BILKENT UNIVERSITY
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ECONOMIC INTERDEPENDENCE AND SECURITY:

THE RUSSIAN-EU CASE

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ANKARA

To My Beloved Grandfather Fahrettin Fikret Kovancı,

I certify that I have read this thesis and in my opinion it is fully adequate in scope and quality, as a thesis for the degree on Master of International Relations.

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ABSTRACT

In the aftermath of the Cold War, the European Community (EC)/ European Union (EU) and Russia went through significant processes of change internally and in their mutual relations. While redefining themselves, these two major actors of the continent also got an opportunity to change their heritage of mutual confrontation. To this end, they have chosen to intensify their economic relations through consultation, institutionalization, and an increase in economic activities such as trade and credits. The wide scope and political motivation behind this rapprochement encouraged this relationship to turn into economic interdependence.

Economic interdependence in Russian-EU relations serves a political end. Parties, both devoid of adequate military capacities, try to change their historical perceptions about each other and realize their own economic and political goals through this relationship. The EU countries want to secure their involvements in Russian economy, mitigate the effects of eastwards enlargement on Russia, and incorporate Russia firmly in the European system so that it will not threaten Europe in the future. As EU countries become more involved in Russia's development, they also become more vulnerable to shifts in Russian policies. As for Russia, it wants to be recognized as a Great Power, and to this end to achieve economic development, and to breach the encirclement it feels due to the dual expansions of the EU and NATO.

This work aims to examine the nature of economic interdependence between Russia and the EU, and the latter's role in easing the historically tense relations.

ÖZET

Soğuk Savaş'ın ertesinde, Avrupa Topluluğu (AT)/Avrupa Birliği (AB) ve Rusya, içişlerinde ve ikili ilişkilerinde önemli değişim süreçlerinden geçtiler. Kıtanın başlıca iki aktörü kendilerini yeniden tanımlarken, mücadeleye dayalı ortak geçmişlerini de değiştirme olanağı buldular. Bu amaçla, danışma, kurumsallaşma, ve ticaret, kredi gibi ekonomik etkinliklerini arttırma yoluyla ilişkilerini yoğunlaştırmayı seçtiler. Bu yakınlaşmanın ardındaki geniş bakış açısı ve siyasal dürtü bu ilişkinin ekonomik karşılıklı bağımlılığa dönüşmesini sağladı.

Rusya-AB ilişkilerindeki ekonomik karşılıklı bağımlılık siyasal bir amaca hizmet etmektedir. Yeterli askeri olanaklardan yoksun olan iki taraf da birbirleri hakkındaki tarihsel algılamalarını değiştirmeye çabalamakta ve bu ilişki yoluyla kendi ekonomik ve siyasal amaçlarını gerçekleştirmeye çalışmaktadırlar. AB ülkeleri Rusya ekonomisindeki yerlerini sağlamlaştırmayı, doğuya genişlemenin Rusya üzerindeki etkilerini yumuşatmayı ve Rusya'yı gelecekte kıtayı tehdit etmeyecek biçimde Avrupa sistemine bütünleştürmeyi istemektedirler. AB ülkeleri Rusya'nın gelişimine karıştıkça, Rusya'nın siyasal değişimlerine daha da duyarlı hale gelmektedirler. Rusya ise, Büyük Güç olarak tanımlanmayı arzulamakta ve bu amaçla ekonomik gelişme sağlamak ve AB ile NATO'nun genişlmesi sonrasında sıkıştığını hissettiği çemberi kırmak istemektedir.

İşbu çalışma, Rusya ile AB arasındaki ekonomik karşılıklı bağımlılık ilişkisinin doğasını ve bunun tarihten gelen gergin ilişkilerin yumuşamasındaki rolünü incelemeyi amaçlamaktadır.

