Federalism and regionalism in transition countries: A survey

Libman, Alexander

April 2008

Online at https://mpra.ub.uni-muenchen.de/29196/
MPRA Paper No. 29196, posted 09 Mar 2011 06:44 UTC
Alexander Libman

Federalism and Regionalism in Transition Countries:
A Survey

April 2008

The paper provides a brief survey of the key contributions to the studies of the federalism and regionalism in transition states, specifically the countries of the Central and Eastern Europe and the Former Soviet Union. It covers the dynamics of the Russian federalism and decentralization in other post-Soviet states. Furthermore, it looks at the evolution of the regional economic integration in the former Soviet Union, as well as briefly discusses the regional integration arrangements of the transition countries of Central and Eastern Europe.

Keywords: federalism, regional integration, transition economies

Introduction

The economic and political transition in the former Soviet Union (FSU) and the Central and Eastern Europe (CEE) has not been limited to changes of governments and economies. An equally important aspect has been the transformation of intergovernmental relations. Generally speaking, it has two main aspects. On the one hand, political transition in several countries of the region resulted into increasing decentralization. Although the Soviet Union was formally a multi-tier federation, the de facto political structure of the country was characterized by extreme centralization and clear hierarchical relations between different levels of authority.¹ After the collapse of the Soviet Union several republics faced the problem of devolution: in Azerbaijan (Nagorny Karabakh), Moldova (Transdniestria) and Georgia (Abkhasia, Southern Osetia) it resulted into unsolved civil conflicts and secessionism, while in Ukraine (Crimea) and Moldova (Gagauzia) a peaceful solution could be found. In spite of partly highly decentralized economic structure and significant role of regions in the national politics (Ukraine, Kyrgyz Republic, Georgia), most post-Soviet

¹ Though this hierarchy was weakened by the existence of the so-called “administrative market”, enabling a sophisticated bargaining process between different levels of government (Kordonskiy, 2000), and in the 1970s and 1980s border regions (in particular, the Caucasian and Central Asian republics) were able to gain as significant level of de-facto independence from the Union combined with loyalist rhetoric, thus establishing a kind of “hidden asymmetry” in centre-region relations.
countries maintained the form of unitary states. The main exception is the Russian Federation, which established formal federal institutions.

The second aspect of the changes of intergovernmental relations (or, as I call it elsewhere, ‘spatial order of authority’ (Libman, 2007a)) is the international arena. The collapse of the Soviet Union initiated a complex set of integration and disintegration processes throughout the region. The original form of international cooperation, the Commonwealth of Independent States (CIS), was complemented by a number of further institutions, including the Eurasian Economic Community (EurAzEC), as well as the Union State of Russia and Belarus (USRB), the Organization of Collective Security Treaty (OCST) and the alliance of Georgia, Ukraine, Azerbaijan and Moldova (GUAM). Further projects (the Organization of Central-Asian Cooperation or the Organization of Regional Integration in the Common Economic Space (CES)) were abolished. Finally, the countries of the region are intervened in a high number of interregional integration initiatives, both in Europe (especially the European Neighborhood Policy) and in Asia (the Shanghai Cooperation Organization). The economic integration in the CEE was mostly a preliminary step towards the membership in the European Union; however, the Central European Free Trade Area (CEFTA) is still worth studying and discussing.

The aim of this paper is to provide a brief survey of key contributions to the studies of regional integration and federalism in transition countries. We will proceed as follows. In the next section we briefly talk about the internal aspects of the shifts in the spatial order of authority, associated with the development of federal structures. By doing it, we focus on three main problems of federalism in the post-Soviet context: regional capture, redistribution and soft budget constraints, and economic and political asymmetry. Afterwards we provide a very brief discussion of internal shifts in other countries of the region. The next section deals with the regional integration in the transition context. It first considers the development of the CIS and other regional initiatives in the post-Soviet space, and then turns to regional integration in the CEE associated with the origin of CEFTA.

One should notice in advance, that the post-Soviet regionalism and federalism experience a rapid evolution, making any clear predictions extremely difficult. Just to give an example, Turovskii (1999) in his brilliant paper on comparative analysis of regional systems in Russia and Ukraine claims, that any abolishment of gubernatorial elections in Russia is “almost impossible”. However, only several years after this statement Russia moves from direct elections of regional leaders to presidential appointment. Therefore the only way to understand the logic of regional development in Russia and the CIS is to look at the process
of evolution of the spatial order of authority and its representation in scientific literature over time.

**Elements of Russian federalism**

The literature on the intergovernmental relations in federations has a long tradition in economics and political studies, focusing on both developed (US, Germany, Switzerland, Canada, Australia, Austria, Spain) and developing (India, Argentina, Mexico, Brazil) world. The post-Soviet transformation still provides several new insights in the process of transition, which are covered by the literature. During the last decades the Russian federalism experienced several periods of development: while in the early 1990s it was characterized by relatively high autonomy of the regions, it was centralized from the fiscal point of view in 1994 and turned into a politically centralized entity under the new president in 2000. Basically speaking, Russian Federation has three main distinct features; each of them generated a new strand of research.

