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## **Globalization and Outcomes of Institutional Competition**

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**Abstract:** Institutional competition, or competition of countries for mobile individuals and organizations by changing the system of formal institutions and adopting it to the demands of mobile groups and individuals, is considered to be an important element of globalization. A popular view is, that institutional competition improves the quality of institutions, because it acts as discovery process and additional control mechanism for the government. The outcome of institutional competition is always better institutions. Hidden assumptions underlying this thesis are first, that the individuals and organizations prefer transaction-cost-efficient institutions and second, that the government is interested in attracting mobile individuals and organizations. These assumptions, however, are correct only under specific institutional environment. There are different reasons for individuals to support low-quality institutions (including the redistribution effects, path dependence and mental models and deficit of trust). Governments may also prefer low immigration. Do these reasons exist also under environment of institutional competition? The main question is also, whether the new logic created by institutional competition changes old behavior patterns and establishes better institutions, or outcomes of institutional competition are shaped by original institutional environment and may be inefficient? The paper supports the second answer analyzing experience of post-Soviet states.

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## 1. Introduction

In his well-known paper *Etzioni (1988: 180)* discusses the idea of selection of optimal social institutions in a kind of social evolution (originally introduced by *Hayek*) and notices: “What holds for organizations holds even more for societies. There obviously is no market of societies on which the efficient ones drive out the others”. In a globalizing economy many scholars argue, that this “market for societies” (or, at least, market for social orders and social institutions”) appears via the so-called institutional competition<sup>1</sup>. This idea is often used by neoclassical and Austrian economists (see for an overview and critical discussion *Pitsoulis, 2004*), political scientists (see *Scharpf, 1998*) as well as even by supporters of world-system research approach (*Bornschier, Trezzini, 1996*).

From the point of view of this theory the relation between the governmental structures and the private actors can be described as a market. The government offers certain goods (including public goods, formal institutions enforced by the public authority, and even private goods like assets in the privatization process) to private actors, charging a fee for its consumption mostly in form of taxes. In a closed economy the government is a natural monopoly. In a global economy with free capital and labor movements between countries many governments offering different packages of goods of different quality and price exist, and individuals and companies can chose the optimal variant investing into the country (or settling in a country), which is more attractive for them. The companies chose an “*exit*” from the countries with lower quality or higher price of public and institutional goods. The tax base is reallocated to the countries with better institutions or lower taxes. Other countries suffer under negative economic processes.

That means, that there are reasons for the government to try to attract mobile factors under the different theoretical assumptions. A “benevolent dictator” is concerned with negative trends in the national economy. An egoistic “Leviathan” government loses the main income source of bureaucrats and politicians (in form of taxes and even in form of bribes – there is no reason to bribe the government, if a company doesn’t plan to invest in the country). In the democratic regime the politicians can lose the elections. One more factor, which can be important for the government but is often overseen by economists, is the declining influence in the international relations system because of loss of economic power. The governments also compete for mobile factors of production (capital, which is a more significant factor, and labor with still limited mobility). A global market for institutions appears, which is theoretically able to select the more efficient institutions.

The social and economic consequences of institutional competition are still unclear, partly because of theoretical differences and partly because of lack of empirical evidence. There are good reasons to “vote in favor of” institutional competition: first, it acts as a discovery process in a *Hayekian* sense, which helps to accumulate hidden knowledge in the society and to adapt institutions to the demands of individuals and companies, and second, it helps to control egoistic governments and to “tame the Leviathan”. However, there are at least two hidden assumptions underlying this thesis:

- The individuals and organizations prefer better (that is, transaction-cost-efficient) institutions.
- The government is interested in attracting mobile individuals and organizations and is able to interpret the signals of market for institutions correct.

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<sup>1</sup> This paper focuses mostly on formal institutions created by public authorities.

These assumptions seem to be natural for a developed economy, but the experience of less developed and transition countries shows that they are not absolute and depend on organization of economic system and institutional environment. The main question is also, whether the new logic created by institutional competition changes old behavior patterns and establishes better institutions, or outcomes of institutional competition are shaped by original institutional environment and may be inefficient? This paper analyzes this question using experience of post-Soviet countries (mostly of Russia).

