

## THE EUROPEAN UNION AND THE RUSSIAN FEDERATION BETWEEN INTERDEPENDENCE AND COMPETITION

Maria Loredana Simionov, PhD Candidate, "Al. Ioan Cuza" University of Iași

*Abstract: A simple glance at the map of Europe is enough to grasp the necessity of close links between the European Union (EU) and Russia. After the latest enlargement of the union, the geopolitical interests of the two players collided and on several occasions, the dialogue between Russia and the EU has been accompanied by misunderstandings and mistrust. However, their proximity and complementarity oblige them to cooperate beyond simple energy transactions. Within this dual relation - competitors and partners-, the EU and Russia must coexist and cooperate as their relation is of high importance for the prosperity and security of the entire Eurasian region. This paper focuses on answering the following questions: Is Europe vulnerable politically due to its energy dependence on Russia? Is the Russian economy dependent solely on European consumers and investors? Who holds the upper hand?*

*Keywords: interdependence, gas, proximity, integration, power;*

### Introduction

The recent events in Ukraine prove once more how vital dialogue and cooperation are between the largest geopolitical entities in Europe: the European Union and the Russian Federation. Although they are economically interdependent, the tensions that rose in their common neighbourhood are a living proof that intensified trade and investments between two spaces are not sufficient to enhance cooperation. Moreover, when it comes to the EU and Russia the divergent values and political paradigms outweigh the need for economic cooperation.

This study aims to analyse the causes and effects of deficient cooperation between the EU and Russia, as well as to provide recommendations for both actors in order to enhance prosperity and security throughout the entire European continent.

A thorough analysis of the dialogue between the European Union and Russia cannot be limited to a political or an economic perspective and it should take into account both approaches since they are so intimately related. Overall, the relation between the EU and Russia is complex and multilateral: from an economic standpoint the two actors are bound to cooperate due to the interdependence that characterizes their relations, although, politically and strategically they tend to compete since the EU and NATO enlargements clashed with Russia's geopolitical interests.

### Theoretical framework

The most common concept used in literature to define their interaction is the concept of interdependence. From an economic perspective, their interdependence is usually seen as mutual dependence which, in other words, implies that the analyzed actors depend on each other: the EU depends on Russian exports of energy, while Russia depends on European buyers and investors; both sharing certain benefits and gains. The political perspective focuses more on the implications of interdependence which are usually linked to the concept of political power. Since the benefits and gains of economic interdependence are not equally

shared by the involved partners, the political analysis focuses on the asymmetry of interdependence, implying that whoever holds the advantage tries to influence the other and consequently holds more political power.

The interdependence theory is a concept widely used in international relations and economic policies studies, which analyzes the complex issues of conflict and cooperation that arise when states (or other global actors) interact.

#### The economic perspective

The concept of economic interdependence is a concept closely linked to international trade. In economics, interdependence is defined as mutual dependence in which there are reciprocal effects of trade/business transactions between partners. The aim is to enhance cooperation in order to enhance the mutual benefits and gains. Nevertheless, the mutual gains and benefits can vary greatly from one partner to the other which consequently entails specific costs. The costs of interdependence involve sensitivity to outside pressures, which in certain cases take the form of vulnerability (Keohane and Nye, 1977; pp. 12–13). Economists try to assess these costs, by evaluating all the economic risks that emerge in the eventuality of abruptly ending any trade or financial transactions between the involved partners. In other words, the economic perspective assesses the sensitivity or vulnerability of international transactions and their overall impact on the economy, seeing the vulnerability as dependence. Within this theoretical background, when it comes to economic vulnerability, there are two main directions in literature:

1. There are experts who consider *Europe to depend more on Russia* since its developed economy cannot survive without Russia's supplies and to substitute Russia is next to impossible. In the meantime, they consider Russia less vulnerable since, on the long run, the federation can find other buyers and investors to keep their economy going.
2. Other experts consider *Russia more dependent on the European Union* since its economy is not diversified and the energy exports represent the federation's main income source. According to them, Russia cannot substitute the union on the short and middle term taking into account that the pipelines infrastructure is extremely expensive. They also consider Europe less vulnerable emphasizing on the efforts that the EU has made regarding the development of renewable energy production.

Such relationships, however, do not only have economic implications but also political. The classical liberal conception states that conflicts between countries with extensive trade links create high costs associated with finding a new trading partner. In this context, bilateral trade induces the political factor to refrain from promoting an aggressive policy or the use of force, as long as it has a high degree of economic importance (and hence political) for that specific country. (Hirschman, 1945)

#### Political perspective

The starting point of political approaches assumes that an interdependent relation is perfectly symmetrical only in theory. Keohane and Nye examine the concept of asymmetric interdependence directly linked to the concept of power and establish that an unequal distribution of gains and costs is central to asymmetric interdependence and this inequality represents the very source of power. (Keohane and Nye, 2001, p.9) In other words, the state that holds the advantage in asymmetrical interdependence can therefore gain power.