*Weak institutions.* The development of political institutions of federalism is always embedded in a broader network of higher-level institutions, determining the basic consensus regarding the “rules of the game” and the forms of participation and decision-making, which were lacking in Russia. The very fact that the development of federalism and state-building were intervened (Solnick, 2002) indicates the weakness of institutional constraints for political actors. Therefore it is reasonable to ask how increasing autonomy of sub-national entities interacted with the development of institutions able to support markets or to gain advantages to selected redistribution groups. Generally speaking, from the theoretical perspective the results are ambiguous: devolution can both provide additional incentives for the development of good institutions for regional governments (the *market preserving federalism* by Barry Weingast (Weingast, 1995)) or support local interest groups (the *state corroding federalism* by Daniel Treisman (Cai and Treisman, 2004)). To a certain extend, the discussion continues the logic of the old controversy in social sciences: one could trace it back to Madison with his idea of “dilution” of influence of powerful local interest groups on the local level and Montesquieu, who considered the centralization a process of loosing public control over governments. Moreover, the very existence of a hierarchy of independent decision-makers (what is an inevitable part of federal structure) leads to additional problems of inconsistent policies, e.g. detrimental for attracting FDI (Kessing, Konrad and Kotsogiannis, 2007, 2008). However, in a world of weak institutions, providing large opportunities for rent-seeking, the “dark side of decentralization” can become dominant. The
main direction of the literature on the Russian Federalism is to consider it as “state corroding”, i.e. rather abused by interest groups than able to restrict their influence. This is in fact an issue where the design of Russian federalism was confronted with the main ideas of intergovernmental relations in China (Blanchard and Shleifer, 2001), while the chosen form of fiscal decentralization without political devolution seemed to be more helpful for economic growth.

**Highly centralized fiscal federalism.** After the establishment of the basic elements of intergovernmental fiscal relations, Russia indeed became de iure a highly centralized structure. In the early 1990s share of taxes attributed to the federal centre was set individually for every region and all issues of interbudgetary relations were determined by negotiations of regions and the centre. However, since 1994 Russian regions are very limited in their authority over taxes. The exclusive list of taxes is set by the federal parliament, and all taxes are collected by the unified federal tax service (originally the State Tax Inspection, later Ministry of Taxation, currently the Federal Tax Service in the Ministry of Finance) and further split between federal, regional and municipal budgets. Taxes in Russia are either shared taxes or, even if they are completely attributed to the region, the tax rate is still within the authority of the centre. The distribution of tax income between the federal centre and the regions is prescribed by the federal legislation (or by the individual decisions of the federal government in case of the so-called “regulating taxes”). For some taxes regions were entitled to change the regional rate of taxation (even reducing it to zero), but only within the scale set by the federation and for taxes set by the federation. In this framework two questions arise. First, if the ability of regions to establish their independent taxation is low, it is likely that the redistribution of grants by the federal authority becomes crucial for economic development. From the political-economic point of view an important aspect is whether the distribution of grants is based (as declared) on purely economic motivation, or there is a strong political influence in this process (what is quite likely if the institutions are weak). Secondly, restricting the ability of regions to manipulate taxes on the formal level can influence their informal decisions. Both aspects have been subject to a number of studies.

**Asymmetric federalism.** The most prominent and often cited aspect of the Russian federalism is that it is highly asymmetric. To clarify the definitions: a situation when different regions in federations are characterized by different splits of tax income, budget revenues and expenditures between regional, federal, and municipal levels of government, is not uncommon (and probably even typical). This inequality, which should be further referred to as fiscal asymmetry, is present in the majority of federations. In more decentralized
federations fiscal asymmetry results from differences in fiscal policies of subfederal authorities, if they are empowered with the right to set rules for subnational taxation (e.g. tax rates and tax bases). While the federal government usually treats all regions with the same rules for federal taxation, regional rules can differ significantly, influencing the distribution of resulting mix of tax income. If all fiscal rules are set by the federal government, regions often have an opportunity to influence the distribution of tax income via strategic tax auditing and collection by capturing local tax authorities. However, in many cases differences in tax, revenues and expenditures breakdown are connected not only with differences in fiscal policies, but also (or even mostly) with long-term structural asymmetries between regions of the federation. These asymmetries include both significant socio-economic disproportions between constituents of the federal union (economic asymmetry) and differences in allocation of powers (both de facto and de iure) between different regions (political asymmetry). Russia exhibited all three forms of asymmetry, and these problems have been subject to thorough studies.

**State corroding federalism**

The theoretical and empirical literature in this tradition includes several blocks. First, there are a number of papers trying to capture the effect of the state corroding federalism in Russia. There is strong evidence that an important point of activity of the regional governors was to “protect” loyal enterprises from the federal taxation and bankruptcy law in the 1990s, especially because of high lobbying power and state capture in many Russian regions or attempts to ensure preferences for companies owned or associated with regional officials (Cai and Treisman, 2004, Slinko, Yakovlev and Zhuravskaya, 2005). In several cases regions took advantage of their position to set protectionist restrictions on the intraregional trade, strictly prohibited by the federal law and the Constitution (Enikopolov, Zhuravskaya, Guriev, 2000). More than 15 regions introduced monetary surrogates to collect taxes independent from the federal centre (Genkin, 2000; Gaddy and Ickes, 2002; Eckardt, 2002); the majority of regions practiced price regulations during the 1990s (Kolomak, 2005). Regional enterprises were able to accumulate significant tax arrears and to avoid federal taxation due to support of the regional governors (Treisman, 2003; Ponomareva and Zhuravskaya, 2004; Plekhanov, 2006). Moreover, decentralization could be instrumental in maintaining soft budget constraints for businesses in Russian regions (Timofeev, 2001).

An additional consequence of the state corroding structure of Russian federalism has been an increasing disintegration of markets. There is a large literature on integration of the
Russian market based mostly on analysis of the “law of single price”, which should hold in an integrated economy (Glushchenko, 2008). Until 1994 the disintegration trend dominated; although it was replaced by a certain integration trend later on, the degree of integration still remained extremely low. The disintegration was strongly influenced by the geographical distance, the dominance of organized crime in individual regions and economic development before the start of the reforms. The internal policies of regional governors seemed to be important: the so-called “red bellow” region with Communist governors was significantly less integrated in the Russian market than the rest of the country. Surprisingly, the international and internal integration of Russian regions were negatively correlated. “Provincial protectionism” (Sonin, 2005) in the form described above seemed to have a significant impact on this process, effectively supporting the development of an “industrial feudalism” in Russia (Ericson, 2000). The situation changed dramatically in the 2000s: large interregional business groups became more important and played a crucial role in re-integrating the market supporting the reduction of provincial protectionism (Spekhardt, 2004; Guriev et al., 2007).