The paper is organized as follows. The next section discusses different reasons for “demand for bad institutions”. The third section concentrates on deficits of institutional competition on the “supply side”. The last supports theoretical analysis with the experience of post-Soviet states.

## 2. Demand for “Bad” Institutions

To explain the support of inefficient institutions, two groups of approaches may be used. First, despite the demand for “bad” institutions seems to be impossible from the point of view of a rational agent, there are some reasons even for rational individuals with complete information to prefer a suboptimal solution. Second, as “individuals are not well formed unless they are members of collectivities, which in turn contain rules” (*Etzioni, 1988:179*), the demand for bad institutions may result from preferences formed by other institutions and path dependency effects.

1. For a **rational actor** “bad” institutions can be relatively profitable for individuals benefiting from **redistribution effects of rules**, 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)* concentrates on a situation of partial reforms, when incumbent actors, receiving special rents from non-completion of reform process, support the stability of inefficient institutions and profit from “institutional interregnum” (*Brockheimer, 1997*). That is why a preliminary system of rules 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 unique competition advantages, the powerful agents may have interest into preserving “bad” institutions. *Gaddy and Ickes (2001)* illustrate this point with a concept of R-D-space. 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 become 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 significant (in that way organization of the supply side of the market for institutions indirectly influences the behaviour of the demand side).

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. Concentration of economic power is also a factor supporting demand for bad institutions.

The institutional competition reduces the importance of this factor, because there is only a limited group of rent-seekers in an economy. Rent seeking is a zero-sum game: so, for the rest it is useful to leave the country. It leads to negative effects for the economic development and changes the advantages of existing institutions even for dominant group. However, the problem is, that the number of rent seekers tends to increase, partly because of described adverse selection process.

The second problem is a **prisoner's dilemma** resulting from deficit of vertical trust between the government and the individuals. If individuals have always suspected their government, any change of institutional environment is considered to be worse than the existing equilibrium. If this prisoner's dilemma exists, the 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*.

Another point that makes individuals prefer existing institutions and not the better institutions is **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 behavior 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.

2. The previous concept is based on the assumption of rational behavior of individuals (that is, on rational-choice and mediated conflict institutionalism) (see *DiMaggio, 1998*). From the point of view of social constructivism institutionalism, institutions shape individual's preferences and all interests are socially constructed. In this case individual's demand for formal institutions follows the dominating informal institutions. Better formal institutions are accepted only if they are compatible with informal institutions. The latter do not compete, because selection principles (the factors which subject the selection of preferred institutions) are also formed by institutional environment. If informal institutions do not support wealth-oriented behavior, transaction costs reduction by formal institutions is useless.

### **3. Supply of "Bad" Institutions**

The second assumption underlying the positive assessment of institutional competition is that the governments are interested in attracting mobile factors of production. However, it is possible to find out certain institutional environments, when attracting mobile factors is rather negative than positive for the national government. It is also possible, that the government is not able to interpret the signals of private actors.

First, as noticed above, 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. From the point of view of private goods production, 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. *Volckart (2002)* argues, that an example of similar behavior of public agents is the experience of the late Medieval Age, when small German principalities were rather engaged in production of private goods than offered public goods, and due to this fact tried to reduce the inflow of mobile production factors.

Second, the perception of market relations and of possible economic measures depends upon institutional framework. That is why competing governments select not the *optimal* respond to the competition challenge, but that respond that seems for them to be optimal. One could say, that the purpose of competition of discovery process is exactly to test the possibly wrong knowledge of the state and to select the optimal hypothesis. But in this case an observer faces the problem of selection principles: if government seeks to ensure other objectives rather than economic wealth, it could ignore negative processes in economic sphere. Reasons for this fact could be of rational nature (that is, to ensure economic power via poor rule of law in a bad institutional environment or to seek rents) or irrational (e.g. ideological or religious). It is difficult to persist in an inefficient solution under a democratic system when the opposition can use its voice option to influence the government (in absence of demand for bad institutions), but if the democratic institutions are weak, the government can ignore the nation's economic decline. Combined with the existence of redistribution effects, failure of democratic institutions can establish a kind of inefficient equilibrium: the same social group, which is engaged in "exit" exporting capitals via asset stripping of enterprises under their control supports support bad institutions for the sake of power or rent seeking (*Mummert, Mummert, 2000*).

