Ex ante and ex post institutional convergence: Case of the post-Soviet space

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Abstract: The paper discusses the interaction of ex ante and ex post institutional convergence in the post-Soviet world, i.e. 12 members of the Commonwealth of Independent States. It starts with analysing empirical evidence for institutional convergence in the CIS, and then considers two channels of convergence: institutional competition for mobile capital and ex ante harmonization via interaction in political sphere. In both cases the paper points out potential positive and negative features of the processes from the point of view of institutional transformation. The influence of institutional competition is ambiguous, as both factors of “demand for good institutions” and “demand for bad institutions” influence corporate behaviour. The ex ante harmonization is much less influential and seems to be most successful in preserving semi-authoritarian regimes from potential competitors and therefore supports inefficient equilibrium. Finally, the paper focuses on interaction between ex ante and ex post harmonization, i.e. demand for harmonization from businesses and support of institutional competition environment from the governments. For the governments ex post harmonization could be an attractive way to avoid long and costly bargaining: this factor is probably relevant for the current support of business expansion of Russian corporations by Russian government. For the businesses the situation is more difficult: since historically post-Soviet business did not express significant interest in formal integration (associated with ex ante harmonization), the paper discusses three variables (lobbying, changes in market structure and preferences of the demand side) able to influence their decisions.

1. Introduction

Institutional changes and institutional convergence in a multi-jurisdictional system with numerous governments and free movement of capital and labour across national borders have two main channels to occur (with different or similar directions). On the one hand, territorial public authorities compete for mobile private actors, investments, tax base etc. providing different formal institutional settings (both economic and political) in a process referred to as institutional competition. One of possible results of the institutional competition is the **ex post** harmonization of institutions as result of constraints set on egoistic behaviour of governments and spontaneous learning process in the sense of the Hayekian arbitrage and Schumpeterian experimentation[1]. Actually, even this option can include certain intergovernmental coordination, e.g. in form of information exchange, mutual agreements on removing the restrictions on capital movement or even certain restrictions e.g. in case of "offshore jurisdictions". However, the main point is that the decisions on "supply of institutions" are made individually by every jurisdiction and is not restricted by any international agreements[2].

The opposite variant is the **ex ante** institutional harmonization as result of a joint attempt to restrict institutional competition. The countries do not set any restrictions for free capital movement; however, they establish a unified institutional environment in all jurisdictions set either by an interjurisdictional bargaining procedure or by a supranational authority, which eliminates the variety of institutions or even by informal contacts and cooperation and mutual learning process (like in the European Open Method of Coordination). It is possible, that the international cooperation in the current decision-making (what an Ordoliberal would call "policy of process") has an unintended result in form of institutional convergences (i.e. in the field of "policy of order") The main point is, that the political decision making is more important, than the spontaneous reaction to market processes.

The importance of comparison between ex ante and ex post harmonization remains unchallenged for different traditions of economics, e.g. mainstream, Austrian and Ordoliberal schools (see Pitsoulis, 2004 for a detailed review), as well as for several other fields of social sciences, like economic geography (Anderson, Forslid, 1999), political science (e.g. Scharpf, 1998; Murphy, 2004), law (Trachtman, 1993) and world-system analysis (Bornschier, Trezzini, 1996). Actually, there are currently many literatures on institutional competition in these fields, which often coexist and study similar effects without any cooperation or intersection. The responses both theoretical and empirical are ambiguous. The major result of the current research on institutional competition is that its effects depend upon a great variety of variables including structure of the economy, number and size of countries, agglomeration effects, information asymmetry, political systems etc. On the one hand, the result of the institutional competition may be a "race to the bottom" to an inefficient "zero regulation". On the other hand, institutional competition could increase the quality of institutions.

The positive analysis of political choice between ex ante and ex post harmonization has been, however, less developed in the social sciences and economics. There are actually four main arguments presented to this issue. First, the Brennan and Buchanan (1980) thesis on collusion: if a decentralized institutional framework is constructed to "tame" the regional Leviathans, their aspiration towards avoiding this outcome should lead to a more centralized

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[1] I am aware, that it is not the only possible outcome: however, this result seems to be highly possible and is going to be discussed in this paper.

[2] In this paper the „market for institutions" is referred to formal institutions, which are offered by the governments (supply side) to corporations (demand side).

equilibrium outcome to restrict actual and yardstick competition. Second, the success or failure of ex ante harmonization could be seen from the point of view of social dilemma in the intergovernmental cooperation, which could be reduced by factors like "shadow of the future", international regimes, hegemonial stability or influence of epistemic communities (Genschel and Plümper, 1997). Third, extend of centralization (or a number of jurisdictions joining the ex ante harmonization agreement) could be seen from the point of view distributive issues a coalition formation and stability (Burbidge, DePater, Myers and Sengupta. 1997; Myers and Sengupta, 2002; Bucovetsky, 2005). Finally, it is possible to consider the ex ante harmonization from the point of view of endogenous formation of jurisdictions under tax competition in a world of heterogeneous preferences (applying the Tiebout sorting literature). This approach is used by Perroni (2001) with the major result that under tax competition larger jurisdictions emerge, but not as result of "cartelisation" (like in the papers mentioned above), but as a consequence of decreasing gap between the median voter and peripheral consumers, and tax competition is welfare increasing. In a similar way Ugur (2004) shows, that institutional ex post convergence in fact precedes the negotiations over the ex ante convergence.

The aim of this paper is to study the processes of ex ante and ex post harmonization in the post-Soviet space, i.e. i.e. twelve former Soviet republics, which now belong to the Commonwealth of Independent States. The first section discusses empirical evidence of institutional convergence in the CIS. The next two sections focus on ex ante and ex post harmonization processes and their influence on the success of economic transformation in the CIS. Finally, the last two sections deal with interaction of ex ante and ex post harmonization in the post-Soviet space. In fact, I am interested in two different perspectives. On the one hand, what are the factors for the supply side of the market for formal institutions (politics) to support institutional regimes leading to ex post harmonization (if they are self-interested and egoistic)? The approaches discussed above do not give sufficient explanation to this problem. On the other hand, why it is possible, that the demand side of the market of institutions (for example, businesses) support ex ante harmonization? These interest groups are often argued to be more influential in a world of institutional competition, because exactly businesses gain mostly from increasing mobility. Therefore their impact should be especially important for the harmonization issues. I discuss primarily the institutional competition for mobile capital[3], although decisions on labour allocations across countries may also be part of internal labour markets of multinationals and therefore relevant for the problem discussed above.

2. Institutional Convergence in the CIS

A typical phrase in any discussion of the post-Soviet space and its development, which appears in different forms in different papers and statements, is the "divergent paths of development" or "civilised divorce" (the latter was quoted even by the Russian president Vladimir Putin in 2005). Therefore the question of institutional convergence seems to be at least less appropriate for the studies of the post-Soviet space. It is common knowledge, the formal post-Soviet integration, which should be the core of the ex ante harmonization attempts, failed to achieve any success: all post-Soviet integration projects (like the CIS, the Eurasian Economic Community, the Union State of Russia and Belarus or the Common Economic Space, for an overview see table1) produced nothing more than a "ink on paper" integration with no practical implementation.

[3] By discussing capital mobility the paper focuses mostly on foreign direct investments (FDI).

Table 1: Major Integration Projects in the Post-Soviet Space

Project	**Members**	**Year of Establishment**	**Aims**	**Factual Results of the Integration**
Commonwealth of Independent States	Russia, Belarus, Moldova, Azerbaijan, Georgia, Armenia, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan (associated membership since 2005), Uzbekistan, Ukraine	1993	FTA, custom union, common market and economic union, harmonization of various areas of legislation	A multilateral FTA is not established; there are plans to introduce the FTA in 2012 oppose by numerous members
Eurasian Economic Community – EAEC (originally the Custom Union)	Russia, Belarus, Kazakhstan, Kyrgyz Republic, Tajikistan, Uzbekistan (the formal decision should be met in December 2005)	1995	Custom union, common market, common currency, harmonization of various areas of legislation	A limited FTA and a developing customs union
Union State of Russia and Belarus (originally the Commonwealth of Russia and Belarus)	Russia, Belarus	1996	Confederation of two states, common economic space and common currency, harmonization of various areas of legislation	A limited FTA
Common Economic Space (CES)	Russia, Ukraine, Kazakhstan, Belarus	2003	Common economic space (as manifestation of "four freedoms") with perspectives of establishment of supranational structures, harmonization of various areas of legislation	Still under consideration
GUAM	Georgia, Ukraine, Azerbaijan, Moldova (Uzbekistan left the organization in 2005)	1996	Perspectives of a FTA and regional economic cooperation, mutual investment projects, regional security (e.g. secession problems) and democratisation issues	Several mutual projects in economic and political sphere, but no developed coordination
Organization of Collective Security Treaty	Russia, Belarus, Armenia, Kazakhstan, Kyrgyz Republic, Tajikistan	1992	Collective defence treaty, terrorism problems	So far proved to be unable to react on rapid changes and threats for regional security

On the other hand, the absolute majority of the post-Soviet states suffer under similar institutional problems. Their institutional systems are characterized by low level of property rights protection and contract enforcement, increasing share of shadow economy (see Schneider, 2004, for some quantitative indicators), dominance of lobbying activity instead of productive investments, deficit of trust and high concentration of economic power. A general problem is the broadening of inefficient institutions, which could be described as an "institutional trap" or a lock-in (Polterovich, 1999). This situation is combined with certain similarities in political systems. It may be a point of consensus in social sciences, that the political system of the post-Soviet states does not correspond to the criteria of democracy in a "Western" sense, although different terms to describe it are used, like (temporary or permanent) "hybrid regimes" or "democracies with adjectives" or (from the other point of view) "semi-autocracies" (Gel'man, 2003, Olcott and Ottaway, 1999, Levitsky and Way, 2002). A typical feature of these political orders is the formal presence of democratic institutions, which are unable (1) to influence the current political decisions and (2) to transfer the power from the hands of incumbents. This result is achieved by permanent interventions in the democratic mechanism on different levels (from simple election cheating to more sophisticated legal changes and ideological campaigns, including creation of the "pro-forma" opposition loyal to the current regime). This system is intervened with low level of quality of institutions[4], which is used for rent seeking. Moreover, since under institutional trap the success of businesses strongly depends upon governmental support, there is also a power-seeking factor in place. Radaev (1998) demonstrates that the existence of bureaucratic barriers is not a "mistake" of reformers, but a way to reproduce the dependency of the business on the government. Strict regulation and weak enforcement of property rights push private companies into the "grey zone" of illegal or half-legal activities what can be used by the government. Besides, businessmen have to seek state privileges and support to sustain the unfriendly environment. As these privileges are granted selectively, politicians and bureaucrats receive an additional instrument of control. Recent revolutions in Ukraine, Georgia and Kyrgyz Republic challenge, but not definitively change the situation.