Both state corroding federalism and provincial protectionism literature empathize a strong influence (good or bad) of private businesses on the development of regional policies. It is clear that the models of government-business relations in different regions significantly differ. Moreover, there have been strong changes over time, associated with both shifts in political organization of Russian federalism and the evolution of Russian private business. In the empirical political science literature there has been a huge number of studies focusing on evolution of patterns of government-business relations in Russian regions (Peregodov, Lapina and Semenko, 1999; Lapina, 2000, 2004; Eckardt, 2002; Lysenko, 2003; Orttung, 2004; Zubarevich, 2002, 2003, 2005; Fruchtman, 2005; Kusznir, 2004; Juurikkala and Lazareva, 2006). Finally, a recent aspect of the studies of this group focuses on relations between regional authorities and state-owned enterprises (in particular, the so-called “public corporations”), which increased their influence over the last years (Petrov, 2007).

Although there is a significant evidence for regional protectionism and state corroding federalism in Russia (especially in the 1990s), it would be still premature to claim that high decentralization had a negative impact on economic growth. The outcomes of empirical studies are ambiguous. Desai et al. (2005) show, that there is a positive relation between some specific indicators of economic performance of the regions and the retention of taxes in Russia; but Haaparanta and Juurikkala (2007) claim that in municipalities with higher local fiscal autonomy firms pay higher bribes. The relation is even more difficult if one considers potential substitutes of formal rules and institutions. Pyle (2007) argues that in Russian
regions business associations act to certain extend as substitutes for good institutions constraining public officials. Thus on the one hand the businesses support higher-quality institutions in their community, but on the other hand prevent formation of full-scale “rule of law” society. If one takes possible demand for “bad institutions” into account, the things become even more difficult (as considered in the next section).

One of the most important aspects of the concept of market-preserving federalism is the presence of interjurisdictional competition, able to provide stronger discipline for the governments. The consensus among the scholars of Russian federalism is basically that the influence of interjurisdictional competition in Russia is relatively small because of huge agglomeration effects (which cause mostly centripetal factor flows) and low mobility of production factors (Herrmann-Pillath et al., 2000, Libman, 2004), as well as (in the 2000s) influence of federal centre on locational choices of corporations (the administration of Putin supported the reallocation of several large enterprises to Sankt-Petersburg\(^2\)). Revenko (2001) does not find any evidence of horizontal tax competition for mobile capital in Russia (although argues, that the vertical competition is present). Although Andrienko and Guriev (2004) show, that migration flows depend upon the quality of regional public goods provision, they also argue, that liquidity puts a severe constraint on migration. However, there is a small literature able to establish a relation between capital inflow and public policies. Kolomak (2007) shows that regional investment legislation has a positive impact on investment attraction, and that there is an interregional diffusion of investment-related subfederal law. Plekhanov (2006) establishes an interesting result that Russian federalism is at the same time state-corroding (as in the models described above) and market-preserving: regions used both provincial protectionism and improvements of regulation to attract capital. Though several scholars claim that the intensification of interjurisdictional competition is crucial for development of a “market-preserving” fiscal federalism in Russia (Evstigneeva and Evstigneev, 2003, 2003a, 2004), there are reasons to believe, that in both Russia and the CIS the effects of competition among governments in presence of the demand for bad institutions can have ambiguous, if not negative effects (Libman, 2007a, 2007b). Solanko (2001) provides one of the few theoretical studies of fiscal competition in an economy experiencing privatization.

\(^2\) The most well-known decisions like Rosneft and former Sibneft were made in the second half of 2000s, i.e. are not covered by the sample of this study, but similar effects could have had certain influence already during the first administration of Putin.
A specific form of interjurisdictional competition, which, however, was obviously present during the Yeltsin period, was connected with the use of offshore strategies by several regions (like Kalmykia or Ingushetia). Actually certain elements of privileges for investors were established in numerous Russian regions, but they did not always have the offshore function. Moreover, in some regions (e.g. in the Northern Caucasus) the privileges were granted exclusively to the governor- or president-near companies (see e.g. the list in Yankovskii et al. (2001) (appendix 3)) or large multiregional companies dominating their economies; other regions were ready to “sell” the tax-exempts to a broad variety of “customers”. The majority of these regions failed to improve their economic situation with offshore strategies, probably because of corruption and rent-seeking, which caused the expropriation of offshore rents by small political elites. Nevertheless, Mau and Yanovsky (2002) find a certain positive correlation between individual tax concessions and economic growth in the regions, although do not associate it exclusively with offshore (tax deduction were also granted to incumbent local firms, if their political influence is large enough).

Centralized federalism and redistribution

High formal fiscal centralization established a relatively important problem of intergovernmental grants. Most Russian regions belong to the recipients of the funds from the federal center and are actually practically unable to perform their functions without this active support. The system seems to remain relatively stable in spite of all changes of the institutional structure of the federalism. The problem is therefore how the grants are redistributed. In this world two problems typically arise. On the one hand, it is difficult to generate incentives for local and regional governments, lacking autonomy in fiscal decisions. On the other hand, this framework generates a problem of soft budget constraints and bailouts. Both issues have been studied from the point of view of Russian federalism. Since soft budget constraints have been generally typical for the Soviet economy, it is possible to assume that the existing or even perceived soft budget constraints have a strong impact on regional policies. This is indeed what is established in the literature (Sinel’nikov-Murylev et al., 2006; Plekhanov, 2007). Redistribution could contribute to rather short time horizon for regional government, as well as lead to commitment problems (Alexeev and Kurlyandskaya, 2003). On the other hand, in an influential study, Zhuravskaya (2000) shows that the revenue sharing structure between different levels of government provide local governments with no incentive to produce public goods. The problem of financial incentives generated by the Russian fiscal federalism redistribution schemes for individual government is extensively
studied by e.g. by Freinkman and Haney (1997), Sinel’nikov et al. (2000), Kadochnikov et al. (2002, 2003), Valitova (2004), Thiessen (2005) or Thornton and Nagy (2006). An additional negative factor for the incentive structure were the poorly defined tax property rights – once again, a point differing Russia from China (Berkowitz and Li, 2000). Nevertheless, one should not forget, that even in a centralized federalism framework the federal center is likely to act as a kind of “aggregated player” or arena of regional interactions – that seems to be present in the 1990s (Leksin and Shvetsov, 2001).