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CHAPTER I

INTRODUCTION

The purpose of this study is to describe and analyze the nature of economic and security relations between the Russian Federation and the European Union. Motivation behind the preparation of this paper is not mere academic curiosity, but rather the intuition that configuration of the Russian-EU relations has the power to reshape the macro-political structure of the world. This intuition stems from two significant aspects of common historical knowledge: First and foremost, *Europe*, considering all its definitions[1], has been both the major stage and actor of world history. Either through paths of civilization and culture or of war, discovery and revolution, *Europe* fundamentally affected the current of history. Secondly, in contemporary history, both Western Europe and Russia went through peculiar processes of change. Combining these two historical data may illuminate the medium-term developments, which will affect the definition of Russian-Western European relationship. The decisive question is whether the construction of a security community in Europe is possible. The answer to this question will not only have impact on the actors or their spheres of influence, but also -as a model- on world politics.

Since this paper is an introductory study on the reflection of emerging

[1] 'Europe' may be defined in geographical, cultural or political terms. Geographically, the Mediterranean separates Europe from Africa. In the West, the rocks of Gibraltar and Ceuta indicate the start of the ocean. Yet, eastern borders of Europe are not that clear. It seems still vague whether Europe ends with the Sea of Azov and the River Don or includes the Urals. After the initiation of the EU enlargement, southeastern Europe, Turkey and Cyprus also became the components of the geographical puzzle. Culturally, Europe is identified with Christendom, the Renaissance and the Enlightenment. Politically, Europe is referred as the cradle of political liberty. All these dimensions of the idea of 'Europe' are intertwined with each other. For a comprehensive elaboration, see Kevin Wilson and Jan van der Dussen, ed. *The History of the Idea of Europe*, (London and New York: Routledge, 1995)

Russian-EU partnership on macro-politics, it seems crucial to draw the intellectual framework cautiously.

The demise of the Cold War stimulated fundamental change for the major political entities of Europe. Both the Russian Federation[2] and the European Union[3] (EU) went through peculiar politico-social experiences: 1) Russia, as the formal heir to the Soviet Empire, shrank into a medium-power, which 'unusually' enjoy nuclear weapons; 2) the EC introduced a new phenomenon to the world politics, namely a 'supranational' state. Major actors of the continent, once sharing a severe rivalry, found themselves on a stage of uncertain, undefined relations. They both carried the legacy of confrontation and faced with an opportunity to change that heritage in the Post-Cold War era.

The above characterization of the parties presents a methodological constraint, namely a level of analysis problem. This difficulty, created by the nature of the subject political entities, needs to be clarified beforehand. Russia, bearing in mind its federative structure, is a nation-state, whereas the EU, composed of several sovereign states, does not fit to the traditional definition of the state. Thus, equating these two actors at different levels of analysis may seem odd to the reader. The specific path to overcome this challenging methodological question will be a practical one: The EU will be treated as a unitary actor as far as the member states' attitudes towards the 'Russian factor' converge. Yet, bilateral relations between Russia and specific member states will be explained when it seems necessary.

Another methodological difficulty stems from the immaturity of the Russian-EU relations. The relationship has been recently institutionalized and is still an

[2] The term 'Russia' will be used instead of the Russian Federation throughout this essay.
[3] The European Community (EC) was renamed as the European Union (EU) in 1993, when the 1991 Maastricht Treaty (Treaty of the EU-TEU) went into force.

ongoing process. That is why there is a limited number of publications on the subject matter. Hence, in some parts, analyses of the author on certain historical events or political statements can be considered as 'over-interpretation'.

A) VARIABLES CONCERNING THE RUSSIAN-EU RELATIONSHIP

In order to elaborate on the Russian-EU relations, first the variables affecting the relationship should be determined and described. Basically, there are four such variables concerning the Russian-EU case: 1) identity, 2) presence/absence of ideological confrontation, 3) balance of economic and military power, 4) economic interdependence. In this chapter, the author will briefly explain the above-mentioned variables, explicate the theoretical and practical reasons of choosing the 'economic interdependence,' and depict the historical background of contemporary Russian-EU relations.