The post-Soviet states are also similar and different at the same time. An interesting point is than whether it is possible to measure institutional convergence with different instruments. It is hardly possible to receive a clear statement regarding the institutional convergence or divergence in the CIS. In this paper we apply a number of indicators to measure the convergence process. First, the convergence of *political institutions* is measured by the Freedom House index[5]; convergence of economic institutions is measured by Heritage Foundation index of economic freedom and the EBRD index of formal reform progress. The average World Bank index of the quality of governance accounts for the combination of political and economic institutions (Kaufmann, Kraay, Mastruzzi, 2005). Following the approach to convergence studies developed in the growth theory, I calculate an indicator, which could be called "σ-convergence" based on the standard deviation of indices. The results are represented in the figures 1-3.

[4] The quality of institutions is defined in terms of transaction cost efficiency. See Welfens (2003) for a more detailed approach, as well as Libman (2006) for application of this approach to the post-Soviet space and Penz (1998) for critique of this approach in favour of robustness of institutions.

[5] All indices are recalculated so, that the higher values represent greater progress towards democracy and the market economy.

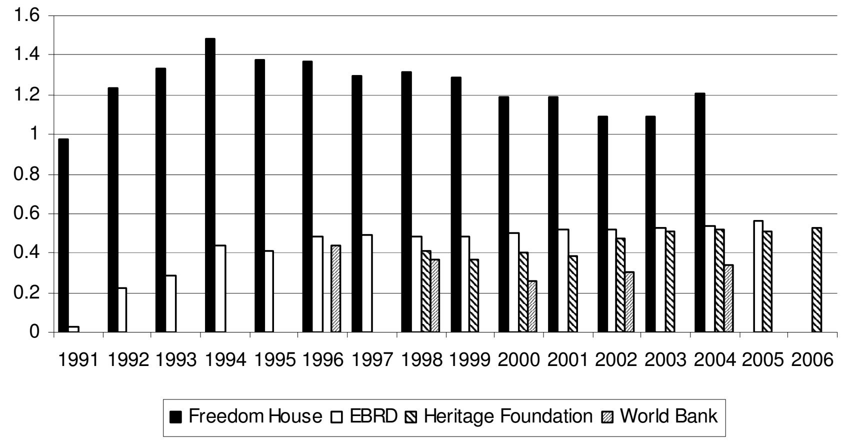

Figure 1: Standard Deviation of the Institutional Indices for the CIS

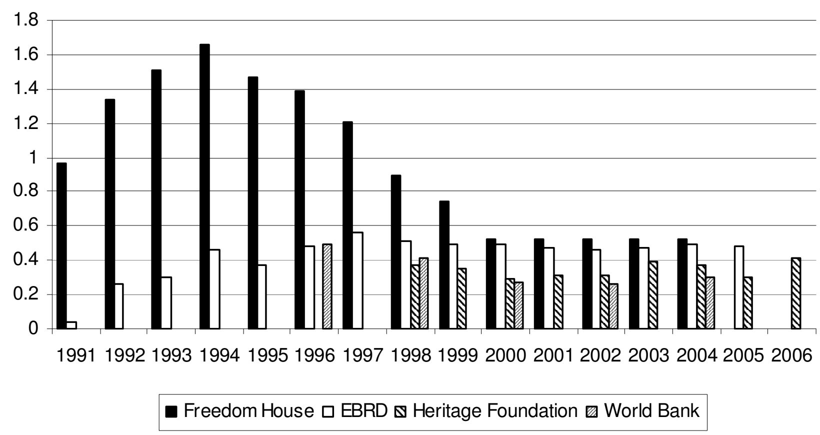

Figure 2: Standard Deviation of the Institutional Indices for the EAEC

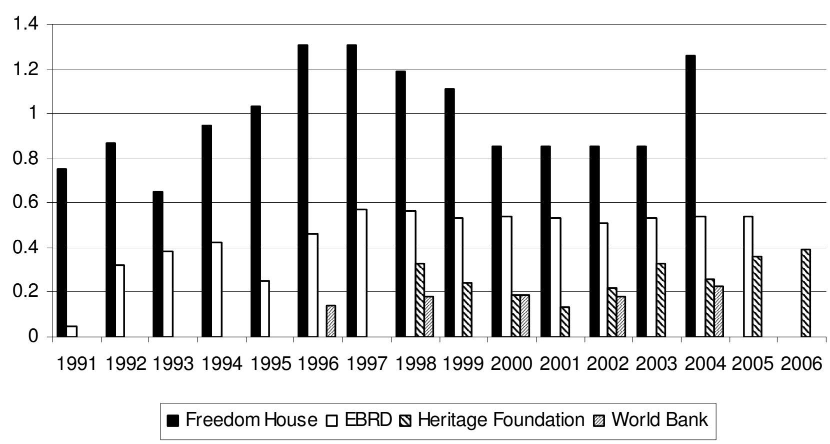

Figure 3: Standard Deviation of the Institutional Indices for the CES

The results for the σ-convergence are surprising from the point of view of the "divergent paths" thesis: there is a clear trend to the reduction of standard deviation since the second half of the 90s, especially for the political institutions. The only exception is the last year, when transformation in Ukraine and in Georgia changed the general picture. For the

EBRD index and the World Bank index a stagnation of standard deviation since the second half of the 90s is visible; the Heritage Foundation index demonstrate slight divergence trends. The trend to convergence is even more evident, if standard deviation is replaced by the coefficient of variation. Moreover, in case of the World Bank and Freedom House indices convergence is associated with lower average index for the CIS, so, it also means a strengthening of institutional trap and reform deadlock. What are the ex ante and ex post factors of this process? The next two sections provide a number of possible explanations for that.

3. Institutional Competition in the CIS

3.1. Cross-Border Investments in the CIS

The role of institutional competition in the post-Soviet space at first appears dubious. A necessary precondition for the institutional competition is free movement of capital across national borders, which is given in more advanced integration areas like the EU, but is problematic in the CIS, where many countries use different forms of restrictions for cross-border capital transactions. Low success of governmental integration projects (as compared to other integration groups worldwide) also makes institutional competition in the CIS questionable.

However, if other factors of the post-Soviet development are taken into consideration, the region surprisingly seems to meet many preconditions of the institutional competition debate. The transaction costs of the cross-border FDI do not seem to be high: the region is still united by the developed social integration factors, like the Russian language as the lingua franca, common values, informal interpersonal communication networks, common mores and ways of doing business etc. (see Sterzhneva, 1999) even if compared with the Europe. The borders between states have remained transparent for capital and labour flows as an attempt to survive the appearing economic shocks of disintegration, which were of significant importance for the post-Soviet republics (Bevan, Estrin, Hare and Stern, 2001; Linn, 2004), as well as a manifestation of lacking capacity of new governments to create an efficient control over cross-border transactions.

As a result, there are huge cross-border factor movements in the CIS. Labour migration has played an important role for many post-Soviet economies during the 90s. A more modern trend (which I would like to focus on) is that the cross-border investment flows skyrocketed since 2000. The investment expansion of Russian transnational corporations was especially important. According to official data, the annual outward flow of Russian investments increased from 1999 to 2004 by 1700%. The annualized FDI outflow in 2005 (calculated on the Q3 basis) went down by 10%, mostly because of certain reduction of Russian investments in Uzbekistan, which does not seem to be permanent from the point of view of current discussions between these two countries.

From the point of view of formal statistical data, the CIS attracts only an insignificant share of Russian FDI (Kalotay, 2004). However, their relative importance as compared with the size of the economies could be higher. Moreover, these cross-border flows are mostly statistically invisible (because of lack of control and use of “shadow” and offshore mechanisms (Heifez, 2005)); that is why statistical indicators do not provide an adequate representation of cross-border investment flows (especially in comparison with other destinations in the developed countries). Data of national statistical authorities are often misleading or do not correspond to each other. In certain years corporate data on individual investment projects exceeded the formal statistical records of governmental agencies (see Vahtra, 2005).

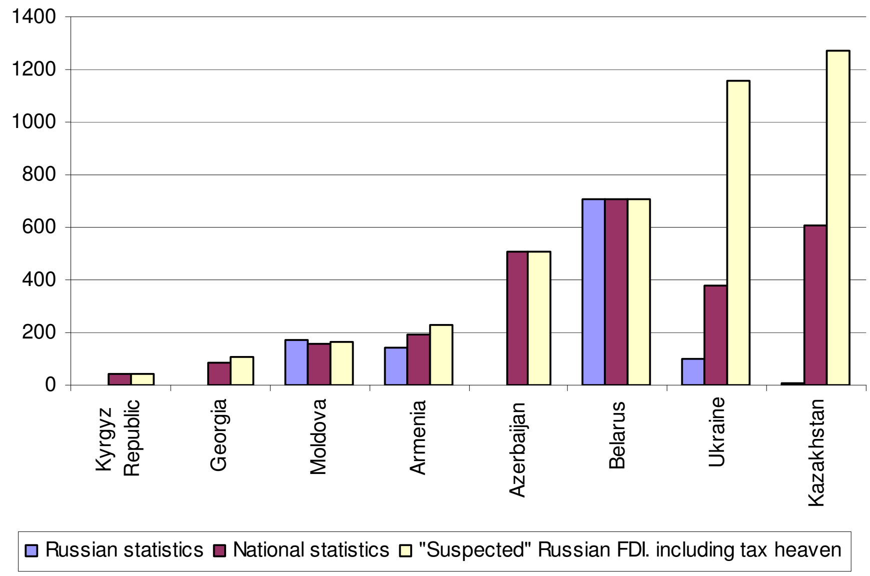

Figure 4: Russian cumulated FDI in the Post-Soviet Space, 2003

Source: Crane, Peterson and Oliker, 2005. For Ukraine data recalculated to make them comparable with other countries

For example, according to the official statistics Russian corporation account for less than 6% of total FDI in Ukraine. However, as the expert opinions show, Russian corporations control about 83% of the oil processing industry; 67% of the non-ferrous metallurgy (including 90% of the aluminium industry), 36% of the power utilities, 33% of the machine building industry and the banking sector, 20% of the ferrous metallurgy and the gas industry, 30% of the milk products market and 50% of the telecommunication sector (Lebedev, 2005). The UNCTAD World Investment Report (2004) estimates show that Ukraine, Belarus, Kazakhstan and Uzbekistan were among the top 6 targets for Russian FDI projects abroad. According to UNCTAD data, about 50% of all cross-border mergers and acquisitions in the post-Soviet space take place in the post-Soviet space; the Russian Moscow International Business Association provides similar information (45%).