Although a formula for redistribution of federal grants was designed in the early 1990s (Martinez-Vazquez and Boex, 1999, 2001; Lavrovskiy, Novikov, 2002), in a world of weak institutions, as mentioned above, there has always been a suspicion that federal grants have been used strategically in political process. Several studies conclude by explaining the variance of transfers mostly by socio-economic factors (like McAuley, 1997 or Trunin 2002). Other papers find some empirical evidence of political factors of distribution of transfers, but are split between two hypotheses: whether the structure of transfers was determined by the will to “pacify” the troublemakers and potential opponents, or it was designed to reward regions loyal to the federal centre and punishing the rebels. The studies of Popov (2004) and Jarocinska (2004) support the second thesis by using the results of the presidential elections as proxy for support of the federal centre. This result is based on the comparison of formal transfers as set by the central government and ideal transfers calculated according to financial potential and financial needs. Other studies based on earlier date suggest, that the purpose of the governmental policy was to avoid protest action in the regions (Treisman, 1996; 1998). Moreover, Tatarstan and Bashkortostan (the traditional “rebels”) are the only regions, which are granted a special Federal Development Program (federal’naia celevai programma) as an additional source of funding; similar programs existed, however, for Kaliningrad exclave, Sakhalin and Far East (all border regions) (Melamed, 2005). There is also anecdotic evidence for this trend for more recent periods (Solanko, 1999). He also mentions, that the high correlation between political and social factors in the Russian regions makes the puzzle of the “politically” or “economically” motivated transfers difficult to solve. It is possible, that different results of Treisman and Popov reflect changes in the policy of the centre over time.

Furthermore, Dombrovsky (2003) with the use of the recent data studies the distribution of transfers in light of the secession option given to the Russian regions. The major result of his study is that regions with higher income receive more fiscal transfers, what is interpreted as staving off secession threat. However, the results could be more realistically explained by introducing the framework of asymmetric federalism instead of secession. In
fact the direct threat of secession existed only for a very small number of regions; the Chechenian experience shows that the Russian federal government (even of the Yeltsin’s period) was ready to support with coercion the formal unity of the Federation (even ignoring the informal disintegration of its economic space). On the other hand, the use of transfers in the game of barraging over centralization appears to be more realistic (Dowley, 1998). The case of the so-called “Far Eastern Republic” idea used by the local governor as blackmail instrument against the centre is an evident example of this trend (Tolz and Busygina, 1997). Unfortunately, there are still no empirical studies on the issue of “political determination” of transfers in the age of Putin. There is some evidence based on correlation analysis, that the fiscal transfers and support of the presidential party Unified Russia are positively correlated (Ivanov, 2006), but the absence of the ceteris-paribus analysis as in the multivariate regressions does not allow making any clear conclusions.

It is clear that high centralization restricts the ability of region to pursue an independent economic policy. However, in a country where informal aspects of economic relations play an important role, one should definitively take into account potential informal responses to the high centralization. Libman and Feld (2007) study the problem of strategic tax collection in Russia, i.e. the ability of local tax authorities to discriminate among taxes collected for the federal or regional budget and therefore to achieve a de-facto decentralization. They do find evidence that strategic tax collection was used by the regions in the Yeltsin’s period to increase the degree of decentralization, although in the period of Vladimir Putin the results are not robust. Furthermore, Yakovlev (2001) presents some anecdotal evidence that Russian regions use tax collection as an instrument for horizontal tax competition. De Figueiredo and Weingast (2002), among others, examine the consequences of this informal decentralization and claim that the false incentives set by this structure contributed significantly to the negative effects of Russian federal system.

**Asymmetric federalism**

Even a simple look at the map of Russia shows, that the regions are substantially unequal. The significant differences in industrial production, tax capacity and economic potential an important role for the Russian federalism. The literature mostly focuses on three explanations of the existence of these huge asymmetries: (1) asymmetry as a natural result of the size and geographic location (climate, access to seas), (2) asymmetry following the development policies of previous regimes oversupporting some regions and undersupporting the other once (Polishchuk, 1998; Mikhailova, 2004) and (3) general consequences of centre-
peripheral organization of Russian economic space (Treivish, 1998). The results of the asymmetry are twofold. First, it creates “natural differences” in endowment of individual regions with tax sources even under given structure of taxation. Second, economic asymmetry leads to asymmetries in bargaining power (Filppov, Shvetsova, 1999, Martinez-Vazquez, 2002). On the one hand, strategically acting governments influence the federal decisions on the distribution of overall taxes (for the whole Russian Federation) to their favor (Petkov and Shklyar, 1999). Obydenkova (2004a) indeed finds, that contextual factors were important for greater struggle for independence, although did not influence the intensity of the conflict and bargaining. Nevertheless, several studies (Solanko (2001), Lugovoy et al. (2006), Libman (2006), Buccellato (2007), Lavrovskyi and Shiltsin (2007) and Kolomak (2008)) established a certain degree of sigma- and/or beta-convergence of growth in Russian regions for selected groups of territories and periods.