Identity formation is one of the determining factors which moulds foreign policy perceptions of the states. There are two main approaches on national identity formation of the modern state: *essentialism* and *constructivism.*[4] Briefly, the first approach argues that "the political identities flow more or less directly from the underlying cultural 'raw material'" whereas the second one sees the link between identity and culture insignificant.[5] Thus, essentialists argue that the identity is bound to the cultural heritage and it is more or less impossible to manipulate the process. On the other hand, constructivists regard active manipulation of the process possible and stress the inherent 'artificiality' of the identity formation. Above these approaches, there stands another argument, which stresses the *relational* character of

[4] Lars-Erik Cederman, "Political Boundaries and Identity Trade-Offs," edited in L. E. Cederman *Constructing Europe's Identity: The External Dimension* (Boulder: Lynne Rienner Publishers, 2001), p. 10

the identity.[6] Accordingly, "the integration of a human collective necessarily involves the exclusion of non-members."[7] Thus, creation and articulation of an 'us' identity directly brings into existence the 'them' or the 'other' by drawing actual borders or just by rhetoric.

All three arguments, mentioned very briefly, have something relevant for identities of the EU and Russia. For instance, from the viewpoint of the essentialists, formation of a supra-national European identity relies upon the natural development of all-encompassing European culture. That will probably mean the evaporation of individual national identities. On the other hand, from the constructivist perspective, it is possible to form a European identity by using politics and ideology. Through either historical or manipulative path, European identity will be formed by borders the EU draws and by the character of the 'other.'[8] European Union needs an identity to legitimize itself and to constitute a common perspective on foreign policy problems. The EU may complete its integration and achieve the final goal of European oneness only if it puts a coherent supra-national identity in front of the world powers.

On the other hand, Russia -being a nation-state- has an identity, yet debate rises on where that identity belongs. There is an immense literature on Russian identity crisis: Is Russia European? Asiatic? Or both? Does Russia constitute a distinctive identity or present an 'anomaly'?[9] The core of this debate is the duality in

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[5] Ibid.
[6] Iver B. Neumann, "European Identity, EU Expansion, and the Integration/Exclusion Nexus," edited in L. E. Cederman *Constructing Europe's Identity: The External Dimension*, (Boulder: Lynne Rienner Publishers, 2001), p. 142
[7] Ibid., p. 143
[8] For an example of the debate on the European identity, please see Stanley Hoffmann, "The European Union: One Body, Many Voices," *Current*, Issue 365, September 1994, pp. 34-45.
[9] For the examples of this literature, please see Iver B. Neumann, *Russia and the Idea of Europe: A study in identity and international relations*, (London & New York: Routledge, 1995); Neil Malcolm, ed., *Russia and Europe: An end to confrontation?*, (London: Pinter Publishers, 1994), ; Paul Dukes,

Russian aspirations on its own identity: Russia both wants to be included within Europe as an equal partner and simultaneously be a superior, separate entity. Both aspirations are historically rooted and composed of several elements, such as geography, religion, state system. Russia has always been 'different' from the rest of Europe and been regarded as a pupil in some stage of perpetual transition to Europeanization.[10] However, the Russian duality hampers the completion of this process by creating a cycle: "Any regular attack of the Western virus and the resultant spiritual 'thaw' were followed by a regular 'freeze,' invariably accompanied by outbreaks of patriotic xenophobia, struggles against foreign influence, and state expansionism."[11] In sum, Russia is incapable of ending this dilemma either by giving up one of its ambitions or considering its position as an advantage. As one author puts it forward, "the Russian project cannot gain a decisive victory - hence the aim is to make sure that whatever kind of Europeanization emerges there will be a place for Russia in the new world."[12] On the other hand, the EU will either complete its enlargement process and draw its final boundary by pointing out Russia as the 'other' or give up a 'solid' identity and break the cycle by somehow incorporating Russia. Thus, both Russian and European identities will affect the relationship.