Summarizing this and the previous section, it is possible to conclude, that institutional competition can be efficient only in a certain "institutional corridor", with no demand for bad institutions, no governmental activity on private markets and developed democratic institutions. However, only few countries conform these criteria. Next section deals with the consequences of institutional competition outside of efficient "institutional corridor" in case of post-Soviet economies.

#### **4. Experience of the CIS States**

##### **4.1. Integration of the post-Soviet States in the World Economy**

In this section I concentrate on the integration of the Russian Federation in the global economy, which also means increasing importance of institutional competition. To measure the effect of "exit" and "enter" in the Russian economy participating in global institutional competition three indicators are used:

A) The capital flight. Despite of strict capital controls the capital outflow continued during the 1990<sup>th</sup> (see Figure 1).

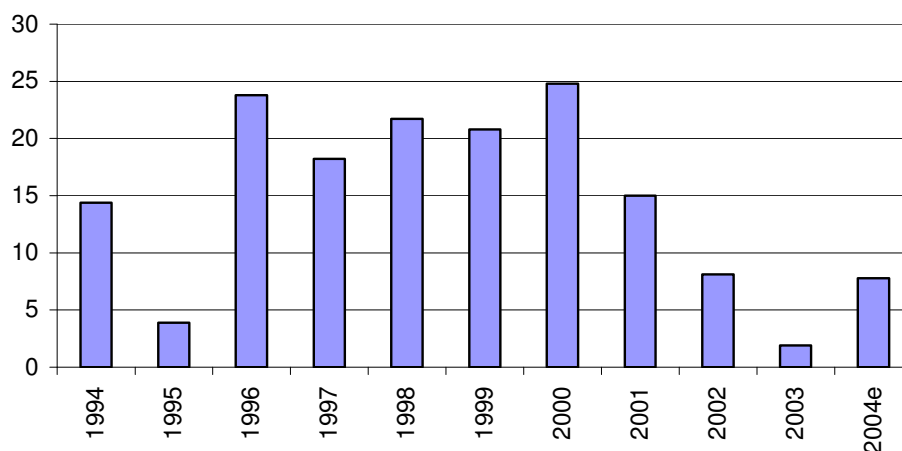


Figure 1: Capital Outflow by Private Sector from the Russian Federation, US\$ bln.

Source: Central Bank of the Russian Federation, 2004

The graph represents a reduction of capital flight in 2001-2003, the *Yukos* deal, however, increased the capital outflow in 2004.

B) The “brain drain”. The emigration of scientists and other high-qualified professionals remained an important problem for Russia during the last decade (see Figure 2).