What is, however, more important, is that economic asymmetries seemed to translate in significant political asymmetries, which are attributed to three main factors. First, the formal structure of the federation was inherited from the Soviet times (when any legal status or formal authorities did not matter for decision making, but the formal representation of regions was used in different way for ideological purposes), and, unlike the absolute majority of federations with a unified regional unit (state, Land, canton, province etc.), Russia includes territorial units (which are officially called “subjects of the Federation” – subiekty federacji) of three major types: (1) national republics (named after a so-called “title nation”, which often does not form the majority of population), (2) administrative units oblast, federal city (Moscow and St. Petersburg) and krai and (3) national autonomous okrugs, which are officially part of the Federation and of a krai or oblast. In spite of formally equal status of all territories, there is a certain literature dealing with both special privileges obtained by national republics (Stoner-Weiss, 1998; Filippov, Shvetsova, 1999; Slocum, 1999; Magomedov, 2000) and the origin of status of the regions (Obydenkova, 2004), though the latter can be mostly attributed to path dependence.

Second, the asymmetric federalism in the 1990s appeared from bilateral and multilateral bargaining between the regions ad the centre, partly initiated by the regions. While the original asymmetries followed directly from the Federal Treaty of 1992, which acted as the predecessor of the current constitution (Ross, 2000), they were increased by further contracts between different levels of government. By the end of 1996 about 26 power sharing agreements with different regions were in power, and to June 1998 their number reached 46 (i.e. more than a half of the Russian regions) with an apparent “contagious” effect
of diffusion of agreements signed. In addition more than 500 subordinate treaties between different governmental bodies were put into action (Council of the Federation, 2003). The literature studying this problem is huge, and mostly focuses on three aspects: (1) the origin of power sharing treaties and the selection of regions signing the agreements, (2) the content of agreements, which varied over time and differentiated the regions significantly from each other and (3) the duration of agreements. In fact, the bilateral power sharing in Russia represents a natural experiment for studies of endogenous decentralization (Busygina, 1993; Boltenkova, 1998; Kurnyshov, 1998; Stoner-Weiss, 1998; Filippov, Shvetsova, 1999; Roseth, 2001; Bukhaval’d, 2001; Martinez-Vazquez, 2002; Filippov, Ordershook and Shvetsova, 2004; Dusseault et al., 2005; Sheinis, 2005). In a similar way, the federal law (acts of the parliament and also presidential decrees) also created additional asymmetries (East-West Institute, 2001), partly leading to the development of “internal tax heavens” being one of the crucial aspects of harmful tax competition in Russia in the 1990s.

Third, political asymmetries followed from unilateral activity of regions. Its most prominent forms included “the war of laws” (introduction of regional legislation running contrary to the federal one) or tax withholding. While the former seemed to be relatively unsuccessful after 1994 (Lavrov, 2005), the latter played an increasingly important role for the whole Yeltsin period. As of May 2000, Udmurtia was the only republic whose constitution fully complied with the federal constitution and about 30% of local acts violated the federal constitution (Chang, 2005, see also Polishchuk, 1998). Surprisingly, there has been very little empirical literature dealing with the content of unilateral acts (in spite of their obvious importance) outside of the pure legal studies. There is a related literature in the political science, which deals with secessionist behavior of national republics and autonomous okrugs (Treisman, 1997) and with general bargaining behavior of regional governors (Dowley, 1998, Söderlund, 2003, 2006). Dowley (1998) also measures the unilateral public activity of regional leaders in favor of higher decentralization, which should obviously not be set identical to the factual changes. Söderlund (2006) provides some empirical considerations, where expert opinion on governors’ influence on federal decisions is used as dependent variable. A specific dimension of asymmetry is formed by unilateral activity of Russian regions in relations with foreign countries (what is sometimes referred to as “paradiplomacy”). Russian regions have been actively involved in the paradiplomatic activity (Sharafutdinova, 2003), also serving as a link between internal development of the Russian federalism and post-Soviet integration (Libman and Kheifets, 2007).
Basically, most researchers are quite critical on the development of Russian asymmetric federalism, though this position is not unambiguous (Martinez-Vazquez, 2002); moreover, asymmetric nature of Russian federalism could have been quite helpful in terms of mitigating potential ethnic conflicts. Anyway, the centralization attempts of the Putin government after 2000 reduced significantly all three dimensions of decentralization. The most well known aspect is that the system of bilateral treaties was abolished and that the discrepancies between federal and regional law were reduced (Ross, 2003; Chang, 2005; Casahabk, 2005; Solanko and Tekoniemi, 2005). In 2004 a direct appointment of governors (instead of their original elections) was introduced, generating a very recent literature on determinants and driving forces of appointment decisions (Chebankova, 2006; Petrov, 2006; Goode, 2007). Moreover, a series of mergers of regions started, providing background for an additional line of research motivated by the endogenous decentralization literature and the new institutional economics, which has, however, to be fully developed yet (Savvin, 2005). It is, nevertheless, still unclear insofar centralization trend really succeeded or just shifted the governors’ activity in the informal sector or supported the use of alternative instruments, e.g. several regions replaced the original “tax-exempt” scheme of tax heavens abolished by the federal law by a system of subventions paid by the regional administration to the largest taxpayers, which cover about 80% of the whole taxation (Pachina, Pochivalova, 2005). The ability of new power structure to control the staff decisions is not unambiguous (Libman and Feld, 2007; Chebankova, 2005, 2007). This problem definitively requires further consideration. Finally, the election of Dmintry Medvedev to the new president of the Russian Federation can become an additional source of changes for the development of the spatial order of authority.

