respectively. In both countries 80% of respondents in the non-entrepreneur sample were chosen randomly conditional on matching the age, gender, and educational attainment of entrepreneurs from the respective entrepreneur surveys and 20% were chosen at random. Finally, in each country a short survey was run among a random sample of 1,200 individuals (with the same breakdown across cities) asking nine questions about their

1. For hundred entrepreneurs and 550 non-entrepreneurs was the target sample size given to the survey firms in both countries. In reality, these firms interviewed a slightly larger number of individuals to make sure that in the end we had the targeted number of valid questionnaires. The actual number of observations in the empirical analysis depends on the response rates for each particular question.

personal characteristics, including a question about whether or not they are an entrepreneur or self-employed to get data on prevalence of entrepreneurship across cities. In all of the empirical analysis, the observations are weighted with weights equal to the inverse of the probability for a particular respondent (entrepreneur or non-entrepreneur) to get into our sample. The weights reflect differences in entrepreneurship, age, gender, and education across cities in the population, as well as the city size.

3. Comparing Entrepreneurs to Non-entrepreneurs in China and Russia

In this section, we summarize differences in individual characteristics, social environment, values, beliefs, and perceptions of institutional environment for entrepreneurs and non-entrepreneurs in both countries. We report means for entrepreneurs and non-entrepreneurs in both countries on various questions from the survey. In order to have comparability, the means are conditional on gender, age, and education (with a quadratic term) of respondents and on city dummies. The standard errors and p -values for the differences in means between entrepreneurs and non-entrepreneurs are adjusted to allow for clustering of the error terms at the level of cities (Table 1).

First, we summarize differences in individual characteristics of entrepreneurs and non-entrepreneurs. Entrepreneurs on average are more mobile across jobs and geographically. In Russia, entrepreneurs have lived in significantly more localities than non-entrepreneurs and have had a significantly higher number of distinct professional activities. Although these differences have the same sign in China, they are statistically insignificant. In China, however, entrepreneurs worked in a significantly higher number of industries compared to non-entrepreneurs. This is in line with recent findings of Lazear (2002) who surveyed the population of former Stanford MBA students and found that those with a higher number of jobs and shorter job tenures before business school were most likely to become entrepreneurs afterwards.

In line with a common perception that entrepreneurship is associated with risk-taking, entrepreneurs report significantly lower risk aversion than non-entrepreneurs. When asked whether respondents were willing to accept one of two risk-neutral gambles—(1) win \$10 with probability 1/2 and lose \$10 with probability 1/2 or (2) win \$20 with probability 1/2 and lose \$20 with probability 1/2—77% of entrepreneurs in Russia and 90% of entrepreneurs in China responded “yes” (compared to 67% and 57% of non-entrepreneurs in Russia and China, respectively).

Entrepreneurs report higher levels of satisfaction with life compared to non-entrepreneurs. First, in Russia, a significantly higher share of entrepreneurs (92%) answered “yes” to the question whether they are happy compared to 73% of non-entrepreneurs. In China, this difference has the same sign but is

TABLE 1. Entrepreneurs in Russia and China (comparison of means).

	Russia		China		<i>p</i> -value for test of difference in means
	Entrepreneurs	Non-entrepreneurs	Entrepreneurs	Non-entrepreneurs	
Individual characteristics					
Number of localities lived	2.42	2.18	1.85	1.55	0.15
Number of distinct professional activities worked in	2.76	2.54	2.40	2.13	0.24
Number of industries respondent worked in			1.85	1.58	0.00
Accept a risk neutral gamble, %	77	67	90	57	0.01
Very happy or quite happy in life, %	92	73	92	91	0.76
Very successful or quite successful in life, %	74	37	64	43	0.01
Good health, self described, %	12	07	51	37	0.09
Got ill last week, %	25	30	04	08	0.00
Height, cm	172.58	172.38	169.04	168.22	0.02
Married, %	74	60	84	80	0.53
Number of children	1.34	1.31	1.19	0.99	0.00
Religious believer, %	68	78	12	08	0.09
Cognitive text score	3.32	3.15	3.92	3.80	0.62
Top 10% in secondary school (self reported), %	44	34	37	38	0.82
Top 10% in high school, college or university (self reported), %	41	38	36	38	0.10
Speak foreign language, %	38	58	35	49	0.22
Motivation, greed					
Retire if won 100 times GDP per capita, %	08	27	05	24	0.02
Retire if won 500 times GDP per capita, %	18	29	14	37	0.00