Another crucial determinant in this relationship is the presence or absence of ideological confrontation, precisely, whether Russia and European countries advocate for the same way of life or not. In order to exemplify this basic variable,

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ed., *Russia and Europe*, (London: Collins & Brown, 1991); Robert D. English, *Russia and the Idea of the West,* (New York: Columbia University Press, 2000); Gerhard Simon, "Political Culture in Russia," *Aussenpolitik*, III/1995, pp. 242-253.

[10] Iver B. Neumann, op. cit., p. 159

[11] G. Derlyugan, "Was Russia ever a colonial empire?", *International Affairs* (Moscow), 1991, no. 3, p. 87 cited in Neil Malcolm, "Introduction: Russia and Europe" edited in Neil Malcolm *Russia and Europe: An end to confrontation?*, (London: Pinter Publishers, 1994), p. 3

[12] Ole Waever, "Europe since 1945: crisis to renewal," edited by Kevin Wilson and Jan van der Dussen

one may think of 1815 Holy Alliance, initiated by Alexander I and the Cold War period. After the Napoleonic wars, what brought Russia, Prussia and Austria together under the Holy Alliance was the common enemy threatening the autocratic '*ancién regimes,*' that is to say the traditional way these states survive. Likewise, during the Cold War years, what divided Europe above all was the ideological difference. To oversimplify the subject matter, the two hostile camps were the group of states, which chose or were impelled to choose one distinct way of life: either liberal democracy and capitalist economy or 'dictatorship of the proletariat' and communist economic rules. Obviously, it became possible to mention Russian-EU partnership whenever ideological confrontation became obsolete. For instance, as it will be discussed in the historical background part, the Soviet Union was inclined to perceive the European integration as "the political and economic arm of NATO and an imperialist means against the Third World and the working class."[13] Briefly, ideological bases, on which the parties' economic and political systems are built, constitute a decisive element of contemporary Russian-EU relations. Since these bases converge today, even in rhetoric, easement of relations is more likely than ever.[14]

Third major variable of the Russian-EU relationship is the balance between the economic and military capabilities of the parties. Since without a considerable level of capability, it is impossible to realize any foreign policy intention, parity or

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in *The History of the Idea of Europe*, (London & New York: Routledge, 1995), p. 187

[13] H. Seeler, "The Contribution of the European Parliament Towards the Development of the Relations Between Western and Eastern Europe," edited in Marc Maresceau *The Political and Legal Framework of Trade Relations Between the European Community and Eastern Europe*, (Dordrecht: Kluwer Academic Publishers, 1989) p. 106 cited in Esra Hatipoğlu, "Rusya-Avrupa Birliği İlişkileri" *Marmara Üniversitesi Avrupa Araştırmaları Dergisi*, vol. 9, no. 1, 2001, p. 116

[14] For instance, the main agreement between Russia and the EU, the Partnership Cooperation Agreement (PCA) of 1994, refers to the promotion of economic principles of the market economy and Russian democratic reforms as the main objectives. Thus, signatures on this agreement refer to the extermination of ideological confrontation and merger under the rule of a single ideology.

disparity in power schemes will impact the perceptions of the parties. That is to say, parties would have given up their ambitions, if they were rational actors and knew the deficiency of their comparative power. Relevancy of this argument may seem equivocal, since it is difficult to foresee the intentions of a nation-state. Yet, it is a clear-cut fact that European countries have strengthened their economic positions through integration and common market principles, moreover are still being protected under the security umbrella of NATO. Relatively, Russian Federation is at a vulnerable stage of its development. The Federation inherited worn-out military assets and a malfunctioning economic system from the Soviet Union. Furthermore, at the beginning of the decade, Russia had to reformulate its foreign policy and realize the expected reforms with the cadres, again inherited from the communist rule. In the aftermath of the Cold War, the only 'great power' capacity, remained at the hands of Russia, was the arsenal of nuclear weapons. As a result of this power gap, it became difficult for Russia to have a say on international conflicts like the one in Kosovo or remain firm without external aids. Consequently, again as a rational actor, Russia's best option seems to be a balanced, cautious foreign policy, which paves way to closer ties with the West.

