

# VECTOR OF THE EU AND RUSSIA INTEGRATION IN THE SUSTAINABLE DEVELOPMENT

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Throughout history, Russia and the EU have always been the key players in the region. However, even though both sides have a massive historical and geographical background, there is still no effective model of RU-EU integration. Furthermore, the power and wealth centers are rapidly moving towards APEC these days, which is a matter of crucial importance for the partners, as Europe loses its positions. The paper includes the number of suggestions about the RU-EU integration, with an emphasis on: previous integration experience, creation of institutional basis, synchronizing the standardization systems, innovation and scientific researches coordination. Moreover, the work also contains the list of possible measures in the fields of energetic trade, CIS policies, with the in-depth analysis of reasons, why the integration is essential for both the Russian Federation and the European Union.

**Keywords:** integration, sustainable development, European Union, Russian Federation

## Introduction

The European Union is both an economic and a political organization with 28 members at the moment, all of which are located in Europe. Obviously, the relationships between the Russian Federation and the European Union have a decisive influence on the future of the partners. Not surprisingly, it mostly stems from geographical and economic factors. However, even though, the partnership strengthens every year, there were a lot of pitfalls in the late 80s–90s.

Back in 20<sup>th</sup> century, the absolutely new stage of RU-EU dialogue started with the collapse of the USSR, when Russia turned its political vector towards the European neighbours. Nowadays, it has been proven that regional cooperation and integration, especially in post-crisis period, is a key to region's prosperity, as APEC sector increases its influence in contrast with Europe. To continue with, all measures to create the united economic and humanitarian space from Lisbon to Vladivostok dictate the necessity of efficient communication mechanism. Furthermore, current European economic state along with Russia suffers the recession and desperately needs new steps to be made.

Unfortunately, the world financial crisis has entirely exposed all the weaknesses of the EU's and Russia's economies, which has been proved by China's successful economic expansion in the second half of 2000's. Assuming

this fact, if no further RU-EU integration takes place, both sides will inevitably face the loss of all their leading positions on international markets of both goods and services, consequently followed by a dramatic shift of international influence to the Asian-Pacific region. Under these circumstances, the question of how the integration should be made appears – bearing in mind that no previous step has succeeded due to a number of political reasons.

## Material and methods

Initially, a current state of both the EU and Russian economies is judged by the changes in GDP and the percentage of external debts compared to GDP, along with a comparative analysis of trade between the EU, China, the USA and the Russian Federation. All the figures and numbers concerning the international trade were provided by VLANT consulting company and also taken from the official WTO-site statistics. Lastly, there was the analysis of expert's opinions, based on materials of the Russian Council on International Affairs.

## Results and discussion

It is obvious that if no changes take place, the possibility of losing all the positions on international markets of goods and services as well as the leading position in a system of international relationships will surely become a reality.

Table 1 Dynamics of GDP in the EU, compared to the previous year, %

Country	2008	2009	2010	2011	2012	2013
The EU	2.3	-4.3	2.1	1.5	-0.3	0.1
Eurozone	2.1	-4.4	2.0	1.4	-0.6	0
Belgium	2.3	-2.8	2.4	1.8	-0.2	0.2
Germany	2.0	-5.1	4.2	3.0	0.7	0.5
Greece	3.1	-3.1	-4.9	-7.1	-6.4	-4.4
Ireland	3.8	-3.1	-0.8	1.4	0.7	1.1
Spain	3.1	-3.7	-0.3	0.4	-1.4	-1.4
Italy	1.1	-5.5	1.8	0.4	-2.2	-1.0

Source: vlant-consult.ru

The current state of the European economy is alarming and yet has no signs of improvement, because of continuing internal instability. Table one is aimed to show the ongoing recession in Europe's biggest economies for 5 years:

Unfortunately, the most obvious evidence of the internal problems is that Greece, Spain, Italy, Cyprus and Portugal have still been suffering the crisis. Moreover, according to the European Commission, by the end of 2013, the 7 biggest Eurozone countries will face an absolute shatter of GDP volumes, which will continue with 5 more countries in 2014.