(Continued)

TABLE 1. CONTINUED

	Russia			China		
	Entrepreneurs	Non-entrepreneurs	<i>p</i> -value for test of difference in means	Entrepreneurs	Non-entrepreneurs	<i>p</i> -value for test of difference in means
Retire if won 5000 times GDP per capita, %				31	44	0.05 *
Not retire if won a large sum: I like what I do, %	82	69	0.00 ***	74	75	0.93
Not retire if won a large sum: I want more money, %	50	28	0.00 ***	70	43	0.01 ***
Not retire if won a large sum: my work serves useful social purpose, %	70	37	0.00 ***	18	81	0.00 ***
Sociological characteristics						
Father has secondary special or higher education, %	73	48	0.00 ***	29	27	0.57
Mother has secondary special or higher education, %	73	48	0.00 ***	14	18	0.46
Father was a boss or director, %	19	12	0.00 ***	30	13	0.02 **
Mother was a boss or director, %	08	00	0.00 ***	06	03	0.10
Father was a worker or employee without special education, %	43	44	0.43	56	72	0.01 **
Mother was a worker or employee without special education, %	30	53	0.00 ***	70	71	0.86
Father was a member of the communist party, %	48	37	0.00 ***	40	31	0.42
Mother was a member of the communist party, %	19	12	0.01 ***	10	15	0.01 ***
Members of the family were running business, %	57	34	0.00 ***	49	24	0.00 ***

Had childhood friends who became entrepreneurs, %	59	37	0.00	***	45	28	0.01	**
Had adolescent friends who became entrepreneurs, %	67	48	0.00	***	60	24	0.00	***
Values								
Friends are very important, %	43	53	0.01	***	60	66	0.16	*
Relations with parents are very important, %	84	92	0.00	***	86	88	0.10	*
Financial well-being is very important, %	53	58	0.02	**	73	62	0.08	*
Leisure time is very important, %	23	26	0.02	**	19	20	0.85	
Health is very important, %	75	80	0.00	***	93	88	0.20	
Service to others is very important, %	21	29	0.00	***	19	19	0.92	
Political freedom is very important, %	62	74	0.03	**	73	28	0.00	***
Power is very important, %	10	07	0.00	***	32	26	0.01	**
Work is very important, %	75	53	0.00	***	80	63	0.00	***
Intellectual achievement is very important, %	43	49	0.00	***	24	33	0.02	**
Values of legal social norms								
Not paying a fare can be justified to some degree, %	77	76	0.68		08	05	0.48	
Shirking at work can be justified to some degree, %	54	58	0.27		23	07	0.00	***
Accepting a bribe can be justified to some degree, %	32	18	0.00	***	19	06	0.00	***

(Continued)

TABLE 1. CONTINUED

	Russia				China			
	Entrepreneurs	Non-entrepreneurs	<i>p</i> -value for test of difference in means		Entrepreneurs	Non-entrepreneurs	<i>p</i> -value for test of difference in means	
Trust								
Most people can be trusted, %	16	22	0.05 **		56	54	0.79	
Have a lot of trust in family members, %	90	86	0.00 ***		96	92	0.48	
Have a lot of trust in friends, %	49	48	0.17		58	58	0.98	
Have a lot of trust in colleagues, %	26	20	0.02 **		38	33	0.46	
Have a lot of trust or some trust in businessmen, %	61	66	0.06 *		71	46	0.02 **	
Have a lot of trust or some trust in subordinates, %	79	82	0.06 *		95	83	0.02 **	
Have a lot of trust or some trust in other people from town, %	54	85	0.00 ***		42	50	0.29	
Have a lot of trust or some trust in foreigners, %	44	70	0.00 ***		29	38	0.39	
Have a lot of trust or some trust in local government officials, %	40	40	1.00		69	59	0.07 *	
Have a lot of trust or some trust in regional government officials, %	39	42	0.38		68	64	0.43	
Have a lot of trust or some trust in central government officials, %	40	41	0.76		75	75	0.99	
Individual perceptions of institutions								
People in your town are favorable toward entrepreneurs, %	67	65	0.36		68	60	0.33	
Local government is favorable toward entrepreneurs, %	49	53	0.26		82	70	0.00 ***	