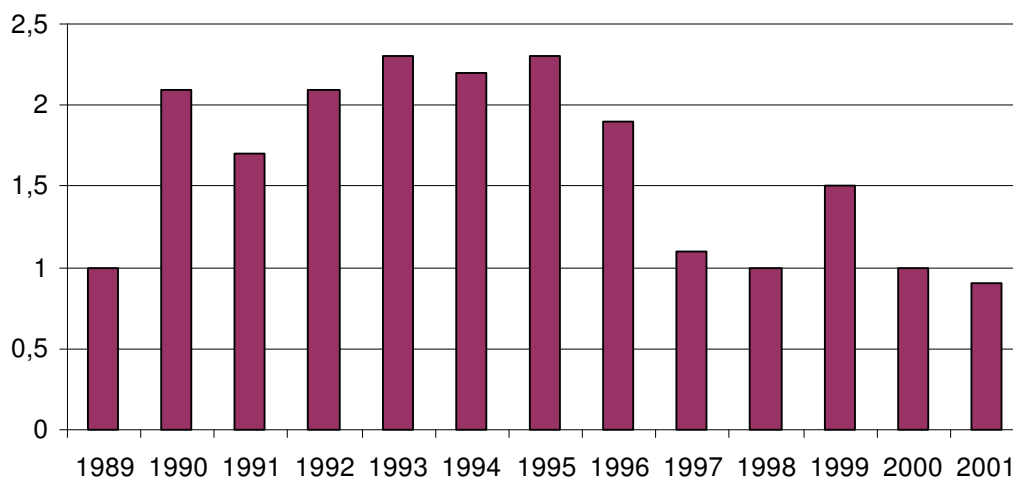


Figure 2: Number of Russian Scientists Emigrants, thousand of people

Source: Centre for Statistics and Research of Science, 2003

The Figure 2 shows, that there is a decline of number of scientists emigrants in 1997-1998 and in 2000-2001. One possible explanation is the improvement of situation in the scientific community. Meanwhile, Russian science has managed to survive the most difficult years of economic crisis, and over the last two years, the situation in Russian science has gradually improved (*Dezhina, Graham 2002:14*). A more pessimistic view explains the situation by decline of quality of Russian science, which does not conform to the Western demand.

C) The deficit of foreign investments. Compared with other transition countries, Russia’s inflow of FDI was relatively low (Figure 3).

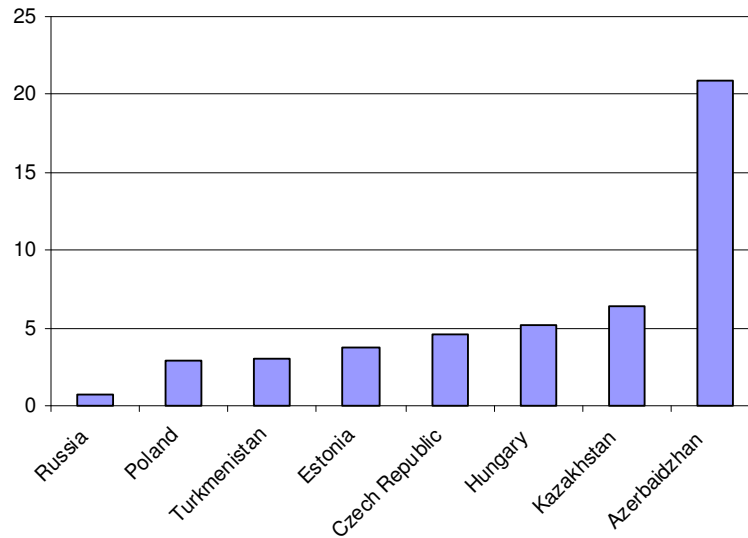


Figure 3: FDI in % of GDP, 1996-1999

Source: Dabrowski, Gortat, 2002:42

To provide any quantitative measurement of quality of formal institutions I use the “quality of governance” indicators published by the World Bank, as they concentrate on different aspects of formal institutions and provide information for the majority of the countries of the world.

Despite the significant exit, the quality of institutions in Russia remains low. It is impossible to find out any sign of significant improvement or of an upward trend (see Figure 4). The only exception is the regulatory quality after 2002.

