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**Foreign Policy Between the Russian
Federation and European Union in
the 21st Century**

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Masters Mini-Dissertation: International Relations
16 February 2004

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This work has not been previously submitted in whole, or in part, for the award of any degree. It is my own work. Each significant contribution to, and quotation in, this dissertation from the work, or works, of other people has been attributed, and has been cited and referenced.

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List of Abbreviations:

Central and Eastern European Countries: CEEC
Common Agriculture Policy: CAP
Common European Economic Space: CEES
Council for Mutual Economic Assistance: CMEA
European Coal and Steel Community: ECSC
European Community: EC
European Monetary Union: EMU
European Union: EU
Foreign Direct Investment: FDI
Gross Domestic Product: GDP
Multi-national corporations: MNC
North Atlantic Treaty Organization: NATO
Partnership and Cooperation Agreement: PCA
Qualified Majority Voting: QMV
Single European Act: SEA
Technical Assistance to the Commonwealth of Independent States: TACIS
Union of Soviet Socialist Republics / Soviet Union: USSR

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Introduction:

I Introduction: Why the EU and Russia

The relationship between the Russian Federation and European Union (EU) is just over a decade old, yet it may be one of the most important international relationships to develop in the 21st Century. Prior to the collapse of the Soviet Union and the rise of the EU, relations between the West and East in Europe were virtually non-existent. Apart from the tensions of the Cold War, the European Community (EC), the EU's predecessor, and the Soviet Union had little interaction. The Soviet economy was closed to the international system and the EC functioned primarily as an economic union. Today EU-Russian foreign policy is a key area for the student of international relations, particularly one of integration theory and international political economy. The political development of Western Europe has been a mainstay for integration theorists, and the expansion of the EU's borders to Russia poses new challenges as the highly developed EU meets the developing economy of a former great power struggling to regain clout in the international system.

Currently, the EU stands poised to become the pre-eminent economic power in the world, with an internal market of over 370 million people and a GDP of over \$8.6 trillion, soon to be expanded by the accession of 10 applicant countries expected in 2004.¹ But without a significant military presence, it must still rely on NATO and US military power for security on the continent. The recent tensions between the EU and US over Iraq suggest that the EU would like to assert its independence from America. In creating the EU in 1993, Western Europe indicated that it was ready to move beyond economic cooperation to wider and deeper political and economic integration. The EU is currently in the process of expanding its membership to 25 from the current 15, incorporating a number of countries from former Communist Eastern Europe. The expansion will bring the EU directly to the borders of Russia.

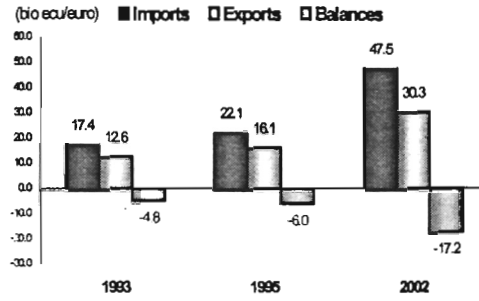
Following the break up of the Soviet Union, Russia inherited the role of most powerful State in Eastern Europe, absorbing most of the USSR's land mass, debts, resources, diplomatic assets, and military. Despite the inheritance of a massive arsenal of nuclear weapons and standard army, Russia struggled to maintain its powerful position in the international system. While the Russian military could continue to concern Western

¹ Eurostate, OECE, Commission (Economic & Financial Affairs Directorate General), at <http://www.eurunion.org/profile/facts.htm>.

Europe, the country's struggling economy made it dependent on international aid. During the 1990s Russia has had to struggle with the transition to a market economy and an opening up to international trade and competition. Russia has relied on its vast natural resources to drive its economy, becoming the largest supplier of oil and natural gas to its neighbors in the West; but in order to ensure stable growth, Russia must shift its dependence away from non-renewable resources. To regain some of its lost international power and prestige, Russia needs a developed and successful economy; to improve its economy, it needs willing, cooperative partners.

This thesis examines the growing partnership between Russia and the EU. Although suspicious of each other's intentions at times, both sides have realized the necessity for close cooperation. In many respects, the EU is an economic empire in search of a security structure, while Russia is a military power without an economic base. The crime, corruption, and slowly developing democracy in Russia are of supreme security concern for the EU, because they create instability and uncertainty in the region. By promoting the economic development of Russia on the precondition of improving socio-political circumstances in the country, the EU can succeed in fortifying its borders. A fruitful relationship between these two groups would provide a number of advantages to both. For the EU it would mean secured access to the valuable natural resources of the Russian State and greater certainty over the region's stability; for Russia, economic integration would ensure that it is not isolated from the lucrative EU market following the accession of the Eastern European countries to the EU. The scope of this thesis extends primarily to the political-economic relationship between Russia and the EU, particularly the potential for economic integration between the two. Economic integration could lead to greater ties between the two parties politically and socially, creating a formidable partnership on the international stage. Not only does the development of this relationship have profound implications for the international system, but it also presents a magnificent case to evaluate international relations theories on foreign policy and integration. The following charts introduce the basic economic relationship between Russia and the EU, a relationship that will be examined further in this work for its political and foreign policy significance.

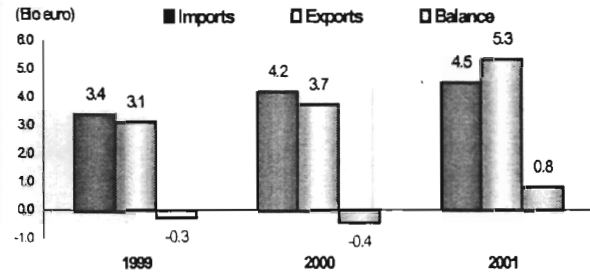
RUSSIA MERCHANDISE TRADE WITH THE WORLD EU MERCHANDISE TRADE WITH RUSSIA



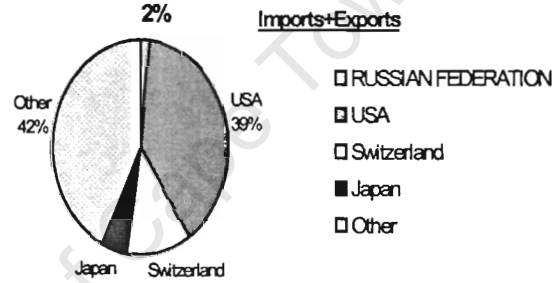
TRADE WITH RUSSIA BY PRODUCT (2002)



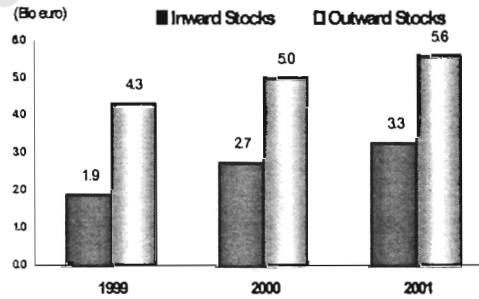
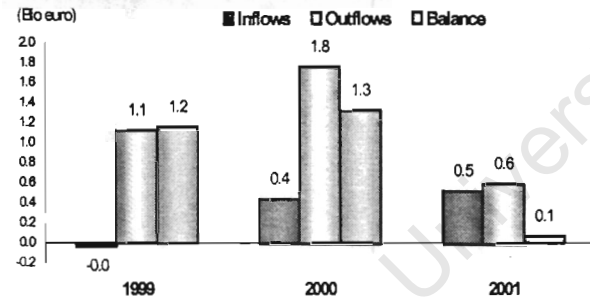
EU TRADE IN SERVICES WITH RUSSIA



RUSSIA SHARE OF EU TRADE IN SERVICES



EU FOREIGN DIRECT INVESTMENT WITH RUSSIA



source: http://europa.eu.int/comm/trade/issues/bilateral/countries/russia/docs/econo_russia.xls

The graphs read from left to right, i.e. the legends "inflows, outflows, balance" are represented from left to right on the bar charts as "inflows, outflow, balance."

II The Structure of the Thesis

2.1. Chapter One: International Relations Theory:

The purpose of this chapter is to introduce and discuss the relevant international relations theory themes on the subject of the EU-Russian relationship. Rather than delve immediately into the EU and Russia, this chapter involves a broader discussion of the development of international relations theory since the end of the Second World War. Its function is to establish the framework for evaluating the foreign policies of Russia and the EU towards one another, as well as their motivations for so doing. The chapter includes discussions of realism, the liberal critiques of realism, political integration theory, including neofunctionalism, economic integration theory, and a brief synthesis of political and economic integration.

Realism has been the dominant international relations theory since time immemorial, and despite some valid criticisms, any discussion of international relations not mentioning it would be sacrilege. Furthermore, as will be discussed in subsequent chapters, both Russia and the EU contain elements of realist thought in their foreign policies. The criticisms of realism become particularly important, because in analyzing these two actors we find that they do not perfectly fit the realist paradigm. In fact, the EU is not even a State, the primary focus of realist theory!

The EU is a product of the gradual economic and political integration of the countries of Western Europe. The most prominent of the theories describing this process has been neofunctionalism, which will be discussed in this chapter. The examination of neofunctional theory offers a number of benefits: it explains the development of the EU as an entity, presenting insight into its political and economic workings; it suggests a theory for political integration in general, an avenue for linking Russia and the EU; and it provides the foundation for EU foreign policy, the angle that the EU takes in its international relations.

Because the focus of the analysis is directed generally at the economic relationship between Russia and the EU, a discussion of basic economic integration theory is necessary. The two parties are debating the creation of a common market between them, thus we should be able to identify the advantages and disadvantages to economic union. These include reduction in tariffs, increased efficiency, and the free movement of labor and capital on the one hand, and can mean a restriction of fiscal policy and economic sovereignty on the other.

In addition, because neofunctionalism relies primarily on the linking of economic activities to promote political integration, we must examine the potential gear in the neofunctionalist toolbox. The chapter closes with a discussion of the interplay between politics and economics in the international sphere. Although the primary focus of the chapter is not the relationship between Russia and the EU, several allusions to this relationship are made in the chapter, to establish the theories' pertinence to the case study.

2.2. *Russia and the EU in the Early 1990s:*

The second chapter focuses on the early development of the relationship between the EU and Russia. Both parties had more pressing issues on their foreign policy agendas and were uncertain over the stance to take with one another. The two had to move from Cold War adversaries to continental partners. To understand the contemporary relationship, it is necessary to examine the factors contributing to the early stages of EU-Russian relations.

The chapter begins by discussing the collapse of the Soviet Union, including Gorbachev's introduction of *perestroika*, the opening of the Soviet economy to the rest of the World, and the reforming of the Soviet polity. The resulting political and economic turmoil plunged Russia from atop the international system. A former world power, it found itself in the arguably humiliating position of asking the West for development assistance and being forced to implement changes on condition for that aid. Russia followed a variety of foreign policies during the early 1990s, vacillating between decidedly pro-Western views and Russian-centric policies.

At the same time that the Soviet Union was disintegrating, the European Union was coming into being. The Maastricht Treaty, creating the EU, marks a culmination of many neofunctionalist predictions on the political unification of Europe. The political pandemonium evident on the continent made for a confused relationship between Russia and the EU initially. The EU had a number of more pressing 'internal' issues with which to deal, including the development of the single market, the harmonization of fiscal policies, and eventually the creation of a single currency. The addition of applications from several former Communist Eastern European States for membership meant that the EU could not devote much energy to Russia.

Nevertheless, the early years of EU-Russian relations did produce a number of important results. The EU became the largest donor of development aid to Russia,

sponsoring the transformation of Russia to a democracy and the transition to a market economy, primarily through the TACIS program. The TACIS program continues today in the hopes of fostering a transparent and corruption free Russian State. The Partnership and Cooperation Agreement (PCA) was negotiated in the early 1990s, and, although it did not come into effect until 1997, forms the legal foundation for the relationship between the EU and Russia. This chapter explains the basis of EU-Russian relations; it examines the backgrounds of each party and how they contribute to the contemporary relationship. The early 1990s represents a 'feeling out' period of the relationship between the two.

2.3 The Contemporary Relationship Between the EU and Russia:

After the turbulence of the early 1990s subsided, both Russia and the EU could turn to each other with a clearer understanding of their own foreign policy objectives. The EU has developed a neofunctionalist approach, while Russia employs a realist perspective aiming to re-establish its position as a world power. The two have discovered that they are each of primary importance to the other's foreign policy, and the dialogue between the two in recent years has not only intensified in frequency but also in content.

Following the implementation of the PCA in 1997, the EU and Russia have held twice yearly summits, in addition to meetings at lesser bureaucratic levels, to discuss the growing partnership between the two. The enlargement of the EU to Russia's borders has brought a number of issues to the forefront. The EU has established a firm policy to foster amicable, close relations with all of its immediate neighbors, under the assumption that this will promote stability and security. For its relationship with Russia this means facilitating in the transition of Russia to a market economy and democratic State. Concern over the corruption and Russia's reputation as a breeding ground for crime leads the EU to support a number of programs aimed at the consolidation of Russia.

The EU employs a neofunctionalist approach to its foreign policy at a number of levels. In negotiating a common economic space, the EU has pressed for Russian commitment to improving its democracy, protecting human rights, and reforming its banking system. Tying these issues to the gains from economic integration creates functional linkages across the political-economic sphere. At a deeper level, the EU trusts that by improving the economic well being of Russia and creating common interests, Russia

will become a partner in stabilizing the region and providing security. The EU's functional approach has the security of its union at heart.

For Russia, the negotiation of a common market with the EU reflects the realist ambitions of the new regime. Russia desires to re-claim its great power status, which requires a vast improvement in the country's economic health. To gain economic power, Russia needs a wealthy, cooperative partner; it finds such a partner in its neighbor, the EU. Russia's main concern is being shut out of the EU's massive market following enlargement. The EU will make up a disproportionate amount of Russia's trade and the country cannot afford to lose access to it. Although the EU has expressed its concern over human rights protection and the strength of democracy in Russia, Russia's military strength and control of valuable natural resources makes it vital to the EU as a partner. Russia has been able to parlay these strengths at the bargaining table into a beneficial relationship with the EU.

The third chapter is followed by a short conclusion summarizing the issues discussed in the work and the developments in the relationship between Russia and the EU. It discusses the costs and benefits to each party in the relationship and suggests some of the directions that the relationship might take in the future.

III Concluding Remarks

This thesis represents the culmination of studying the fundamental theories of international relations. By no means is it an exhaustive or complete examination of the genre. To do so would take volumes upon volumes. The work is rather a look at a relatively unique actor in the international system, a successful political union among states, and its attempts to form a coherent, viable foreign policy. The course of my studies has led primarily to examinations of integration theories and the interplay between politics and economics in the international system. The EU is the preeminent case study for any such analysis.

I make no pretences about being an expert on Russian or Slavic politics. The decision to examine the relationship between Russia and the EU stems from my belief that it is the most important relationship the EU is currently cultivating. Not only does Russia bring realist arguments into the discussion, but it also demonstrates the various manners in which power can be distributed in the international system. For while the EU holds a tremendous amount of power economically, it still feels pressure from Russia and its

developing economy. Russia poses a greater challenge to the EU's foreign policy than its relationship with more developed neighbors, or those States attempting to accede to the Union; developing countries have similar economic needs and desires and the candidate countries are willing to accept all the conditions set out by the EU. Negotiations between the EU and Russia require political acumen and carefully crafted agreements. This case is the true test for the EU's neofunctional approach to foreign affairs.

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Chapter 1:

I. Introduction

1.1 Overview:

A multitude of theories exist to explain the complex nature of international relations. An adequate examination of the relationship between the EU and the Russian Federation requires a sufficient review of the most relevant of these theories. What drives nations to interact with one another has been a central question for political philosophers since Thucydides wrote on the Peloponnesian wars between Sparta and Athens millennia ago. The two most basic and obvious examples of international relations are war and trade. War and trade form the cornerstones of our discussion on the relationship between the EU and Russia, as the two have moved from the animosity of the Cold War to a more productive relationship of trade and cooperation. Understanding the motivation for closer economic and political cooperation necessitates a familiarity with competing international relations and international political economic theories on power, integration, trade and cooperation.

This chapter will examine the dominant philosophy of international relations theory since the Second World War, neorealism, and its main critiques, amalgamated under the label of neoliberalism. The discussion of realism and its critiques sets the stage for the foreign policy motivations and objectives of Russia and the EU. Russia follows a revised realist approach, carefully negotiating cooperative agreements that are in its national interests. The EU's policy stems directly from the neofunctionalism that has driven European integration for over fifty years.

Because the analysis of this work focuses on furthering cooperation between the Kremlin and Brussels, this chapter will also look at the political and economic advantages and disadvantages of integration. The expansion of the Union to include a number of former Warsaw Pact States, as well as former republics of the USSR will bring the borders of the EU directly to Russia. By reviewing the main arguments for and against customs unions, single markets, and regionalism in general, this chapter will provide insight into political economic negotiations between Russia and the EU. Both parties must weigh the individual costs and benefits to closer cooperation and coordination.

II. Fundamental Theories of International Relations

2.1 Realism:

International relations theory has focused predominantly on the study of the distribution of power between States. Scholars who have argued that the fundamental desires of States are security and power have been termed realists. Throughout political science's history, realists have dominated the discourse despite some valid criticisms. Although realism's grip on the discipline has loosened somewhat over the past half century, its core elements continue to heavily influence the way international relations scholars view the field.