Furthermore, the economic recovery is blocked by the decrease of real wages, which causes the real demand on goods to fall. This leads to a situation, when, at some point, the customers market will decrease so much that production will also have to be reduced. To continue with, the mentioned above Greek-Cypriote crisis entirely exposes all the problems of the EU system. To start with, in 2004, ten more countries – the economic stability of which was, frankly, debatable – became members of the EU. The states in which those countries were left a lot to be desired, and, logically enough, average EU's numbers started decreasing.

Surprisingly, the real problem was the lack of efficient fiscal policy in the EU. It needs to be stated that monetary unification should be made simultaneously. However, in the EU, it could be made separately due to an overall increase, but when the world finance crisis struck, the situation changed completely and numbers started to fall (table 2).

Under the unstable conditions of internal European market, along with high economic disbalance between the members and ongoing world financial recession, the EU has to find a new way of development, which could provide Europe with everything needed.

Assuming this fact, we have to emphasize the importance of qualitative integration, opposed to quantitative, a perfect example of which is the EU. However, it has to be borne in mind that integration is always followed by a list of institutional problems: economic, social and political, with no exception. Hence no "integration mistakes" should be made, especially when Europe loses its traditional positions.

Although, the prospects of further European integration are obvious, the EU should make its steps wisely to maintain a key player role in the region by cherry-picking the strongest partners possible. Under this assumption, Russia can easily become the one.

Russian Federation is among the biggest strategically important allies. In January – September 2012, the EU provided Moscow with 48.8% of the total foreign trade turnover (52.8% export, 41.8% import), which was 1% more than in 2011. These figures make Russia the EU's second biggest importer, fourth biggest exporter and third biggest trade partner.

And if previous figures are surprising, the dominant role of European investments in Russian economy is undoubted. The EU maintains the

reputation as Russia's main investor: the total accumulated investments exceed \$ 260 billion, and Russian side has already invested \$ 75 billion in return.

The main problem, which had always been slowing down the negotiation process was the WTO issue, but in 2012, Russia solved it and no significant economic and juridical barriers left, as countries could continue the dialogue, based on international laws fixed in the WTO.

There is no secret that the majority of Russian export lies in energy and raw materials sector (82.9 %, which is one third of the European total import of this type). Russia is heading to the diversification of its export, and the EU wants to enlarge the list of its energy suppliers, but it all is the matter of future, however, now we can easily conclude that partners are highly dependent on each other, regardless the political views.

Russia's main economic interest is headed towards attracting direct investments and related requirements (creating and implementing new technologies, increasing corporate management quality), which is prosperous for the export.

Under these circumstances, it is rational to create a system of preferential direct investing, followed by technological exchange, with the possibility of regulating other investment types. Perhaps, the co-expert of both Russia's and the EU's legal systems regulating the terms of accession of foreign capital should be made with intention of further harmonization. Bearing in mind that Russian side is very sensitive in the aspect of law-changing, it could be made simultaneously with implementing joint projects in priority areas.

Furthermore, it is necessary to expand the role of Russia in the EU scientific framework programs. It is highly recommended, though, to create fees for Russian scientific centers in order to let them use all the advantages of cooperation, which give the right to obtain full membership in scientific projects and commercialization of their results.

Due to the fact that Russian standardization reform takes place slowly, it is appropriate to start working in a field of harmonization of Russian standards based on European ones. It should be made parallel with the process of co-acceptance of national certificates of both sides. Also, in terms of industrial machinery produced outside Russia, it is rational to accept European standards.

Then, it is essential to use international Good Manufacturing Practice standards, wherever it is possible, which is impossible without any resistance from industry lobbyists. The long-term objective is to create Russian-European Scientific Complexes, being able to compete on international markets, with the emphasis on internal aggregate demand of Russia, the EU and CIS.

Cooperation between Russia and the EU in the field of innovative technologies should be the basis for the development of closer economic and mobile networks.