Generally, in literature, the concept of power is widely used in the field of International Relations, both for the analysis of relations between states, as well as for defining the external policy and conduct of states seen as actors on the international stage, starting with Thucydides, Machiavelli, Morgenthau, Mahan, Clausewitz, Sun Tzu and continuing to contemporary researchers such as Baldwin, Gratzke, Waltz or Cohen. There are several ways in which power may be expressed, for example it may represent: a measure of the degree of influence or control that an actor uses in order to achieve specific goals and expected results; the way in which an actor may decide or influence the course of events or issues management on the international stage; an ability to control the resources or capabilities or a status that some states or actors possess and others do not.

Essentially, for Nye, power represents the ability to influence the behavior of others in order to achieve the desired results. There are several ways in which this can be done: by coercion / threats, by actual payment or by determining or attracting others to co-opt for the same purpose or results. The actor defined as soft power does not use coercion or payment, but influences or persuades another actor to want/desire the same results. (Nye, 1990, p.181) By default, at the other end, the hard power refers to the use of coercion or payment in order to persuade others to move towards the desired results. Soft power can be exerted not only by states but also by all actors in international politics arena, such as NGOs or international institutions. (Nye, 2004, p.31) The concept of soft power is also considered "the second face of power" and it *indirectly* leads to the desired results. Also, Nye believes that the soft power of a country is based on three essential resources: culture (when it is attractive to others), political values and foreign policies (only when others see them legitimate, having a moral authority). "(Nye, 2011, p.83)

### **Economic mutual dependence, main argument for enhanced cooperation**

Developing and enhancing economic and trade relations represent a vital interest for both the European Union (EU) and Russia. Through closer cooperation, both players have the potential to promote political stability and economic progress, facilitate economic and social development in Russia and improve access to resources and markets for Russian exporters and European investors.

The fact is that in the last decade, trade links between the two regions have increased, so that over 40% of Russia's exports and imports are with the European Union (IS1, 2014) The development of trade relations was based on a series of initiatives launched to promote economic cooperation, trade and aid between the EU and Russia, such as the Partnership and Cooperation Agreement or the EU's policy to support Russia's WTO accession.

In the economic sphere, the total value of trade in goods between Russia and the 27 EU members increased from € 52.8 billion in 1999 to nearly 307 billion in 2011, with a considerable increase in both exports and imports and over 70% of the FDI's in Russia come from the European Union. (IS2, 2014) Therefore, for Russia, the European Union became the main trading partner and investor whereas, the Russian Federation, along with the U.S. and China, has become one of the major trading partners of the EU-27, excluding intra-EU trade.

Table 1. Main indicators of EU-27 and Russia (2012)\*

	UE-27	Russia
<b>Indicators for area and population(2012)</b>		
<b>Area</b>	4.324.782 km <sup>2</sup>	17,098,242 km <sup>2</sup>
<b>Population</b>	503.824.373	142.500.482
<b>Population growth rate</b>	0,212%	-0,01%
<b>Economics indicators(2012)</b>		
<b>Unemployment rate</b>	10,5%	6,2%
<b>GDP</b>	16.584 bln USD	2.015 bln USD
<b>GDP per capita</b>	34.500 USD	17,700 USD
<b>GDP growth rate</b>	-0,2%	3,6%
<b>Trade indicators(2011)</b>		
<b>Exports</b>	2.017 bln USD	542,5bln USD
<b>EU Exports in Russia</b>		140,36bln EUR
<b>Imports</b>	2.397 bln USD	358,1bln USD
<b>EU Imports from Russia</b>		256.89 bln USD
<b>Trade Balance</b>	-380 bln USD	184,4bln USD
<b>Total trade value EU-Russia</b>	397,24bln USD	

Source: Author's calculations based on data provided by: *CIA Worldfactbook*, at: <https://www.cia.gov/library/publications/the-world-factbook/index.html>, accessed on 14.12.2013

Nevertheless, when it comes to trade between Russia and the EU, the main focus is set on energy. However, to reduce this interdependence to: Union is the buyer and Russia the supplier of energy is a simplistic approach, since, it does not take into account various factors that confer a high degree of complexity to the relations between the two actors. Therefore, the current study aims to take one step forward and to focus more on the specific factors which hinder better cooperation between the two actors.