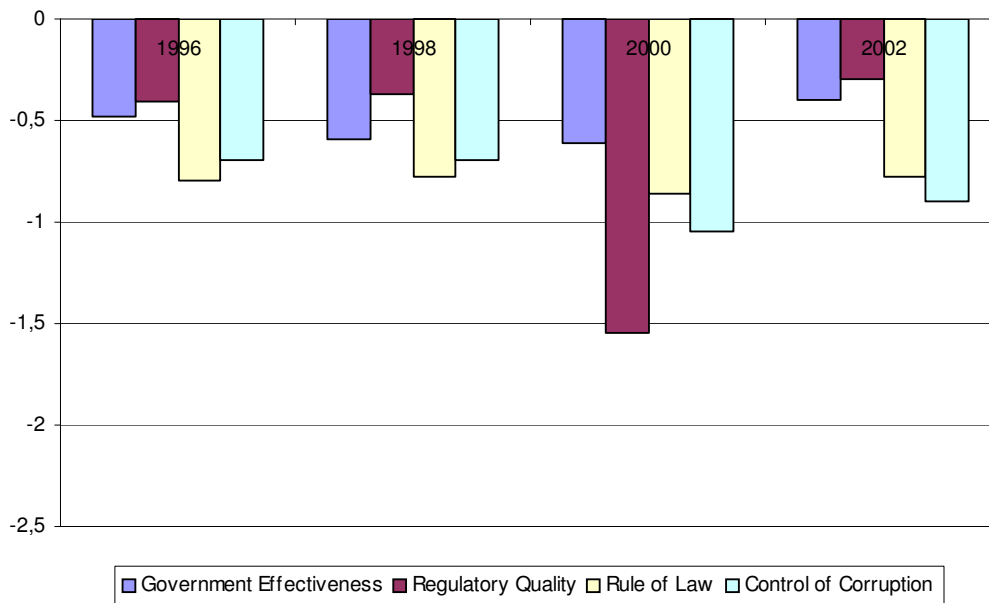


Figure 4: Indicators of Quality of Institutions for the Russian Federation, estimate from -2.5 to +2.5

Source: Kaufmann, Kraay, Mastruzzi, 2003



The situation in other post-Soviet countries (i.e., 12 states of the Commonwealth of Independent States CIS) is may be partly different. First, some post-Soviet countries demonstrate a significant increase of foreign direct investments (surprisingly combined with capital flight). It is true especially for oil-extracting countries like Kazakhstan and Azerbaijan. However, even these FDI do not improve the quality of governance (Russia's indicators are better, than that of Kazakhstan and Azerbaijan). As *Hellman, Jones and Kaufmann (2000)* notice, foreign corporations are also often engaged in national corruption networks. Foreign investments statistics are also sometimes misleading, because they hide investments of national and Russian businessmen from the offshore zones.

Most of the FSU countries demonstrate a low level of quality of formal institutions and have insignificantly improved it through the decade (see Figures 5 and 6). The only important exception is Armenia.

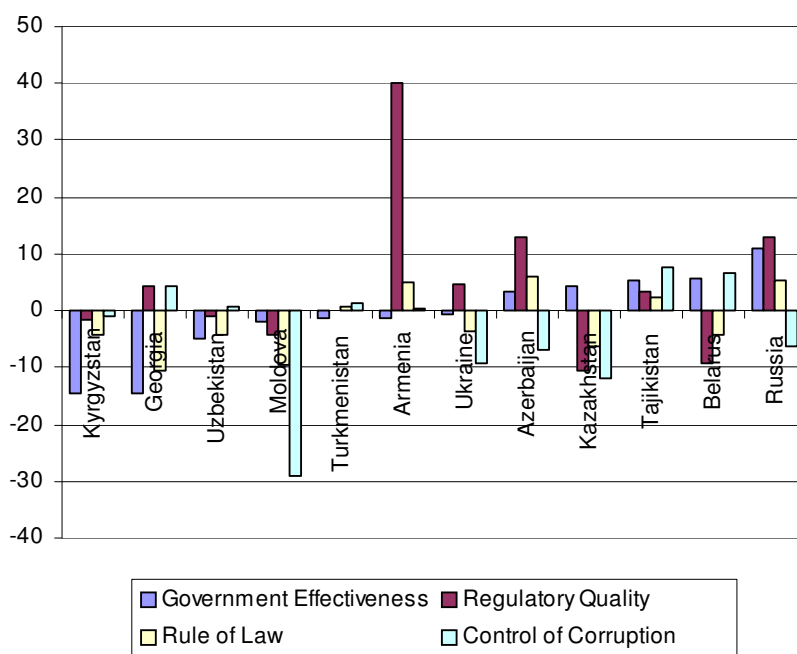


Figure 5: Changes in Indicators of Quality of Institutions, 2002 to 1996, pp.<sup>2</sup>

Source: Kaufmann, Kraay, Mastruzzi, 2003

<sup>2</sup> Unlike the figure 4, the quality of institutions is measured with a 100-points-scale with 100 the maximum and 0 the minimum.