Table 2 Public debts of Eurozone countries, % of GDP

Country	2008	2009	2010	2011	2012	2013
Eurozone	70.2	80.0	85.6	88.1	93.1	95.1
Belgium	89.2	95.7	95.5	97.8	99.8	100.8
Germany	66.8	74.5	82.5	80.5	81.6	80.7
Greece	112.9	129.7	148.3	170.6	161.6	175.6
Ireland	44.5	64.9	92.2	106.4	117.2	122.2
Spain	40.2	53.9	61.5	69.3	88.4	95.8
Italy	106.1	116.4	119.2	120.7	127.1	128.1
Cyprus	48.9	58.5	61.3	71.1	86.5	93.1

Source: vlant-consult.ru

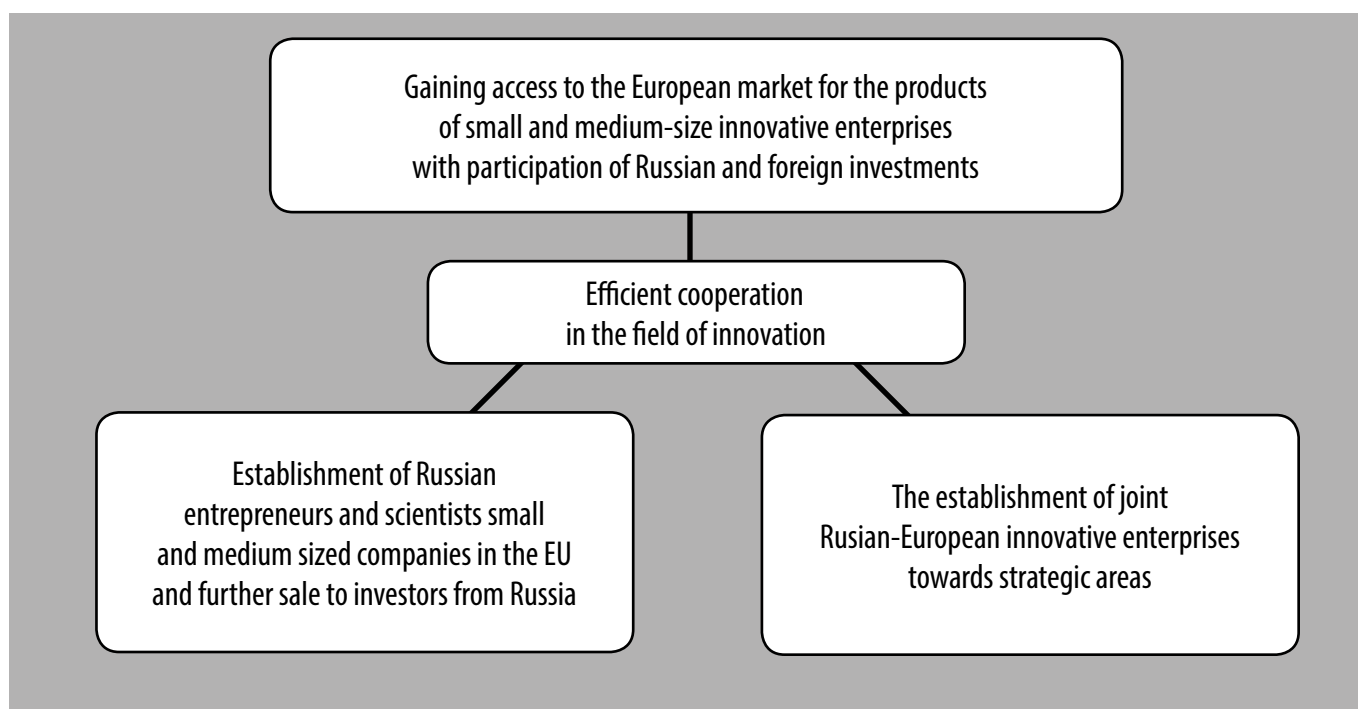


Figure 1 – The scheme of effective cooperation in the field of innovation

Which steps in the process of cooperation are necessary for successful penetration of Russian innovative companies in the European markets? "The EU's Seventh Framework Programme for Research" is an example of the coordination of efforts for the development of key areas of science and technology in Europe.

Such kind of interaction should be attributed more to attempts to integrating Russia's leading research centers into the European market, and on money of the EU.

But the main objective is to obtain access to the European market is not only the scientific community, and the Russian innovative business that interacts with Russian scientists and research centers. Precisely on this level lacks systematic yet, partly due to low private demand for innovation in Russia and administrative barriers to the development of entrepreneurial incentives (fig. 1).