Thus, Russia and the EU should seize the opportunity of "interaction" that Starr speaks of. (Starr, 2005, p.389-396) He believes that interaction can have both positive and negative effects; within this theoretical framework, Russia and the European Union must channel their energy in order to eliminate the negative effects and to accelerate the positive ones, possibly given by accelerating their cooperation.

Energy has become a strategic stake for the security of the EU's memberstates, as most of the EU countries are heavily dependent on external supplies. According to the International Institute of European Affairs, the European Union is currently the largest energy importer in the world (IS4, 2014), relying on imports to secure over 54 % of its energy needs. (IS1, 2014) Since Russia is the main energy supplier of the union, it can be said that overall, the EU has an energy dependence on Russia. The energy imports are of particular importance for the European Union, as energy independence within the EU has very limited potential. Europe has no energy resources of its own in order to sustain its well- developed economies and high living standards. In the near future, Europe will continue to be dependent on external supplies.

Meanwhile, Russia's recent economic growth is mainly due to its energy sector, since external and domestic consumption and demand have led to the intensification of economic development. However, the increase in total revenues from energy exports, the

global rise in commodity prices, as well as the foreign direct investments in the energy sector are the main factors of growth in the Russian space. The argument of Russia's dependency on the European Union resides in Russia's economic growth in the last decade. Specifically, this growth is due almost exclusively to the natural resources that Russia has exported. Since the main destination of these natural resources is the European Union, we can say that Russia depends on the EU in terms of overall economic development and growth. In this context, it is impossible for Russia not to be aware of the major role that European companies and investors play in its energy sector.

Given the intensity of trade and investments between the European Union and the Russian Federation, as well as the existence of "proximity" and "complementarity" between the two actors (Vecchi, 2009, 146), there can be developed two scenarios: on the one hand, a positive scenario, characterized by a "strategic partnership" between the two global players who understand the need to cooperate and work together on the international stage, or, on the other hand, a negative scenario, characterized by a "confrontational attitude" where both players try to maximize their position by "mutual attacks". However, in such a "strategic relationship" that can take the form of a "partnership" or a "rivalry" and with so many stakes at hand, "complementarity" is not a sufficient argument and does not guarantee automatic cooperation. Close cooperation between the two players in the world arena is ultimately a matter of political choice, and that choice must be rational and positive.

EU's perceptions of Russia are conflicting as it is the structure of EU policy towards Russia which consequently becomes very complex. This complexity derives from the transatlantic solidarity, as the key driver of EU security policy; the deep internal splits between EU member states on Russian issues and ultimately, the energy interdependence between them. (Kazantsev, Sakwa, 2012, 292)

### **Causes and effects of the deficient dialogue between russia and the eu**

The main argument of this paper is that cooperation between Russia and the EU is hindered by their deficient dialogue due to their different values, perceptions and paradigms, and not by economic or geopolitical competitiveness.

There are many reasons and causes for the current misconceptions, misunderstandings and tensions between Russia and the EU. At a first glance, given the great differences between these two powers, in all aspects: economic, political, military, ideological, historical as well as the contexts in which they have formed and developed, the mentality, unity or territory, it is not difficult to comprehend that they meet difficulties in understanding each other. The European Union and the Russian Federation are two powers that lie at two opposite poles: the EU is economically strong, militarily weak and with democratic principles (western), while Russia is weaker economically (Dutch disease) and stronger militarily and does not always believe in the universality of the western values.

First of all, their differences start with the basic perception of space and time. Within this context, they have opposite perceptions of the past, the so-called "*battle of memories*". (Trenin, 2009, 67) Therefore, if we take into consideration the latest key periods in recent history (the Cold War, the Transition period and the present) and analyse the way in which they are perceived and how they are associated in both spaces, it is not difficult to grasp the lack of understanding of each other.

Table 2. Russia and Eastern Europe's perceptions of time and space

As the table shows, within all periods of time, Eastern Europe's negative perceptions are associated with Russia (the Cold War and the transition period), whereas Russia's negative perceptions are associated with the West. (the transition period) A highly-sensitive link between history and memory of the twentieth century - is felt by both sides in different ways. (Roth, 2009, 2) The resurgence of nationalism in Russia can be explained by a deep nostalgia shared by much of the Russian population. (Cassier, 2011, 23) On top of that, the difficult period of transition in which the West sought to modernize and set Russia on a course of democratic values is perceived by Russians as a failed attempt which had horrible consequences on the Russian economy and society. (Levine, 2009, 87) The Russian collective mentality translates this failure as West's inability to "understand" Russia and thereafter a refusal of allowing the West in dealing with its internal affairs. Russia's present, its economic and geopolitical recovery, commonly associated with Putin's leadership is positively perceived and therefore widely accepted and encouraged.