Regional government is favorable toward entrepreneurs, %	51	61	0.01	***	78	76	0.74
Central government is favorable towards entrepreneurs, %	57	62	0.08	*	81	90	0.10
Private entrepreneurs pay bribes to avoid regulations, %	72	83	0.00	***	50	54	0.57
Private entrepreneurs pay bribes to change rules, %	56	69	0.00	***	40	50	0.39
Businessmen are subject to theft of property, %	88	85	0.18		70	98	0.08
Would go to court against a business relation if cheated, %	66	71	0.01	**	90	88	0.48
Would go to court against a government official if abused, %	62	72	0.00	***	80	73	0.00
It is relatively easy to find money to start a business in town, %	21	16	0.02	**	38	26	0.28

Note: The reported differences in means are conditional on city-level variation, age, gender, education, and education squared. Standard errors (and *p*-values) are adjusted to allow clusters of error term at the level of cities.

*Significant at 10% level; **Significant at 5% level; ***Significant at 1% level.

insignificant. Second, entrepreneurs report to be in significantly better health than non-entrepreneurs in both countries. Finally, entrepreneurs are taller than non-entrepreneurs. The difference in height is statistically significant only in China. In addition, entrepreneurs marry more often and have more children. The difference in percent married is significant in Russia and insignificant in China; while the difference in the number of children is significant in China only.

There are important differences between the two countries in religiosity and school achievement of entrepreneurs compared to non-entrepreneurs. Russian entrepreneurs tend to be less religious but Chinese entrepreneurs are more religious. However, religiosity is very low in China (12% among entrepreneurs) and relatively high in Russia (68%).

Russian entrepreneurs report to have been higher achievers in school, but this is not the case for China. Entrepreneurs tend to speak fewer foreign languages, an interesting fact. They scored higher than non-entrepreneurs on a test of cognitive ability, focusing on short-term recall (a digit-span test, available from the authors upon request) but the difference is not significant.

Another important difference that emerges relates to leisure-work choices of entrepreneurs and non-entrepreneurs. Respondents were asked whether they would retire if they received a windfall income of 100 or 500 times (5,000 times also in China) the annual GDP per capita of the country. Entrepreneurs were much less likely to respond positively than non-entrepreneurs. In both countries, a very strong reason for not retiring was the desire to earn more money. In Russia, job satisfaction and a feeling of being socially useful also played a significant role but not in China, where one finds the opposite.

Now let us focus on social environment. Compared to non-entrepreneurs, a larger share of parents of Russian entrepreneurs (73% vs. 48%) achieved higher or special education. There are no differences in parents' education in China. Nevertheless, fathers of entrepreneurs in both countries were more likely to have been bosses or directors (19% vs. 12% in Russia and 30% vs. 13% in China). In Russia, both parents of entrepreneurs were more likely to have been members of the Communist Party, but not in China. Not only is there no significant difference for fathers in China but mothers of entrepreneurs were less often members of the Communist Party (10% compared to 15% for non-entrepreneurs).

A very large difference that emerges in both countries is the proportion of entrepreneurs in one's family and among one's friends. Entrepreneurs in both countries are much more likely to have entrepreneurs in their family (57% in Russia and 49% in China, compared to respectively 34% and 24% among non-entrepreneurs). Respondents were asked to name five friends from their childhood and adolescence and then to report how many of these five have become entrepreneurs. The difference in response for entrepreneurs and non-entrepreneurs is striking. In China, for example, 60% of entrepreneurs had adolescent friends who became entrepreneurs compared to 24% among non-entrepreneurs.