As can be seen, the list of variables affecting the Russian-EU relationship may be lengthened. However, all the variables, except one, will be results of historical events or natural processes, immune from human control. That exception, on which conscious manipulation is possible is the economic interdependence. Policy-makers, analysts, statesmen or scholars cannot directly change the identity set-ups, ideological shifts or depth of the capabilities gap. Nevertheless, it is relatively easier to manipulate the economic relations through paths of institutionalization, dialogue, regular consultation, and promotion of common

projects. That is to say, maturation of economic links to an 'interdependent' level may be more effective on total betterment of relations than the impacts of the other variables.[15] This is the exact reason why this variable is chosen for this study instead of the others.

B) THEORETICAL BASIS

As far as the theoretical basis for the above approach is considered, there are two opposite standpoints: liberal and realist schools.[16] Economic interdependence is interpreted in different ways with regard to its results: liberals see bilateral economic interdependence as a causal factor diminishing incentives for conflict, whereas realists see either provoking effects of interdependence or no relevance for peace at all. The realist paradigm's premises are clear-cut: 1) Nation-states are the main actors of international politics (state-centric perspective); 2) Domestic and international spheres of operation are separate from each other; 3) States survive in a single world of "repetitive competition for the single stake of power."[17] Contemporary advocates of realism, like Kenneth Waltz and Joseph M. Grieco make further contributions to the understanding of the paradigm by stating that nation-states are interest-oriented, rational and unitary actors operating under anarchical conditions, namely "absence of a reliable central authority."[18] These premises

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[15] Apparently, rapprochement through economic interdependence is not a new catalyst for confrontational relations. For instance, one of the motives of the idea of European integration was to solve the long-standing Franco-German antagonism and it is not a coincidence to give priority to the construction of economic partnership.

[16] In various sources of International Relations (IR) literature, these schools of thought may be referred with different names. Moreover, the same theoretical traditions have been brought up as liberal institutionalism or neo-realism in the Post-Cold War era. Since the main tenets are the same under different designations, in this essay, 'liberalism' and 'realism' will be used.

[17] Richard W. Mansbach, "The Realist Ride Again: Counterrevolution in International Relations," edited in James N. Rosenau and Hylke Tromp *Interdependence and Conflict in World Politics* (Alderhot: Avebury, 1989), p. 221

[18] For sources on classical realism, please see E. H. Carr, *The Twenty Years' Crisis, 1919-1939: An Introduction to the Study of International Relations*, (New York: Harper & Row, 1964) and Hans

explain why "states are by definition self-help agents"[19]:

> **(...) to achieve their objectives and maintain their security, units in a condition of anarchy - be they people, corporations, states, or whatever - must rely on the means they can generate and the arrangements they can make for themselves. Self-help is necessarily the principle of action in an anarchic order.**[20]

Under realist conditions, interdependence appears to be an unfavourable position, since it threatens the basics of international politics. Realist opposition relies on two points:

- Increasing dependence of individual states "on goods produced in other states" and "loss of autonomy in economic decision-making" constitute sources of insecurity for nation-states.[21] Since market forces increase the vulnerability of states and decrease their control over international trade, investment, and finance; states get devoid of means for maintaining the self-help system and become totally unprotected.[22]
- In realist terms, "states are *positional,* not atomistic, in character, and therefore [...] states in cooperative arrangements also worry that their partners might gain more from cooperation than they do."[23] Thus, contrary to the liberal thinking, states do not satisfy with *absolute gains* and do concern about the *relative* ones.