Finally, economic and political asymmetry leads to a high fiscal asymmetry. There is for sure no one-to-one mapping from one to another: even existence of high political autonomy through a bilateral treaty does not guarantee higher fiscal decentralization; increasing political centralization under Putin did not result in fiscal symmetry, on the contrary, asymmetries increased. Fiscal asymmetry is much better measurable, than political one, and therefore makes Russia an excellent laboratory for the studies of endogenous decentralization, i.e. positive analysis of factors driving the allocation of revenue and authority. Basically, this literature consists of two parts. Several papers (Treisman, 1999; Libman and Feld, 2007) study the distribution of tax revenue between the federal and the

3 Though the ethnic conflicts in Russia seem to be to a great extend generated by the “identity-building” on the “market for symbolic goods” (Ge' man and Popova, 2003).
regional budgets, explicitly using the asymmetric structure of Russian federalism, while Freinkman and Yossifov (1999), Timofeev (2001), Freinkman and Plekhanov (2005) and Libman (2008) provide an account of decentralization within regions, focusing on distribution of revenue and expenditures between the regional government and the municipalities.

The re-centralization of Russian politics in the early 2000s also generated a related field of literature: while the mentioned studies explore the problems of endogenous decentralization using the intranational variation of tax revenue split, the second line of literature explores the variation of centralization over time. Probably, the most important question for this strand of literature is how a system with strong regional leaders with huge ambitions on the federal arena could be so easily transformed into a centralized state. One possible reply to this logic is that centralization is “inherited” in the very structure of Russian economic and political institutions (Kirdina, 1999). This argument seems to be very much an ad hoc explanation: in fact, while the development of the Russian federalism indeed returned to a highly centralized system, post-Soviet space still remains a very decentralized and disintegrated structure. An alternative point of view relates the development to the specifics of the “decentralization” in the 1990s: as already mentioned, political decentralization through unilateral activity to a great extend did not coincide with the structure of federal law; so, the market property rights obtained by regional leaders were mostly of informal nature and could be easily removed in case of power shift – it just sufficed for the federation to use the existing law (Libman, 2007a). Clearly power struggles and ideological orientation of the elite (Gel’man, 2006), as well as increasing political centralization through the development of the Unified Russia party (Konitzer and Wegren, 2006) significantly contributed to this development.

**Spatial order of authority in other post-Soviet countries**

The literature on transition of intergovernmental relations in other post-Soviet countries has been significantly smaller, mostly because of both lack of data and a much higher degree of centralization (Heinemann-Grüeder, 2002). Probably the most often studied country is Ukraine (Martinez-Vazquez et al., 1995; Dabla-Norris et al., 2000; Slukhai, 2007). The comparison between Russia and Ukraine with respect to federalism discussion is not simple: on the one hand, Ukraine is formally not a federation, but on the other hand, high economic decentralization of Ukraine (which significantly exceeds that of monocentric Russian economy) and low fiscal authorities of Russian subfederal governments lead to effective convergence of the systems. Russian and Ukrainian politics in regions is to a certain
extend similar (Turovskii, 1999). An empirical study by Bigdai (2000) suggests that in Ukraine tax collection effort is positively associated with tax sharing rules in favor of local jurisdictions. Further political changes in Ukraine closely associated with interregional identity conflicts could contribute to further changes of the intergovernmental fiscal relations in this country.

Considering other post-Soviet countries, de Melo (1999) offers an empirical investigation of influence of decentralization on government size in Moldova, while decentralization is calculated as tax sharing ratio for individual Moldovan districts (which varied 20.6% to 63.3% in 1998). There is a number of papers dealing with fiscal decentralization in Central Asia (Ufer and Troschke, 2006; Leschenko and Troschke, 2006), and Lavrov et al. (2004) provide a broad overview of the problems of intergovernmental fiscal relations in the leading post-Soviet countries (it is especially interesting, since it establishes direct links to the second aspect of the problem considered in this survey – the intergovernmental relations). Finally, Treisman (2006) looks at the specifics of post-Soviet countries in the overall global process of decentralization and finds out, that the this group seems to be on average more decentralizing, than other groups of emerging economies.

Post-Soviet integration: much ado about nothing?

While the development of Russian federalism has been subject of a huge literature, the post-Soviet integration is a much less often discussed topic. Probably, the main reason is that it still remains an “ink on paper” project. In spite of hundreds and thousands of bilateral and multilateral integration agreements in the area and dozens of independent supranational bodies, there is still no visible progress of the post-Soviet initiatives. Hence, the very subject of investigations seems to be extremely vague. Moreover, unlike federalism discussion, the research on the post-Soviet integration differs significantly between Russian and international scientific community. There are indeed a large number of papers regularly published in Russian journals dealing with the problems of integration. However, most of them are clearly normative, lacking any theoretical foundation and hardly propose any serious cost-benefit analysis of the post-Soviet integration. In fact, the literature implicitly assumes, that (1) the post-Soviet integration could per definition contribute to economic development of the post-Soviet space (“any integration is good”), (2) any post-Soviet integration is to mimic the European experience as much as possible and (3) the main reason for the collapse of integration is of political nature (“positions of national elites / external influence”). The international literature, on the contrary, is extremely small. Most papers dealing with the post-
Soviet integration unambiguously consider it from the point of view of the “power logic” of Russian “imperialism”; from this point of view any integration is but an instrument of Russian foreign policy (see e.g. Sushko, 2004).