We also asked questions about values and beliefs. Although there are statistically significant differences between entrepreneurs and non-entrepreneurs, the magnitude of the differences is not very large except for a few cases. A major difference is the value attached to work: 75% of Russian and 80% of Chinese entrepreneurs consider work to be very important in their life compared to 53% and 63% for non-entrepreneurs in Russia and China. This is consistent with the labor-leisure preferences reported above. Note that Chinese entrepreneurs value political freedom very strongly compared to non-entrepreneurs (73% vs. 28%) whereas Russian entrepreneurs value political freedom significantly less than non-entrepreneurs (62% vs. 74%) even though they value it highly. Entrepreneurs seem to value relations with parents significantly less than non-entrepreneurs in both countries. Asked about social norms, entrepreneurs in both countries consider that bribes are more acceptable. This probably reflects their greater experience in the business environment rather than intrinsic values. Chinese entrepreneurs consider that shirking at work can be justified. We asked many questions about trust, but no strong pattern emerged. Russian entrepreneurs are considerably less trustful of foreigners and of people out of town whereas there is no significant difference in China. It is worth noting that Russians (both entrepreneurs and non-entrepreneurs) trust the government at all levels substantially less than Chinese (for example, 37% of respondents had at least some trust in the central government in Russia compared to 77% in China).

Finally, we compare individual perceptions of entrepreneurs and non-entrepreneurs about the institutional environment controlling for the average differences across cities. Chinese entrepreneurs find that local government is more favorable to entrepreneurs (82% positive answers vs. 70% for non-entrepreneurs). In Russia, entrepreneurs find that local government is less favorable (only 49% of positive answers) even though the difference is not significant. In general, the perception of different levels of government regarding their attitude to entrepreneurs is more negative among Russian entrepreneurs compared to non-entrepreneurs. In China, it is only more negative with respect to the central government and even there the percentage of positive answers is higher than in Russia. Entrepreneurs in China also feel more secure with respect to theft of property. Russian entrepreneurs tend to distrust the courts more than non-entrepreneurs. In China, it is the opposite. When asked if they would go to court if abused by a government official, roughly 72% say yes in both countries. However, only 62% of Russian entrepreneurs respond positively whereas 80% of Chinese entrepreneurs do.

To summarize the main results of this section, entrepreneurs in both countries are risk-taking and have more entrepreneurs in their families and among their childhood and adolescence friends. Entrepreneurs value work very highly and are greedy. Russian entrepreneurs tend to come from a higher educational background but have a more negative perception of the institutional environment in which they

operate compared to Chinese entrepreneurs. The latter tend to have a positive view of local governments' attitude towards entrepreneurs.

4. Results of Multivariate Probit Regressions

In this section, we report results of multivariate analysis. We explain variation in individual decisions to become an entrepreneur in probit regressions with independent variables that can plausibly be considered exogenous to this decision. The main objective of these regressions is to see which variables are robustly associated to entrepreneurship and also to compare the differences between Russia only and China only.

The results are reported in Table 2. Column 1 in Table 2 reports pooled results, columns 2 and 3 report separate results for Russia only and China only, and columns 4 and 5 present a regression where all dependent variables include interactions with China dummy. The fourth column should thus be read as result for Russia² and the coefficients in the fifth column represent the difference in China relative to Russia. As above, all regressions include city-fixed effects and controls for gender, age, and a quadratic function of education. Standard errors are adjusted for clusters in error terms at the city level.

The pooled results in Table 2 show that entrepreneurship is positively associated with the father having been a member of the Communist Party, the mother having been a boss or a director, having family and friends being entrepreneurs (social network), greed (not willing to retire to earn more money), and a positive perception of the attitude of the local population toward entrepreneurs. However, when looking at the country regressions, one sees that only the social network variables and greed are robustly significant in both countries. Note from columns 2 and 3 that height has a negative coefficient in Russia and a positive one in China. Columns 2 and 4 show that, for Russia, having had a father in the Communist Party and a mother director has positive correlation with entrepreneurship as well as for reporting to have been among the top 10% in school and also a positive perception of the population's attitude toward entrepreneurs. Column 5 shows the significant differences between entrepreneurship in China and Russia. Chinese entrepreneurs are more greedy and risk-taking (the Russia coefficient is negative but this is not the case in other specifications), are more likely to have entrepreneurs among their former school friends and were less good in school.

In terms of the importance of the different effects, because the reported coefficients are marginal effects, looking at column 1, the two most-important effects are greed and having friends entrepreneurs. A one standard deviation increase in greed, increases the probability of being an entrepreneurs by about 9% while a

2. The results of column 2 and 4 are identical when the data are not weighted but they are slightly different because the weights are different in a regression including one versus countries.

TABLE 2. Entrepreneurship in Russia and China. Probit regressions. Marginal effects reported.