At the heart of realist philosophy lies the State, a unitary actor struggling to gain and maintain power against belligerent adversaries. For the realist, one State would never voluntarily cede sovereignty to another State; we expect little cooperation between States, because one's gain would be viewed as the other's loss. Any discussion about realist thought must begin with its origins: Thucydides' writings on Athens and Sparta, followed by Thomas Hobbes philosophy on the state of Nature.

Thucydides wrote on the protracted war between the ancient Greek city-states of Sparta and Athens. He identified the independent variable "power" as the motivation for the war. Specifically, Thucydides hypothesized that Sparta's fear of Athens' growing power led Sparta to begin a pre-emptive war. Fear and power dominate his work, and function as the motivating factors in international relations. Thucydides magnum opus sprouted a plethora of much quoted phrases including such matter-of-fact statements as, "The majority rules because it is stronger, the minority submits because it is weaker,"² and "The strong do what they will and the weak suffer what they must."³ The primary concern for a State is its existence. In order to ensure its continued existence, a State must preserve its own power and prevent potential rivals from acquiring more power than its own. To the realist the state of world affairs is one of conflict intermittently interspersed with periods of relative peace.

² Helen Milner, "The Assumption of Anarchy in International Relations Theory," in *Neorealism and Neoliberalism: The Contemporary Debate*, David A. Baldwin, ed. p. 159.

³ Robert O. Keohane, "Theory of World Politics: Structural Realism and Beyond," in *Neorealism and Its Critics*, Keohane, ed. p. 142

Political scientists have drawn on the work of English philosopher Thomas Hobbes, and his seminal work, *The Leviathan*, to further develop the realist theory of international relations. Hedley Bull explains the view in this manner:

“The Hobbesian tradition describes international relations as a state of war of all against all, an arena of struggle in which each state is pitted against every other. International relations, on the Hobbesian view, represent pure conflict between states and resemble a game that is wholly distributive or zero-sum...The particular international activity that, on the Hobbesian view, is most typical of international activity as a whole...is war itself.”⁴

Hobbes’ portrayal of the state of nature as one of chaos and anarchy neatly fits the international system, or lack thereof. For Hobbes, man cedes his power to the sovereign (government) in exchange for protection of certain rights that do not exist in nature. But in international affairs, no power capable of enforcing rules and laws exists above the State. A hallmark of the realist tradition is the division between domestic politics and international politics; the two systems are governed under completely different circumstances. The nature of the international system is one of anarchy, although the extent and level of that anarchy is hotly debated in the contemporary context. Joseph Grieco identifies 5 primary propositions for contemporary realism:

“1. States are the major actors in world affairs. 2. The international environment severely penalizes states if they fail to protect their vital interests or if they pursue objectives beyond their means; hence, states are ‘sensitive to costs’ and behave as unitary-rational agents. 3. International anarchy is the principal force shaping the motives and actions of states. 4. States in anarchy are preoccupied with power and security, are predisposed toward conflict and competition, and often fail to cooperate even in the face of common interests. 5. International institutions affect prospects for cooperation only marginally.”⁵

The preeminent realists of the past 50 years, who have helped shape these notions, include Hans Morgenthau, Kenneth Waltz, and Robert Gilpin. While significant differences do exist between these individuals’ theories, their central arguments remain true to the realist school of politics. Realists maintain that despite the growing number of multinational and supranational organizations and increase in economic interdependence, the issues of power, security, and sovereignty remain central.

At the heart of realist doctrine is the primacy of the State. The creation of the United Nations following WWII, and the development of extra-national actors, did not diminish the

⁴ Ibid, p. 146.

⁵ Joseph M. Grieco, “Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism,” in *Neorealism and Neoliberalism*, pp. 118-9.

State's role. Although realists now concede that States are not the sole actors in international affairs (multinational corporations, international organizations, and various other actors contribute to the overall milieu), they maintain that States continue to be the primary subjects of the international system.

To the realist the State is a unitary entity, acting in a rational manner. The State follows a single foreign policy geared towards maximizing utility. Domestic politics and international politics remain divorced from one another. A State must speak and act with one voice. Because an enforceable structure does not exist to protect the welfare of a State, security and continued existence top the list of its priorities. This leads States to a pre-occupation with the obscure concept of *power*. Power lacks a clear definition and is obviously not a quantifiable resource; therefore, the level of power a State possesses can be difficult to judge. Susan Strange has suggested that apart from the obvious source of power, the military, there are three other sources of "structural" power found in finance, production and knowledge.⁶ Needless to say, military strength can be quite a tangible source of power, but the ability to influence others through economic means cannot be dismissed. Waltz suggests a looser definition of power, "an agent is powerful to the extent that he affects others more than they affect him."⁷ Yet, as Baldwin points out, no statement about power can be complete without a description of its scope and domain; the State has the capability to do what and to whom?⁸ To discuss power one must be able to indicate the extent to which an actor can influence the actions of another.

Many realists see international relations as a zero-sum game, because they believe that States are primarily concerned with gains or losses in power relative to other States. This viewpoint contributes to the struggles and tensions between States. The anarchy of the world system dictates the manner in which States will act. The lack of an enforceable system coerces States into seeking their own interests to the detriment of others. Because States desire power and fear the growth in power of other States, they will compete for limited resources and struggle to maintain those resources they possess. Michael

⁶ Susan Strange focused her theory of international political economy on sources of structural power. Her four areas of structural power are the security, finance, production, and knowledge structures. Structural power implies the ability not only to coerce others into doing what you desire, but also the ability to govern the rules and institutions by which those actions are carried out. For a complete discussion of structural power and its implications on the international system see Susan Strange, *States and Markets* and Thomas Lawton, *Strange Power: Shaping the Parameters of International Relations and International Political Economy*. These themes will come up intermittently throughout this work as I discuss the relationship, particularly the bargaining relationships, between the EU and Russia.

⁷ David Baldwin. "Neoliberalism, Neorealism, and World Politics," in *Neorealism and Neoliberalism*, p. 16.

⁸ *Ibid.* p. 16.

Mastanduno suggests that in the United States, at least, concern over relative gains continues to be an important factor, citing public opinion polls in the early 1990s in which US citizens felt that Japan's growing economic power represented a greater threat to American security than Soviet military power.⁹ The opening paragraph of the article provides solid insight into the world of relative gains thinking:

“For the United States, which future world is preferable: one in which the U.S. economy grows at 25% over the next decade, while the Japanese economy grows at 75%, or one in which the U.S. grows at only 10%, while that of Japan grows 10.3%? Robert Reich of Harvard's John F. Kennedy School posed that choice in 1990 in a series of meetings with graduate students, U.S. corporate executives, investment bankers, citizens of Massachusetts, senior State Department officials, and professional economists. A majority of every group, with one exception expressed a preference for the latter outcome. The economists unanimously chose the former and (Reich reports) were surprised that the other Americans would voluntarily forgo fifteen percentage points of economic growth just to hamper the progress of one of America's principal trade and financial partners.”¹⁰

While this may not serve as an empirical examination of State practice, it does prove the point that concern over relative gains influences the minds of many of the people making foreign policy decisions. Trepidation over relative gains has tangible impact on the prospects for international cooperation. States do not concern themselves solely with their own perceived utility, but also with the utility of the other State or States. Relative gains in power (economic, social, or military) constrain the scope of cooperation, but do not necessarily prohibit it.

Realists argue that States enter into agreements with other States for limited reasons, including protection from a more powerful actor (balance of power politics) or if one State believes that it can benefit from an agreement more than the other. Power is not static; the most powerful States may try to maintain their strength as long as possible, but their base eventually erodes, and new States replace them at the pinnacle. Gilpin developed this idea in his theory of hegemonic decline. The most powerful State suffers from the law of diminishing returns; complacency sets in as its citizens enjoy the luxury of superiority, while the diffusion of technology allows less powerful states, with more motivated populations, to catch up with and eventually surpass, the established hegemon. In his own words, “Through a process of diffusion to other States, the dominant power loses the advantage on which its political, military, or economic success has been based. Thus, by example, and frequently in

⁹ Michael Mastanduno, “Do Relative Gains Matter? America's Response to Japanese Industrial Policy,” in *Neorealism and Neoliberalism*, p. 251.

¹⁰ *Ibid.* p. 250.

more direct fashion, the dominant power helps to create challenging powers.”¹¹ A realist might argue that the creation of the United Nations, far from an attempt to bring order and harmony to an anarchic system, was a calculated move to preserve the power of the strongest states following the conclusion of the Second World War. In strict realist terms, international cooperation and integration are tenuous accomplishments at best.

Nevertheless, the creation of international institutions and the rise in multilateral and other cooperative agreements between States has led to a rethinking of dogmatic realism. Few international relations scholars today would argue that States remain the sole actors in the international system, but valid arguments can be made for their primacy. By far the most important aspect of realist thought is the focus on the international struggle for power, for the ability to coerce and manipulate the international system. Many of the liberal critiques of international relations theory have acknowledged the importance of realism to the field and offered suggestions on how to cope with the development of non-State actors on the international level.

2.2 Liberalism:

Despite realism’s apparent dominance in the field of international relations, the liberal antithesis is not without its intellectual pedigree. Born of the Enlightenment and philosophers like Kant, the idealist school of thought draws on the concept of the perfectibility of man and applies it to inter-state relations. Liberal interpretations draw more attention to the role of individuals and individual actors in international politics than the realist school. Liberal thought suggests that states do not need to be the sole actors in the international system; multi-national corporations (MNC), international institutions, even domestic political movements can play a role in inter-State relations. The struggle for power and dominance in an anarchical system does not have to continue ad infinitum; by creating supra-national regimes order and cooperation emerges.

Attempting to carry this idea to fruition, and blaming WWI on realist struggles for power, the 1920’s saw the institution of the Kellogg-Briand Pact, outlawing the use of force in international relations, and the creation of the League of Nations, intended to increase communication and accord between States. This approach received resounding reproach from E. H. Carr’s *The Twenty Years’ Crisis*. Carr explained that even initial exercises in

¹¹ Keohane, p. 142-3.

power based on the motive of self-defense lead to aggressive behavior: “Wars of limited objective have become almost as impossible as wars of limited liability.”¹²

Despite the setbacks that non-realist political scientists had with WWII, the post-war period has produced a number of valuable texts to explain the surge in international cooperation, for which traditional realism has difficulty accounting. Liberal thinkers of the second half of the 20th Century recognize the value of many realist premises and attempt to advance the discipline through constructive critique. Amongst the theoretical challenges to realism are pluralism, functionalism, and institutionalism. Political scientists pointed to the growing interconnectedness of States and State institutions as evidence of the need for a new doctrine to explain international relations.

Preeminent pluralists, such as Robert Keohane and Joseph Nye, challenge the unitary actor model for the State. Drawing on the liberal traditions of individual actors, they suggest that States, rather than acting as a single, rational entity, compete with and sometimes even contradict themselves. Domestic and foreign politics cannot be separated; their fibers are too greatly intertwined. In the pluralist conception of international politics, competing individuals and groups within the State affect foreign policy. Competition between individual actors causes State action to fall below the optimal, rational choice for the State. Lobby groups within the domestic sphere of a State, or domestic politics in general, may sway policy makers toward a foreign policy not in the best interests of the state.¹³ Pluralists also suggest that a State might have competing foreign policies, with one department of a government advocating one position and another department pushing for the opposite. As States become bogged down in bureaucratic infighting, their actions move farther and farther from the most rational option. Because of the increased importance of domestic politics in international policy, pluralists also view the scope of international relations in a wider range than realists, encompassing not only security, but also economics and social politics.¹⁴ By challenging some of the basic assumptions of realism, notably the State as rational, unitary actor and focusing on non-military uses of power, the pluralist critique has refined modern international relations theory.

¹² Paul Viotti and Mark Kauppi, *International Relations Theory: Realism, Pluralism, Globalism*, p. 41.

¹³ See Elizabeth Nunn, “The Rational Choice Approach to IPE,” in *Introduction to International Political Economy*, David N. Balaam and Michael Veseth, eds. She explains that the Japanese Prime Minister by rejecting President Clinton’s Trade Agreement may have on the surface been harming Japan economically, but in so doing, he demonstrated his will as a political leader, increasing his popularity at home. For him, the most “rational” choice was protecting his domestic popularity.

¹⁴ For a more in-depth explanation of pluralism and its influences see Viotti and Kauppi, “Pluralism: Decision Making, Transnationalism, and Interdependence” in their *International Relations Theory* Book Chapter 3.

Robert Keohane and Joseph Nye wrote extensively on the topic of transnational actors in the international system, suggesting that in addition to States, the international system was affected by sub-national and even supra-national actors. These bureaucracies can manipulate the international system just as States may. MNC can persuade States to take positions they otherwise might not, or can facilitate negotiations between States. Bureaucracies within States may work with their counterparts in other States to bring the two governments closer together. In their book, *Transnational Relations and World Politics*, they quote Arnold Wolfers:

“The Vatican, the Arabian-American Oil Company, and a host of other nonstate entities are able on occasion to affect the course of international events. When this happens, these entities become actors in the international arena and competitors of the nation-state. Their ability to operate as international or transnational actors may be traced to the fact that men identify themselves and their interests with corporate bodies other than the nation-state.”¹⁵

The significance of non-state actors for the EU-Russian relationship does not seem at first glance to be of terrible importance. MNC may see benefits to an economic union between the two entities, but they are not clamoring for access to Russian markets. We do however, as will be demonstrated in the next chapter, see domestic concerns affecting State foreign policy. Russia has had to amend its initially pro-Western stance to counter pressure from domestic critics.

In addition to the pluralist debate, which suggested linkages between States across borders, political scientists turned to integration theories such as functionalism, to both suggest the future trajectory that international relations should take and explain the mounting cooperation in Western Europe following WWII. These integrationist theories, complete with states eventually ceding sovereignty to a supranational organization, stand in direct opposition to realist ideology. Of the integrationist theories, functionalism, and its offshoot neofunctionalism, perhaps finds the most support today in international relations.

Functionalism might be characterized as political integration through subterfuge; the theory argues that as States cooperate within the economic and social spheres, they are drawn closer and closer towards political cohesion as well. Functionalists do not advocate the creation of a central political authority, linking formerly autonomous States; rather, they argue that an increasing network of cooperation through various technical and administrative areas will bring political integration. As States encounter the coordination of delivering

¹⁵ Robert O. Keohane and Joseph S. Nye, Jr., *Transnational Relations and World Politics*, p. x.

goods and services across borders, they come to recognize the need for political interaction to cope with economic and social dealings.

Neofunctionalism modifies the functionalist proposition by drawing on the criticism extended to the earlier functionalist theory that it ignores the importance of politics in integration. Neofunctionalists recognize that certain political factors are necessary for integration to truly occur, including those associated with liberal democratic theory. According to neofunctionalism, we would not see a State with a Communist ideology integrating with capitalist nations. Both functionalism and neofunctionalism hypothesize about the future of continued cooperation between States at the functional level; something that realism cannot do, because its traditional arguments are incapable of accounting for such extensive State cooperation. Neofunctionalism, which will be discussed in more detail later in this chapter, has served as the foundation political theory for the integration of the EU over the past fifty years. By linking the functional aspects of socio-economic interactions, Western Europe has brought itself closer to political unity.

Underlying the arguments of pluralists and functionalists alike are the elements of regime theory, or the establishment of institutions. To cope with the increased cooperation between States, international regimes must be created; a regime simply means that a set of rules exist dictating appropriate conduct. Thus they can be as simple as a 2-clause treaty, or encompass the gargantuan bureaucracy of the UN. Arthur Stein writes, "Regimes are maintained as long as the patterns of interest that gave rise to them remain. When these shift, the character of a regime may change; a regime may even dissolve entirely."¹⁶ For some these international institutions mark the first steps of a supra-national government; for others they exemplify a more efficient means of coordinating between governments. In either case, international institutions signify a departure from the "anarchical" international system proposed by realists. International regimes suggest that an international system with order does exist no matter how rudimentary. These regimes facilitate cooperation between States and increasingly interlink them. The development of innocuous institutions like the international postal exchange, interconnecting phone services, and other examples of functional State cooperation, do not enter into the traditional realist conception of international politics. Regime theorists have relied on the ever-deepening EU to suggest that international institutions must also be considered when discussing international relations.

¹⁶ Arthur Stein, "Coordination and Collaboration: Regimes in an Anarchic World," in *Neorealism and Neoliberalism*, p. 50.

Drawing on the theories behind transnational actors, regime theorists would argue that international institutions must be accounted for in addition to nations; they challenge the state-centric view of traditional international relations theory. Clearly, the critiques of realism must be taken into consideration; the subject of this thesis is the relationship between a traditional nation-state and an international institution.