Therefore the most important outline of analysis of the Russian FDI in the CIS is based on the individual business data. Three sectors of economy seem to be most important for the Russian investors: oil and gas, power utilities and telecommunications. The Russian gas corporations *Gazprom* and *ITERA* own the gas distributing pipelines in the majority of the post-Soviet countries and currently broaden their expansion. These companies, as well as the private oil companies *LUKoil, Tatneft* and *TNK-BP* participate in several (less important) projects in Azerbaijan, Uzbekistan and Kazakhstan, as well as control the largest oil processing plants in Ukraine. The Russian power utilities monopolist *RAO UES* is now implementing a focused policy of expansion in the post-Soviet space. Its CEO Anatolii Chubais introduced in 2003 the idea of the "liberal empire", i.e. use of private investments of Russian corporations as the major source of influence in the post-Soviet space. The *RAO UES* controls assets in Georgia, Armenia and in Moldova and participates in a joint project in the Northern Kazakhstan. All assets should be sold to *Gazprom* in the near future. As *Alfa Bank* report from November 2004 states, the Russian mobile phone corporations (*MTS* and *VymbelCom*) are entering the post-Soviet markets as the "second Russia", i.e. a region with significant growth potential (Bogdanov, Sukhanova, 2004). Currently the Russian investors control the largest mobile phone corporations the majority of the post-Soviet states (i.e. Kazakhstan, Ukraine, Tajikistan, Uzbekistan, Belarus etc.). There are several other specific fields where Russian businesses have the dominant position, i.e. agricultural machine building (*Agromashholding*), railroad machine building (*Transmashkholding*) automotives (*GAZ, KamAZ, AvtoVAZ*), retail (*Evroset, DIXIT, Perekriostok, Piatiorochka*) and food industry *(Wimm-Bill-Dann, Planteta*). In several countries (Ukraine, Armenia, Tajikistan) important assets are present in ferrous and non-ferrous metallurgy. Although the banking and insurance sectors are still less important (see e.g. Vernikov, 2005), companies like *Vneshtorgbank, Ingosstrakh, NRB* or *Alfa-Bank* are now actively involved in investment expansion in the post-Soviet countries. However, it is also important to notice, that large corporations form only the most visible (although also highly intransparent) sector of FDI outflows: not less important are wealthy individuals (e.g. in Ukraine), which often do not possess significant assets in Russia, as well as investments within the ethnic networks (e.g. in Transcaucasian countries).

Russian actors are the most important, but not the unique group of businesses carrying out the investment expansion policy in the region. The investments of other CIS countries in the region are also increasingly important. For example, Kazakhstan banks (e.g. *TuranAlem*) are raising their investment activity in the region; Kazakhstan businesses invest in Kyrgyz Republic, Russian and Georgian economy: in several cases they compete with Russian investors (Uzbekistan or Kyrgyz Republic telecommunication sector). Ukrainian investors also increase their presence in the post-Soviet space.

Increasing activity of Russian and other CIS investors in the region is reasonable from the point of view of international experience. A UNO study on transnational corporations from developing countries (United Nations, 1993) shows, that their early expansion is mostly especially active in the "near abroad" (i.e. a kind of "geographical distance" exists). Moreover, Rugman (2005) states that a regional strategy is typical for many enterprises, although many Russian corporations are active not only in the CIS, but also internationally.

The fact that Russian investments mostly concentrate in countries with similar institutions seems to be evident. Indeed, the simple correlation indices between the investment indicators and differences of institutional indicators between Russia and other CIS countries show that at least the volume of investments mostly decreases if institutional convergence goes up. On the other hand, for the share of Russian investments this relation holds only for the World Bank index[6].

Table 2: Correlation between Investment Indicators and Absolute Value of Differences of Institutional Indicators between Russia and the CIS, 2003

	Freedom House	EBRD	Transparency International Corruption Perception Index	Heritage Foundation	World Bank
Share	0.634	0.393	0.175	0.592	-0.284
Volume	-0.136	-0.682	-0.122	-0.45	-0.825

Notes: Share = share of Russian investments in the countries of the CIS; Volume = Log (Volume of Russian investments / GDP); all indices recalculated so, that the higher index indicates better performance. Russian investments = "suspected" investments as estimated by the RAND Corporation (Crane, Peterson and Oliker, 2005) with correction for Ukraine.

[6] Naturally, this approach does not provide a ceteris paribus analysis and is therefore limited. However, a very small number of countries and periods with reasonable data make a multivariate regression analysis problematic.

What are the results of the cross-border investment expansion in the post-Soviet space? The situation is at least mixed. On the one hand, Russian investments could act as factors of improvement of institutional quality of the post-Soviet space. On the other hand, they could have at least contributed to what may be called institutional trap: the major factor is than the so-called "demand for bad institutions". Both options are discussed in the next two sections.

3.2. Demand for Good Institutions

As mentioned above, a popular point of view regarding the institutional competition for FDI is that it could act as an instrument of improving the quality of institutions. A strong support of positive effects of interjurisdictional competition is based on the evolutionary economics and the public choice theory (Streit, 1996). Competition between states (as well, as a competition between companies) has a control function and a discovery function. First, the states are not benevolent; the politicians and bureaucrats rather try to improve their wealth, than support public needs (and it seems to be especially the case for the post-Soviet "predatory state"). The failure of democratic procedures (like the paradox of voting and the influence of interest groups) and even the absence of democracy in an autocratic political regime prevent citizen from influencing the governmental policy. "Exit" is an additional instrument of control. Second, competition can be described as a discovery process. Governmental policies are hypothesis about possible needs of individuals: the competition process tests this hypothesis selecting out the less efficient ones (Vanberg and Kerber, 1994; Wohlgemuth, 1999).

Moreover, corporations could use their investments as an instrument to transfer knowledge and better practices. It is an often point mentioned that the multinationals export their national models of regulation to the new locations of their industries and stores. For example, the business strategies of multinationals in respect to different national standards in their host countries can represent the original "national" model derived from "varieties of capitalism" (reproduced abroad via corporate culture, management appointment system, incentives etc.) Konzelmann, Wilkinson, Craypo and Aridi (2005) show it for Wal-Mart and IKEA, and Pauly and Reich (1997) provide a broader overview of different findings in this respect.

The correlation indices (similar to the presented in table 3) show, that the share and the volume of the Russian investments mostly increases with the quality of institutions going up. It is especially true for the World Bank indicator, although it should be considered with caution, because it includes political stability, which is partly higher in authoritarian regimes.

Table 3: Correlation between Investment Indicators and Institutional Indicators, 2003

	Freedom House	EBRD	Transparency International Corruption Perception Index	Heritage Foundation	World Bank
Share	0.155	-0.355	0.917	0.155	0.449
Volume	0.616	0.685	0.062	0.799	0.784

Notes: Share = share of Russian investments in the countries of the CIS; Volume = Log (Volume of Russian investments / GDP); all indices recalculated so, that the higher index indicates better performance. Russian investments = "suspected" investments as estimated by the RAND Corporation (Crane, Peterson and Oliker, 2005) with correction for Ukraine.

The major "promising" factor from the post-Soviet investments is that the Russian economy mostly demonstrates better institutional performance, than the rest of the CIS. There are only few exceptions. Kazakhstan has formally implemented many "second-generation" reforms, which still fail in Russia (power utilities liberalization, amnesty of capital, reforms of communal sphere, banking, pensions system etc.). Armenia is also a certain exception with extraordinary good institutional performance (Iradian, 2003), what could be partly explained by the theory of systemic vulnerability, originally developed for the Eastern Asian nations. It states, that three factors are relevant: pressure of a "large coalition" on the government, absence of natural resources and external threat (Doner, Ritchie, Slater 2005). Armenia actually meets all three criteria. Kyrgyz Republic used to be the leader of institutional reforms in the early 90s, but later demonstrated a worse performance. However, in many cases Russia is more advanced, than the rest of the CIS, and therefore Russian corporations act as an instrument of import of more efficient institutions. There is evidence (mostly based on discussion with CIS and Russian managers) that Russian assets often prove to be more efficient, than owned by local or even international corporations (cf. Crane, Peterson and Oliker, 2005).

However, the situation is more difficult. Unlike global expansion, the post-Soviet world could also serve as an example of the "demand for bad institutions" by corporations and therefore a case for worse institutional equilibria from the institutional competition. Some factors of this kind are discussed in the next section.

3.3. Demand for Bad Institutions

The very nature of an institutional trap is that it is supported not only by the governmental activity, but also by private businesses. The reasons for spontaneous non-emergence of "good" (i.e. transaction cost efficient) institutions have been discussed in the transition and development economic literature, which points out four factors to be taken into account:

1. Redistribution effects. As noticed by Knight (1992), institutions appear as result of redistribution conflicts in the society. Besides of their efficiency enhancing function, rules always possess a redistribution function. The use of an inefficient rule can be relatively profitable for individuals benefiting from redistribution, because the rents are higher, than the losses from transaction costs. As in a normal case these individuals possess power and influence potential in politics, they can effectively block any improvements of the quality of institutions. An example of the redistribution effect is the absence of demand for secured and clearly defined property rights in developing or transformation economies. Hellman (1998) describes a situation of partial reforms in transition economies, when incumbent actors, receiving special rents from non-completion of reform process, support the stability of inefficient institutions. They profit from "institutional interregnum" (Brockheimer, 1997). That is why a preliminary system becomes an important obstacle for further economic development.