In sum, according to the realist school, interdependence increases

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Morgenthau, *Politics Among Nations*, (New York: Alfred A. Knopf, 1985). For the quotation, see Joseph M. Grieco, "Realist International Relations Theory and the Study of International Politics," edited in M. W. Doyle and G. J. Ikenberry *New Thinking in International Relations Theory*, (Boulder: Westview Press, 1997), p. 164

[19] Ibid., p. 165

[20] Kenneth Waltz, *Theory of International Politics*, (New York: Random House, 1979), p. 111

[21] Beverly Crawford, "The New Security Dilemma Under International Economic Interdependence," *Millennium*, vol. 23, no. 1 (1994), p. 27

[22] Ibid., p. 29

[23] Joseph M. Grieco, "Anarchy and The Limits of Cooperation: A Realist Critique of The Newest Liberal Institutionalism," *International Organization*, vol. 42, no. 3 (Summer 1988), p. 487

uncertainty, brings about extreme forms of inequality to the already anarchical international system, and creates a world more prone to conflict.

On the other hand, liberal approach towards economic interdependence has been constructed with different voices and explanations. For instance, 17th century intellectual Eméric Crucé argued that wars break out because of misunderstandings and the interests of warrior classes, and may be reduced by expanding commerce.[24] Accordingly, "trade create[s] common interests, increase[s] prosperity and political power of the peaceful, productive members of society."[25] Whereas Crucé binds the expansion of commerce and ending of wars to the development of the *bourgeoisie*, Immanuel Kant relies on *human inclinations* to support his intuition for prevalence of "financial power."[26] The core of this interpretation is that economic interdependence is one of the legs of a tripod -together with democracy (republican-constitutional government) and international law- constituting the conditions for *Perpetual Peace*.[27] Accordingly, economic interdependence promotes peace not because of its inherent virtues, but because of the constraints these legs impose on the domestic and international mechanisms. An adherent of Kant, Norman Angell, emphasized the mutual interests of the states in economic cooperation and argued that economic frontiers of a state may go well beyond its political frontiers and damaging others' markets means loss of potential or exact consumption markets, reduction of market competition, and crumbling of the whole economic wheel.[28]

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[24] John R. Oneal and Bruce M. Russett, "The Classical Liberals Were Right: Democracy, Interdependence, and Conflict: 1950-1985," *International Studies Quarterly*, vol. 41, no. 2 (June 1997), p. 268

[25] Ibid.

[26] Hans Reiss, ed., *Kant's Political Writings*, (Cambridge: Cambridge University Press, [1795] 1991), p. 114.

[27] Bruce Russett, John R. Oneal, and David R. Davis, "The Third Leg of the Kantian Tripod for Peace: International Organizations and Militarized Disputes, 1950-85," *International Organization*, vol. 52, no. 3 (Summer 1998), p. 441

[28] Norman Angell, *The Great Illusion - Now*, (Harmondsworth: Penguin Books, 1938), p. 264 cited in

Angell underlines the realistic traits in his argument by stating that "war will not stop itself apart from human endeavour, man can, since he makes war, also make wars to cease."[29] From a different viewpoint, for instance, in writings of Karl W. Deutsch, it is claimed that "trade and other forms of intercultural exchange would help foster the development of a 'sense of community,' which makes the resort to violent forms of conflict resolution increasingly unlikely."[30]

As some of them are summarized above, there is a wide literature on how interdependence functions to establish peace. Moreover, there are some authors using game-theoretic approaches or introducing new concepts to the equation.[31] However, the gist of liberal arguments are similar: through one way or other, economic interdependence removes the *use of force* out of the pool of policy options and promotes solution of disagreements with non-militaristic means, such as mediation. That is to say, growing economic interdependence increases the security enjoyed by the parties by making the use of coercion unlikely. On the other hand, realist school argues that economic interdependence is either ineffective on security concerns or conditionally bound to the security factor. Thus, states cannot build 'friendly' relations through the other way around, and should first guarantee a certain level of security.

Both theories are relevant to the Russian-EU case: A realist may argue that Russian-EU economic partnership is stemmed from removal of the security threats

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Jaap de Wilde, "Norman Angell: Ancestor of Interdependence Theory," edited in James N. Rosenau and Hylke Tromp *Interdependence and Conflict in World Politics* (Aldershot: Avebury, 1989), pp. 17-20.