The emerging field of international relations theory is an amalgamation of traditional realism and its liberal critiques. States continue to be seen as the primary actors in the international system, but new participants have emerged as well. A semblance of order, no matter how rudimentary, has emerged. States continue to highly value security and power, but view non-military methods as viable alternatives to maintaining these. For States, cooperation emerges when they believe that an advantage is to be gained, especially in terms of power. Remember, as previously mentioned, power can be derived from the military, knowledge, production, or finance structures. Russia, we will see, has adopted a foreign policy with strong realist undertones. Vladimir Putin advances a pragmatic, state-centric policy dedicated to re-establishing Russia as a world power. Yet, in advancing that policy he has discovered that the EU, a liberal institution, must be a close ally. Whereas under traditional realism international cooperation seems highly unlikely, Putin recognizes the advantage that can be gained by cooperative arrangements with the EU.

The EU is not a nation-state. So, under traditional realism, its importance to international relations would be seriously downplayed. But the past decade has shown that the EU is indeed a key player in the international system. Furthermore, the analysis will show, that like the realist state, one of the EU's primary foreign policy goals is stability and security. In fact, in dealing with Russia, security issues serve far more as a motivating factor than economic ones. No longer can international relations be viewed strictly through a realist lens, but many of its arguments remain pertinent to the discourse. The next section focuses on a key area of the relationship between Russia and the EU: International Political Economy.

III. International Political Economy

3.1 Political Integration:

Before moving to a discussion of the interplay between states and markets, we must look at the independent theories behind political integration and economic integration. In addition to discussing the foundation theories of international relations, the previous section provided the framework for international cooperation. The purpose of this section is to further our examination of international relations by moving to the more specific area of international political economy, particularly theories behind regional integration. Neofunctionalism, which was mentioned briefly when discussing the liberal critiques of traditional international relations theory, will be discussed in more depth at this stage, as it is the key factor in the EU's international relations approach today. The literature on integration theory is beyond voluminous. Each theory has attempted to fit a particular hypothesis to the development of European integration in hopes of finding a broader theory to apply to the rest of the world. The unique nature of the European experience makes this endeavor quite impossible, and I doubt the applicability of these theories outside of the European context. However, as this thesis addresses the European political climate, addressing these theories is appropriate and necessary to understand the developing relationship between the EU and Russia.

Theories of European political integration emerged following the conclusion of World War II as a result of a desire to prevent future conflict. The fundamental idea was that by linking the nations of Europe politically, future European wars would be eliminated. The long road to European unification began with the formation of the European Coal and Steel Community (ECSC). The ECSC linked the coal and steel industries of France and Germany. By integrating the fundamental war making industries of two major protagonists of European conflict, the continent bought insurance against another disastrous confrontation.

The formation of the ECSC and subsequent cooperative institutions gave rise to the functionalist and neofunctionalist schools. As the reader will recall, proponents of functionalism argue that as states link functional activities to each other, from innocuous activities like postal alliances and telephone exchanges to more important economic activities like coal and steel, there will be increased pressure to further integrate politically.

Functional linkages create spillover effects, leading to more extensive and important integration. Neofunctionalists built on the work of Mitrany, the preeminent scholar of functionalism, arguing that political motivation needed to be inherent to the technocratic linkages or political union would not occur. They stressed linking the economic realm of “low politics” to bring States closer together. Eventually, full political union becomes a *fait accompli* because the countries are so inextricably linked. Ben Rosamond provides a useful explanation of the basic principles of neofunctionalist thought:

“Two or more countries agree to work for integration in a given economic sector (sector *a*). To accomplish this task more effectively, they agree to appoint a supranational bureaucracy – a ‘high authority’ to use the parlance of the time – to oversee operations. While the integration of sector *a* achieves some of the supposed benefits, the full advantage of integration will not be achieved unless cognate economic sectors are also drawn into the integrative web. In any case, the integration of *a* creates functional linkage pressures for related sectors *b* and *c* to become part of the game. There are two other more or less automatic processes in the neofunctionalist model. First, economic integration automatically generates an increased level of transactions between actors within the integrating region. Second, as we have seen, because of the essential group characteristics of politics, there is a tendency for new interest organizations to form at the regional level.”¹⁷

As the above quote indicates, “spillover” became a central tenant of neofunctionalist theory. States recognize that in order to make the cooperative sector more efficient, pressure arises to further cooperative efforts. For example a customs union between states could be better served if the participants organized stable exchange rates.¹⁸ Ernst Haas was considered the founder of early Neofunctionalist theory. Neofunctionalist theory began to lose favor in the late 1960’s and early 1970’s as integration in Europe stalled, and the predicted political unification of Europe never materialized, leading even Haas to question its effectiveness.

A rekindling of neofunctionalist literature occurred following the Single European Act (SEA) and Maastricht Treaty, suggesting that perhaps neofunctionalists had only misjudged the time-period, but that spillovers did eventually lead to political integration. The propositions Rosamond develops for European integration continue to be useful today:

- “1. Integrate modestly in areas of ‘low politics’ in the first instance, but ensure that these are key strategic economic sectors (coal and steel for example).
2. Create a high authority without distracting the baggage of national interests to oversee the integration process and give it the ability to act as a sponsor of further integration.

¹⁷ Ben Rosamond, *Theories of European Integration*, p. 58.

¹⁸ *Ibid.* p. 60.

3. The integration of particular economic sectors across nations will create functional pressures for the integration of related economic sectors. The momentum is likely to continue, especially with the guiding role played by the impresario high authority. The consequence is the gradual and progressive entangling of national economies....
5. Deepening economic integration will create the need for further European institutionalization as more expansive integration will require regulatory complexity.
6. Political integration is a more or less inevitable side-effect of economic integration.”¹⁹

Michael Huelshoff suggests that part of the problem with neofunctionalism is that it fails to take into account the political motivations of national decision makers, specifically their need to answer to domestic constituencies.²⁰ In Huelshoff’s paradigm, “European integration...is the pursuit by decision-makers of domestic power via (when the opportunity arises) regional agreements that meet the demands of enough domestic groups to guarantee ratification and the political survival of the decision-maker.”²¹ The negotiation set-up of this game becomes conducive to some of neofunctionalism’s premises. Bargaining encourages dynamic issue linkages, as side-payments and trade-offs become part of the process.²² Through the course of discussions, states will link previously unrelated issues to each other in the hope of encouraging cooperation on one or more issues. A State may discover that an acceptable loss to its domestic constituency may enable it to acquire a previously unattainable concession. As we will see in later sections of this work, the EU has used these practices in its foreign policy towards Russia, linking economic gain to security for the continent.

I have maintained that Europe is a unique case of regionalism, borne out of specific and (hopefully) unreplicable circumstances. The movement toward political union has been stop-and-go, responding to a multitude of variables, and making refined theories difficult to apply. Perhaps the most important thing to consider is the initial motivation for integration; the “high” political concern of security, namely ensuring that conflict did not again occur between Western European nations. The nations of France and Germany willfully ceded complete sovereignty over their coal and steel industries in exchange for a measure of peace. The over-riding motivations for political integration are not the economic gains to be had from increased efficiency (if States were truly concerned with achieving the most efficient market allocations, they would divorce themselves even further from the economy), but rather the assurance of peace and security. Nevertheless, the State plays such an integral or

¹⁹ Ibid. p. 51-52.

²⁰ Michael Huelshoff, “Domestic Politics and Dynamic Issue Linkage: A Reformulation of Integration Theory,” in *International Studies Quarterly* June 1994. p. 257.

²¹ Ibid. p. 261.

²² Ibid. p. 269-70.

invasive (if one prefers) role in economics that eliminating it from the equation seems quite impossible.

3.2 Theories of Economic Integration:

While political integration may be dominated by the case study of the EU, economic integration theory has both a much broader application and a more abstract, theoretical approach, although the prime example of it remains the EU. For us to adequately examine the relationship between the EU and Russia, a discussion of economic integration is vital. Because the EU follows a neofunctionalist approach to foreign policy, economic integration and issue linkages form a significant part of its activities. Understanding the advantages and disadvantages posed by economic integration aids us when evaluating the relationship between the EU and Russia. Without a discussion of economic integration, we could not fully appreciate the development of foreign policy between these two entities. Economic integration is a key for both sides; it appeals to Russia for the strict theoretical economic benefits, while it fits neatly into the EU's neofunctional tendencies. Included in discussion of economic integration are customs unions, free-trade areas and single market or currency areas.

No discussion of customs union theory can begin without looking at the work of Jacob Viner, who suggested that creating a customs union can have both trade creating and trade diverting effects. Although subsequent analysis and criticism of Viner has suggested that trade diversion can be less dramatic than previously assumed, the creation of a regional bloc can still create sub-optimal trade regimes. Among the many benefits to union are access to economies of scale, access to increased markets, and increased mobility of capital and labor. A union may not be as preferable as free trade to an economist and may still carry excessive bureaucratic and political interference, but is generally seen as a step toward increased efficiency.

Writing in the 1950's, Viner established modern economic integration and customs union theory, on which academics have since been building. He argued that customs unions can be attractive to both the free-trade and protectionist advocates, but that the free-trader can be misled in his support.²³ The formation of a customs union can lead to two

²³ Jacob Viner, "The Economics of Customs Unions," in *International Economic Integration*, P. Robson, ed. p. 31.

consequences, trade creation and trade diversion, favored by the free-trader and protectionist respectively. The proponent of free trade favors the reduction or elimination of tariffs between the joining countries, thinking that this leads to the most efficient allocation of resources. The protectionist's perspective may not be immediately apparent.

In addition to simply enlarging the area of a protected market, a customs union can also divert trade to a less efficient (higher cost) sector through the following pattern. Country A and B form a customs union, eliminating tariffs between each other's products. However, tariffs still exist for products from country C. Country C produces a good more efficiently (cheaper) than country B, and country A does not produce that good. Prior to the union, the tariffs in Country A on that good were identical for country B and C, making C's product less expensive because its cost in real terms was lower. If upon formation of the union, the elimination of the tariff makes Country B's product less expensive than Country C's in Country A, then the market has shifted from the most efficient to the less efficient. The protectionists from country B favor this outcome.²⁴

Viner lists a number of criteria he deems necessary for a customs union to operate in a free trade direction.²⁵ Despite these criteria, he obviously favors complete free trade to the formation of customs unions at all, weary of their capacity as inhibitors of market efficiency. The tongue-in-cheek quote by Robbins that he includes in one of his papers perhaps best sums up his position:

"From the international point of view, the tariff union is not an advantage in itself. It is an advantage only in so far as, on balance, it conduces to more extensive division of labor. It is to be justified only by arguments which would justify still more its extension to all areas capable of entering into trade relationships...No doubt if we could coax the rest of the world into free trade by a high tariff union against the produce of the Eskimos that would be, on balance, an international gain. But it would be inferior to an arrangement whereby the Eskimos were included. The only completely innocuous tariff union would be directed against the inaccessible produce of the moon."²⁶

Building on Viner's work, economists have recognized that in theory customs unions can have negative trade diverting effects, but they have diminished their propensity to so do. Meade argues that by looking at the effects of volume on production, a seemingly

²⁴ J.E. Meade in "The Theory of Customs Unions," in *International Economic Integration*, provides an excellent example of the trade diverting effects of a customs union, with his discussion of a union formation between Belgium and the Netherlands and its impact on steel consumption from the less expensive German market. P. 49.

²⁵ Viner. p. 42-3. For the list see these pages.

²⁶ Ibid. p. 44-5.

diversionary union may actually lead to increased production and efficiency.²⁷ There appears to be an implicit recognition that the free trade world of no tariffs preferred by Viner is politically unfeasible. Therefore, economists set out to establish how customs unions could be most beneficial to the contracting parties. By arguing that a tariff is similar to an excise tax, and as such, a constraint to consumers, Lipsey claims that if the shift to a higher cost source of supply is outweighed by the removal of the constraint on consumption, then there is a net rise in welfare.²⁸

More recent examinations of international trade theory have revised the conclusions for increased economic integration. Focusing on imperfect competition and economies of scale has shown that unequal gains are quite possible from regional integration.²⁹ Comparative advantage can be created through planned investment, research and development, and education; countries then pursue strategic trade policies to capitalize on these created advantages profiting from economies of scale and improved production.³⁰ Thus, while increased integration may lead to trade creation, one party may gain from increased trade inordinately compared to the other. In situations like the EU with fairly significant differences in per capita GDP between members, and between members and prospective members, the effects of those gains can be quite obvious. Nevertheless, the World Bank recently concluded after examining data primarily on developing countries, that more open economies grow faster. Furthermore, countries in close proximity to open economies grow more quickly.³¹ The findings suggest that agreements between small, developing countries will not provide much in terms of growth, but agreements between these and more open, developed countries can benefit both groups.³² This is of particular concern to Russia and the EU, as Russia's economy resembles that of a developing nation.

A multitude of factors contribute to increased growth through the creation of a common market. If we acknowledge that a global free-trade regime is highly unlikely, we can focus more closely on the benefits to forming single markets and regional trading blocs between multiple countries. In addition to the trade effects for products suggested by Viner

²⁷ Meade, p. 52-3. Meade displays that when factoring into account elements like volume of trade, demand elasticity, and cost per unit, that what initially appears to be a trade diverting union becomes a trade creating union, or at least increases welfare within the union.

²⁸ C.A. Cooper and B.F. Massell, "A New Look at Customs Union Theory," in *International Economic Integration*, p. 91-2.

²⁹ Loukas Tsoukalis, *The New European Economy: The Politics and Economics of Integration*, p. 82-3.

³⁰ *Ibid.* p. 83.

³¹ Milica Uvalic, "Regional Cooperation and the Enlargement of the European Union: Lessons Learned?" in *International Political Science Review* 2002 vol. 23 p. 328.

³² *Ibid.* p. 329.

et. al., countries can profit from economies of scale and mobility of capital and labor by creating a single economic region.

Economies of scale suggest that production costs decrease as the volume, or number of goods produced increases. Joining the markets of two or more countries into a single one will logically create a bigger potential market from which a producer can take advantage. The larger number of consumers will lead to a reduction of costs as production increases to meet demand.

Of course, enlarging the market also generally means increased competition, especially following the removal of protective tariffs between member countries. While increased competition may not be beneficial to certain interest groups within the expanded market, primarily non-competitive industries that have been propped up by support from tariffs and subsidies, the increased competition should lead to greater efficiencies. Increased efficiency leads to lower costs and potential increased market share. The benefits to increased competition can often be offset through political maneuvering by affected groups, for example by substituting subsidies where tariffs were once in place.

Elimination on the restrictions of capital and labor mobility allow for more efficient allocation of resources. Capital will flow to low-cost labor regions, while labor will seek out higher wages. Gains in productivity from investment again bring in the advantages of lower costs to the consumer and increased competitiveness for the producer. Labor gains from a rise in wage rates if overall productivity is improved.

The creation of a single currency market, which has more political significance than economic, does carry the advantage, albeit minor, of reducing transaction costs across previous borders. A single currency eliminates commissions and the added time of converting money from one currency to another. These are relatively minor costs, as most of it can be done virtually instantaneously in today's marketplace. In fact the major gains to a single currency market and closer union are more political than economic.

Although heavily debated and criticized, optimum currency area theory does suggest some noteworthy issues to keep in mind when discussing the creation of a monetary union. Because of economic differences between nations, identical or similar fiscal policies can have opposing effects. The most important issues to consider when examining the theory of an optimum currency area are shifts in demand, different preferences about inflation and

unemployment, and variations in labor market institutions.³³ Countries often use fluctuations in exchange rates to adjust to these issues. In creating a monetary union, this tool is restricted.

The concern then is whether or not labor mobility can offset the effect of economic shocks that exchange rate fluctuations no longer counter.³⁴ McKay cites studies by Barry Eichengreen and Paul Krugman comparing regions in the U.S. to the EU that find Europe to be more susceptible to economic shocks because of low labor mobility and regional product specialization.³⁵ Although the political barriers to labor mobility have been removed, the cultural barriers remain.

3.3 *The Interplay of Politics and Economics:*

The discussion of optimal currency areas provides an example of just one of the issues of concern for those studying the effects of political and economic integration. Because States are so involved in the functioning of economic markets, it becomes impossible to divorce politics from economics. States engage in economic redistribution (Welfare), protectionism (Tariffs), taxes and a myriad of other interventionist policies. When States chose to form an economic union, invariably, some control over fiscal policy is ceded.

In order to facilitate the exchange of goods and services and the linking of industries across state borders, government's not only synchronize policies but also create new supranational bureaucracies, particularly regulatory institutions. The creation of the single currency market diminishes national governments' ability to counter economic shocks. Labor mobility becomes important as States have less control over macroeconomic policies like exchange and interest rates.³⁶

McKay suggests that the level of loyalty citizens have to the central government of a union relieves some of the tension of moving resources from one region to another: "voters in (say) Connecticut may be aware that their tax dollars are funding the poor of West Virginia and some may even be resentful of this fact, most are not, and none are so concerned with what is in effect a permanent redistribution that they favor secession or the

³³ David McKay, *Rush to Union*. p. 138.

³⁴ *Ibid.* p. 140.

³⁵ *Ibid.* p. 140-1.