As "good" institutions protect competition and ensure equal opportunities for all agents and governmental support can be an effective method to enhance competitiveness, the powerful agents may have interest into preserving "bad" institutions. Gaddy and Ickes (2001) illustrate this point with a concept of R-D-space applied to the Russian "virtual" economy. An enterprise can react on the economic changes with two possible instruments (two dimensions of the R-D-space): investments into economic activity (to improve the competitiveness) and investments into social networks and contacts with politicians and bureaucrats. If the costs of the second decision are lower, it is more efficient for the enterprise (however, less efficient for the economy) to concentrate on rent seeking. If many actors opt for the "political" dimension, the other would require large political investments to remain competitive. As a result, more companies are involved into (informal) political networks and the evolutionary process leads to the diffusion of inefficient norm. This effect can be especially important in a country without efficient democratic control over the officials, as their ability to intervene into economic processes is higher and the benefits of political investments are higher (in that way organization of the supply side of the market for institutions indirectly influences the behaviour of the demand side). The fact that companies investing in state capture are relatively more successful, than the rest, if there is a high level of state capture in the economy; as well as the fact, that non-capturers are relatively more successful in a low-capture economy, has been demonstrated by a number of empirical studies (Radaev, 1998a; Hellman, Jones, Kaufmann, 2000a; Hellman, Jones, Kaufmann, 2000b; Slinko, Yakovlev, Zhuravskaya, 2005) for Russia and transition economies.

Other argument is that of Sonin (2003) and Polishchuk and Savvateev (2004). They demonstrate that the demand for weak protection of property rights may result from inequality in the society. More rich and powerful agents can invest in a private protection system (e.g. hire a security firm). Under a deficit of public protection, rich agents can gain from redistribution due to improper protection of property rights, because they have a significant advantage over the weaker agents. That's why they become natural opponents in improvement in public protection of property rights. There is empirical evidence of negative correlation between the rule of law and the inequality (e.g. Rajan, Zingales, 2003, Chong, Gradstein, 2004). The support for "good" institutions (especially property rights) becomes higher under a higher level of the economy's aggregate income and more equal distribution (Gradstein, 2004).

The redistribution factor seems important only for a relatively small group of (wealthy and powerful) individuals. The redistribution is a zero sum game – it implies the existence of losers from the redistribution. However, the historical development shows, that the number of individuals depending upon the redistribution tends to expand. As in an economy with strong redistribution effects the only way to persist is to receive gains from redistributions, many individuals and social groups are engaged in the rent-seeking process. The more groups depend upon the redistribution organized by the government, the more seek rents[7]. As the absolute majority of post-Soviet corporations emerged from the partial reforms with strong governmental support, we have good reasons to assume, that they are still interested in preserving less efficient institutions to gain from redistribution and avoid competition.

2. Deficit of trust. The fact that trust is always in deficit in a transition economy has been widely acknowledged by a variety of authors (Leipold, 1997). Deficit of vertical trust in the society could lead to rejection of any institutional innovations of the government. "It is better not to play games of chance with the government" is a well-known proverb in the most post-Soviet states (with "games of chance" including any initiatives of the public authority). The vertical mistrust (like trust) can be institutional, i.e. independent from concrete incumbents. If individuals have always suspected their government, any change of institutional environment is considered to be worse than the existing equilibrium. In this situation individuals support *existing,* and not *better institutions.* In case of institutional competition environment "exit" is a reaction on *any institutional changes,* and not on *worsening institutional environment* in terms of transaction costs. The ability of the

[7] An example is the Soviet system of social privileges persisting in Russia. Under some estimates, in 2003 more than 70% of the population received (large or small) benefits from the government (see Nikolaev, Shulga, Artemieva and Kalinin, 2003:5). It is important to notice, that many of this privileges emerged during the transition process.

government to attract mobile factors of production by *changing* institutional environment is reduced; a better way to prevent "exit" is to maintain the existing institutional balance, even if it is not optimal (and is perceived as not optimal by people).

Other point is, that in case of low vertical trust investment activity is consciously organized via informal channels (to avoid government's attention) and thus leads to support of less efficient institutions of the shadow economy as an untended result. The governmental attempts to limit the expansion of shadow economy with softening the restrictive regulations do not improve the situation because people do not believe in reforms; coercive measures against the informal sector make the formal institutions even less appropriate for the private actors and only support the expansion of the shadow economy (i.e. formal outcomes of institutional competition support illicit economic activities).

Hoff and Stiglitz (2003, 2004a, 2004b) discuss a similar example of demand for "bad" institutions as economic results of privatisation in transition economies. If the individuals do not believe in the establishing the rule of law society, they will prefer an asset stripping strategy and than the demand for "good" institutions will be weak. The inefficient equilibrium is even not only of a short-term nature, but persists for a long term.

3. Learning costs. Any individual compares his sunk costs in learning the structure and the functioning of the old institutions and the adaptation to the old "rules of the game" (e.g. bribes, licenses etc) with the advantages of the new rules. It is possible, that the sunk cost will be higher, than the gains, and individuals decide not to change the status quo, or, at least, not to invest in political activity to improve the situation. In that way the path dependence strengthens the effects of other factors inducing demand for "bad" institutions. For an entrepreneur preference for old institutions could be connected with competitiveness. In a bureaucratic environment with high market entry barriers, the first mover has important advantages, because he has already passed the bureaucratic environments. He prefers any worsening of institutional environment (e.g. higher entry barriers), because they prevent him from newcomers in the market. Similar factors influence the behaviour of individuals and companies in institutional competition: they prefer existing (and well-known) institutions, and reject exit or changes of domestic institutions because of possible learning costs.

4. Mental models and institutional pseudomophism. Finally, an important problem could be mental models (Denzau, North, 1994). As with all "soft factors" beyond the rational choice model, these elements are always very difficult to assess for (some of these points are discussed in Libman (2005)). The only point mentioned here are the cognitive problems. *Furman* (1995, empirical evidence also in Furman, 2004) shows similarities between the development of the post-Soviet economy and politics and the ideological visions of a capitalist society, which dominated in the USSR. The reforms have unconsciously implemented a cartoon with corrupt parliament members and illicit business activity – as in the Soviet textbooks. Actually there is evidence that post-Soviet leaders really perceive Western societies using the "Soviet glasses". This problem can be solved by long term learning process in turn of institutional competition, but the temporal coincidence between this learning and the "long term" of evolution of informal institutions is ambiguous. Besides, implemented cartoons are also a source for learning – even a more important and visible, than foreign experience. As a result confidence in possibilities of import of institutions goes down.

A typical result of the cognitive factors effect, that institutions imported from developed economies apparently similar to the original ones perform a completely different function. This situation may be called "institutional pseudomorphism" (Yevstigneev 1997). Woodruff (2000) discusses this problem, separating between the transactional and the judicial levels of market institutions in post-Soviet countries. His thesis is, that Russia's effort to complete integration into the world economy leads to creation of market institutions (like money or property rights in corporations) on the transactional level (where these rights are traded and exchanged), but the judicial level (where these rights may be executed, e.g. in form of participation in a shareholders' meeting) does not exist. According to Pappe (2000), a share in a Russian company means a claim, but not a guarantee of participation in the corporate decision-making. A similar "pseudomorphism" in political sphere represents the institution of elections: formally it exists, but a semi-authoritarian regime (like that dominating in the majority of post-Soviet countries) does not allow any power change as result of free elections and tends to control it supporting incumbent candidates (which varies from simple changing the election rules and influencing the count process to more sophisticated creation of "pseudo-opposition", as well as support of common fear of civil disorder in case of power changes). The institutions of "pseudomorphism" are "rules of the game" which contradict the "meaning of the game" and in that way destroy the game or change it so, that it becomes a new game with new rules (Sukharev, 2004). Individuals sharing the institutions of pseudomorphism, begin to believe, that the formal meaning of these institutions and their real social function are always identical, and that is why mistrust any institutions with the same appearance.

The problems described are evidently relevant for the post-Soviet world. The post-Soviet countries have a very low level of vertical trust (World Bank, 1997, Raiser 1997, Raiser 1999, Oleinik, 2005), as well as a sophisticated interrelation of formal and informal institutions (Ledeneva 2001) with a strong support of governmental redistribution, hostility towards entrepreneurship and private initiative (Voigt and Kiwit 1995; Brunner 1996, Latov 2003) and association of individual initiative with disorder (Rosenbaum 2001) at the level of the shallow institutions, as well as support of "shadow practices" and unproductive entrepreneurship at the deep level, which have dominated the whole economic system for decades (Kordonskii 2000, Timofeev 2000) and are still important for entrepreneurial activity, as well as for other aspects of life (Kliamkin and Timofeev 2000, Ryvkina 2001). Combined with (at least, possibly) intensive institutional competition, these features of the informal institutions yield the expectations for less efficient (in terms of transaction costs) outcomes of economic transformation.

Indeed, there is some evidence that Russian corporations are (mostly unintended, but also intended) supporters of less efficient institutional structures in the post-Soviet space. First of all, as they have significant experience in working with "shadow" schemes, it continues using this experience abroad and thus "export" inefficient institutions or applies their experience of intransparent institutional systems as a competitive advantage. Russian businesses' ability to act in a very instable legal environment is often pointed out by the observers (Crane, Peterson and Oliker, 2005). There are many cases of intransparent "shadow" investment schemes used by the Russian corporations in the post-Soviet world. May be the most notorious is the case of two *Gazprom* subsidiaries in Ukraine *Eural TransGas* and (since 2004) *RosUkrEnergo* established to resell the gas of Turkmenistan. It is officially incorporated in Switzerland with 50% of the shares under the control of *Gazprom* and 50% represented by a nominal shareholder *Raiffeisen Investment* without any clear information as to who could own the shares (the assessment vary from organized crime to different political groups in Ukrainian and Russian elite and *Gazprom* or *Naftogaz Ukraine* officials). After the gas war in Ukraine, *RosUkrEnergo* received privileged rights of gas supply to Ukraine and partly to Europe. Another example is Russian investments in the non-recognized states in Transdnistria and Abkhasia. I have already mentioned the dominance of shadow and half-legal investment channels, which also have worsening of institutional environment as an unintended result.

It looks like these inefficient schemes are often even preferred by the Russian investors. For example, the second public tender on the large Ukrainian metallurgical plant *Kryvorozhstal* in 2005 is often considered as one of the seldom examples of completely transparent privatisation in the CIS. Russian investors, although very interested in the plants and active during the former tenders, rejected to participate (see e.g. Inozemtsev, 2005).