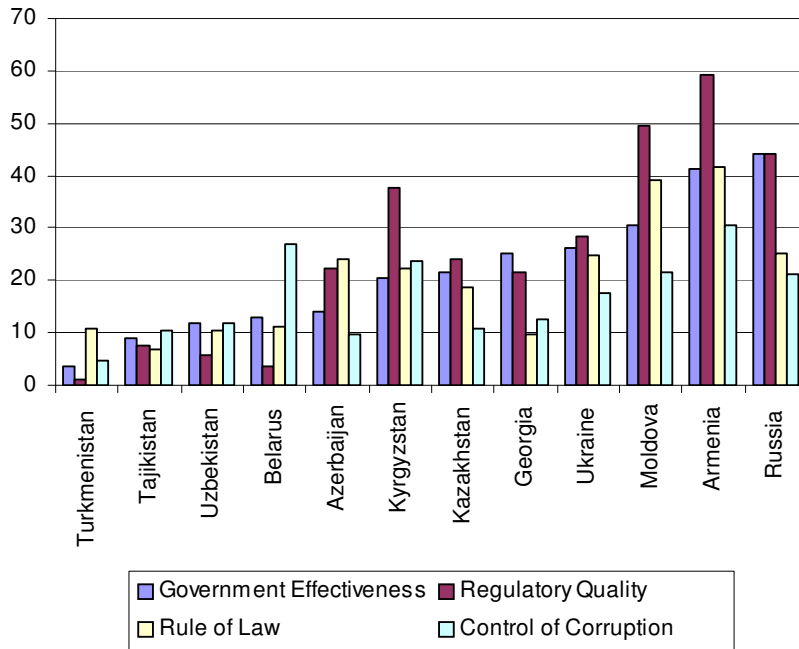


Figure 6: Quality of Institutions in post-Soviet countries, 2002 (100 = maximum) <sup>2</sup>

Source: Kaufmann, Kraay, Mastruzzi, 2003

It means, that the institutional competition with significant exit does not improve the quality of social institutions in Russia. A reasonable assumption is, that post-Soviet states are situated outside the “efficient institutional corridor” for institutional competition. I will try to prove this point in the next section.

#### 4.2. Are the post-Soviet Economies Outside the Efficient Institutional Corridor?

1. To start with, I demonstrate the presence of certain reasons for **demand for bad institutions of rational actors** in the post-Soviet states. The redistributive issues are of great importance because of high inequality and concentration of economic power. The average Gini coefficient for income per capita in 1996-1999 in Russia was higher, than in any other country of the Central and Eastern Europe (*Kislitsyna, 2003:36*). Russian economy is characterized by high concentration of capital and economic power (*World Bank, 2004*), which is usually transferred into political power in the rent seeking process. *Radaev (2003)* and *Slinko, Yakovlev, Zhuravskaya (2004)* provides empirical evidence for the “adverse selection” of Russian enterprises concentrating on rent seeking rather than on productive investments, as the profits of “state capturers” under a high level of state capture and corruptions increase that of other enterprises. However, redistributive issues impact a broader social group than the powerful tycoons. 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.

Similar situation exists in numerous post-Soviet states. High concentration of economic power is typical for Kazakhstan with powerful national banking groups and foreign multinationals (*Akhmetova, 2002; Chebotarev, 2002*) and Ukraine, where regional clans which have defined the national policy up till now (*Kowall, Zimmer, 2002*). Other post-Soviet republics (like Belarus, Uzbekistan or Turkmenistan) still have not passed the privatisation

process, and the governmental officials remain the major (or even the only) economic power (Iwasaki, 2004).

The deficit of trust is an important problem for the post-Soviet transformation. A review published by the World Bank shows, that the people have less confidence in their government in the FSU, than in any other region of the world (World Bank, 1997). “The government lies” is a reaction on any proposal from the side of the politics. This point of view is typical for different social groups. Just to demonstrate it I would like to cite an interview of CEO of *Finpromco* Group (Yekaterinburg/Russia) *Anatolii Pavlov*:

“Q: - Don’t you think, that the government cheats you ...?”