	Pooled	Russia only	China only	Russia and China compared
				Difference in China relative to Russia
Father with secondary or higher education	0.003 [0.021]	-0.014 [0.012]	0.004 [0.007]	-0.008 [0.007]
Father was a member of the communist party	0.073 [0.036]**	0.108 [0.023]***	0.011 [0.023]	0.066 [0.015]***
Mother was a boss or director	0.271 [0.116]**	0.371 [0.136]***	0.066 [0.047]	0.283 [0.124]**
Mother with secondary or higher education	-0.034 [0.023]	-0.013 [0.009]	-0.016 [0.008]*	-0.008 [0.005]
Family members entrepreneurs	0.039 [0.006]***	0.05 [0.003]***	0.012 [0.007]*	0.03 [0.003]***
Friends entrepreneurs (from the last place of study)	0.06 [0.010]***	0.075 [0.009]***	0.032 [0.011]***	0.045 [0.006]***
Cognitive test score	0.007 [0.007]	-0.006 [0.007]	0.003 [0.005]	-0.004 [0.004]
Height	0	-0.005 [0.001]***	0.001 [0.000]***	-0.003 [0.001]***
Risk-loving	0.061 [0.053]	-0.033 [0.009]***	0.08 [0.006]***	-0.019 [0.006]***
Top 10% in secondary school (self reported)	0.021 [0.026]	0.087 [0.011]***	-0.009 [0.010]	0.053 [0.008]***
Greed	0.186 [0.073]**	0.097 [0.019]***	0.155 [0.015]***	0.059 [0.012]***
City population perceived favorable towards entrepreneurs	0.043 [0.020]**	0.035 [0.017]**	0.011 [0.011]	0.021 [0.010]**
Government perceived favorable towards entrepreneurs	-0.002 [0.008]	0.006 [0.006]	-0.001 [0.006]	0.003 [0.004]
Observations	1530	726	804	1530

Note: Robust standard errors corrected for clusters of error term at city level in brackets. Also control for gender, age, education, and education squared.
*Significant at 10% level; **Significant at 5% level; ***Significant at 1% level.

TABLE 3. Institutions and plans to expand sales and employment. Entrepreneur sample.

	Planned sales growth	Planned employment growth	Planned sales growth	Planned employment growth
Average city-level corruption	-1.702 [0.608]**	-1.503 [0.751]*		
Average city-level efficiency of courts			1.215 [0.418]**	1.047 [0.591]
Country	0.364 [0.091]***	0.026 [0.268]	0.294 [0.136]*	-0.035 [0.326]
Observations	362	342	362	342

Notes: Robust standard errors corrected for clusters of error term at city level in brackets. Also control for gender, age, education, and education squared.

*Significant at 10% level; **Significant at 5% level; ***Significant at 1% level. All regressions include industry dummies and all the regressors as in the first column of Table 2.

one standard deviation increase in the “friends entrepreneurs” variable increases this probability by 7.2%.

As with most cross-section OLS regressions, we cannot rule out the possibility that an omitted variable simultaneously influenced entrepreneurship decisions of our respondents and of their families and friends. Thus, at this stage, we cannot establish a causal link between social networks and entrepreneurship; but we hope to address the question of causality in the subsequent stages of this project.

So far we have held the variation in city-level institutional environment constant by including city dummies. To evaluate the effect of city-level institutional environment, we regress a dummy (Table 3) that equals one if entrepreneur plans to expand sales or employment on the average city-level measures of corruption and efficiency of courts (as reported in Table 1). These regressions include controls (not shown) for industry dummies and all individual characteristics as reported in Table 2. As above, error terms are clustered at the city-level. As one can see, these institutional variables are significant and have the expected sign. Note also the country effect showing the stronger economic dynamism in China.

5. Conclusions

Russian and Chinese entrepreneurs have common characteristics relative to non-entrepreneurs controlling for age, gender, and education. They are more risk-taking, place a higher value on work relative to leisure, are greedy and are much more likely to have entrepreneurs in their family as well as among childhood and adolescence friends. There are also differences however, Russian entrepreneurs have a better educational background which is not the case for Chinese entrepreneurs and are more risk-taking and greedy and are even more likely than in Russia to have had school friends who became entrepreneurs. In future work, we want to understand better in particular the role of social networks and the channels through which they operate for entrepreneurs.

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