Therefore, the interpretations of the recent past weighed heavily on current political thinking, so that Russia and the Eastern EU member states are engaged in a battle of memories. This basic and common-sense aspect, the "struggle" of perceptions, includes a psychological dimension as well as an identity factor which are often ignored by the European Union in its relations with Moscow. (Gomart, 2008, 4)

The main effect of this "battle of memories" refers to the European Union's political fragmentation. Overall, the EU's power fragmentation is caused by a lack of political homogeneity of the Member States. There is a widespread conception regarding the division of the EU countries when it comes to their attitude towards Russia which involves the existence of two groups of Member States: old and new. Regarding their attitude vis-a-vis

Russia, the EU Member States either promote a pragmatic or a moral one. Overall, each Member State tends to adopt one of the two main political paradigms. At one end of the

Period of time	Cold War		Transition		Present	
<b>Battle of memories</b>	Eastern Europe	Russia	Eastern Europe	Russia	Eastern Europe	Russia
<b>Perception</b>	<b>Negative</b>	<b>Positive</b>	<b>Negative</b>	<b>Negative</b>	<b>Positive</b>	<b>Positive</b>
<b>Association</b>	<b>Russia</b>	<b>Russia</b>	<b>Russia</b>	<b>The West</b>	<b>The West</b>	<b>Russia</b>

spectrum are those who see in Russia a key trading partner (usually the former members of Western Europe) and at the other spectrum are those who perceive Russia as a threat (usually new members from Central and Eastern Europe). In general, the bilateral disputes between Russia and the EU Member States affect the Union's foreign policy towards Russia and hinder the economic cooperation between the two at a regional level.

Moreover, the lack of consensus among member states determines Russia to deal with them individually which at times is interpreted as a strategy to sabotage EU's political power. These speculations and allegations are not well founded, whatsoever. If we take a rational approach, we consider that Russia is oriented towards the power politics of the great powers

of the nineteenth century. The Kremlin does not understand why it needs the EU in order to deal with European states. (Kazantsev, Sakwa, 2012, 292) ‘Russia has sought to bilateralise both its deals and its disputes with EU member states, putting a strain on EU solidarity and making Russia the stronger power. This is not part of a master plan to dismember the EU. It is, after all, natural for Moscow to deal with individual EU member states because that is how it sees international politics – as a series of tête-à-têtes between great powers’ (Leonard and Popescu, 2007, pp. 13–14).

On the other hand, EU has set itself as a normative, civilian, emerging soft power on the world stage with high regard for democracy, rule of law and human rights. Although well-natured in its endeavors, at times, instead of dialogue with Russia and genuine attempt to understand Russian concerns, the bureaucracy in Brussels simply prefers to impose its own standards on Moscow without taking into account the ability of Russia’s economic and social system to comply with these standards. (can be noticed throughout Russia’s WTO accession process) It is on this basis that many Russian experts and policy-makers examine the negative aspects of the EU being a ‘normative power’ internationally. As a result, Russia prefers to deal with nation-states, who have concrete interests, not with the EU as a whole, an entity. From this point of view Russian criticism of EU resembles in some respects the criticism of British Eurosceptics. (Sakwa, 2012, 291)

A major issue of perception refers to Russia’s different perceptions of EU as an economic partner and EU as a security partner. The external policy of the European Union is strongly linked to that of the US and therefore, in the security sphere, there is a complex set of relations in the triangle USA–EU–Russia. While in the economic sphere, the EU–Russia relations can be considered separately from transatlantic issues, in the security area, the EU and US are intimately linked. (Sakwa, 2012, 320) Since the Cold War, Russia perceives the USA as immediate competition so that it is very difficult for Russia to separate EU and US in terms of security. This might explain to some extent the aggressive-defensive attitude it displays towards EU’s enlargement or European Neighbourhood policy, as it directly associates them with NATO and USA.

## Conclusions

Overall, it is neither a matter of competition nor a matter of who holds the upper hand. In essence, from a rational standpoint, the economic interdependence makes them both interested in each other’s stability and welfare. Moreover, the EU is interested in a stable and developed Russia who can supply its much needed energy. On the other hand, apart from being Russia’s main export destination, Europe is the main contributor in terms of investments, especially in the energy sector and technology. With this in mind, it is unlikely to believe that Russia has any interest in destabilizing the European Union. The tensions in their common neighbourhood do not only affect the EU, they have even more immediate negative effects on Russia. Since the events in Ukraine, the existing trade, investment, and financial relations between Russia and the EU have already become severely affected.