As the opportunities to use the “shadow schemes” are often connected with preservation and good contacts with “semi-autocracies”, Russian businesses are actively involved in their support in Kazakhstan, Uzbekistan, Tajikistan and even Turkmenistan. Naturally, Western multinationals also partly support semi-autocracies for the purpose of stability (Bayulgen, 2005), but for the Russian businesses the contacts with the government often are the most attractive source of competitive advantages. For example, the recent expansion of Russian businesses in Kazakhstan, Uzbekistan and Tajikistan has evident political reasons. In Kazakhstan it also coincides with the governmental attempts to limit the presence of international corporations in the country and to regain control over oil and gas assets. Evidently Russian corporations use this process in their favour (the conflict between *LUKoil* and the American *PetroKazakhstan* in 2004 over their Kazakh joint venture is a good example (Libman, 2006)).

Finally, there are some cases, when the expansion in the post-Soviet space is just another instrument to establish monopolies on Russian markets. For example, a recently (summer 2005) proposed *Eurasian Mining Company* of Russian, Ukrainian and Kazakhstan plants, has, according to several estimates, its most important objective in receiving control over the Russian *Magnitogorsk Metallurgical Plant (MMK).* The first visible result of the establishment of this Company was the significant increase of supply prices for the MMK, which turned the company to reduce its production.

Replacement of Russian business practices in the CIS discussed in the previous subsection has a double effect. On the one hand, they may be superior to what exists in the post-Soviet world, as discussed above. On the other hand, however, the model exported is also an example of the “institutional trap”. For example, in their fight over Kyrgyz telecom asset *BiTel* Russian and Kazakh investors (and later Russian companies *VympelCom* and *MTS*) resulted into seizure of the company’s headquarters by an armed group in police uniform, which rejected to follow the orders of the minister of internal affairs (in the post-Soviet world directly in charge for the police).

Institutional competition seems at least one factor supporting institutional convergence to an “institutional trap” in the post-Soviet space. It provides business with an additional enforcement mechanism for the demand for bad institutions and creates no incentives for the government to avoid this problem. However, it is important not to overestimate the importance of the demand for bad institutions. First of all, its stability is still questionable. There is a number of papers arguing, that in Russia the demand for bad institutions is currently going down because of increasing interest of businesses in property rights protection and willingness to invest internationally (Polishchuk, 2001; Runov, 2003). Russian corporations often used FDI as an instrument to avoid governmental control and to get out of the trap of the inefficient institutional equilibria in Russia, which made them dependent from the government. This strategy of “external exit” replaced the “internal exit” of the early 90s, which actually rather increased the dependence (Yakovlev, 2005). International markets and international activity set higher requirements to the Russian businesses practices (Heinrich, 2003). Although it is only partly true for the CIS investments, it is worth noticing, that the expansion in the CIS was often only part of the general "going global" strategy[8], and therefore positive effects could be present. There is also increasing, although partly ambiguous, evidence of "demand for law" in the post-Soviet space, which could be associated with the demand for good institutions (Hendley 2001; Yakovlev, 2003).

An interesting point is that these changes often appear as a by-product or an unpredicted result of conflicts between different actors actually interested in preservation of the inefficient equilibrium, e.g. businesses and public agencies. Instruments used in state-business conflicts could be divided in two groups. First, actors apply "traditional" problem-solving instruments like internal negotiations, administrative measures and bargaining, borrowing them from the old Soviet "administrative market" (Kordonskii, 2000). Second, "alternative" instruments include support of political parties and open electoral competition, use of courts and mobilization of masses (as in Ukraine). The first group of instruments supports inefficient equilibrium, even if actors are trying to change it[9]. The alternative instruments also provide no guarantee of changes, but at least open a window of opportunities for transition. The three major positive by-products of alternative instruments include:

- Actors get used to "new" instruments (thus their application reduces learning costs for better institutions and "demand for bad institutions");
- Permanent application increases the quality of "new" instruments (e.g. legal procedures or parliamentary elections) and
- Mobilization of masses implies certain obligations of new winners and reduces their ability to seek rents. Unlike the post-Soviet regimes, which had to imitate the *apparent* democratic and market economy institutions in order to confirm their obligations, new regimes have to realize reforms on a *deep* level, i.e. it is more difficult to create new pseudomorphism effects. Obligations to foreign backers of new regime could play a similar, but probably not so important role.

"Alternative" instruments are risky (or, at least, are perceived as risky). That is why it seems reasonable to assume, that only a powerful player is ready to use alternative methods instead of traditional "hidden bargaining" instruments. The case of the Ukrainian revolution supports this assumption. It was exactly the country with the lowest consolidation in the business elite and with the highest business power in politics that had the most significant people's reaction on the practices of "managed democracy" of post-Soviet stile. Similar situation in other countries did not cause similar effects, though incumbents used the same instruments. An important feature of the Ukrainian revolution has been an important role of the rule of law (e.g. Constitutional Court decisions) in the bargaining process (Priban, 2004).

An interesting point is, that the position of Russian businesses in the modern Ukraine is ambiguous: many of them supported the "orange revolution" in order to gain access to the attractive assets originally controlled by the Ukrainian oligarchs (Financial Times, 4 March 2005). The problem is, that many of them were apparently interested in the often criticized reprivatization campaign of the government of Timoshenko initiated in summer 2005 (even although some Russian assets were among the main targets for reprivatization) (Berliner Zeitung, 21 July 2005), which evidently did not contribute to the development of more stable and transparent "rules of the game" (Aslund, 2005).

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[8] Regular reviews on this issue are published by the Center for Macroeconomic Analyysis and Short-Term Forecasting by Yakov Pappe, www.forecast.ru

[9] An analysis of the *Khodorkovskii* trial and of the positions of other representatives of business elite from this point of view is discussed by Yakovlev (2005)

Another case is the active application of legal instruments and courts by Russian government agencies in the early 2000s. Several empirical studies show, that in Russia government agencies were more active in using law as instrument of enforcement than private actors. In an autocracy or semi-autocracy "rule of law" could exist only to that extend, when it does not limit the state power. As described above, Russian semi-autocracy entered a period of consolidation in the 2000s, thus it could permit itself to follow the legal procedure. Despite positive effects (like learning or quality improvement of legal instruments) strict public control over jurisdiction has important negative effects for Russian economy, because it supports further consolidation of power on business side in order to bargain with the state and reduces confidence in law (Yakovlev, 2003). That is why it is possible to assume, that the use of alternative instruments by business actors creates a stronger incentive for "better institutions", than by government. It means that societies with stronger business have better chances to get out the institutional trap – even if national business structures support inefficient institutions.

4. Ex Ante Harmonization in the CIS

The fact that the formal post-Soviet integration and intergovernmental cooperation (even in the weakest forms) is practically negligible is currently a kind of common sense for analysts of the region. The majority of ex ante harmonization projects fail or do not achieve even modest results. The officially signed treaties are not implement; the supranational authorities are limited to so-called "model laws", which mostly remain on paper. The bargaining between post-Soviet space (bilateral and multilateral) is extremely difficult and costly (cf. Libman, 2005a for detailed discussion).

There are, however, three factors supporting the ex ante harmonization, which are worth mentioning. First, the practical reason for harmonization is often the existence of *cross-border epistemic communities* inherited from the Soviet past participating in development of legal acts[10] and common legal culture of the post-Soviet countries. Many post-Soviet countries also benefited from cooperation with similar advisors in the early 90s. This argument is valid mostly only for initial acts and not for their later changes. The low importance of formal institutions in the CIS makes even this limited harmonization less important.

Second, there is still a field, where intergovernmental cooperation and indirect ex ante harmonization (via harmonization in the field of "policies of process" in the Ordoliberal sense and less based on formal agreements) seems to be relatively successful: *the sphere of political institutions.* Probably, exactly this fact explains the evident paradox of the post-Soviet integration: why do states continue initiating various integration projects and sign agreements that they even do not plan to fulfil? Why are often hostile governments and elites willing to "imitate" full-range cooperation? It is hardly a result of internal political changes or of reaction to unexpected results of previous integration steps, as there are no such steps at all.

As the CIS is often perceived as a single region by multinationals, the post-Soviet countries participate not only in intra-regional, but also in global institutional competition, where the factor of demand for bad institutions is at least less important (if present at all). Moreover, the "coloured revolutions" in 2003-2005 show that the events in other post-Soviet countries may be imitated by the domestic opposition (proving the high degree of social integration in the region). Thus it is possible to argue, that there is a kind of "yardstick competition" in the post-Soviet space (Besley, Case, 1995). Like the common notion of the

[10] The influence of epistemic communities on international cooperation is discussed by Haas (1992).

yardstick competition as use of "voice" by individuals in order to imitate efficient economic policies implemented abroad or in other federal states, in the post-Soviet space citizens participate in "coloured revolutions" supporting political and economic changes. The social integration of the post-Soviet space intensifies this yardstick competition. From this point of view, post-Soviet space could be interested in reducing their major common weaknesses in global institutional competition and the yardstick competition. Actually, other countries seem to have similar patterns of behaviour: for example, harmonization of social standards and taxes is one of the major points for the European countries, where these factors form a comparative common weakness from the point of view of attracting investments (although the success in harmonization, especially in case of taxation, is limited: the reasons are possibly connected with the problem of "demand for harmonization" discussed bellow). For the post-Soviet states these common disadvantages are connected with the fundamentals of the market order (property rights and contract enforcement) and directly result from their political systems. So, it is possible to assume, that in this area their cooperation should be more successful.

The experience shows, that indeed, although intergovernmental cooperation with ex ante institution in economic sphere (which is officially the major item for the majority of the post-Soviet integration project) failed, it (at least, partly) succeeds in a "hidden" area of what may be called "protective political integration". First, the "integration" not only a real process, but a "rhetorical source", which is often used as an argument of existing regimes in the CIS in their confrontation with democratic opposition: Belarus is may be the most prominent case of this development. However, other post-Soviet regimes also initiated new integration projects in case of significant threat for their power. For example, the CES was established and supported by the Ukrainian government before the new election campaign 2004. After rebellion in Andijan, Islam Karimov (Uzbekistan) signed a new agreement on military cooperation with Russia; in October 2005 the country accessed the EAEC, and in November a new full-range cooperation treaty was signed.