Nevertheless, the post-Soviet integration remains an interesting field of study, requiring detailed consideration. The first puzzle of the post-Soviet integration is basically the very reason of its failure. Assuming the post-Soviet world was highly integrated from economic point of view, it seems difficult to explain the extreme weakness of any attempts to develop regional cooperation. Aslund, Olcott and Garnett (1999) provide probably the most comprehensive, though already relatively old, review of the problems of this kind. D’Anieri (1997) suggests that the disintegration was to a great extend driven by the power asymmetries in the post-Soviet world; Mayes and Korhonen (2007) analyze similar effects for monetary integration. Libman (2007) focuses on institutional perspective of the failure of post-Soviet integration attempts, from the perspective of social constructivism, rational action and mediated conflict institutionalism. Shurubovich (2000) and Shishkov (1994, 2007) consider the economic and industrial structure of the post-Soviet countries from the point of view of the integration, while Sterzhneva (1999) looks at the social structure of post-Soviet countries. Kosikova (2007) and Grinberg (2004) provide an interesting discussion of the stages of evolution of the post-Soviet regional integration and main integration strategies, partly complementing the theoretical papers mentioned above. Malfliet, Katlijn and Vinokurov (2007) focus on individual countries of the Western part of the CIS (Russia, Ukraine and Belarus) trying to identify their integration potential, while Gleason (2001) studies the regional integration in Central Asia from a similar perspective. Finally, Kazin (2002), Jackson (2003) and Tsygankov (2003) describe the internal political struggle of the Russian elites determining the development of the integration projects, and Latawski (2001), among others, considers the issue of competition of integration projects in the post-Soviet world (in particular, CIS and GUAM).

A related literature evaluates the potential effects of the post-Soviet integration, focusing, however, on the specifics of the post-Soviet area, rather than on general considerations of international experience. On the one hand, the integration attempts could limit the interaction with the world economy and conserve the inefficient economic structure. This is exactly the position of Mikhailopulos and Tarr (1997), who claim that the post-Soviet integration is likely to have an ambiguous effect from the point of view of the static efficiency and negative effect for dynamic efficiency. An alternative position, represented by Freinkman et al. (2004) expects positive effects from a post-Soviet free trade area. Sulamaa and Widgren
(2003) provide a CGE study of welfare effects of the CIS integration. Drobyshevskiy and Polevoi (2004, 2007), Gulde et al. (2004) and Klepac et al. (2004) examine individual aspects of regional integration in the CIS, in particular monetary and fiscal aspects (though currently this issue seems to be irrelevant given the progress of integration). Libman (2008a) identifies the optimal integration areas and combinations within the post-Soviet region. A related branch of the literature provides an in-depth analysis of individual institutions of the post-Soviet integration. In fact, most of the papers of this group are relatively old and partly originate from legal studies (Voitovich, 1993; Balayan, 1999; Danilenko, 1999). However, there have also been some recent contributions, like De Kort and Dragneva (2007), considering the structure of the post-Soviet trade regime, or Gleason (2003) studying the specifics of the institutional design of Eurasian Economic Community. Finally, Kazantsev (2005) considers the regional integration from the point of view of “soft” factors of identity and competition of integration projects, and Evers and Kaiser (2000) and Linn and Tiomkin (2006) place the post-Soviet integration in a broader context of a transcontinental Eurasian integration.

Assuming the post-Soviet integration does not work (at least, as expected by its proponents), one has definitively to face the second puzzle: why do governments still continue playing the game of integration, even knowing that it is already lost? Or, to put it differently: why does the post-Soviet “ink-on-paper” integration still exist, in spite of its obviously low effectiveness. Once again, there are several papers dealing with this problem. Libman (2006a, 2007) focuses on three explanations of “survival integration”, “integration as a rhetoric construction” and “protective integration”. The idea of protective integration was basically developed by Furman (2004). Evstigneev (1998, 1999) provides an interesting discussion based on the idea of pseudomorphism of the post-Soviet integration and integration language. While these papers emphasize the specifics of the post-Soviet integration in order to explain its formal persistence, there is of course a broad literature dealing with the issues of common public goods in the post-Soviet region requiring integration attempts. Probably, most papers in this field discuss the Central Asia, where problems of security, energy supply and water distribution form obvious fields for international co-operation (Vinokurov, 2007, 2007a). Golovnin (2007) and Abalkina (2007) provide a comprehensive and (unlike many other papers) realistic review of financial integration in the CIS. Finally, Darden (2001) shows that the membership of post-Soviet states in integration groups strongly depends upon the “economic ideas” dominating their elites.
While the post-Soviet regional integration as a project is obviously unsuccessful, it does not automatically mean that the post-Soviet space is predetermined to disintegrate economically. That is basically the distinction between the regionalism as a system of formal agreements between governments and supranational institutions and informal interaction between numerous private actors in different countries, creating a network of exchange and competition. It is definitively an important aspect from the point of view of the development of the post-Soviet integration, whether this network persisted from the Soviet period or disintegrated. The experience of South East Asia shows that the development of the regionalization can turn out to be much more successful, than the formal regionalism. With respect to the CIS there is a number of papers dealing with the structure of trade flows between former Soviet republics (Fidrmuc, Fidrmuc, 2001; Djankov, Freud, 2002; Elborg-Voytek, 2003; Plekhanov, 2004; Babetskaia-Kukharchuk et al., 2007). On the one hand, the intraregional trade went down substantially after the collapse of the Soviet Union. However, on the other hand, several papers find that it still significantly exceeds the predictions of the gravity model, thus indicating the existence of certain path dependence in the trade structure. Savin (1999) indirectly confirms this statement, by claiming, that the prices of intraregional trade within the CIS are often higher than for goods outside of the region. Bevan et al. (2001) and Linn (2004) demonstrate, nevertheless, that the reduction of economic exchange across republican borders after the collapse of the Soviet Union played an important role for the economic decline of the post-Soviet countries.

