Russia's Integration Into the World Economy: An Interjurisdictional Competition View

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1 Introduction

Russia's integration into the world economy has been one of the most important topics for political and scientific discussion in Russia and abroad during this decade. The system transformation of the Russian economy and politics determines important changes in Russia's position in the global economic and political system. Of course, the Soviet Union was not a real autarky, closed economy, and even the socialist block remained part of the global economy. In fact, Wallerstein (2001) considered the USSR to be one of the core countries of the economic world system after World War II. However, the creation of market institutions means a new quality with respect to Russian integration into the world economy. First, more companies participate directly or indirectly in global competition. Second, the decisions of Russian actors in the world economy are met decentralized and by every enterprise. That's why there is a broader spectrum of interests of different groups and individuals affecting Russia's position in the world economy, not only that of the bureaucracy and politicians like in the Soviet Union.

The objective of this paper is to analyze Russia's integration into the world economy from the point of view of the theory of interjurisdictional competition. In Section 2, we provide a brief overview of the theory of interjurisdictional competition. Section 3 deals with the main effects of the interjurisdictional competition for the Russian economy, and in Section 4 we develop a set of possible explanations for the economic problems of Russia from the point of view of the interjurisdictional competition. Section 5 offers conclusions to our analysis.

2 Theory of the Interjurisdictional Competition: A Brief Overview

From an economic point of view, the relation between governmental structures and 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 in the form of taxes for its consumption. In a closed economy, the government is a natural monopoly.

There are many governments in an open economy with free capital and labor movement between countries offering different packages of goods of different quality and price. That means that individuals and companies can chose the optimal variant, investing in that country (or settling in a country) which is most 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.

This means there are reasons for the government to try to attract mobile factors under different theoretical assumptions. A "benevolent dictator" is concerned with negative trends in the national economy. An egoistic "Leviathan" government