³⁶ *Ibid.* p. 138.

expulsion of West Virginia from the union.”³⁷ Thus if nationalism proves strong in a union between multiple states, redistributive efforts such as those mentioned may prove difficult to accomplish. The citizens of one State may greatly resent the movement of capital and resources from them to citizens of another State. If a bond or common identity can be formed then this resentment can be reduced. The public sentiments of EU and Russian citizens play an important role in this respect. If members of the EU’s or Russia’s public do not feel akin to their counterparts, then economic union, particularly monetary union could be hampered. EU citizens, for example, may be reticent in sending funds to Russia or allowing labor to move freely. EU Enlargement has had problems with domestic labor unions in Western Europe protesting against the supposed usurpation of their jobs by cheap Eastern labor.

V Conclusion

This chapter has established the leading themes in contemporary international relations, focusing specifically on the issues of political and economic integration. It is important to understand these concepts in order to evaluate the possibilities and scope of the future relations between Russia and the EU. The advantages of linking economics and politics such as increased efficiency and transparent practices must be weighed against the loss of sovereignty. I have addressed some of the major themes in international relations theory, particularly those pertaining to the European Union, including realism and neofunctionalism.

The following two chapters will apply the theoretical issues discussed here to the developing relationship between the EU and Russia. The EU has molded its foreign policy from the political developments in Western Europe over the last fifty years. A supranational institution, it uses neofunctional reasoning to ensure security and stability on the continent. Russia, on the other hand, follows the realist outlook of placing the State at the center of its foreign policy and aims directly at increasing the nation’s power in the international system. However, it draws on cooperative agreements and the advantages to economic integration to advance those aims.

Both political and economic integration offer advantages and disadvantages to the EU and Russia. Deep political integration would have profound impact on the continent, as

³⁷ Ibid. p. 134.

it would result in a shift of EU focus to the East. France and Germany would lose a lot of the control they presently have over the union. In addition, the long, deep running suspicion between the publics of the EU and Russia would most likely prevent a lasting political union. However, closer cooperation is both beneficial and likely. Economically, both sides gain from the creation of a customs union or free trade area, but the linking of monetary policies may be too restrictive for both parties. The EU and Russia must decide on the extent of cooperation and integration necessary to meet their individual policy objectives. In the next chapter, I will discuss the events contributing to the current situation. To understand the present day positions of each side, we must examine the factors leading to them.

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Chapter 2:

I Introduction

From *perestroika* under the leadership of Gorbachev in the Soviet Union (USSR) to the push for the Maastricht Treaty in the European Community (EC), the late 1980's and early 1990s resulted in the complete upheaval of the European political system. Relations within the two distinct blocs in Europe (West and East) were not simply disrupted; they were thrown into complete disarray. Western Europe and the new Russian Federation moved from antagonistic foes to reluctant partners in stabilizing and promoting the European continent.

This chapter will examine the opposing activities occurring on the continent at the same time: on the one hand, the dissolution of the Soviet Union, the rival superpower to the United States and antithesis to Western Capitalism; and on the other, the creation of the European Union (EU) and the further political and economic integration of the nations of Western Europe. The remainder of the chapter will be devoted to discussing the initial attempts by these two new entities to forge a productive, lasting relationship.

Few analysts predicted either the fall of Communism in the USSR and Eastern Europe or a deepening integration of the countries of Western Europe, yet by 1994 the USSR had ceased to exist and the EU had come into being. The USSR broke up into a number of new republics, with the Russian Federation assuming the lion's share of the debts and responsibilities of the former union. Without the support of its Warsaw Pact partners in Eastern Europe, Russia quickly fell from its position atop the international pedestal. Instead the country found itself grappling with its diminished power in the world system.

In opposition to the political events in Eastern Europe, Western Europe saw movement towards an ever-closer union. By the early 1980's theories on Western European integration seemed dead: the EC appeared incapable of extending beyond its economic agreements. However, renewed efforts in the mid-80's led to discussion of further economic interaction, the establishment of a single European currency, and even political integration, culminating in the signing of the Maastricht Treaty and the creation of the European Union.

The Western and Eastern halves of Europe appeared to be traveling in different directions at the beginning of the 1990s. The changes taking place on both sides of the dismantled iron curtain demanded a reformulation of foreign policy for all parties. Rather

than remain cool adversaries, both sides recognized the security and trade benefits from increased cooperation and dialogue. The intention of this chapter is to set the stage for the development of the relationship between the EU and Russian Federation during the latter half of the 1990s and early 21st Century. Although the political turmoil of this early period made for a great deal of uncertainty and a focus on solidifying “domestic” relations first, it is necessary to establish the foundations of each party’s outlook to understand their future relationship. Bearing in mind the theories discussed in the previous chapter on economic and political integration will help us understand the motivations for the relations between Russia and the EU.

Although Russia, with its multiple economic and political problems, may appear to have a weaker bargaining position *vis à vis* the EU, its influence over the security of the continent and well educated populace lend favor to its relations with Western Europe. Nevertheless, Russia depends a great deal more on trade and economic aid from the EU than the EU relies on it. In recent years, the EU has acknowledged the importance of close, positive relationships with its immediate neighbors, including Russia. To understand this complexities of this relationship we must look at the end of the USSR and the beginning of the EU. The first post-Soviet Russian foreign minister Andrei Kozyrev perhaps best described the import of the Soviet break-up; it resembles, “a tectonic shift, a global change in the world’s political landscape... One sixth of the world landmass that at different times has been known as the Russian Empire, or the Soviet Union is now in a state of flux. It is undergoing a major facelift that affects the evolution of the world community.³⁸ To decipher this disorder we must begin with the ascendancy of Michael Gorbachev to the forefront of Soviet politics.

II The Fall of the USSR

2.1 The Rise and Fall of Mikhail Gorbachev:

Although Mikhail Gorbachev indicated that serious reforms would be in order upon his ascendancy to the pinnacle of the USSR bureaucracy, neither he nor the rest of the world foresaw that these alterations would lead to an overthrow of the Communist system as a

³⁸ Mark Webber. *The International Politics of Russia and the Successor States*, p. 13.

whole. The Soviet state in 1986 appeared to be strong and secure, with little in the way of strikes or political unrest.³⁹ But underlying this façade of strength was a stagnating economy; from growth in the early 1950's of 11.4 percent per year, the Soviet economy by the mid 1980's was only growing at about 1.9 percent.⁴⁰ Gorbachev and other like-minded reformers recognized the need to integrate the Soviet economy and reevaluate its foreign policy with the rest of the world. To maintain the socialist system in principle, the State required restructuring and catching up on the technological revolution that it had missed out on in the 1970's. The only question was whether or not these reformist initiatives were too late in coming. Unfortunately for Gorbachev his program of *glasnost* and *perestroika* resulted in the unintended consequence of the complete overthrow of the Communist system.

Mikhail Gorbachev did not necessarily have the credentials of an out-and-out reformer; he was a loyal party member who had worked his way up from his local region to the Politburo in Moscow. But he was a member of the new political generation, a generation that while born under Stalin's rule owed little to his plans or policies.⁴¹ Thus, although he was a devoted Communist, he recognized the need to change elements of the system. Not sure of the 'end goals' of his reforms, the intention was not to bury Communism, but re-ignite it, as evidenced in his speech following appointment to General Secretary:

"We do not need to change policy. It is correct and it is true. It is genuine Leninist politics. We need, however, to speed up, to move forward, to disclose shortcomings and overcome them and realize our shining future."⁴²

Gorbachev's reform process can be broken down into three stages, between 1985-87, 1988-90, and 1990-91. His reform program, referred to as *perestroika*, which roughly translated, refers to restructuring of the system, began with the concept of *glasnost* or openness. Perhaps recognizing the futility of restricting information within the USSR with the advent of satellite and other means of communication, Gorbachev and fellow reformers stressed the need to open the press and relay pertinent State information to the people. They cited examples of well-read members of Soviet society, who diligently scanned the papers and watched the news, yet still could say very little about affairs in their own hometown.⁴³

³⁹ Mike Bowker, *Russian Foreign Policy and the End of the Cold War*, p. 9.

⁴⁰ Webber, p. 22.

⁴¹ Bowker, p. 11.

⁴² Ibid. p. 12.

⁴³ Steven White, "From Communism to Democracy?" in *Developments in Russian Politics* 4, p. 22.

Glasnost was intended to introduce a more democratic socialism to the USSR. The period of *glasnost* allowed not necessarily for open criticism of the government, but for more open debate and free transfer of information within the State. It initiated the eventual overthrow of Soviet power.

As *perestroika* moved from the introductory phases to full-scale implementation of restructuring reforms, Gorbachev began to meet with more criticism from both hard-line conservatives and those wishing to push the bounds of reform even further. The reforms extended beyond *glasnost* and releasing political prisoners, to adjustments to the state-controlled economy. Gorbachev had stated early on in his role as leader of the USSR that to run an economy the size of the Soviet Union from Moscow was ‘absurd.’⁴⁴

Whereas States in the West have macro and micro economic plans for their economies, none were nearly as detailed as those of the Soviet Union, which included such minutiae as the number of screws required for individual factories.⁴⁵ The backwardness of the Soviet economy had led to the problems we now so readily associate with socialist states: low productivity levels, dearth of innovation, and shortages of goods. A perfect example of the failures of the Soviet economy is the statistic that in 1980 a US farm worker produced enough to feed 65 people, whereas in the USSR that same farm worker would produce enough for only 6.⁴⁶ It is a wonder that the massive slowdown of the Soviet economy had not demanded reforms at an earlier date. In fact, Alexei Kiva has suggested that the Soviet system was exhausted by the mid-1960’s but was kept afloat by exploitation of its natural resources like oil and coal.⁴⁷ Needless to say, by the time Gorbachev came to power reform was of paramount concern.

Liberalizing the Soviet economy through privatization and encouraging competition meant the opening of the heretofore-isolated Soviet economy. Jerry Hough in 1988 wrote, “the Soviet economy has permitted no foreign investment; it has imported goods only through a monopolistic foreign trade; it has not permitted its factory managers to enter the world economy with their exports or even given them an incentive system that encourages exports.”⁴⁸ By the late 1980’s individual enterprises within the USSR were given the right to trade internationally, and partial foreign ownership was allowed within the USSR.⁴⁹ The

⁴⁴ Bowker, p. 30.

⁴⁵ Ibid, p. 30.

⁴⁶ Ibid, p. 31.

⁴⁷ Ibid, p. 34.

⁴⁸ Webber, p. 50.

⁴⁹ Ibid, p. 51.

intention of opening the Soviet economy to the world market was to stimulate growth and promote interaction between the USSR and the rest of the world. Gorbachev understood that a more open and cooperative Soviet Union was needed if it were to maintain its position in the international community. A more cooperative USSR also meant that it could receive the sorely needed aid from the West to stimulate economic growth and implement reforms. Although Gorbachev has been criticized for encouraging too radical a set of economic reforms for the time, the stagnation of the economy demanded the transition to a market economy. The erratic nature of his political agenda seems to have been his greatest flaw.

By 1990 the voices of criticism on both sides of the political spectrum had risen from whispers to grumblings. Rather than stay the course, Gorbachev became more concerned with maintaining political power. The focus of his leadership moved from implementing economic and democratic reforms to further solidifying the power of the executive.⁵⁰ With the demise of the Warsaw Pact and the fall of the Berlin Wall, Gorbachev appeared eager to retain what power remained for the central State.

The August coup in 1991 essentially marks the end of Gorbachev's leadership. By the end of December of that year the USSR had been dissolved and the world had to deal with the ensuing confusion. *Perestroika* had gone much farther than ever imagined. It had precipitated the end of Communism and the advent of a democratic, market oriented system to the new Russian Federation.

2.2 The Shift in Foreign Policy at the End of the Soviet Regime:

Before discussing the obvious complications of foreign policy under the new Russian Federation, we should chart the direction policy moved during the final years of the USSR. The Soviet foreign ministry eased its hold over Eastern Europe, allowing the surprising and virtually bloodless transition from Communism in this region and became more receptive to communication with the West. Whereas Soviet forces had forcibly prevented changes in political rule in Warsaw Pact members in previous decades, the USSR under Mikhail Gorbachev signaled that such practice would no longer be the case. Soviet foreign policy underwent a massive change near the end of the Cold War.

Eastern Europe played a pivotal role for much of the Cold War. The Soviet Union preferred to maintain control over its "buffer zone" with an iron grip. The Warsaw Pact was

⁵⁰ Bowker. 22.

allegedly an alliance between the Soviet Union and its fellow Communist States of Eastern Europe; however, the consistent use of Soviet forces to quell any protests reflects the uneven nature of this relationship. Unsurprisingly, the overtures by Gorbachev to Eastern Europe of a new foreign policy were met with suspicion. But as States began to test the waters, it became clear that perhaps a new regime was governing the system. In July 1989 Gorbachev solidified this position with a statement to the European Council in Strasbourg:

“Social and political orders in one or another country changed in the past and may change in the future. But this change is the exclusive affair of that country and is their choice. Any interference in domestic affairs and any attempts to restrict the sovereignty of states, both friends and allies or any others, is impermissible.”⁵¹

The Soviet Union had signaled its willingness to the rest of the world to loosen its grip on the States of Eastern Europe and work towards a more open foreign policy. Although the Soviet Union tried to maintain the Warsaw Pact and the Council for Mutual Economic Assistance (CMEA) under the guise of stabilizing the region, the organizations did not last beyond the dissolution of the USSR in 1991 and were generally considered toothless by that time. The CMEA had few supporters even by 1989 as it had failed to integrate the economies of Eastern Europe as well as its mirror organization, the European Community (EC), had been able to do in the West.⁵²

Of no less significance during this time was the change in outlook toward Western Europe. Moscow began advocating a policy with the guiding principle of a “Common European Home,” that stressed the identity shared by all Europeans and the possibility for cooperation between West and East.⁵³ In a major step, the Soviet Union signed a comprehensive trade and cooperation treaty with the EC in 1989. This led to the USSR’s inclusion in the European Bank of Reconstruction and Development and the economic aid programs of several Western European States and the EC.⁵⁴

The USSR had shifted its foreign policy virtually 180° in the 4 years of Gorbachev’s *perestroika*. The economy had been opened to foreign investment, albeit limited, trade and aid agreements had been signed with the West, and the stranglehold on Eastern Europe had been released. Although Russia would continue to play a key role in East European political and economic affairs, it no longer held the position unchallenged. As the Soviet Union

⁵¹ Ibid. p. 92.

⁵² Ibid. p. 98.

⁵³ Webber, p. 34.

⁵⁴ Ibid. p. 34.

dissolved, new foreign policy issues faced the Russian Federation. It needed to account for both the “near-abroad,” those new republics that used to be part of the USSR, and the wealthy, powerful West.

2.3 The Search for Foreign Policy Direction in the New Russian Federation:

Foreign policy under the leadership of the new Russian President Boris Yeltsin often appeared as convoluted and confused as the reform process under Mikhail Gorbachev. Competing for primacy were “Atlanticists,” who believed a close relationship with the West was imperative, and those who wanted a refocus of policy to the “near abroad.” In the wave of euphoria following the downfall of Communism and the commitment to democratic ideals and market capitalism, the Atlanticists seemed to have established control over the foreign policy mechanisms of Russia. Yet, the old suspicion between Cold War foes and the West’s anger over Russia’s handling of situations like Chechnya led to a cooling of relations and an inward turn to the near abroad. This shift back to a “closer” foreign policy resulted in the shelving of a number of plans and agreements between Russia and the West until a later date.

The new Russia was faced with four “realities” in formulating its foreign policy, as described by Alexei Arbatov. Firstly, the dissolution of the USSR left Russia as the largest and most powerful of the successor states. It inherited the diplomatic machinery and claimed the superpower status of the former Union. But despite these innate advantages, Russia also inherited an economy rife with problems like falling production, rising inflation, and an increasing foreign indebtedness. The third reality is the already mentioned difficulty in achieving a foreign policy consensus. This is partly due to the Atlanticist debate and partly due to the functional change from Soviet to Russian structures. And finally, Russia has to deal with an international political environment that has completely altered with the fall of the Soviet Union. Gone is the bipolarity of the Cold War; the international system has become much more a multipolar reality.⁵⁵ The “realities” faced by post-Soviet Russia provide us with the background information to understand the often schizophrenic nature of its foreign policy; the country must deal with military strength, economic weakness, and a multitude of regional situations.

⁵⁵ Ibid. p. 120.

Russia's first foreign minister Andrei Kozyrev began his tenure with a decidedly pro-Western approach. In order to accomplish the two main foreign policy goals set by President Boris Yeltsin, to secure Russia's entry into the 'civilized community' of States and to gain the utmost support for reform of the Russian system, Russia needed to cultivate its relationship with the West.⁵⁶ Kozyrev's policy was not as much idealistically pro-Western as it was a pragmatic assessment of Russian needs and interests.⁵⁷ In order to reconstruct the economy, in Kozyrev's view, the Russian system needed to integrate with the world capitalist system. Russia would therefore benefit both from the long-term gains in international trade and the short-term advantages of capital in the form of donor aid to help with transition.⁵⁸

As is the case in virtually all foreign policy situations, international politics must take a secondary position to domestic realities. When President Yeltsin's pro-Western policy became the target of nationalist critics within the Russian State, the strategy was quickly amended. In order to preserve his domestic power, Yeltsin curtailed the pro-Western ideology, focusing more on the "near abroad," and thus giving his critics less material with which to work.⁵⁹ Rather than take a conciliatory pose in dealing with the West, Russia would attempt to assert its place as an important international actor. As the pluralist critique of realist theory discussed in chapter 1 suggests, Russian foreign policy became subject to domestic concerns. Influential opposition politicians succeeded in forcing a shift in Russian foreign policy. Whether or not this shift resulted in a sub-optimal policy is debatable, however, it demonstrates that domestic and international politics and policy are never divorced from one another.

Following the shift from Atlanticist to a more assertive stance in 1993, relations with the West did not sour but rather marinated. Both sides had more important issues to attend to. For Russia this meant looking to other regions on its immense borders, dealing with former Soviet republics, and concentrating on the thorny issue of Chechnya. For the West, particularly Western Europe, the central focus for much of the 1990s was the creation of the EU, preparing for monetary union, and evaluating the applications of Central and Eastern European Countries (CEEC) for entry to the EU. Before discussing the relationship between

⁵⁶ Ibid. p. 122.

⁵⁷ Bowker, p. 207.

⁵⁸ Ibid. p. 207.

⁵⁹ Alex Pravda, "The Politics of Foreign Policy," in *Developments in Russian Politics*, p. 211.

Russia and the EU during this tumultuous period, we need to address the many dishes on Western Europe's plate of affairs.

III The Rise of the European Union

3.1 The Lead up to Maastricht:

If the CMEA was a monumental failure in integrating the economies of Eastern Europe, its Western counterpart, the EC was a smashing success. Beginning as a coal and steel cooperative intended to prevent the two main protagonists on the Continent (France and Germany) from engaging in another devastating conflict, by the 1980's the EC had spawned an entire school of international political thought. Volumes have been written on the various theories behind political and economic integration and have been discussed in the previous chapter. But by the early 1980's the EC had reached a stalemate; although significant economic integration existed through the customs union and the CAP, future political and economic integration appeared unlikely and the term 'Eurosclerosis' crept into the political vernacular.

But just as the USSR and its affiliates underwent drastic changes in the mid to late 80's, the EC countries rejuvenated integration theory with the signing of the Single European Act (SEA) in 1986. The SEA committed the countries of the EC to work towards the completion of an internal common market by the end of 1992, but most importantly amended the 1957 Treaty of Rome by introducing qualified majority voting (QMV) over internal market legislation.⁶⁰ Contributing to 'eurosclerosis,' or a diminished growth rate, was the veiled protectionism of certain members of the EC. Countries, for example France and Italy, would coddle domestic industries making them uncompetitive and eroding the advantages of a competitive, large "home" market.⁶¹

To facilitate the 'harmonization' needed to achieve the goals set in the SEA by 1993, QMV was a necessary addition. Whereas all agreements prior to 1986 had to be reached by unanimity, new legislation regarding the internal market only required 8 of the 12 States or 54 out of 77 votes to be passed.⁶² No longer could individual states prevent changes to the internal market that might improve efficiency and growth for the EC as a whole. This meant

⁶⁰ Michael J. Baun, *An Imperfect Union*, p. 24.

⁶¹ Martin J. Dedman, *The Origins and Development of the European Union 1945-95*, p. 126.

⁶² *Ibid.* p. 127.

that achieving the measures set out for 1992 could be done in an expedient and prompt manner.

The logical next step of the single market as envisioned by the SEA was European Monetary Union (EMU), of which planning began as soon as the steps toward the 1992 goals were in place. Although the stabilization of exchange rates established in the 1970's led to coordination of national monetary policies, studies had found that costs of economic transactions increased across borders because of the need to exchange currencies.⁶³ EMU would lead to more efficient transactions across European borders, making the market more competitive and profitable. Furthermore, for those wishing to see the further political integration of Western Europe, the creation of a single European currency promised both a symbolic and practical step in this direction.

With the revolutions in Eastern Europe and the fall of the Berlin wall, concern arose as to the fate of EC integration. The German reunification served as a microcosm for the issues confronting West and East Europe. Would the integration process in Western Europe be stunted by the need to deal with Eastern Europe? For some it became imperative that integration proceed, if at the very least to anchor Germany to Western Europe.⁶⁴ Fortunately, the plans for the creation of the EU proceeded at the same time as the reunification of Germany, a precedent that signaled the ability to integrate the countries of the former Communist bloc into the EU framework.

3.2 The Signing of the Maastricht Treaty and Creation of the European Union:

While Russia was dealing with the breakup of the Soviet Union, the countries of Western Europe were focusing intently on negotiating what would become the Maastricht Treaty, the document that brought into being the European Union. Finalized by 1991, the countries of Europe committed themselves to ratifying the treaty by 1992. Included in Maastricht were the provisions both for further political and economic union.

On the political side, negotiations deadlocked over Britain's steadfast refusal to cede sovereignty to the EU. Thus the common social policies of the other eleven States would

⁶³ Baun, p. 25.

⁶⁴ Ibid. p. 37.

not be actual law, only a 'social agreement.'⁶⁵ On the economic side, again Britain led the challenge to full economic union, citing the loss of national sovereignty as an unacceptably high barrier. Although Britain had agreed to a common market, it refused to give up the pound and enter a European monetary union. The Maastricht Treaty provided for the steps toward Monetary Union.

The parties to the agreement settled on the 1st of January 1994 to begin narrowing of exchange rates and the creation of a European Monetary Institute (eventually the European Central Bank) that would coordinate monetary policies of member states in preparation for full monetary union.⁶⁶ The hope was that by 1996, if a majority of EU countries met the convergence criteria of low inflation rates, a budget deficit of less than 3 percent, and a difference of interest rates within 2 percent, then countries would proceed to the next stage of Union. Failing these criteria, monetary union would automatically come into existence in 1999 with those countries meeting the criteria participating, even if they were a minority.⁶⁷

The relatively short space of time to achieve these goals made dedication to the treaty of utmost importance to the governments of Western Europe. Participating countries had roughly ten months from the agreement of Maastricht to its proposed implementation date to get it ratified in referenda. The Danish needed two referenda to ratify the treaty, and governments across the EC faced criticism from domestic groups over the content of the agreement. Following the creation of the European Union, the member countries scrambled to bring their States in line with the criteria for full monetary and political union. As the EU missed the 1996 date for monetary union, the 1999 automatic date meant that for the decade of the 1990s the primary concern of Western Europe was constructing and solidifying the Union.

3.3 The Eastern Europe Question:

If transitioning the EC to the EU took primacy for Western Europe, arguably the second most important issue on its agenda became the applications for membership by CEEC. The original treaty of Rome had stipulated that membership was open to any European nation; Maastricht had tightened the guidelines, explicitly requiring new members

⁶⁵ Ibid. p. 95.

⁶⁶ Ibid. p. 74.

⁶⁷ Ibid. p. 74.

to have democracies and a demonstrably good record of human rights among other things.⁶⁸ These requirements did not stop a wave of applicants following the transition from Communism throughout much of Eastern Europe.

As the CMEA and Warsaw Pact disintegrated, the former Communist States of Eastern Europe looked to the West for willing political and economic allies. Naturally, the EU became a prime target. In the interest of stabilizing the region, the EU had already established a number of aid programs for Eastern Europe. As applications for membership began rolling in, the EU had to decide the best course of action. Enlargement would mean shifting voting dynamics in the European Parliament and a wider range of economic development, but also access to inexpensive labor and new opportunities for growth.

The EU chose a safer path; they accepted the applications of the CEEC, but demanded that before joining the union they satisfy the requirements of the entire *aquis communautaire*. The *aquis* is a massive set of rules and regulations governing social and economic policy within the EU. By requiring the applicant States to adopt the entire *aquis* the EU bought time in which to sort out its own 'domestic' issues of monetary union. Although the EU established regular meetings and aid packages to help the Eastern States comply with the *aquis*, significant movement towards enlargement did not occur until the Euro was safely underway.

The EU did not totally ignore foreign relations during the early 1990s; it established relations with the CEEC, developed a working relationship with Russia, and conducted a number of foreign policy objectives globally. Nevertheless, these activities were largely subordinate to the consolidation of the current union. The EU recognized the need to maintain stability throughout the region and worked to ensure that volatility did not extend beyond the difficulties in the former Yugoslavia. The EU engaged with its neighbors sufficiently to maintain their interest, but delayed any significant decisions until the union was firmly in place. For Russia this meant paying lip service to its strategic position and importance as a peaceful and cooperative neighbor. The EU did not ignore its new neighbor to the East; rather, it did not place it at the forefront of its foreign policy.

⁶⁸ Paul Taylor, *The European Union in the 1990s*, p. 99.

IV The Relationship Between the EU and Russia (1990-1996)

4.1 The Early Years:

“The strategy is distinctly European: it is quite long-term; incrementally integrationist; multi-dimensional; multi-level (sub-national, national, and supra-national); and both functional and institutional. It closely mirrors the neofunctionalist logic that has served Western Europe so spectacularly well over the past half-century; economic integration ‘spilling over’ in political and eventually security integration. Thus the European approach to the ‘Russian security question’ has been basically (and characteristically) indirect: to assist the country’s painful transformation process across the board, in the hope that at some point in time this will also yield security benefits.”⁶⁹

The preceding quote from Danilov and De Spiegeleire perhaps best sums up the EU’s relationship with Russia. They highlight the “functional impulses” that govern its foreign policy relationships; rather than a smooth, effortless transition, the EU tends towards integration through fits and starts. An unfortunate aspect of the early relationship between the EU and Russian Federation is the seemingly bad timing of their respective foreign policy outlooks. While the EU had turned inward at its inception, dealing with issues of political and monetary union, Russia was pursuing a decidedly pro-Western approach and searching for political allies. The swing in Russian foreign policy in 1993 back to issues surrounding the ‘near abroad’ and economic reconstruction meant a slower pace of development. This is not to say that foreign policy between the EU and Russia was non-existent during the first half of the 1990s, but rather that for both parties, more pressing concerns topped the foreign policy agendas. To a large extent, the relationship between the two parties comprised the “rhetoric of partnership and cooperation” with “‘an absence of strategic substance’ to support the claim of strategic partnership.”⁷⁰

As has been previously stated, the primary goal of Kozyrev’s foreign policy was to acquire the necessary aid to rebuild the Russian economy. In 1994, *The Economist* remarked that after two years of economic reform Russia had had “three prime ministers, four finance ministers, two central-bank governors, two parliaments, five governments, and umpteen changes of policy.”⁷¹ Clearly Kozyrev faced a monumental task to help the struggling economy. The EU did not totally ignore the needs of Eastern Europe and the former USSR; it recognized the necessity of aid programs to promote stability on the

⁶⁹ Graham Timmins. *Strategic or Pragmatic Partnership? The European Union’s Policy Towards Russia Since the End of the Cold War*. p. 86.

⁷⁰ Timmins. p. 79

⁷¹ Webber. p. 283.

continent. Providing funding for reconstruction and growth was a much better alternative to a 'balkanization' of the entire Eastern half of Europe.

In 1989 the EC launched the PHARE program, intended to provide technical assistance and aid to Eastern Europe. A year later, TACIS (Technical Assistance to the Commonwealth of Independent States) was born.⁷² The bulk of TACIS funding went to Russia, but Russia has not always been a cooperative recipient. Possibly a holdover from Cold War politics, Russia has often been suspicious of donor intentions and irritated by interference in domestic economic reforms.⁷³ Naturally the once-great power has difficulty accepting aid conditional on meeting the stipulations of donors. Nevertheless, the countries of Western Europe have been the primary donors to Russia, accounting for three-quarters of donor aid in 1992.⁷⁴

The TACIS program has continued throughout the 1990s, but it has not been the only relationship between Russia and the EU. Gorbachev had set the Soviet economy on course to open up to the rest of the world, and the successor States continued along that path. Russia did not ascend to the ranks of the trading elite; it could not crack the list of the top 25 trading nations in 1992.⁷⁵ But it did arrange a number of key agreements extending beyond simple donor aid, chiefly the Partnership and Cooperation Agreement (PCA) with the EU.

The PCA was set in motion at a 1991 EC summit at which it was decided that an agreement with the Soviet Union extending beyond the economic and into the political and social realms was advisable.⁷⁶ By 1994 this had become the PCA with Russia. The PCA contained a number of objectives providing for the further integration of Russia into a wider, cooperative Europe. The PCA was a major break for Russia, as it established a basis for EU-Russian trade and an avenue to a broader market.⁷⁷ Economically, the EU is of much greater import to Russia than *vice versa*.

Russia's shift from pro-Western foreign policy, around the signing of the PCA, led to delay in its implementation. The fact that the EU did not benefit greatly economically from the PCA indicated that the EU found its merits in the political realm. The political requirements of the PCA included "a commitment to political and economic freedoms, the promotion of international peace and security, and respect for democratic principles and

⁷² Timmins, p. 80.

⁷³ Webber, p. 299.

⁷⁴ *Ibid.* p. 303.

⁷⁵ *Ibid.* p. 313.

⁷⁶ Timmins, p. 80.

⁷⁷ *Ibid.* p. 81.

human rights.”⁷⁸ The EU’s decision not to ratify the PCA with the onset of the Chechen situation displays its commitment to the political aspect of the agreement.

4.2 *The Process of Enlargement:*

The applications for membership by the CEEC kept the relationship between Russia and EU on the horizon. The treaty of Maastricht left membership in the EU open to any European nations that upheld democracy and human rights. Although prospective members would have to meet the extensive *aquis communautaire*, no definition of “Europe” had been stated. At the very least, an enlarged EU would extend to the borders of the Russian Federation.

The newly independent CEEC voiced their desire to join the West from early on; membership in the European Union would certainly signify that accomplishment. Russia, on the other hand, never clearly indicated a willingness, nor an aspiration to join the EU. The decision not to apply for membership and for the EU not to offer is a prudent one. Although as Vladimir Baranovsky writes, “half of Europe *is* Russia; half of Russia is *in* Europe,” an EU extending to Vladivostok, a stone’s throw from Japan, would be neither practical, nor for that matter European.⁷⁹ The majority of Russians live in the European side of the country, but its size and multi-regional nature make joining the EU an unrealistic goal.

Russia would be able to take advantage of the many economic rewards of union as discussed in the previous chapter, but as stated there, most of those can be achieved through free trade without having to cede political sovereignty. Without a political impetus to join the EU, Russia has no need to apply for membership. Russia’s position stands in strict contrast to the CEEC that applied; the political motivation for joining the EU was a search for security and protection from the former Soviet Union. The CEEC needed both the economic and political advantages of union.

The EU does not need Russia economically and without a doubt the most powerful actors in the Union, France and Germany, would resent Moscow’s presence in political decision-making. With an expanded Union including Eastern Europe and Russia, the once Western European centered organization would be significantly refocused. The EU controls the capital, technology, and production, which under normal circumstances would place

⁷⁸ Ibid. p. 82.

⁷⁹ Vladimir Baranovsky. “Russia: A part of Europe or Apart From Europe.” in *International Affairs* 76, 3 (2000) p. 443.

Russia in a wholly subservient role. Yet, Russia commands respect from Western Europe; the EU must treat Russia with a delicate touch because of stability and security and Russia's ability to upset both. The EU needs a cooperative Russia and must maintain an active dialogue with it, because of its overwhelming military capabilities. Although nowhere near the strength or efficiency of the Soviet forces, the decrepit and outdated Russian military still overshadows Western Europe's security forces.

By engaging with Russia, providing multilateral aid, and granting certain economic concessions, the EU preserves security and stability on the Continent at a smaller cost than an arms race or full-scale war. Thus, although we should not expect an application for membership in the EU by Russia, the relationship must continue to be one of close, mutual cooperation. The bulk of negotiations for membership with applicant countries took place in the late 1990s; nevertheless, the EU recognized that such an expansion would put it right on the doorstep of the Russian Federation from the earliest applications.

The PCA was the first such effort to demonstrate the EU's commitment to helping Russia transition from Communism to a democratic, market capitalist State. With its attention focused on its internal problems of monetary union and deeper political integration and Russia's turn from "Atlanticism," further agreements and dialogue were delayed. Following the implementation of the Euro and Russia's currency crisis in the late 1990s, the two again turned to face each other.

V Conclusion

The relationship between the EU and Russia today has not fully solidified; during the early 1990s confusion reigned. Both sides had a cornucopia of issues with which to deal and did not devote their full attention to EU-Russian issues. Russia, following an initial pro-Western foreign policy, turned toward a "Russia first" policy by 1993. The newly created EU focused on getting members in line to implement a single currency and deepen the political and economic integration of Western Europe.

Nevertheless, the groundwork was laid for a cooperative, productive relationship through the negotiation of the PCA. The EU's TACIS program provided much-needed technical assistance and financial aid to Russia as it transitioned from Communism to democracy. Appeasing Russia with development aid ensured the stability on the continent

that Western Europe needed to accomplish its goals before turning to the complicated issues of post-Communist Eastern Europe, Russia included.

The following chapter will concentrate on the EU-Russian relationship from the ratification of the PCA in 1997 to the present day. Recent years have seen acceleration in the dialogue between the two parties as they have realized that enlargement of the EU will bring them next door to each other. The parties have discussed thorny issues like that of Kaliningrad, Russian territory soon to be enveloped by the enlarged EU, and a potential common economic space between the two regions. The EU must assuage Russia's concerns over being marginalized on the European continent. Despite its loss of empire and economic misfortunes, Russia continues to command respect in the international community, particularly in Europe. The current relationship can be mutually beneficial, with Russia taking economic advantage of the EU's single market without sacrificing political sovereignty by joining the union, and with the EU benefiting politically from stability and security without sacrificing a great deal.

The purpose of this chapter was to establish the grounds for the relationship between the European Union and the Russian Federation. Only a decade old, the two still have a great deal to learn about their relationship with one another. Relations between the Soviet Union and European Community were virtually non-existent until Gorbachev's *perestroika*. The Soviet economy was almost entirely internal and the EC functioned primarily as an economic cooperative. For this reason, I chose to discuss the monumental changes brought about by *perestroika* and the fall of the Soviet Union and the negotiation of Maastricht and the creation of the European Union. It would be impossible to understand the EU-Russian relationship without first understanding the situation out of which it was born.

The early 1990s reflects a feeling out period in foreign policy between the EU and Russia. Neither side committed itself too greatly and both had a number of issues with which to deal. By the late 1990s, the disorder of the fall of Communism had subsided and room for productive bargaining had developed. The future relationship between these powerful regions is an important one, which cannot be ignored. Once monetary union was organized and Russia stabilized, the two could begin building a cooperative, beneficial relationship.

Chapter 3:

I Introduction

The previous chapter discussed the very different political directions in which Russia and the EU were traveling at the beginning of the 1990s. On the one hand, the disintegration of the USSR had left Russia in a position of defunct empire, with a monstrous bureaucratic engine and a struggling economy; on the other hand, Western Europe created the European Union, deepening economic and political ties on the Continent. Although cursory relations between Russia and the EU existed at this time, both parties had more pressing concerns topping their foreign policy agendas. By the late 1990s, the EU recognized the need to formulate a close relationship with its neighbor Russia.

The political development of Western Europe over the past half-century has been defined by integration theory, particularly neofunctionalism. The first major political institution developed after the Second World War was the Coal and Steel Union between France and Germany, integrating the war making industries of the two nations; since then, Europe has been moving closer and closer together through economic and political linkages. The functional approach should not surprise the student of European international relations; the countries of Western Europe have been pursuing similar policies for over fifty years. Using economic cooperation to contribute to the preservation of security on the continent provides evidence of the neofunctional approach the EU takes to foreign policy.

Integration does not mean enlargement of the EU to include Russia; it refers to further cooperation in the economic, social, and political spheres. For the EU, granting economic access to Russia builds stability along its borders, while Russia gains access to much needed capital and markets. The benefits to free trade and customs unions have been discussed in the first chapter and do not need to be reiterated; the motivation for a closer relationship between Russia and the EU exist on both sides.

This chapter will examine those motivations and what has been done to cultivate them, from the implementation of the PCA, to the negotiations over Kaliningrad and the Common European Economic Space (CEES). The EU has not only recognized that Russia cannot be ignored from a policy standpoint, but also that the relationship must be actively pursued. Russia has become a primary foreign policy matter for the EU. Russia has altered its foreign policy in the late 1990s under Vladimir Putin, adopting a pragmatic, realist

approach. Putin seeks partnerships that will benefit Russia in the short and long term; partnering with the EU serves Russia in both dimensions.

The EU represents Russia's most important trade partner, and with the accession of the CEEC this relationship will only grow in import. For the EU, the gradual integration of Russia's economy with the West has the functional advantage of providing the stability and security it requires. Goltz makes an astute political observation when he remarks, "Moscow has a serious chance of entering Greater Europe through security cooperation with the West. Partnership is only possible when the partners are sincerely interested in each other. Uniquely in the field of defense and security, Russia today appears to be rather necessary to the West."⁸⁰ In order to incorporate Russia into the security structure of Western Europe, however, the EU must integrate Russia economically. The following chart shows the present trade relationship between Russia and the EU, of particular note is the respective shares in each other's trade, with the EU accounting for 39.4% of Russia's trade.

<i>EU and Russia Economic and Trade Indicators</i>		
	EU	Russia
Population (Million)	377.9	144.8
Area (1000 km ²)	3,191.0	17,075.0
Population Density (Inhabitants per km ²)	115.0	9.0
GDP (Euro Billion) (2001)	8,814.0	346.0
GDP per capita (Euro Billion) (2001)	23,170.0	2,398.0
Exports (Million Euro) (2001)	972,080.0	115,049.0
Imports (Million Euro) (2001)	1,017,540.0	59,612.0
Balance (Million Euro) (2001)	-45,460.0	55,438.0
Russia's Share EU trade/ EU's Share Russia Trade	3.3%	39.4%
Exports as Share of Total World Exports (2000)	17.5%	1.7%
Imports as Share of Total World Imports (2000)	18.0%	0.7%
source: http://www.parliament.the-stationery-office.co.uk/pa/ld200203/ldselect/ldcucom/29/29.pdf p. 15.		

⁸⁰Alexander Goltz. "A Chance for Russia." in *The World Today*, Oct 1997. p. 251.

II The Basis for EU-Russian Cooperation in the 21st Century

2.1 The Implementation of the PCA:

Although the fundamentals of the PCA were agreed upon in 1994, the pact did not come into force until 1997. Until 1997 the PCA remained “a declaration of vague intentions rather than a foundation for massive cooperation.”⁸¹ Into the late 1990s, many Russian’s continued to be ignorant of the workings and affairs of Western Europe. Konstantin Eggert provides an anecdote about two senior officials at Gazprom, Russia’s biggest natural gas monopoly and largest exporter, who in 1997 did not know what the Euro was and were only vaguely aware that Europe was preparing the way for a common currency.⁸²

The EU’s attitude toward Russia was not much better. While NATO officials in Brussels considered relations with Russia a top priority, those at the EU’s headquarters down the road seemed to think Europe ended at the Polish borders.⁸³ Implementation of the Euro and applications of the CEEC topped the agenda of the EU, far ahead of its relationship with Russia. Nevertheless, from the implementation of the PCA in 1997, the EU has taken a more interested role in Russia’s development.

To recall, the PCA set out specific areas of cooperation between the EU and Russia, ranging from economic issues of trade and investment, to political issues such as democracy promotion and human rights. Furthermore, it provides for twice yearly summits between the Russian head of State and the head of the EU, as well as multiple talks at the ministerial level.⁸⁴ The PCA is the legal foundation for the relationship between Russia and the EU, and upon it are built all the subsequent agreements and treaties between the two parties.

As a result of the PCA, the leaders of Russia and the EU have become more familiar with each other, and with each other’s needs and wants. The summits allow for structured, fruitful dialogue on the important issues facing Russia and the EU. Amongst these issues is the subject of Kaliningrad, a non-contiguous part of Russia surrounded by Poland and Lithuania. When the EU expands to include these two nations, Kaliningrad will be cut off

⁸¹ Konstantin Eggert, “Russia – An Apathetic European,” in *The World Today*, Oct 1997. p. 250.

⁸² Ibid. p. 250.

⁸³ Goltz, p. 251.

⁸⁴ The House of Lords, Select Committee on the European Union, *EU Russia Relations*, 3rd report p. 8. See also the PCA agreement, available on the EU’s internet site:

http://europa.eu.int/comm/external_relations/ceeca/pca/pca_russia.pdf

from Russia, because EU travel requirements will enter into effect, trumping the agreements on travel reached between Russia, Poland, and Lithuania.

The EU is often seen as a benign entity in international politics, a “‘nice guy’ of international relations: a civilian power or simply an economic giant that fails to act in a proper ‘geopolitical’ manner.”⁸⁵ But the Kaliningrad situation suggests that the EU plays an increasingly significant geopolitical role, which must be appreciated and respected. Pami Aalto portends that far from being a gentle international actor, the EU is in fact directly infringing on the sovereignty of the Russian Federation.⁸⁶ The restrictions on movement of people and goods through the Russian State clearly interfere with Russia’s sovereignty. The encroachment on Russian territory depicts a slight realist leaning to the EU, placing the economic interests of itself above the concerns of its neighbor. At the same time, the infringing on Russian territory is tempered by realist impulses, specifically those of security and self-preservation. The EU has concentrated on finding a workable solution to Kaliningrad in order to avoid serious conflict with Russia. If the PCA has formed the legal basis for the relationship between Russia and the EU, then the EU’s 1999 Common Strategy on Russia has provided the current political-economic momentum.

2.2 *The EU’s Common Strategy on Russia:*

On the 4th of June 1999, the EU adopted its common strategy on Russia. The Common Strategy highlights not only the principal objectives of the EU in terms of Russia, but also recognizes common challenges that both the EU and Russia face. The Strategy also introduced the idea of the CEES. From the EU’s perspective, it represents a pragmatic reaction to a necessary relationship. With the expansion of its borders, the EU will want stable, cooperative partners as neighbors.

The Common Strategy emphasizes the importance of consolidating democracy, promoting the rule of law, and developing an active civil society in Russia. But equally as important, the document speaks of integrating Russia into a common European economic and social space. This includes the development of a market economy within Russia, and the creation of suitable financial institutions for conducting business.⁸⁷

⁸⁵ Pami Aalto, “A European Geopolitical Subject in the Making? EU, Russia, and the Kaliningrad Question,” *Geopolitics*, Vol 7 No 3, (Winter 2002) p. 143.

⁸⁶ *Ibid.*, p. 155.

⁸⁷ The European Council, *Common Strategy of the European Union of June 4 1999 on Russia*, p. 2.

The EU recognizes that it needs a cooperative and prosperous Russia. It relies on Russia because they share common concerns for the continent; the relationship is not one based on sheer altruism on the EU's behalf. The EU receives a large percentage of its energy resources from Russia, has concerns over nuclear safety, and desires a reduction in international crime.⁸⁸ The primary intention of the Common Strategy is to establish the aims of the EU *vis á vis* Russia and provide suggestions for achieving them.

With the implementation of the PCA in 1997 and the Common Strategy in 1999, it became clear in the late 1990s that the EU had turned its attention eastward toward Russia. For both Russia and the EU, cooperation promises a multitude of economic and political advantages. But in order to achieve those gains, the two must learn to trust one another. Centuries of suspicion between Eastern and Western Europe have left their mark on the relationship and contribute to the formation of each party's foreign policy towards the other. The next section examines the foreign policies developed by Russia and the EU respectively.

III Russian and EU Foreign Policies

3.1 The Foreign Policy of Vladimir Putin:

Vladimir Putin appeared virtually out of nowhere when he became the second President of Russia in 2000. He emerged from the role of prime minister, a position that had housed 5 men in 18 months, with few knowing much about his political credentials.⁸⁹ The country he inherited had undergone a major financial crisis in 1998, during which time the ruble collapsed, and was just beginning to recover. In his time as President, Putin has become a prominent international figure, returning Russia to the international stage, without the panache of leaders like Bill Clinton, or even Boris Yeltsin.

From an economic standpoint, Putin inherited a country in shambles. In 1980, the World Bank estimated Soviet GDP to be just under half that of the U.S., at about \$1.2 trillion and \$2.6 trillion respectively; by 1999, Russian GDP had fallen to \$491 billion while U.S. GDP had risen to \$9.1 trillion.⁹⁰ Resurrecting the Russian economy has been a primary goal of Putin's presidency and has directly influenced Russia's foreign policy. Putin has devised a realist foreign policy designed to return Russia to international prestige.

⁸⁸ Ibid. p. 3.

⁸⁹ Bobo Lo, *Vladimir Putin and the Evolution of Russian Foreign Policy*, p. 10.

⁹⁰ Andrew C. Kuchins, "Is Russia Rising," *Carnegie Endowment for International Peace* p. 36

Russia has not traditionally viewed foreign policy as a means of advancing economic interests; under the Soviet Union, the economy was closed to international trade and investment. The foreign policy of the Yeltsin years received criticism for its overly Western stance. Critics believed Russia placed too much trust in the West, and failed to put Russia and its people at the heart of its foreign policy, which contributed to declining living standards and corruption.⁹¹ Putin has adopted a foreign policy of the pragmatic realist, assuring Russians that the demeaning, pro-Western policies of the Yeltsin era are a thing of the past; he has emphasized “the primacy of internal goals over external ones” and argued that Russian foreign policy should proceed from its “national priorities.”⁹² The West no longer has the luxury of a Russia eager to do its bidding at whatever cost; but it does have a Russia willing to cooperate for mutual benefit and gain.

The struggle for Russia’s foreign identity has been hard fought, and plays directly into the pluralist critique of traditional realism discussed in the first chapter. The Russian Atlanticists believe that the Atlantic democracies are the premier States of the international system and that Russia must become part of this group through integration with Western institutions and ways of life.⁹³ On the other hand, the Eurasianists hold that Russia is unique to the international system and should not be forced into the Atlantic mold. Eurasianists come in many forms, advocating various levels of cooperation with the West.⁹⁴ The strong Eurasianist criticism of early Russian policy towards the West has led to the more reserved attitude taken today. The domestic debate has been an important shaping factor to Russia’s contemporary policy.

Today Russia stresses its uniqueness as an Eurasian entity, neither entirely European, nor Asian. Although it has a long history intertwined with the European continent, it has never felt entirely European. Pliais suggests that perhaps Western Europeans are also prejudiced towards their European neighbors:

“The European peoples and states, which are progressive in many respects, always regarded Rus’[sic], then Russia, as being at the outermost reaches of the globe (a country more Asian than European), populated if not by barbarians then at least by hopelessly backward peoples

⁹¹ Lo, p. 54.

⁹² Ibid. p. 54.

⁹³ Straus, “Western Common Homes and Russian National Identities: How Far East can the EU and NATO Go and Where Does that Leave Russia?” in *European Security* vol. 8. No. 4. (Winter 2001) p. 4-5.

⁹⁴ Ibid. p. 5-7.

incapable of efficiently managing their vast riches and boundless expanses. For many Western Europeans, this attitude has become a kind of mental stereotype and is still with us today.”⁹⁵

Pliais argues that the relationship between Russia and Western Europe has always been defined by tension, as a result of differing civilizations. He believes that Russia’s geographic position dictates that it must act as global counterweight. Far from being the result of Communism, Russia has had a tense relationship with Europe from the tsars, through Communism, and up to today’s government.⁹⁶ This mutual suspicion should remind us of the optimal currency area debate from the 1st chapter. As McKay suggested, nationalism can play a blocking role in the creation of a single fiscal/currency area. Abandoning the ruble for the euro would not be in either the EU or Russia’s interest. It would require capital redistribution most likely to raise the ire of the EU’s public. Joining the euro area would restrict the fiscal independence of Moscow; Russia would have to adopt the controls set by Brussels. The differences in development, culture, and a myriad of other factors suggest that full integration between Russia and the EU would be misguided. Fortunately, as we will see later, neither side appears to desire such an outcome.

Vladimir Putin takes a guarded approach to Russia’s foreign policy with the EU. Behind the veneer of cordial relations between the two parties, lies a wariness matured over centuries of distrust. The new Russian government is no longer the unsuspecting Atlanticist willing to appease the West at every turn. Some Russians are particularly concerned that Europe has nefarious designs on transforming it into a “raw-materials appendage,” which Pliais equates with colonialism.⁹⁷ Putin’s shift to a realist perspective means that Russia is a savvier negotiator than the early 1990s version.

Integration has become a foreign policy buzzword for Putin, in which he expresses his desire for Russia to integrate into the world economy, but not at too great an expense. He has spoken of Russia becoming part of “greater Europe” and insists that integration with Europe is “one of the key areas of our foreign policy.”⁹⁸ Moscow has used its greatest asset, oil and energy resources, to work its way back into the international system. It is control over this valuable commodity, which allows Putin to take a firm stance in negotiating with foreign parties, particularly the EU. Russia has become the world’s largest exporter of gas

⁹⁵ Ia. A. Pliais, “Russia and Europe – Why We Need Each Other: On Overcoming the Civilizational Divide,” in *Russian Politics and Law* vol. 39 no. 6. Nov-Dec 2001, p. 81.

⁹⁶ *Ibid.* p. 83.

⁹⁷ *Ibid.* p. 90.

⁹⁸ Steven White, Ian McAllister, and Margot Light, “Enlargement and the New Outsiders,” in *JCMS* Vol. 40 No. 1. p. 140.

and second largest exporter of oil.⁹⁹ As Kuchins states, “Increased trade with Europe based to a considerable extent on Russian exports of oil and gas, however, does not ensure that Russia will become a fully democratic polity. It is possible that Russia could evolve into a necessary evil for Europe, much as Saudi Arabia is for the United States.”¹⁰⁰ The chart below indicates the extent to which Russia supplies fuel to Europe; Russia is by far the largest supplier of natural gas to Europe, promoting its bargaining power with the EU.

Natural Gas Supply to Europe, 2001

	EU-15 gas production	Norway	Russia	Middle East	North Africa
EU-15	23.95%	19.85%	30.87%	13.09%	12.05%
EU+10 applicant countries ¹⁰¹	21.52%	17.84%	38.71%	11.28%	10.51%
All potential applicants ¹⁰²	20.79%	16.46%	41.28%	10.44%	10.88%

Source : BP Statistical Review of World Energy, 2002, Oil and Capital, 09.12.2002

<http://www.unece.org/trade/workshop/april2003/6%20enlargement%20%20Impact%20on%20EU%20Russia%20Relations%20In%20Energy%20Field.doc>

Russia’s control over energy and its still large military make it a formidable negotiator despite its weakened economy. Lo suggests that a common mistake in evaluating Russian foreign policy is the belief that Russia no longer holds ‘great power’ ambitions; he argues that to the contrary, Putin is astutely aware that it “is only on the basis of a strong economy that Russia can hope to regain its position as a global power.”¹⁰³ The driving force behind Russian foreign policy under Vladimir Putin has been the desire to improve the country’s geopolitical position, through realist, pragmatic cooperative agreements with the West.

The work of Susan Strange in her seminal book, *States and Markets*, provides insight into the motivations of Vladimir Putin. Strange identifies four sources of power in the international system: security, finance, production, and knowledge. Each of these areas contributes to an actor’s power and their bargaining strength. The structural power that Strange describes refers to not only an actor’s power to negotiate, but also to set the terms of negotiation. Russia has significant power in the security structure with its massive nuclear arsenal and large military, forcing the EU to respect it during discussions. However, to truly

⁹⁹ Lo, p. 66.

¹⁰⁰ Kuchins, p. 39.

¹⁰¹ Czech Rep., Cyprus, Estonia, Hungary, Lithuania, Latvia, Malta, Poland, Slovak Rep, Slovenia

¹⁰² EU-15 + 10 applicants + Bulgaria, Norway, Romania, Switzerland, Turkey.

¹⁰³ Lo, p. 65.

be considered a world power, Russia needs power in the production and finance structures.¹⁰⁴ Putin recognizes that integrating economically with the EU will increase Russia's power in these two structures.

3.2 *The Foreign Policy of the EU:*

Although the EU and its predecessor the EC have the institutions and capabilities to conduct foreign policy, it has only recently become a focal point of the organization. For much of its history the EC/EU has been viewed solely as an economic union, not a foreign policy machine. But the deepening integration of the 1990s has caused a rethinking of this position. The diplomatic corps and foreign policies of member states have not been abandoned, but today emissaries posted abroad frequently meet together to discuss EU positions and policy in the regions where they are posted. The EU has cultivated a distinct, coherent foreign policy of its own.

Initially the EU seemed incapable of taking meaningful action in the realm of foreign policy; it provided at best "insubstantial...well-meaning demarches (policy statements) on issues of international concern."¹⁰⁵ Because the EU lacked an effective military presence and because individual members continued to have independent foreign policies, many believed that the EU could not develop a successful policy of its own. This view restricts the scope of diplomacy; foreign relations, despite some contemporary leaders' attitudes, extend beyond the use of military force to accomplish policy objectives. The EU has become one of the world's major aid donors, helping to create post-conflict political structures and develop democratic institutions worldwide.¹⁰⁶ According to Smith, "Union foreign policy has not replaced member-state's foreign policy, but created a complementary network of policy possibilities. It has neither evolved as an instrument of member-states nor a Commission-led independent foreign policy."¹⁰⁷ We cannot evaluate the EU approach to foreign policy through our traditional lens, because it presents a unique character in the international community. Nowhere in the rest of the world do we find a group of nations with the same level of economic, let alone political, integration.

¹⁰⁴ For a complete description of the 4 sources of structural power and their impact on the international system see Susan Strange. *States and Markets* 2nd Edition, Pinter Publishing, 1994.

¹⁰⁵ Hazel Smith, "Putting Ethics at the Heart of Europe," in *The World Today*, vol. 54 no. 3 1998 p. 75.

¹⁰⁶ *Ibid.* p. 75.

¹⁰⁷ *Ibid.* p. 76.

By 1993, 157 non-member states had appointed diplomatic missions to Brussels, the administrative home of the EU, an indication of the level of respect it commands on the international stage.¹⁰⁸ The EU has a multitude of councils and commissions dedicated to foreign affairs, with specific groups often focusing on regions of particular import to the Union (there is a delegation of the European Commission to Russia for instance). The EU is by no means a haphazard international player; despite its frequent mischaracterization as a benign economic behemoth, the EU is a sophisticated geopolitical power. Using the tools of integration that led to its creation, the EU has crafted an effective approach to foreign policy. Smith identifies a main theme to the EU's foreign policy:

“The EU encourages both the development of regional integration between its partners for economic reasons – economies of scale, larger markets, etc – and political reasons – the idea that peace between neighbors is more likely if they assume a ‘habit of cooperation’ within technocratic, politically neutral, economic institutions.”¹⁰⁹

We should not mistake integration to mean a final goal of EU membership for Russia. Expanding the EU to include a country the size of Russia would pose geopolitical problems the EU could not handle and would significantly shift power within the EU eastwards. Absorbing Russia into union institutions is not in the EU's best interests, and it has indicated as such. In a speech primarily directed at Russia, Romano Prodi stated that the right of European countries to apply for membership should be respected, “But to clear any doubt, let me also say this. Holding out such a prospect to a country does not mean promising this country that it will definitely accede.”¹¹⁰ Fortunately for the EU, Russia seems to have no intention of ceding its sovereignty by applying for membership; following the EU's Common Strategy, Russia released its own *Russian Medium-Term Strategy for Development of Relations with the European Union* in which Putin makes it clear that Russia will not be applying for EU membership:

“Partnership between Russia and the European Union will be based on the treaty relations, i.e., without any officially stated objective of Russia's accession to or ‘association’ with the EU. As a world power situated on two continents, Russia should retain its freedom to determine and implement its domestic and foreign policies, its status and advantages of an Euro-Asian state and the largest country of the CIS, independence of its position and activities at international organizations.”¹¹¹

¹⁰⁸ Ibid. p. 76.

¹⁰⁹ Ibid. p. 76.

¹¹⁰ Delegation of the European Commission in Russia, “Frequently Asked Questions and Answers on EU Enlargement and its Impact on Russia,” p. 1.

¹¹¹ Timmins. p. 87.

The EU takes a functional integration approach to Russia, looking to link economic agreements to socio-political concerns. An open Russia promises economic gain for the EU; negotiating the CEES would open up an undeveloped region with tremendous resources to the EU. But politically a stable, predictable Russia is more important to Western Europe. The EU cannot allow Russia to shirk social and political reform simply to gain access to its markets. The EU's neofunctional approach extends directly out of the last 50 years of Western European international relations.

As part of its foreign policy, the EU has instituted its concept of a "wider Europe." The EU desires to "create a ring of friends" around it for the promotion of stability and mutual gain.¹¹² The concept of "wider Europe" is an extension of the driving neofunctionalism of the EU itself:

"To ensure that there are no new dividing lines between rich and poor between EU and non EU members we must work together better to tackle the problems that cross borders, for example, environment, migration, energy and regional development. We believe the EU should make a new offer to the countries of the Mediterranean and the European countries of the former Soviet Union, to offer them a stake in the EU's internal market – everything but participation in EU institutions. In concrete terms, this would mean granting them the prospect of the four freedoms - freedom of movement of persons, goods, services and capital and aims to use the full potential of our common policies, from transport to energy, environment, research, culture and education. It also implies sharing a set of values and carry out joint initiatives to pursue common political objectives."¹¹³

"Wider Europe" demonstrates the EU's recognition that it cannot continue its internal integration process without developing a coherent and successful foreign policy. As the EU's "Wider Europe" document states, "The neighboring countries are the EU's essential partners: to increase our mutual production, economic growth and external trade, to create an enlarged area of political stability and functioning rule of law, and to foster the mutual exchange human capital, ideas, knowledge and culture."¹¹⁴ Russia represents the quintessential "neighbor" for the EU's "wider Europe" policy. The EU walks a fine line in dealing with Russia; it cannot afford to alienate Russia, but at the same time does not want to absorb it into the EU. The most effective approach is to create dynamic linkages through their economic relationship.

¹¹² Romano Prodi and Chris Patten, "Living with Our Neighbors," p. 1.

¹¹³ *Ibid.* p. 1-2.

¹¹⁴ Commission of the European Communities, "Wider Europe – Neighborhood: A New Framework for Relations with our Eastern and Southern Neighbors," p. 3.

IV Economics & the Relationship Between Russia and the EU

4.1 EU Development Aid to Russia:

The EU has begun to focus its attention to the East; the enlargement of the union to include the ten CEEC will bring it in ever-closer contact with Russia. The combination of providing a large portion of Europe's energy, possessing a decaying nuclear arsenal, maintaining the largest traditional army in Europe, and having a reputation for "wild west" capitalism rife with corruption and criminality makes Russia a number one priority for the EU. A stable Russia will help create a stable Europe. A key point in building stability is an efficient and successful economy, which the EU has recognized the need to promote.

The PCA and Common Strategy committed the EU to helping rebuild the Russian State. Initially, these documents served only as hollow statements about the consolidation of democracy and rule of law and the development of the Russian economy, without a great deal of actual policy implementation. With the advent of its "wider Europe" strategy, the EU has committed itself to facilitating Russia's integration with the Western economy. That commitment includes providing the necessary development aid to improve and transform Russia's political-economic institutions. TACIS, the aid program established in the beginning of the 1990s, has been a major source of development aid to the Russian state. From 1991 to 2002, the EU provided over \$2.3 billion for socio-economic reforms in the country, mostly through the TACIS program.¹¹⁵ The TACIS program has been streamlined in recent years to focus on complementary areas of development; in no country are more than three areas tackled at a time in order to ensure the most affective approach possible. The areas include institutional, administrative and legal reform; private sector and economic development; consequences of changes in society, infrastructure networks; environmental protection; rural economy; and nuclear safety.¹¹⁶ The support from the EU via TACIS and other programs means that Russia does not need to fully finance the reforms required of it to form the CEES. The EU has renewed the TACIS program with Russia, providing a budget through at least 2006. The EU has set the groundwork for its present relationship with

¹¹⁵ V. Likhachev, "Russia and the European Union," in *International Affairs: A Russian Journal of World Politics, Diplomacy & International Relations*, p. 57.

¹¹⁶ European Union External Relations website, "Overview of TACIS."
http://europa.eu.int/comm/external_relations/ceeca/tacis/index.htm

Russia through these aid programs. The following charts display the division of some of the funding to Russia:

TACIS funds allocations to Russia in million €

- Russian Federation Action Programmes

	1997	1998	1999	2000	2001
Institutional, legal and administrative reform	16	30	15	28	28
Private sector support and economic development	29	31	18	14	19
Alleviation of social consequences of transition	11	3		6	16
Development of infrastructure networks	24	20	14	0	3
Environmental protection, natural resources management	5	10	8	4	0
Rural economic development	13	9	5	0	0
Policy advice; Small Project Programmes	27	24	20	35	20
Others	8	13	11	11	10
Total	133	140	98	98	96

- Other Programmes

	1997	1998	1999	2000	2001
Regional programmes	27	27	21	17	23
Nuclear safety	34	17	12	33	19
Donor coordination	27	28	28	32	30
Programme Implementation support	18	16	17	18	18
Others	6	5	5	2	2
Total	112	93	83	102	92

(Source : European Commission) http://europa.eu.int/comm/external_relations/russia/intro/ass.htm

4.2 Trade and Interdependence in Russia and Europe:

Once the Russian economy opened to international trade, its largest, wealthiest neighbor, the EU, swiftly became its most important trading partner. But the distribution of trade is far from symmetrical. The EU accounted for about 33% of Russia's imports and 36% of its exports in 2000.¹¹⁷ Conversely, Russia is only the EU's 6th most important trading partner behind the U.S., Switzerland, Japan, Norway, and China, at about 4.4% of imports and 2.1% of exports.¹¹⁸ Contributing to the concerns of a "colonial" relationship between Russia and the EU is the nature of the traded goods themselves. While the EU's

¹¹⁷ Ivan Samson, *The Common European Economic Space Between Russian and the EU: An Institutional Anchor for Accelerating Russian Reform*, p. 8.

¹¹⁸ "EU-Russia Trade", From EU's External Relations web page: http://europa.eu.int/comm/external_relations/russia/intro/trade.htm.

exports are generally finished products and services, Russia relies heavily on exports of raw and unfinished goods, primarily natural resources. The sale of gas and oil accounted for over 40% of total Russian exports in 1999 and represented nearly 8% of its GDP.¹¹⁹ In fact, Russia would have a negative trade balance without the sale of gas and oil, which is not recommended for developing economies.¹²⁰

In addition, the Russian economy has experienced a worrying amount of capital flight over the past decade. The Soviet economy was not open to foreign investment, and Gorbachev had hoped that opening it to foreign direct investment (FDI) would improve the economy, but it has been difficult to change the mindset of the Russian elite. The UN commission on Trade and Development (UNCTAD) ranked Russia 104th out of 140 countries in 2002 at attracting FDI; part of the country's problem is the international perception of corruption and organized crime dominating the economy.¹²¹

The debate over the importance of FDI continues, but evidence suggests a strong positive correlation between investment and growth.¹²² Although the direction of causation is difficult to decipher, new reports suggest that investment, whether domestic or foreign, plays a deciding role in determining economic growth.¹²³ The two, growth and investment, form a virtuous circle in which one brings about the other; the more successful an economy, the more attractive it is to foreign investors. Reforming the banking laws and institutions to protect investments should help Russia attract the FDI it needs. The EU is already the largest source of Foreign investment for Russia; as the chart below demonstrates, 5 of the 7 largest investors in Russia are EU countries, placing the EU share of investment in Russia at roughly 50% of the total.

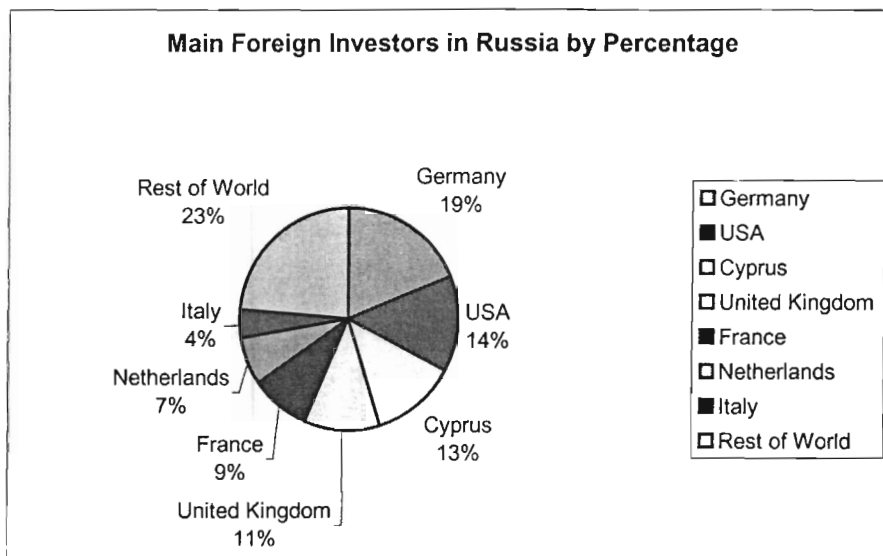
¹¹⁹ Juhani Laurila, "Transit Transport Between the European Union and Russia in Light of Russian Geopolitics and Economics," in *Emerging Markets Finance and Trade*, vol. 39, no. 5, p. 30.

¹²⁰ *Ibid.*, p. 31.

¹²¹ Phillip Hanson, "Joining in But Not Signing Up? Russia's Economic 'Integration' into Europe," p. 1.

¹²² Samson, p. 9.

¹²³ *Ibid.*, p. 9



source: http://europa.eu.int/comm/external_relations/russia/intro/ass.htm

The EU has three major economic policy objectives for Russia: 1. To promote the approximation of Russian legislation to that of the EU, notably as regards customs, harmonization of regulations and certifications, competition policy and environment. 2. To encourage Russia to join the WTO. 3. To encourage Russia to create a market economy by eliminating obstacles to trade and investment.¹²⁴ To increase the attractiveness of Russia to business investment, the EU has made an extensive number of requests for improvement. These include improving the regulatory climate of the energy field, allowing foreign ownership of transportation networks and guaranteed access to them, reforming the tax code, legislating for and implementing effective bankruptcy procedures, establishing a proper legal framework for property rights, reforming the banking system, introducing International Accounting Standards, and adopting a new Land Code.¹²⁵ Although all of these reforms probably do not need to be implemented before the CEES can be established, they would most assuredly need to be on the horizon. Harmonizing the Russian economy with the EU's makes the prospect of integration a real possibility and a successful CEES all the more likely. If the EU is unable to facilitate such a transition in Russia, economic cooperation becomes a more complex and inefficient activity.

¹²⁴ Richard Wright, *The Future of EU-Russia Economic Relations*, p. 1.

¹²⁵ *Ibid.* p. 2.

V Negotiating the CEES

The Common Strategy adopted by the EU in 1999 suggested the establishment of the CEES; discussions on its creation began at the May 2001 summit.¹²⁶ The CEES plays a pivotal role in negotiations between the EU and Russia. The proposed idea presents the economic advantages of a customs union or free trade area for both parties, without the sacrifice of major political unification. This does not mean, however, that political outcomes are not designed results of the CEES.