[29] Ibid., p. 23

[30] Karl W. Deutsch, *Political Community and the North Atlantic Area*, (Princeton: Princeton University Press, 1957) cited in Katherine Barbieri and Gerald Schneider, "Globalization and Peace: Assessing New Directions in the Study of Trade and Conflict," *Journal of Peace Research*, vol. 36, no. 4 (July 1999), pp. 388-389

[31] For example, Dale C. Copeland, "Economic Interdependence and War," *International Security*, vol. 20, no. 4 (Spring 1996), pp. 5-41 or R. Harrison Wagner, "Economic Interdependence, Bargaining

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and cannot build a 'security community' in Europe without giving priority to security concerns. Yet, a liberal would say that economic interdependence between Russia and the EU has the capacity to change the destiny of the continent and dismantle the clashes of interests forever. This study is written to question the likelihood of this liberal premise because of two reasons: first, subject matter makes reference to the very *raison d'être* of the discipline, namely to search for reasons of war and prospects for lasting peace. Contrary to the realist perspective, which seems to *justify* the reality, liberal viewpoint formulates a new hypothesis, valid or not, but worth to investigate. Second, even though economic interdependence is proved to be unsuccessful in totally changing security perceptions, effects of economic concerns on *realpolitik* should be examined in order to constitute a model for other bilateral relationships, identified with long-standing, historical confrontation.

C) HISTORICAL BACKGROUND

In order to present a complete account of contemporary Russian-EU relations, it is necessary to give a brief historical background. During the Cold War, Soviet attitude towards the European Economic Community (EEC) and the idea of European integration was under the heavy influence of the Marxist-Leninist ideology. According to the communist way of thinking, "the notion of capitalist powers cooperating in a sustained way to serve enlightened economic interest was quite alien."[32] Thus, until the 1970s, the Soviet Union regarded the EEC/EC as an "anti-Soviet ploy initiated in Washington."[33] Yet, "in opposing West European integration, the USSR traditionally followed a dual approach: on the one hand it

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Power, and Political Influence," *International Organization*, vol. 42, no. 3 (Summer 1988), pp. 461-483.

[32] Neil Malcolm, op. cit., 10

criticized the Community for its inward and exclusive character, while on the other it proposed all-European or global alternatives to it."[34]

Generally, there are four points highlighting the Soviet standpoint in the Cold War years:

1. The Soviet Union underestimated the European Community and did not take it seriously for a long time.
2. USSR's negative attitude towards the EC stemmed from the perception that integration in Western Europe would probably have a military dimension, excluding the Soviet territories. For instance, USSR attached no importance to the Schuman Plan, whereas it definitely reacted against the constituent agreement of the European Defense Community (EDC).[35]
3. The Soviet Union intended to link the EC with Council of Mutual Economic Assistance (CMEA), East European economic cooperation institution and tried to gain official recognition for CMEA and Soviet presence in Eastern Europe. Yet, these hopes were difficult to realize under the shadow of the Cold War.
4. Soviet underestimation of the EC ended when the EC began to emerge as a third political power in the bilateral system. In 1970s, as the friction within the Transatlantic Alliance arose, the Soviet Union began to attach importance to the Community.[36]

With regard to the European attitude towards the Soviet Union, there is vagueness, caused by the nature of the Cold War. Between two hostile blocs, with its economic outlook, EC was not playing one of the vital roles in the game. In fact,

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[33] Ibid., p. 11
[34] John van Oudenaren, *Détente in Europe: The Soviet Union and the West since 1953*, (Durham and London: Duke University Press, 1991), p. 275
[35] A. Smith and H. Wallace, "The European Union: Towards A Policy For Europe," *International Affairs*, vol. 70, no. 3, 1994, p. 430-432 cited by Esra Hatipoglu, op. cit., p. 121
[36] Neil Malcolm, op. cit., p. 11