Another problem is associated with the promotion of Russian technologies in Europe. Innovative entrepreneurs who start to integrate into the European business community often attempt to translate the EU to all of their assets, or just transform their companies into European ones.

The purpose of the proposed schemes of cooperation is establishing partnerships with European business leaders, scientists and investors. In the development of Russian business innovation, small and medium-sized enterprises possess the greatest mobility as experience shows.

Despite a number of successful attempts to promoting innovative businesses in Europe, the efficiency and activities of Russian companies in this field are far from ideal. The companies are inclined to explain this lack of requisite amount of resources and well-established channels of access to foreign markets.

That is why they need the support of corporations and the state. Besides, in Russia there is no significant demand for innovation, which negatively affects the search for investors. To create complete system of Russian innovation economy and its integration into the global economy, precise coordination of efforts of government, business and science is inevitable.

In this case, the innovation potential of Russia comes to the fore. In the medium term, advances in scientific, technical and fundamental research and the development of dynamic high-tech companies can form the basis not only for the promotion of the economic interests of Russia, but also for changing perceptions of Europeans about Russia and its economic potential.

Nowadays, the pragmatic innovation strategy plays a major role in stabilizing European economic policies. It also makes the relationships between RU and the EU, including the energy question, less based on external political issues. It is obvious that successful realization of this strategy leads to a decrease of Russia's dependence on international raw material market's conjecture and foreign low-liquid funds.

As far as we are convinced, there are three major problems in energy field between RU and the EU: initially, there is no concrete purpose of cooperation, secondly, political issues are involved, and lastly, the scarcity of laws ruins all attempts to create an efficient relationship model.

All of these issues are connected to each other and caused by the same misconceptions: firstly, both sides have a different vision on how the business should be made, secondly, the EU keeps trying to put its legal system into Russia and, in turn, it faces the resistance. Gladly, these problems do not influence the trade dramatically, but unfortunately, they are still blocking every chance of prosperous integration.

The problems mentioned above cannot be solved immediately; it will take a lot of time, because all the measures have to be made from top-to-bottom and, conversely, from bottom-to-top, as both governments and companies (energetic companies, ecological organizations, research centers, etc.) are going to transform their perception of RU and the EU.

However, we are ready to give at least three possible ways, how to neutralize the negative impact of the issues:

1. The energetics demands a separation of purposes and resources, moreover, all the objectives should be lucid and concrete.
2. Depolarization is essential, in terms of forming the effective legal base, which will help to diversify the relationships.

3. Bearing in mind that current purpose can be characterized as amorphous; there should be no rush in making decisions, especially in energetic field, when the sides will start discussing a new basic agreement.

Russia's accession into the World Trade Organization should have a positive impact on forming a strategy about the clause on regional integration, which the EU often uses to ensure the primacy of its legal rules.

Nevertheless, to solve the fundamental energetic issues between Russia and the EU, both partners should involve all their internal and external political power. Thus, the European market infrastructure improvement might cause the depolarization to be made more accurately. On the other hand, Russia is looking for a new oil and gas importer, in this case it is headed to the East, however European energetic market is five times bigger than Chinese at the moment. In our opinion, the main purpose should be strengthening the internal confidence by enlarging the variety of possible partners and measures.

## Conclusions

Initially, we have to mention that problems, which complicate the development of the energetic network, could be also easily seen in other fields of RU-EU relationships. All the measures mentioned above (setting clear objectives, diversification, and international programs) can be implemented not only in energetics. Nonetheless, the energetics will still be the field which shows what exactly is happening between the partners, furthermore, the effectiveness in this area will determinate the economic relations as a whole.

Despite these facts, a lot of attention should be paid to the intercultural dialogue. By that we mean, that the cooperation should involve joint initiatives, i.e. "Europe through the eyes of Russians and Russia through the eyes of European" project. This idea, which won the EU's grant, was supported by cultural centers in educational institutions from France, the UK, Italy, Hungary, Romania, Poland, Austria, Bulgaria, and Latvia.

To conclude, we have found out that the complete integration between Russia and the European Union is impossible at current state, because of a wide variety of both internal and external political issues, and will not give any significant advantages to the Russian Federation, but by all means, steps should be made towards further integration.

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