The post-Soviet regimes are often always willing to support their counterparts, e.g. in the case of Ukrainian elections 2004, when Russia was actively involved in favour of the incumbent candidate. An important element of the current CIS institutional structure is the system of election monitoring in the member states. It is a typical situation for post-Soviet countries (as in Kazakhstan, in Ukraine, in Abkhasia, in Belarus and in Azerbaijan in the last two years), that observers from international organizations like OSCE give evidence concerning the incomplete conformity of elections with democratic standards, and observers from the CIS do not note any problems. From this point of view, Furman (2004) to compare the CIS and other post-Soviet integration projects with the "Holy Alliance" of European monarchies in the first half of the nineteenths century (I am going to refer to this statement as the "Holly Alliance" hypothesis) (see also Fel'dman, 2005 for similar arguments). Therefore integration de facto aims to preserve or foster the ex ante harmonization of political institutions in the CIS, although leading to significant institutional pseudomorphism of integration institutions. After the wave of the "colour revolution" the effort to develop this kind of integration seems to be even growing. The results of the interaction of governments are therefore convergence of political systems, which is probably reflected by the convergence indicators discussed in section 2.

Third, there is one more source of ex ante integration of a more economic nature. In a historical study of the Medieval Europe, Volckart (2002) provides an additional case for collusion between regional and federal government. Generally speaking, governments can be engaged not only in production of public goods and services, but also in *private economic activity.* From the point of view of formal institutions and public goods production, additional individuals and companies entering the country increase the tax base and the government's income, because newcomers are mostly competitors for the state on private markets. That is why if main source of government's income is formed by the sales of private goods, it prefers to lower the number of newcomers. The reason for the centralization could be the attempt to preserve market monopolies by giving up tax monopolies. It is a typical situation in the majority of post-Soviet countries, that their economies are characterized by the dominance of the "power-property" structures (Nureev, 2005), where state officials and businesses are closely interrelated with each other. As Iwasaki (2003) puts it, the majority of the post-Soviet states act as a kind of "rescue states" intervening in economic processes in favour or against certain business groups. Even formally private business groups usually have strong connections with particular groups in political elite. Moreover, in the last years the importance of the public enterprises increases in all CIS countries. In Belarus, Uzbekistan and Turkmenistan the public presence is more important, than in other countries, and the majority of enterprises are state-owned. In 2005 the nine largest Russian state-owned companies produced 37% of the GDP; the state-owned *Sberbank* with dominant position on the savings market is not included in this calculation (Nezavisimaia Gazeta, 2005, July 26). Even in the countries like Kazakhstan, where direct public presence in the economy was less developed, it tends to increase: in Kazakhstan the government is broadening its presence in oil and gas assets; in 2005 the state-owned holding *Samruk* was established to integrate all publicly owned assets. From this point of view exchange of harmonization against protection of economic power is possible. This factor could possibly contribute to the relative success of Russian-Belarus integration over the 90s or the present Russian-Kazakhstan integration.

5. Ex Ante or Ex Post? The Assessment of the Supply Side

The positive analysis of constitutional choice between ex ante and ex post harmonization is partly underdeveloped in the theory, which is often (explicitly or implicitly) normative. However, the existence of two different mechanisms in the post-Soviet space with partly similar effects and partly different effects makes this question extremely important. This section discusses the reasons for the governments to count on ex post institutional convergence instead of ex ante harmonization.

The ex post convergence is naturally rejected by the governments, if its results run contrary its institutional preferences. However, if institutional competition is expected to lead to diffusion of institutions preferred by the government, and the costs of ex ante harmonization (of bargaining or intergovernmental cooperation) are high, this instrument of convergence may be preferred by the politics. Indeed, the costs of bargaining in the CIS are very high or partly even prohibitive (as the relatively low success of the post-Soviet integration in many areas excluding "protective integration" shows), and that is why convergence by institutional competition could appear to be attractive, especially for the Russian Federation. As the government is able to influence the behaviour of the majority of Russian leading business groups, it could use them to support the diffusion of the preferred policies and institutions.

This idea is partly supported by the current discussion of the governmental backing of Russian business' expansion in the CIS, which seems to be one of the most important factors in the modern Russian politics in the post-Soviet space (e.g. Inozemtsev, 2006); it is worth noticing, that this support is often guided to a limited number of business structures via informal channels, since official foreign investment support mechanisms remain underdeveloped. There is much evident, that the Russian government focuses its attention in the post-Soviet space on business support. It is mostly true for state-owned companies, but also for largest private companies. Practically all current political initiatives of Russia in the CIS are associated with particular business projects; the wave of increases of gas prices for the CIS countries since winter 2005 is also often used to support Russian investment interests (Ukraine, Moldova, Belarus, Georgia and Armenia are more or less successful examples of this strategy). It is mostly dominated by the idea of the "soft power" in the post-Soviet space, i.e. better bargaining opportunities. However, ex post institutional competition in the preferred direction is also an important factor.

6. Ex Ante or Ex Post? The Assessment of the Demand Side

6.1. Basic Ideas

Although business is one of the "major players" in the institutional competition literature, it is often considered from a simplified "generalized" point of view. In economic models a depersonalized "capital owner" replaces individual firms with different preferences. Political science also often reduces business preferences to a single objective, e.g. to support greater opening. The majority of studies reduce the corporate strategies to the "power-seeking" and "rent-seeking" via increasing exit power (Beck (2002) is an excellent example of this approach). From this point of view all corporations should be strong opponents of the harmonization and prefer uncoordinated economic policies. Sometimes this thesis is applied only to largest (mobile) corporations (Bohnert, Schratzenstaller, 2001) as opposed to (mostly immobile) small and medium enterprises. In a real world business preferences are different, as well as lobbies formed by different business structures also differ in their attitude towards harmonization issue.

The idea that corporate responses to interjurisdictional jurisdictions could be different for different firms was partly discussed by Murphy (2002, 2004) for regulatory competition and Bernauer and Styrsky (2004) for tax competition. In both papers the main objective of research is the difference between adjustment (i.e. replacement of production facilities abroad, or exit in the Hirschman (1970) terminology) and voice (i.e. support of tax liberalization or, vice versa, restrictions tax arbitrage). For Bernauer and Styrsky the relevant variables of corporate behaviour are collective action capacity, asset specificity, international factor mobility and preferences of the "supply side" (the government). Murphy has a similar list of variables, but also tries to identify the possible directions of institutional change (race to the top or race to the bottom).

Unlike these studies, this paper focuses exclusively on the voice options of the businesses, i.e. the way they influence governmental preferences and behaviour. To assess both options (ex ante and ex post convergence) three types of effects (both positive and negative) for businesses and their interest groups are to be taken into consideration: (1) changes of market structure; (2) influence of institutional competition on legislature and (3) opportunities for lobbying (on national and supranational levels). All these factors are perceived differently by different groups of business actors, depending upon the following variables (1) lobbying power of business, (2) asset specificity, (3) preferences of the supply side and (4) soft factors, e.g. mental models, cultural factors etc. In this paper I focus on the first three factors. It should be mentioned, that I am mostly going to present hypotheses, which certainly require more detailed empirical analysis, which remains outside the scope of this paper.

Historically the interest of Russian corporations for the formal integration in the CIS and subregional groups has been modest. Ukraine, a country with very low readiness to participate in formal integration during the 90s, was one of the primary targets for the Russian business. In fact, there is no evidence (at least, known to the author of the paper) that Russian corporations supported any formal integration agreements or even designed their activity according to them. The so-called "transnational financial-industrial groups" (formal corporate structures established by intergovernmental agreements) mostly proved to have no real economic effect. In other post-Soviet countries businesses rather opposed integration initiatives to preserve their dominating position. In the next sections I try to place the behaviour of Russian and other post-Soviet corporations in a general framework.

6.2. Lobbying

The most evident variable which should be taken into consideration, is lobbying advantages, e.g. ability to influence the institutions set by the government and costs, e.g. from influence of other lobbies, from protection from alternative lobbies or from investments in lobbying. This aspect is also the most important from the point of view of the post-Soviet space, where competition advantages are mostly gained at the administrative market.

First of all, institutional competition changes the opportunities of national lobbies to influence the public decision-making. In the **ex post harmonization** case governments, on the one hand, have to adapt to the competition pressure and therefore deal with a trade-off: potential gains from lobbyists are compared with losses of tax income (and, probably, other informal payments) if capital moves to jurisdictions with other institutional framework. Therefore institutional competition increases the price of lobbyism (see a similar effect by Lorz (1997; 1998)). On the other hand, a situation is possible, when exactly the lobbies of less mobile actors gain from free capital movement, as their opponents may leave the jurisdiction, just because the variability of public opinion in the society goes down and a limited number of groups gains monopoly of interaction with the state. Both cases could be demonstrated with a very simple example.

Let w_1 and w_2 be two alternative institutions. The world consists of two jurisdictions: A and B. The institution w_1 is dominating in the jurisdiction A; both institutions (w_1 and w_2) can be selected in jurisdiction B[11]. There are n firms in the jurisdiction B. Every firm pays an identical lump sum tax, which is (for the aims of simplicity) equal to unity. These taxes are than collected and redistributed among firms according to given criteria set by the institution. $U_n(w_1)$ denotes the utility of the firm n from the selection of the institution w_1 and $U_n(w_2)$ – the utility from the institution w_2. The decision upon the use of the institutions w_1 or w_2 is made according to the "voting" of firms (i.e. a process where every business has identical possibilities to influence the final institutional choice – the "voice" option).

This approach has a number of important simplifications, which should be clear in advance. First, it excludes the possibilities of coalition formation and logrolling (what is reasonable as only two discrete institutions are under discussion). Moreover, although lobbying power is often associated with collective action capacity (Bernauer and Styrsky, 2004), in the post-Soviet space it is probably more a problem of access of a limited number of actors to the governmental decision-making, than of coalition formation. The collective action capacity of the post-Soviet companies has always been weak; some observers expected the situation to change in the early 2000s (Peregudov, 2003), however, there is no evidence of strong collective lobbies. Second, it neglects the influence of lobbying expenses (they are considered as equal to unity for all firms). Third, the approach ignores the differences of organizational power depending upon the collective action capacity and informal relations

[11] A may be a large country where capital movements and newcomers are less relevant for changes in political process, and B is a small country

with the government. The "voting" may be unequal, giving the better opportunities to a smaller group of companies.

The voice decision of a firm depends upon the comparison of $U_n(w_1)$ and $U_n(w_2)$. If there is no capital mobility, firms have no choice but to use their voice option; under institutional competition they have two options: to stay in the jurisdiction B, receiving the utility depending upon the selected institution, or leave for jurisdiction A ("exit" option). In the last case he has to pay c as expenses of "exit". The decision is based upon the expected utility. The most interesting firms for us are those preferring institution w_1, because they are only able to choose between "stay" and "exit"; for the rest "exit" is always a less preferable option and they have the only opportunity to vote.