immediate danger of a nuclear war on Western European territory turned it into a luxury to have a voice separate from the US'. Nevertheless, an exceptional period had been experienced in Europe, namely *Detenté*. In fact, *Detenté* was rather a process with several steps:[37] first step was the conclusion of commercial agreements between USSR and individual Western European countries in 1950s. Later, parties also signed scientific and technological exchange agreements. "In the late 1960s, permanent economic institutions, such as the joint commissions, were established," and by the early 1970s, the volume of economic relations reached to the level of "economic and industrial *cooperation*."[38] However, efforts to make *detenté* "irreversible" and "to supplement political and military detenté" had failed due to a couple of reasons.[39] First and foremost, increases in the price of energy, which used to be lower, and recession in Western Europe negatively affected the trade volume. Secondly, friction on the security issues, for instance NATO's decision to launch the Intermediate-range Nuclear Missiles (INF) on the continent or Soviet war in Afghanistan, revitalized the Cold War spirit.[40] That is to say, *Detenté*, with regard to its importance as an early trial of *interdependent* peace, failed to meet the expectations of liberal school. As realists truly estimated, security concerns were not overcome by economic interdependence.

With regard to institutional relations, USSR signed its first trade and economic cooperation agreement with the EC in December 1989.[41] This treaty also represents the official Soviet recognition given to the EC. Yet, efforts to develop the

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[37] John van Oudenaren, op. cit., p. 271-273
[38] Ibid. (emphasis added to stress author's point. Author means that level of commercial relations reached to a point that can be defined as *cooperation*), p. 272
[39] Ibid., p. 348
[40] Ibid, p. 350-351
[41] Perdita Fraser, "Russia, the CIS and the European Community: Building a Relationship" edited in Neil Malcolm *Russia and Europe: An end to confrontation?*, (London: Pinter Publishers, 1994), p. 200

relations beyond the framework drawn by this agreement were interrupted by the stormy years of 1989-1991. By the end of the year 1991, the Soviet Union was 'peacefully' dismantled, while the European Community was preparing itself for a closer union. To this end, the European Community (EC) decided to employ common monetary, economic and foreign/security policies at the December 1991 Maastricht Summit, namely the European Monetary Union (EMU) and the Common Foreign and Security Policy (CFSP).[42] Besides this improvement towards *deepening*, the EC gave the signals for *enlargement* towards Central and Eastern Europe. However, ambitious objectives of the Community resulted in disagreements about the fundamentals of the ongoing change. Since this move of the Community challenged the sovereign nature of the European states, they preferred either to opt out from certain provisions of the treaty, for instance, the target of establishing a single currency, or to interpret the Maastricht Treaty as the tenet of a "looser bloc".[43]

On the Russian side, domestic and foreign policies were being reformulated under the governance of President Boris Yeltsin and Foreign Minister Andrey Kozyrev. This period was especially important because of the *Atlanticism-Eurasianism* discussion.[44] Being rooted in the historical identity of Russia, some advocated closer ties with Europe while others put their country on a different stage by emphasizing its uniqueness against Europe, respectively. These two standpoints also adopted their own policy implications, that is to say, either collaboration with the *West*[45] as a European power or decoupling from Europe. Especially "the first two years of the Yeltsin government were characterized by a foreign policy, [in which] the

[42] Richard L. Kugler. (1996) *Enlarging NATO: The Russian Factor*. RAND: Santa Monica, pp. 1-3.
[43] Ibid., p. 2.
[44] Richard Sakwa, *Russian Politics and Society*, (London and New York: Routledge, 1993), pp. 292-293.
[45] 'West' is referred to the Western Europe (presented by the EC/EU) and the US.

development of closer relations with the West dominated everything else."[46] It was the Post-Cold War euphoria in Europe, which triggered the idea of building up a pan-European security structure. For the Russians, the best option for that mission was the Conference of Security and Cooperation in Europe (CSCE), which would counterbalance the power of the U.S. within NATO. Besides such security organizations, the Russian governors did not attribute much significance and primacy to the European Community, emerging in a new format with its security means. Thus, Russia focused on the future commitments of NATO and the alternative role of the CSCE.[47] Even in terms of economic relations, