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Russia's European economic integration Escapism and realities

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Abstract

Russia seeks closer economic ties with EU, and EU is enlarged with 10 new members. Against this background, what future Russia-EU economic relationship is realistic? The paper analyses the enlargement's effect on trade between Russia, "old" and "new" Europe's, changes in tariffs and non-tariff barriers, and institutional issues. The reasons why EU and Russia cannot co-operate closer are political (very difficult), economic (probably less difficult), and legal (very difficult on harmonization and dynamics). Political because of different, e.g. geopolitical objectives (mentioned at the end), economic (as reflected in the NTB-section, e.g.) and legal (the impossibility of an CEES).

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1. Introduction

Both Russia and the European Union (EU) have recently experienced significant changes in their foreign trade relations. Russia seeks WTO accession, and wishes to have a closer relationship with EU. The EU has been enlarged with eight member countries which are neighbours to Russia and formerly were under Soviet dominance. Against this background, what economic and trade relations may the EU and Russia develop?

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In 1994, the answer was given to be a free trade area. It has not been implemented so far. The answer later on in 2001–2003 has become more ambitious but is still unclear: a “Common European Economic Space” (CEES). This paper starts with an overview of Russia, EU and EU’s new member countries’ basic economic characteristics, trade flows and bilateral trade regime. The next sections report on the commitments by Russia and EU. The paper ends with a section with some reflections on the energy bias and an institutional impossibility.

2. Basic characteristics

From the perspective of EU-exporters, Russia is a fairly small economy of the GNP-size of the Netherlands, or slightly bigger than the combined size of the new member countries of EU. However, measured in PPP GNP-terms – the ‘inside Russia’ perspective of someone in Russia – the economy is about the size of Italy. In terms of PPP GNP/capita, Russia has

Table 1
Size of economy: Russia, EU and eight new member countries

	Population 1998, millions	GDP 1998, billion US\$	PPP	
			GNP 1998, billion US\$	GNP/capita 1998, US\$
Russia	147	331.8	907	6180
EU	375.43	8331.6	7617	20619
Austria	8	216.7	187	23145
Belgium	10	259	241	23662
Denmark	5	175.2	126	23855
Finland	5	125.1	106	20641
France	59	1465.4	1248	21214
Germany	82	2179.8	1807	22026
Greece	11	123.4	147	13994
Ireland	4	69.3	67	17991
Italy	58	1157	1173	20365
Luxemburg	0.43	19.2	16	36703
Netherlands	16	389.1	350	22325
Portugal	10	106.4	145	14569
Spain	39	555.2	628	15960
Sweden	9	226.5	176	19848
UK	59	1264.3	1200	20314
New members	73	309.5	646	8548
Czeck Rep.	10	53	126	12197
Estonia	1	4.9	11	7563
Hungary	10	45.7	99	9832
Latvia	2	5.9	14	5777
Lithuania	4	9.4	23	6283
Poland	39	151.3	292	7543
Slovak Rep.	5	19.9	52	9624
Slovenia	2	19.4	29	14400

Source: World Development Indicators, World Bank.

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