If m is the number of firms preferring the institution w_1, the probability of choice of the institution w_1 without capital mobility is simply $P(w_1) = \frac{m}{n}$, because even the "disloyal" firms still pay taxes. The expected utility of a firm preferring w_1 is:

$$EU_{Loyalty} = P(w_1)U_n(w_1) + (1 - P(w_1))U_n(w_2) \quad (1)$$

If there is institutional competition, firms compare the utility (1) with the utility of exit, which is always

$$EU_{Exit} = Un(w_1) - c \quad (2).$$

and than decide to leave if this utility is larger, than (1). If the redistribution effects are ignored, and the only aim is to maximize the tax income, w_1 is always preferable to w_2, because firms preferring w_1 are mobile and can reduce the total tax income, and firms preferring w_2 are immobile and still pay taxes, even if they dislike the institution set. Even if there is only one firm ready to leave under the institution w_2, its choice becomes less efficient. If only redistribution is taken into account (*Case 1)* and m^* firms decide to leave, the probability the institution w_1 is chosen goes down to $\frac{m - m^*}{n - m^*} < \frac{m}{n}$ for every $m^* > 0, n > m$. If the process is repeated, the number of firms preferring exit increases and the probability for w_2 to be chosen goes up. If both redistribution scheme and the "size of the pie" (total tax income) are important (*Case 2),* the preference for institution w_2 is not given, but could be defined as follows:

$$U_n(w_2) = R_n \cdot n \quad (3),$$

with n – number of firms in the jurisdiction after the previous turn and R_n – a constant representing the individual's ability to extract rents from redistribution. In this case the both mobile and immobile firms can influence the final decision. Finally, since country may have some valuable immobile natural resources, which form the basis for redistribution (*Case 3)*, a more correct description is

$$U_n(w_2) = U_{const} + R_n \cdot n \quad (4),$$

where U_{const} denotes the utility derived from these immobile resources. In this case the size of the constant term and of the variable term have different influences on the lobbying preferences.

The following numerical example shows the main idea. Let n = 10. The game is repeated until the equilibrium is reached, i.e. nobody decides to exit. In the Case 1 solutions with higher total tax income are elected: thus the institution w_1 is chosen with the probability of 1. In the Case 2 the choice depends upon the preferences: the income of firms from w_1

varies from 1 to 10, the income from w_2 is calculated as 11 minus income from w_1, $c = 3$. The original probability, that every of two institutions will be elected, is 0.5 (table 4). In this situation the equilibrium is reached after 2 periods with probability of 0.82 w_1 is chosen (Case 2). In the Case 3 Let $R_1 = 1$, $R_2 = 0.9$, $R_3 = 0.8$, … , $R_{10} = 0.1$ and $U_{const} = 0$. That means, that after the turn 0 the utilities of w_2 are the same, as after in the previous example. The game comes to a stalemate after the second turn with the same probability of institutional choice, than in the original situation. If $U_{const} = 0.1$ (Case 3), the game is also completed after the first turn, but with the probability institution w_2 is selected is 0.6 (table 4).

Table 4: Numerical example

	Case 1			*Case 2*			*Case 3*		
	n			*n*			*n*		
Period	*Stay*	*Exit*	$P(w_2)$	*Stay*	*Exit*	$P(w_2)$	*Stay*	*Exit*	$P(w_2)$
0	10	0	0.5	10	0	0.5	10	0	0.5
1	8	2	0.63	8	2	0.5	8	2	0.6
2	6	2	0.83	8	0	0.5	8	0	0.6
3	6	0	0.83	8	0	0.5	8	0	0.6

It is possible, that the mobile or immobile firms compensate their disadvantages by increasing the lobbying expenditures. In this case the equilibrium lobbying should exactly cover the gains from redistribution.

The **ex ante regime** makes both effects described invalid, as the institutional changes depend upon governmental bargaining. However, it requires an increase of the lobbying activity on the supranational level. The ability of lobbies to influence the centralized decision making with greater success, than in the decentralized case, is at least ambiguous (cf. e.g. Bardhan and Mookherjee, 2000), however, naturally relevant for the support of the centralization (cf. Ruta, 2005 for a formal model). Four lines of argumentation are to be considered: There is a tradition stemming from Madison and the Federalist Papers, that centralization makes lobbying more expensive because of preference dilution effect and higher heterogeneity of lobbies and therefore reduces the potential capture (e.g. Redoano, 2003). The second argument is that decentralized governments have a clear incentive to support local lobbies as opposed to the foreign ones (see e.g. Prud'homme, 1995; Bordignon, Colombo and Galmarini, 2005). On the other hand, on the centralized level the common pool problems occur, which make central government less accountable and more attractive for lobbying (e.g. Roelfsema, 2004). Naturally, access to central lobbies is also unequal and therefore different companies could have different preferences. Finally, a natural consequence of ex ante harmonization is a power shift between lobbies. For example, in the numerical case described above there are good reasons to assume, that the institution w_1 will receive greater support, because it will be backed by all actors from the jurisdiction A and some actors from the jurisdiction B.

The ex ante regime is thus preferred by the companies with higher potential supranational lobbying ability or from companies, which expect new balance of interests to shift in their favour (e.g. because lobbies of other bargaining countries are split or weak). If the requirements discussed are not valid, preferences for ex ante harmonization could still be high, if the source of redistribution is mobile factors: in this case power dilution under institutional competition could be stronger, than in ex ante bargaining. If immobile factors are more important, businesses prefer ex post harmonization, which only increases their influence. If the corporations have weak preferences for the institutional competition and strong bargaining power, or vice versa, the outcome seems to be clear. The most interesting case is, when corporate actors possess both: bargaining power and exit power. For large corporations it is probably a relatively often case. The corporation is going to choose the option with the highest marginal benefits. Frey and Eichenberger (1996) notice that "winners" of the institutional competition could become proponents of harmonization at a later stage to avoid further competition.

In the post-Soviet space the most influential lobbies, on the one hand, gain their redistribution profits from the immobile factors of production (like oil and gas) or, at least, from factors with very high sunk costs (ferrous metallurgy or pipelines, which have been especially important for the Ukrainian business), therefore they seem to prefer the ex post harmonization and have little interest in ex ante interaction of governments. It is important to mention, that immobile factors of production as source of redistribution do not make companies per se less mobile: it means only, that the sources of redistribution do not significantly go down because of exit of *other companies*. Indeed, the mobility of financial flows in the intransparent post-Soviet economies is very high, so, the advantages of the exit power are also important. For example, in 2005 *Roman Abramovich* sold his assets in Russian oil industry to *Gazprom,* in the same year his company *Millhouse Capital* declared its interest for the Kazakhstan oil assets – an example of high mobility of company investing principally in immobile factors of production. Therefore in the "paradoxical" situation described by Mummert and Mummert (2000), when the same social group, which is engaged in "exit" exporting capitals via asset striping of enterprises under their control supports support bad institutions for the sake of power or rent seeking, influential groups should have little interest in ex ante harmonization.

On the other hand, Russian companies have an excellent access to supranational lobbying. Actually, supranational institutions in all post-Soviet groups are weak, although numerous (only the CIS includes about 70 supranational bodies): one of the reasons for this fact is the dominance of Russia in the integration institutions: supranational structures often become a "periphery" of the Russian politics or the place of exile for less successful politicians. The most prominent example is *Pavel Borodin*, the former head of administrative affairs in the Yeltsin's administration, who is now responsible for the Russia-Belarus integration. The "successful" ex ante harmonization rather takes place via mutual learning and interaction of individual governments. However, the situation that Russia dominates supranational decision-making is practically inevitable because of its economic and political potential in the region. From this point of view, access to supranational lobbying and to Russian national lobbying seems to have almost identical influence. It is clear, that Russian companies have better opportunities to lobby, than companies from the rest of the CIS. That is why other companies could become opponents of ex ante harmonization (what is, probably, on of the reasons behind the scepticism of Ukrainian business towards more advanced integration implying ex ante harmonization). Probably, this factor explains not the preferences *in favour* of, but *against* ex ante harmonization[12].

6.3. Structure of Markets and Direct Influence of Institutional Competition

The factor of lobbying is naturally central for the post-Soviet countries, where political interventions are the major factor of corporate competitiveness; however, other factors may also be of significant importance. Direct changes in competition position of individual groups

[12] Similar ideas regarding influence of imbalance of power on non-cooperation in the CIS are rather popular in political science and the international relations literature, see, e.g. D'Anieri (1997).

because of certain policy measures or institutional innovations are important for the formation of their political position[13]. This aspect of analysis mostly discusses two effects: unintended changes of institutions because of institutional competition process and opportunities to access foreign markets and/or to protect domestic markets. At this stage of analysis lobbying opportunities are excluded, although, naturally, exit power can always been used as a source for bargaining effects by creating trustful threats for the governments (potential replacement of production locations are typical arguments of business community presented to the government). Businesses do not lobby directly, but the capital movements support a spontaneous formation of certain equilibrium, which could be either beneficial for them or not.

The major factors influencing the attitude of the business to two described processes could be, probably, reduced to the influence of assets specificity (Murphy, 2002, 2004; Bernauer and Styrsky, 2004) with two main aspects: the national asset specificity, i.e. the costs for corporations to use the "exit" option and to remove production facilities from one country to another (either by re-creating or by purchasing them abroad), and the multinational asset specificity, or the dependence of the corporate investments upon the ability to sell abroad. The latter could be considered as related to the advantages of the economies of scale. These two forms of asset specificity should not be considered as the opposite variables: different combinations are discussed in the table 5.

Table 5: International and National Asset Specificity

		Multinational asset specificity	
		High	Low
National asset specificity	High	Companies have a very high export rate and thus depend upon the access to the international market, but on the other hand require experienced staff and high quality production or natural resources, which could be guaranteed only at specific locations.	Companies produce and sell only in individual country and do not benefit from international capital mobility and free trade.
	Low	Companies produce and sell worldwide and gain from both free trade and capital mobility	Companies can produce worldwide and require no specific resources of certain locations, but focus on several markets to sell.