An even stronger dynamics comes from the FDI and migration. On the one hand, migration is still an important factor connecting the former Soviet republics; several countries like Tajikistan or Moldova crucially depend on the revenue from migrant remittances (Tyuryukanova, 2005; Ivakhnyuk, 2006). On the other hand, since 2000 the post-Soviet space witnessed an increasing investment expansion of Russian business groups, acquiring the most attractive assets throughout the region. Currently, Kazakhstan and Azerbaijan seem to turn into alternative investment centers in the CIS. Unfortunately, a huge problem for studies of migration and FDI is the quality of data; illegal or semi-legal migration still plays an important role in the post-Soviet countries with a strict labor market order and prohibitive regulation for migrants; investment flows are only partly captured by national statistics because of the use of offshore zones and intermediary schemes. Hence, the literature often refers to the case study approach or to establishment of its own database, like in Yudanov (2000), Vahtra (2005), Crane et al. (2005), Libman and Kheifets (2006), Kuznetsov (2007) and Kheifets and Libman (2008). However, this aspect for sure requires further analysis.
Moreover, the economic effects of the post-Soviet regionalization are still ambiguous, as well as its impact on the prospects of formal integration. Nevertheless, Libman (2006) shows that the divergence of economic institutions in the post-Soviet space of the early 1990s turned into a convergence pattern; however, from the point of view of economic growth one still finds divergence (see also a related discussion in Carmignani, 2007).

Central and Eastern Europe: A Step towards the EU

Unlike the post-Soviet republics, which focused extensively on developing the intraregional economic cooperation, the CEE countries from the very beginning attempted to enter the European Union. Therefore any further cooperation seemed to be unnecessary and unlikely. However, the EU himself proved to be a strong supporter of close cooperation of potential member countries (a policy even now carried out with respect to the European Neighborhood Policy members). On the other hand, coalition formation for bargaining (both before entering the EU and after the accession in the process of EU decision making) seems to be of a significant importance. Therefore the CEE region witnessed the development of a number of regional initiatives, mostly complementary to the European Union enlargement.

The best known project is the so-called Visegrad Group, established in 1991 by Czechoslovakia (later Check and Slovakian Republics), Hungary and Poland. In 1992 the group received its formal institutionalization after establishment of the CEFTA, which aimed to support the development of the countries prior to the accession. Between 1992 and 2004 three further countries: Slovenia, Croatia, Romania and Bulgaria joined CEFTA. The original membership criteria of the group implied that the countries of CEFTA should be WTO members, have the official association with the EU expecting full membership in the future. CEFTA established a free trade area in the Central Europe. After 2004 original members left the organization, though continued to form an alliance in the European institutions (formally some institutions like International Visegrad Fund or Expert Working Group on Energy still exist). In 2006-2007 all former members of Yugoslavia, as well as Moldova entered the group, while Bulgaria and Romania became full EU members. The Zagreb meeting of 2005 changed the official membership criteria, especially by allowing a country with any EU association agreement (i.e. without clear membership prospects) to become part of CEFTA. By the end of 2010 CEFTA should establish a free trade zone in the region. In a similar way, a pre-accession group of Baltic states formed a Baltic Free Trade Area agreement which was signed in 1993 and lasted until the countries became full members of the EU.
The literature dealing with CEFTA and BFTA is relatively small, although the experience of these countries can be quite important for all integration initiatives in the neighbor regions of the EU. Adam et al. (2003) question whether the projects were able to support the economic development of the regions and indeed find that both groups helped expand the regional trade and also supported more balanced economic relations, avoiding a dominance of bilateral trade with the EU (“hub-and-spoke”). Moreover, the accession to the FTA affected the trade structure with a lag (Damijan and Masten, 2002), thus suggesting that the agreement indeed had a trade-creation effect (unlike the CIS, where the economic relations develop somehow independent of formal integration). From this point of view these later assessments differ substantially from the early statements, like that of Richter (1998), who considered CEFTA relatively unimportant as opposed to the bilateral association agreements with the EU and expected the structure to become but an “episode” in the development of the region. However, the success of CEFTA is often attributed to the fact that (once again, unlike the CIS) the aims of the project were “set at the lowest common denominator” (Dangerfield, 2004:333).

Conclusion

The development of the post-Soviet spatial structure of authority – including both internal relations between governments in federations and economically decentralized unitary states and international cooperation within the framework of the regional cooperation agreements – still remains a field for possible further research. One could probably point out several fields still requiring further discussion.

First, a general problem regarding both post-Soviet integration and Russian federalism, as well as spatial order of authority in other post-Soviet countries, is the stability of the existing equilibrium. Will the Russian federalism end up as a highly centralized entity with significant informal activity of regional elites, and the post-Soviet integration remain a vague collection of unfulfilled promises in a world of vivid interaction “at the bottom” between economic agents? The stability of equilibria is basically the core question of any field of transition scholarship. It is also of crucial importance for the issue of federalism and regionalism in transition.

Second, although we have stated the common origin and common environment of both organizations of the spatial order of authority: Russian federalism and the post-Soviet integration – reasons for the divergence of their development still form an interesting puzzle. Why is Russian Federation centralized, and CIS decentralized? Why did the formal borders...
between former Soviet republics, routinely changed during the Soviet times, happened to be stable in the turbulent environment of nation-building in the post-Soviet countries? These questions still remain unanswered, though they could be important for understanding the logic of regional development.

Third, it is still important to identify the role of non-governmental actors in the designing new institutions of the spatial order of authority. Since the latter is, per definition, a system of intergovernmental relations, a substantial part of the literature focuses exclusively on the interaction between polities – both independent states and regions. However, interest groups and business structures seemed to be an important factor for the development of transition in general and definitively require further consideration.

**Literature**

32. De Kort, J., and R. Dragneva (2006): Russia’s Role in Fostering the CIS Trade Regime. Leiden University Department of Economics Research Memorandum No. 3
64. Gel’m’an, V., and E. Popova (2003): Regional’nye Politicheskie Elity i Strategii Regional’noi Identichnosti v Sovremennoi Rossi, in: Gel’m’an, V., and T. Hopf (eds.): Centr i Regional’nye Identichnosti v Rossi. St. Petersburg


171. Solanko, L. (1999): Regional Budgets and Intergovernmental Transfers in Russian North and Northwest Regions. BOFIT Online (6)