A: - The government has always cheated. But in this particular case I haven’t seen any dirty tricks” (see <http://www.finpromco.ru/company/leadership/president/interview/index.html?id=2>).

“It is better not to play games of chance with the government” is a well-known proverb in the most post-Soviet states (see the web-site of the *Kohinor Finance* Investment Group/Ukraine, [http://kohinor.kiev.ua/papers/artur\\_04.htm](http://kohinor.kiev.ua/papers/artur_04.htm)).

The path dependence factor is also of great importance, as the deficit of rule of law has been dominating the economy of the post-Soviet states for many decades. Practically all regimes in the Russian history (from the tsars to the Soviet Union) were based on the rule of force. A similar situation was typical for other post-Soviet nations (excluding, partly, Baltic states, which also developed to autocracies during their independence in the inter-war period). That is why the learning costs of adapting individual’s behaviour to the more efficient institutions may be high.

2. On the other hand, development of **democratic institutions is weak**. It is may be a consensus in social sciences, that the post-Soviet political systems do not correspond to the criteria of a democracy in a “Western” sense. The only exceptions are the Baltic states, which are now EU members. Many of the post-Soviet regimes are described as “hybrid” or “democracies with adjectives” (*Gel’man, 2003*), or (in Russian discussion) “managed democracies” (i.e. the results of democratic procedures are “managed” by closed political elite in its favour). *Olcott and Ottaway* provide a possible definition of the FSU state order with the following description of a “semi-authoritarian” regime:

In choosing the term semi-authoritarian, we are not seeking to engage in a semantic discussion, but to highlight what we view as the defining characteristic of these regimes: *the existence and persistence of mechanisms that effectively prevent the transfer of power through elections from the hands of the incumbent leaders or party to a new political elite or political organization*. These mechanisms function despite the adoption of formal democratic institutions and despite a degree of political freedom granted to the citizens of the country (*Olcott, Ottaway, 1999*).

The *Freedom House* rankings for the most post-Soviet countries are either “unfree” or “partly free” (2004). Most of the post-Soviet countries have not passed the procedure of democratic power change from an incumbent to an opposition leader (the exceptions are Moldova, Ukraine, Georgia and Belarus) (*Furman, 2004*). And even a shift of power of that kind does not ensure, that the reconstruction of a semi-authoritarian regime is impossible (as the case of Belarus shows).

Governments also use their power to increase their ability to control private business and to prevent formation of opposition. As *Radaev (1998)* puts it, the existence of bureaucratic

barriers is not a “mistake” of reformers, but a way to reproduce the dependency of the business from the government. Strict regulation and weak enforcement of property rights push the private business into the “grey zone” of illegal or half-legal activities what can be used by the government. Besides that, businessmen have to seek governmental privileges and support to sustain the unfriendly environment. As these privileges are granted selectively, politicians and bureaucrats receive an additional instrument of control.

Income from private markets is typically important for governmental officials in the post-Soviet “power-property system” of strong ties between the state and the pseudo-private business (see *Nureev, 2001*).

3. It is a common point of numerous transition studies, that the low quality of formal institutions in the post-Soviet states is a result of cultural **path dependency factors**, which have been developed over decades or even centuries. E.g. *Furman (1995)* shows, that there are 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 ideology influenced the people’s behavior in an indirect way. Businessmen and politicians imitated the perverse picture created by Soviet propaganda without realizing it. *Black et al. (2003: 219-220)* cite a Russian joke: “Everything the Communists told us about Communism was a lie. Unfortunately, everything they told us about capitalism was true.” This fact contributes to rationally motivated deficit of trust. Other scholars argue, that the present-day domination of inefficient institutions origins from the peculiarities of Medieval Russia with failing separation of power between the church and the principalities, or with the consequences of Mongol invasion which established the tradition of Asian despotism, or with long-term traditions of absolute concentration of power and rule of force in the tsars and the Russian Empire (e.g. *Panther, 1998; Lisichkin, 1993*, as well as numerous other papers). It is not the purpose of this paper to discuss these issues in detail, but it is important to notice, that there are reasons to search (and to find) established inefficient institutions in the Russian history (which has been the history of other post-Soviet nations for at least 2 centuries).