Being the major geopolitical entities in Europe, Russia and the EU are interdependent in a series of areas. Nevertheless, the recent tensions and violence in Ukraine prove that mere economic cooperation between Russia and the EU is not sufficient to ensure peace, security and better dialogue. What is truly needed in this respect is a common ground; both actors need

to find a way to get rid of the past, which still weighs on current political thinking in both spaces; a way to understand and respect each other's values and political paradigms, as well as a way to develop a security and geopolitical dialogue outside the triangle EU-US-Russia. Only when they will jointly find these ways, the dialogue between them will not be as deficient.

## BIBLIOGRAPHY:

- Bahgat, Gawdat, (2006) *Europe's Energy Security: challenges and opportunities*, International Affairs 82:5, pp. 961-975, Ed. Blackwell Publishing House, Londra.
- Bugajski, J., (2004), *Cold Peace: Russia's New Imperialism*, Praeger, Connecticut.
- Cassier, Tom, (2011) *Russia's energy leverage over the EU: Myth or reality?*, Perspectives on European Politics and Society, 12:4.
- Casier, Tom, Malflie, Katlijn (1998) *Is Russia a European Power? The Position of Russia in a New Europe*, Leuven, Belgium: Leuven University Press.
- Gomart, Thomas, (2008), *EU-Russia relations. Toward a way out of depression*, CSIS/ IFRI, Washington DC, US, accessed in February 2013, at [http://www.ifri.org/files/Russie/Gomart\\_EU\\_Russia.pdf](http://www.ifri.org/files/Russie/Gomart_EU_Russia.pdf);
- Hirschman, Albert O. (1945 / 1980), *National Power and the Structure of Foreign Trade*, Reprint, Berkeley: University of California Press.
- Popescu, Nicu; Wilson, Andrew, (2010) *Turning presence into power: Lessons from the Eastern Neighbourhood*, accessed in January 2014 at [http://www.ecfr.eu/page/-/ECFR31\\_ENP\\_AW](http://www.ecfr.eu/page/-/ECFR31_ENP_AW).
- Nye, Joseph, (2014) *Putin's Calculus*, Project Syndicate, available at <http://www.project-syndicate.org/commentary/joseph-s-nye-asks-whether-russia-s-short-term-gains-in-ukraine-will-be-worth-the-long-term-loss-of-soft-power>, accessed on April 15th 2014.
- Keohane, Robert O., Nye, Joseph S., (2009[1977]). *Power and Interdependence: World Politics in Transition*, Iasi: Polirom.
- Leonard, M., Popescu, N., (2007) *A Power Audit of EU–Russia Relations*, European Council on Foreign Relations. Available at [://ecfr.3cdn.net/456050fa3e8ce10341\\_9zm6i2293.pdf](://ecfr.3cdn.net/456050fa3e8ce10341_9zm6i2293.pdf), accessed on March 20th 2014, pp. 13–14.
- Sakwa, R., (2012) *Looking for a greater Europe: From mutual dependence to an international regime*, Communist and Post-Communist Studies 45, pp. 315–325.
- Simes, K., Dimitri, (1999) *After the collapse: Russia seeks its place as a great power*, NY, USA: Simon&Schuster.
- Starr, Harvey, (2005), *Territory, Proximity, and Spatiality: The Geography of International Conflict*, International Studies Review, no. 7, 387–406.
- Trenin, D., (2009) *Russia reborn: reimagining Moscow's foreign policy*, Foreign Affairs 88 (6), 64–78.
- Vecchi, Sergio, (2011), *European Union – Russian Federation Sustainable proximity*, EU-Russia Centre, accessed in January 2014, at <http://www.eu-russiacentre.org/wp-content/uploads/2012/03/European-Union-Russian-Federation-sustainable-proximity.pdf>.

\*\*\*IS1: Eurostat(2013), accessed in March 2014, at: <http://ec.europa.eu/eurostat>.

\*\*\*IS2: Central Bank of Russia, accessed in December 2013, at: [www.cbr.ru/en](http://www.cbr.ru/en).

\*\*\*IS3: Federal State Statistics Service, accessed in December 2013, at:

[http://www.gks.ru/wps/wcm/connect/rosstat\\_main/rosstat/en/figures/activities/](http://www.gks.ru/wps/wcm/connect/rosstat_main/rosstat/en/figures/activities/).

\*\*\*IS4: Ministry of Energy of the Russian Federation (2010): Energy Strategy of Russia for the period up to 2030, accessed in February 2014, at:

[http://www.energystrategy.ru/projects/docs/ES-2030\\_\(Eng\).pdf](http://www.energystrategy.ru/projects/docs/ES-2030_(Eng).pdf).