Samson argues that the CEES is vital to sustain Russian economic growth, because at present Russia is largely a rent economy, relying on primary goods production and exports; this economy is not sustainable, because it depends on world energy prices for support.¹²⁷ He suggests an alternative model based on the assumption that opening the economy to a larger market and increased demand will facilitate the development of a diversified and more efficient manufacturing sector.¹²⁸ Samson correctly argues that Russia should take advantage of its wealth in human capital. The Soviet system, despite its many flaws, did produce a literate, educated society. Russia should use this base of educated workers to develop both its manufacturing and service sector. It could compete with countries like India, where many multi-national corporations have relocated their “back office” services. Russia currently attracts \$3 billion per year in FDI, about ten times less than China.¹²⁹ An increased flow of capital to Russia should be a welcomed event. If negotiations for the free movement of labor and capital, as currently exists in the EU, succeeds, then European corporations may be encouraged to invest within the less expensive borders of Russia.

The prospect of EU enlargement has contributed to Russian fears of being relegated to the periphery of European affairs. Taking into account Russia’s exports to the present EU and adding them to those directed to the CEEC, we find that the enlarged EU will represent 55% of Russia’s total exports.¹³⁰ Granted, the exports are primarily energy related, and thus of essential value to Europe, but it can be a dangerous position to be reliant on a single region for such a large portion of trade. The concern for Russia is explained by Viner’s description of the potential trade diversionary effects of customs unions. The reader may recall from chapter 1 that when two countries *A* and *B* form a customs union, a third country,

¹²⁶ Vadim Novikov, *Common European Economic Space: The Choice of Space or the Space of Choice*, p. 9.

¹²⁷ Samson, p. 7.

¹²⁸ *Ibid.* p. 8.

¹²⁹ *Ibid.* p. 9.

¹³⁰ *Ibid.* p. 11.

C, can be negatively affected even if it is a more efficient producer of a good. Upon enlargement of the EU, Russia will be “sitting outside” an integrated, prosperous market. Current EU members will have access to the developing economies of the CEEC without tariffs or controls on capital and goods. Russia needs the CEES to counter any potential damaging affects caused by enlargement.

Russia is not without a legitimate basis for its concerns over EU enlargement. During the last phase of EU enlargement, when Austria, Finland, and Sweden joined, Russia’s losses reached an estimated \$100 million annually.¹³¹ As the applicant countries turn their economies to the West, Russia worries about potentially having to find replacement markets for its goods. The tighter restrictions on the movement of people between Russia and the EU than between Russia and many of the applicant countries could make it more difficult for both tourism and businessmen. The Kaliningrad issue discussed earlier in this chapter is only a highlight of some of the prospective problems.

The EU has released numerous documents designed to assuage Russian fears over its expansion. According to the EU, Russia will benefit from enlargement by gaining access to a homogenized European market, which means, for example, that once a good meets the safety standards of Slovenia it can be sold anywhere in the Union.¹³² In a 2003 speech entitled “Enlargement of the European Union: Good News for Russia,” Françoise Le Bail claimed recent macroeconomic studies indicated that Russian welfare and trade to the EU should increase significantly following enlargement.¹³³ Further in her speech, she explains that tariffs will be reduced overall, as the average tariff in the EU is 4% while in the acceding countries it is 9%.¹³⁴ The EU cannot afford to have Russia believe that it is being pushed out of the European continent.

The CEES will only be agreed upon if the requirements of the PCA and Common Strategy are met, including the political and social development of Russia; the EU desires Russia to become a more transparent democracy in the hopes of promoting continental stability. Although not expected to adopt the entire *acquis communautaire*, the EU does expect Russia to address certain elements contained therein. Russia must integrate its policies sufficiently with those of the EU; this includes the stability of institutions that

¹³¹ Arkady Moshes, EU Enlargement in the Baltic Sea Region and Russia: Obvious Problems, Unclear Solutions,” p. 1.

¹³² EU Delegation of European Commission in Russia, *Russia and EU Enlargement: Selected Issues*, p. 4.

¹³³ Françoise Le Bail, “Enlargement of the European Union: Good News for Russia,” p. 3.

¹³⁴ *Ibid.* p. 4.

guarantee democracy, human rights and the rule of law, a functioning market economy, the ability to cope in a competitive economic environment, and a transparent, fair set of laws governing finance and economics.¹³⁵ The neofunctional linkages across the political-economic sphere mean that negotiations for the CEES will be long and complex; there will be significant debates over the conditions required for its creation.

The EU has had experience in negotiating free trade agreements in the past, notably with the EFTA in the 1970's. But the envisioned CEES is more similar to the European Economic Area (EEA) created in 1992, which aimed to integrate the partner states more deeply than a simple free trade area. The EU cannot necessarily take the same tack to integration with Russia as it did with the EFTA countries, or even the CEEC.¹³⁶ Russia does not have the advanced economy of the EFTA countries, but has greater bargaining power than the CEEC. The EU cannot insist on Russia adopting the entire *acquis*. Fortunately, the objectives established by the EU for creation of the CEES, although costly to Russia, are in its best interests and likely to be adopted.

VI Conclusion

This chapter has explored the contemporary relationship between Russia and the EU. Unlike the early 1990s, both parties have adopted discernable foreign policy approaches. Russia, under the leadership of Vladimir Putin, has become focused on rebuilding the Russian economy to make the State once again an important geopolitical figure; he has staked out a state-centric, realist international position. On the other hand, the EU has developed its foreign policy directly out of its own history, using economics to link states politically and socially: a neofunctionalist policy.

The impending enlargement of the EU to Russia's borders has brought the two into more than just closer geographical contact; discussions over issues and cooperation have intensified in the last five years. Both parties find it in their strategic interests to form an economic cooperative space. The economic gains to free trade are well noted, and the integration of common economic interests should promote common security and stability interests as well.

¹³⁵ Novikov, p. 11.

¹³⁶ Samson, p. 13.

For Russia close economic cooperation is not only advantageous, but a virtual necessity. An enlarged EU will account for 55% of Russia's trade; securing a stable relationship in this vein is necessary to continue rebuilding its economy. Establishing a free trade region that will take advantage of the EU's four freedoms of movement, capital, labor, goods, and services, should bring much needed investment and manufacturing development. Russia cannot rely indefinitely on natural resources to fund the State. Politically, cooperating with the EU displays Russia's willingness to negotiate and institute meaningful reforms. Acceding to the requirements set by the EU for creating the CEES further legitimizes the Russian State. Cooperating to eliminate crime and corruption, to protect human rights, and to promote civil society has the beneficial effect of encouraging other international actors to develop closer ties with Russia.

Russia's economic benefits to siding with the EU may only be outweighed by the EU's political benefits in closer cooperation with Russia. In no way should the economic advantages for the EU, or the political advantages for Russia, be taken for granted, but they do not measure equally with their counterparts. Economically, the EU does not *need* a free trade agreement with Russia. However, access to the Russian market could prove quite beneficial to Western Europe's capitalists; Russia has a literate, well-educated work force and tremendous resources, making it a potential investment gold mine. But significant investments will not occur there until appropriate reforms have been implemented to protect them. Integrating the markets of Russia and the EU provides much more for the EU in terms of political gain. Creating an area of mutual economic interest cuts across the security structure as well. A stable, prosperous, transparent Russia provides peace of mind for the European continent. A successful economic partnership also paves the way for future partnerships extending beyond economics. The EU and Russia have already begun discussing the possibility of joint military action for crisis prevention and peace keeping.

We see the negotiation process, in addition to being governed by Russia's realist outlook and the EU's integrationist stance, affected by Susan Strange's elements of structural power. The EU plays to its strength, centering negotiations on the CEES and encouraging democratic and other institutional reforms in Russia with the offer of economic advancement. The EU's knowledge of Russia's military and security capabilities keeps its demands reasonable. Both the EU and Russia have found a mutually beneficial agenda with the CEES that fits neatly into their respective foreign policies. Russia has the potential to improve its economic strength, in turn bringing it back to international significance. We

should not expect to see it jeopardize this opportunity by failing to cooperate with the EU. The CEES plays directly into the EU's bargaining strength, economics, and provides ample opportunity to use neofunctionalist reasoning to integrate Russia deeply into the Continent without ceding power or authority to it. With the successful completion of the CEES, the two will stand poised as a formidable duo on the international stage.

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Conclusion:

I Summary

Despite the arguable neophyte status of both the EU and Russia in foreign relations, both have crafted coherent, effective policies out of their respective histories. They have identified the importance and worth in fostering a cooperative, positive relationship leading to economic, political, social, and security benefits. The early stages of their relationship coincided with demanding times in their respective “domestic” spheres resulting in minimal relations between the two. Since the late 1990s, the frequency of dialogue has accelerated and depth has intensified, but the political histories of the two continue to play an important role in their developing relationship.

The breakup of the Soviet Union left Russia struggling to find its place in the international system. As the largest republic of the former USSR, it inherited the lion’s share of the Soviet military and the permanent Soviet seat in the UN Security Council. Yet at the same time, the Russia economy left much to be desired; by the turn of the century, the World Bank ranked Russia as only a “lower-middle-income” country, alongside Albania, Peru, Guatemala, and Egypt.¹³⁷ Russia needed the help of the West to transform the State, implementing democracy and a market economy, but it often grappled with feelings of humiliation over the conditions set for development aid. The domestic debate between Atlanticists and Eurasianists led to a turning away from the West in Russian foreign policy for a significant portion of the mid 1990s.

At the same time in Western Europe, the EC was in the process of creating the European Union. Whereas the EC existed mainly as an extensive economic cooperation union, the EU would bind together the economies and much of the politics of its member states. The proposed union had as its principal goal the establishment of European Monetary Union; this meant that in order to create a single currency for the area the constituent States would need to harmonize exchange rates and fiscal policies. Focusing on the integration of EU member economies left little time for the organization’s foreign policy. The applicant countries from the CEEC occupied most of the EU’s precious little foreign policy time. Thus, while the early 1990s were a time of much political activity on the European continent, the relationship between Russia and the EU received little attention.

¹³⁷ House of Lords, p. 16.

By the latter half of the decade, the respective sides had stabilized their internal affairs to a sufficient degree to begin concentrating on foreign affairs. Russia continued to need foreign aid to develop its economy and complete transition to a working democracy; the EU needed to ensure the security of its widening and deepening institutions. For each, the other has proven a key partner in accomplishing its objectives. Their mutual interest in cooperation and their approach to it have fairly different origins, however, emerging from their individual political histories.

Russia has adopted what I have termed a pragmatic realist approach to foreign policy under Vladimir Putin. The policy has been distinctly shaped by the domestic debate within the State between Atlanticists and Eurasianists. The resulting approach has the state-centric focus of realism but is open, indeed encourages cooperation. What truly classifies Russian foreign policy as realist under Vladimir Putin is the focus on power, particularly in increasing Russian State power in order to return it to prominence in the international system. As the reader will recall, the primary interest of realist theory is States' desire for power and concern over relative gains in it.

Russia's main objective in its foreign policy is no different; it aims to increase Russia's power in the international system. As I have argued, Russia has never abandoned its desire to be seen as one of the world's great powers. It already has military power, with its large nuclear arsenal and standard army; however, it lacks significant economic power. The ability to influence the international system extends beyond military capabilities, as frequently resorting to military force would be unduly expensive and foolhardy. Susan Strange's four elements of structural power, security, finance, production, and knowledge, remind us of economics' importance in the world system. Russia has little power or influence over the international economic structure. In order to reassert its "great power" status, Russia must develop a strong economy to complement its military power. The EU proves an easily accessible and advantageous partner in accomplishing Russia's foreign policy goal.

The EU does not really demonstrate the characteristics intrinsic to realist theory. It is an amalgamation of states that have ceded a great deal of sovereignty to a supranational institution. The result of neofunctionalism, the EU has developed by integrating the economic activities of its member countries, gradually binding them together. The driving theme to neofunctionalism remains "spillover," the idea that functional linkages between certain industries and sectors will facilitate the need for further cooperation, eventually

leading to complete political and economic integration. For example, a customs union is made more efficient by exchange rate harmonization, which then requires coordination between two or more States. This process can in turn be made more efficient by creating a supranational institution dedicated to regulating the process. Thus, countries eventually become intertwined politically through common economic activities.

Such is the process of the development of the EU, beginning with the Coal and Steel Union between France and Germany following the Second World War and evolving into its present state. The EU has adopted a similar neofunctionalist approach to its foreign policy. Playing to its bargaining strength, power and control over capital and production, the EU looks to integrate Russia's economy with its own in order to provide stability and security for itself. The EU has adopted its "wider Europe" policy, promoting regional economic harmonization and integration without absorption of its neighbors into the institutional framework of the union. The political power structure within the EU will remain the same, but promoting the economic development of its neighbors, like Russia, will not only create stability within those borders, but will also foster common interests in the region. By creating economic ties, the EU hopes to create political and social ones as well.

Theories of economic integration are important to discuss when examining the relationship between the EU and Russia, because economics are such a key aspect; Russia wants to improve its economic development and the EU uses economics almost exclusively in its foreign policy. The advantages of economic union, particularly customs unions and free trade areas, are bountiful. Specifically, economies should be made more efficient by the introduction of competition to unproductive sectors of a domestic economy. The free movement of capital and labor will produce cheaper goods for the consumer and should also foster efficiency; capital will move to areas with lower production costs, while labor will be able to move with the capital flows. Although Russia and the EU may not make up an optimal currency area, the creation of a free trade regime would benefit both sides.

Russia needs inflow of capital to help revitalize its economy, as it has been a net exporter of capital recently and needs to repair its outdated infrastructure. The country would be an attractive investment area, with its educated, low cost work force, if it had rigorous, well regulated banking and property institutions. Because making an attractive investment climate in Russia is in the EU's best interests as well, provisions for such institution building are included in aid packages for and negotiations with Russia. Russia's reliance on the expanded EU for trade also makes the securing of access to that market of

utmost importance. Free trade makes the best theoretical economic sense, making markets efficient and providing consumers with the lowest price for goods; the challenge is finding a political solution best approximating the results.

Monetary union would pose more problems than solutions for Russia and the EU; the differences in development between the two countries would make coordinating fiscal policies too difficult. In addition, monetary union carries within it significant political ramifications that neither Russia nor the EU desire. Ceding fiscal control does not fit into Russia's long-term goals, as it would tie Russia directly to the EU and prevent an independent Russian power. For the EU, currency union and further integration would strain resources, as Russia would likely receive more budget allocations than it contributed. Neither side is pushing for more than cooperative integration of the economic spheres.

Cooperation between the EU and Russia fits neatly into each party's respective foreign policies. The EU's neofunctional approach, taking advantage of its economic success to provide security and stability, suits Russia's needs for economic development. The two have begun working on accomplishing these goals.

II Conclusions

Russia and the EU's relationship has evolved quite rapidly over ten years. What began primarily as a donor-recipient relationship has become a partnership in which both parties hold important keys for the other. We should expect to see continued cooperation as the EU expands to Russia's borders and the two find more areas of mutual interest.

The Tacis program marks the start of the EU and Russia's relationship; the on-going aid program is intended to facilitate the transformation of Russian society to a transparent, effective democracy that respects human rights and the rule of law. Coupled with other arrangements, this program remains in the EU's interests because it makes Russia a more attractive investment opportunity for European corporations and entrepreneurs.

The EU quickly followed up TACIS with the PCA in 1994, intending to lay the groundwork for future cooperative endeavors between Russia and the EU. However concerns over Russia's commitment to social reform, particularly its approach to human rights and the Chechnya situation delayed the implementation of the PCA until 1997. Upon its approval, the PCA accelerated the dialogue between Russia and the EU by mandating two executive summits per year, a delegation of the Commission to Russia, and a number of

working groups on the relationship. The PCA and its partner document of 1999, the Common Strategy, committed the EU to fostering close ties with Russia.

The 1990s saw Russia open its economy to international trade, and the EU quickly became its most important trading partner. Russia, as one of the world's largest exporters of natural resources, is the largest provider of natural gas to the EU. The Common Strategy aims to solidify this trade relationship, while reducing cross-border crime and other concerns of the EU. The belief exists that by improving the economy of Russia, many of its social and political problems will be easier to amend.

Although a number of topics have come on the agenda between Russia and the EU, I believe the negotiation of the CEES is by far the most important. The CEES addresses the areas of prime concern for both Russia and the EU and promises benefits to both. It would secure Russia access to the EU market that Russia worries may close to it with the accession of the CEEC to the union. Meanwhile it promises to link Russian economic concerns to the EU, making Russia more likely to cooperate with the EU in other spheres. As the two come in more frequent contact, learning both each other's primary interest but just as importantly, each other's negotiating styles, we should expect to see closer cooperation. Cooperative agreements are in the EU and Russia's strategic interests and the current relationship plays directly into the foreign policy philosophy of each.

This thesis has examined the theory behind the foreign policy philosophies of both the EU and Russia, including the benefits to regional economic integration. Although Russia and the EU have very different intellectual pedigrees for foreign policy, they match up quite well in terms of their relationship with one another. By the late 1990s the political situation on the continent had solidified enough for both the EU and Russia to form effective, coherent foreign policies. We find that the policies developed fit together to provide for mutual benefit and cooperation, linking economics to the socio-political realm. The current relationship proves advantageous to both parties and should continue to be so for the foreseeable future.

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