It means, that the institutional framework of post-Soviet countries does not correspond to the criteria discussed in the sections 2 and 3. It means, that the institutional competition is not able to change the inefficient equilibrium, which exists in the countries of the former Soviet Union, and to improve the quality of institutions.

#### **4.3. Pseudomorphism as Consequence of Institutional Competition Outside the Efficient Institutional Corridor**

The problem of institutional competition outside the efficient institutional corridor is that it is combined with institutional isomorphism in *DiMaggio and Powell (1983)* sense. That means, that national elites seek at least to imitate the proven efficient institutions of other countries. As this imitation runs contrary to their aspiration to ensure the current equilibrium (demand for bad institutions), they create a kind of “similar institutions” with a different influence on social and economic relations. It can be referred as “pseudomorphism” (*Yevstigneev, 1997*).

*Woodruff (2000)* discusses this concept, separating between the deep and the shallow level of market institutions. 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 shallow level (where these rights are traded and exchanged), but the deep level (where these rights may be executed, e.g. in form of participation in a shareholder’s 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, as described above, semi-authoritarian regime does not allow any power change as result

of free elections and tends to control it supporting incumbent candidates, changing the election rules and influencing the votes' count process.

One more example of “pseudomorphism” is the system of institutions of the “post-Soviet integration” including CIS and other subregional groups like Eurasian Economic Community or Common Economic Space. A detailed consideration shows, that the post-Soviet integration (officially following the example of the EU) differs from the Western models of integration. It means, that formal structure of social institutions of integration adapted from the Western countries does not represent their real social function. European integration was supposed to construct a “common market” for the whole EU. De-facto structures of the post-Soviet integration ensure:

- Protection of technological monopolies from competition inside and outside the CIS and protection of inefficient institutional systems in different countries (*Yevstigneev, 1997*). *Osmakov and Kopylov (2003)* call the post-Soviet integration projects “integration of common exclusions” (not of “common rules”), as their core is to guarantee exclusive monopolistic positions for every participant.
- Protection of inefficient semi-authoritarian regimes, which seek the support of their neighbors to prevent democratization (*Furman, 2004a*). The experience of elections in Ukraine and Abkhazia (2004), as well as expectations for the coming elections in Kyrgyzstan show, that the structures of CIS usually support incumbents in their struggle with opposition. It is a typical situation for post-Soviet countries (which could be observed in Kazakhstan and in Ukraine in 2004), 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. It is probably possible to compare the CIS with the “Holy Alliance” of European monarchies in the first half of the nineteenth century, which was established to prevent revolutions in Europe.

The institutions of “pseudomorphism” can be also described as “anti-institutions” (*Sukharev, 2004*), because they are “rules of the game” which run contrary to the “meaning of the game” and in that way deconstruct the game or change it, that it becomes a new game with new rules. E.g., 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 (like Russian citizen mistrust any stock exchange or any elections).

## **5. Conclusion**

Increasing institutional competition is an important part of globalisation process. However, even this appearing market for social orders does not ensure the increasing quality of institutions. Institutional competition can be efficient, only if original institutional environment of actors is situated within a kind of “institutional corridor”. In other cases institutional competition is powerless or even ensures inefficient equilibrium.

The experience of post-Soviet states supports this point. Because of deficit of trust, high inequality and concentration of economic and political power, as well as path dependency effects, societies of FSU countries do not meet the requirements of mentioned “institutional corridor”. That is why their participation in global institutional competition does not improve the quality of institutions: inefficient equilibrium exists in spite of active “exit” in form of capital flight and brain drain. Institutional “pseudomorphism” creates a kind of “externally similar” institutions with partly contrary influence on economic performance.

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