Naturally the company's choice of regime depends on both its potential advantages and competitor's potential disadvantages under this governance model. For the companies with higher asset specificity institutional competition is rather a disadvantage, because they cannot improve efficiency by removing production to regions with better institutional framework and to influence the ex post institutional changes (they have only to accept them). Under the institutional competition it is reasonable for the government to ignore the demands of these companies by focusing on attraction of the firms with low national asset specificity. However, they theoretically could benefit from general institutional changes (a kind of "positive externalities" of investment decisions of more mobile companies). This situation is valid only if companies with lower national asset specificity are not their direct competitors; in this case the direct losses from worse competitive position could offset gains from changes of institutional environment.

[13] This issue, as well as its interaction with structure of political institutions and intergovernmental bargaining is discussed by the Open Economy Politics approach in the international political economy. See Lake (2004).

High multinational asset specificity is a more difficult problem from the point of view of this paper. Actually, companies with high multinational asset specificity are principally interested in more quickly and easy access to the foreign markets and in higher competition advantages. Naturally, lower institutional difference reduces transaction costs of cross-border activity: from this point of view higher multinational asset specificity implies higher preference towards harmonization – which still does not allow any conclusions on preferences regarding ex ante or ex post variant. If the multinational asset specificity is high and the national asset specificity is low, companies have better opportunities to influence the ex post institutions and so are more likely to prefer them. If national asset specificity is also high, the decision is ambiguous and depends on other actors in the economy. The next point to be considered is the speed of political decision-making. If the companies expect politics to reach institutional convergence more quickly, than the spontaneous trial and error process, they could support this variant; if the costs of bargaining are very high and there is no hope on quick consensus, the ex post convergence is more preferable. On the other hand, if multinational asset specificity is low, the variant with the lowest speed of convergence (or preferably with no convergence) is chosen in order to limit the access of competitors[14].

Naturally, asset specificity as defined above is relative to a certain community of companies. From this point of view it is very difficult to make a generalized statement. At the level of individual companies a proxy for national and multinational asset specificity could be the share of domestic assets and the share of foreign sales respectively; however, for the post-Soviet companies this information is often partly available. Selected data are summarized in chart 5.

[14] I would like to mention an important simplification in respect of the factors discussed in this subsection – all institutions are seen as identical with redistribution and coordination functions. In fact, different forms of institutions have different influence on the Following Levy and Prakash (2003) and Wegner (2004) institutions set by the government could be sorted alongside two dimensions: (1) regulatory or market-enabling norms (the first tend to reduce transaction costs and enable free market exchange, the second are primary designed to impose constraints on the individual's behaviour in favour of social goals (like social justice of environment protection), formulated by the government) and (2) norms as private or public goods (i.e. norms regulating outcomes of transaction between two actors relevant only for these actors or regulating outcomes of transaction between two actors directly or indirectly relevant for the third parties (i.e. externalities)). The further analysis of influence of different institutions on preferences regarding ex ante or ex post harmonization is left for further research (see Freriks and Widmaier, 2000, and Levy and Prakash, 2003, for related studies).

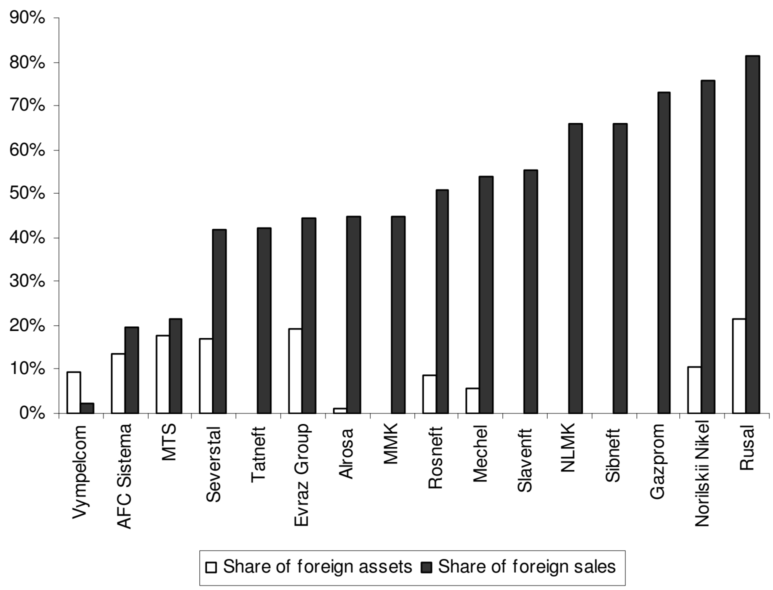

Figure 5: Foreign Assets and Foreign Sales of Selected Russian Companies, 2004

Notes: information on Rosneft, Rusal and Severstal for 2003; for Gazprom, Sibneft, Slavneft and Tatneft no information on foreign assets. By MTS and AFK Sistema foreign assets and sales exclusively in Ukraine, by VympelCom – in Kazakhstan. For Slavneft foreign sales are calculated as average natural sales of oil (48%) and oil refinery products (63%) abroad.

Source: corporate reporting

First of all, the chart shows, that many Russian companies have relatively high multinational asset specificity. Many of them earn more than 40% of their income abroad: from 30 German companies of the DAX index, the average share of non-German sales was 68%, and non-European sales – 35% (2003). In the U.S. at least one third of DJIA companies have only domestic operations, the average sales abroad of the rest are about 42% (2003). High multinational asset specificity combined with extremely low speed of ex ante bargaining in the post-Soviet space could become one of the factors leading to moderate interest of Russian companies for formal integration initiative, even in spite of significant investments in the CIS. However, the foreign sales are often directed not in the CIS countries.

On the other hand, the share of international assets is very low (as compared to 38% in the DJIA companies with activity outside the U.S. and 51% for German DAX companies outside Germany and even 25% outside the EU). The problem is that the structure of asset and sales specificity changes in turn of the institutional competition, when companies make entry or exit decisions. Moreover, high mobility of financial flows can be more important, than structure of assets. So, the situation could change very quickly.

For both Russian corporations and corporations from other countries of the CIS an important point is also the protection of domestic markets from newcomers. Here the idea of “common weaknesses” discussed above could also be used, but in a reversed way – “common weaknesses” of countries in global institutional competition become “common strengths” of businesses in the protection of their domestic markets. Political institutions, which form the basics of the institutional regimes of post-Soviet countries, form a kind of “common weaknesses” for all of them and therefore partly protect domestic markets from newcomers from other regions outside the CIS; formal economic legislation does not have as fundamental meaning, however, still increases costs for newcomers, both from other regions and from other countries of the CIS. From this point of view, corporations from CIS countries (other, than Russia) could be less reluctant to support ex ante harmonization of political institutions, than of economic institutions. This point is probably one of the reasons for relative success of the government in this sphere and for dismal results of economic integration and harmonization.

6.4. Preferences of the Demand Side

The general idea of this point is that corporations form their policies, using certain expectations regarding the aims and policies of the supply side on the market for institutions (i.e. governments). In the CIS, where the probability of ex ante harmonization even under huge private investments of businesses is small, if economic institutions are considered, the fact mentioned is probably once again a reason not to invest into ex ante harmonization regimes and focus on potential gains from ex post regime. However, individual companies may have different preferences.

6. Conclusion

The development of the post-Soviet space since the second half of the 90s has been characterized by increasing institutional convergence, mostly in political sphere, but also partly in economic policy. This situation is difficult to explain because of evident failure of the post-Soviet integration and absent policy coordination. The convergence trend is also strictly dominated by the preservation of "inefficient equilibrium" or "institutional trap" in economics and politics with their negative influence on the perspectives of the post-Soviet economic development.

This paper offers two explanations for this effect: the ex post convergence via institutional competition and the "hidden" ex ante convergence of political regimes via "protective integration". First of all, the neglected dimension is a relatively high (and increasing) level of the de-facto consolidation of the post-Soviet space with significant cross-border investment flows. Its consequences are ambiguous: corporate behaviour is guided by different motives, resulting in "demand for good institutions" and "demand for bad institutions". In the first case corporate investments create additional incentives for application of better practices and improvement of quality of institutions. In the second case, on the contrary, they are mostly interested in intransparent economic environment and low protection of property rights as important competitive advantages.

The ex ante harmonization is much less efficient: the bargaining between states is slow and costly and their ability and willingness to cooperate is limited. There are only view exceptions: the protective integration exists in form of "hidden cooperation" between governments in order to support the existence of semi-authoritarian political regimes. Although it does not deal directly with ex ante harmonization, measures implied lead to de-facto convergence of political institutions. Moreover, cross-border epistemic communities and power-property systems also contribute to the development of ex ante harmonization.

An interesting question is, furthermore, how do ex ante and ex post convergence processes interact. In this paper I limit the discussion of this problem to two aspects: the support of institutional competition by governments and demand for harmonization by business groups. In the first case the governments may be interested in avoiding prohibitive costs of bargaining; probably, this factor is crucial for the Russia's support of business investments in the "near abroad".

Despite the widespread assumption, that businesses always prefer the ex post harmonization, this paper argues, that the higher preferences of ex ante harmonization are possible. In the post-Soviet world corporations indeed demonstrated low interest in ex ante regimes, but this fact is not self-evident and requires justification. The most reasonable explanations come from the area of lobbying power. Companies with high supranational lobbying power (in any form – direct at the level of supranational institutions or on national level, if a small group of countries or one country shape the supranational decisions) are rather interested in ex ante harmonization, as companies with low supranational power, which gain mostly from redistribution of income from mobile factors of production, could be. In the post-Soviet world influential companies mostly gain from redistribution of immobile factors, and therefore could be interested in ex post harmonization. High mobility of financial flows gives them increasing exit power. On the other hand, Russian companies have an excellent supranational lobbying position because of Russia's role in the CIS; this fact, probably, explains the absence of support of ex ante harmonization by non-Russian companies.

The asset specificity, which also influences the preferences towards different economic regimes, is ambiguous factor, partly because of measurement problems. Generally speaking, low national asset specificity makes companies prefer ex post harmonization; low multinational asset specificity is a factor of support of slow ways of harmonization (either ex ante or ex post) to protect domestic markets from foreign competition. The data on Russian corporations we have demonstrate that the largest of them have a relatively high share of foreign sales, which are, however, mostly earned outside the CIS. High national specificity of their assets (based on investments in natural resources) is probably offset by high mobility of capital. For non-Russian companies ex ante harmonization of political institutions could be used as an instrument to protect from international companies; the attempts to prevent ex ante harmonization of economic institutions should reduce potential competition from Russian companies. Finally, low probability of ex ante harmonization in interstate bargaining could be anticipated by businesses and make the latter focus on redesigning their structure to gain potential advantages from ex post regime.

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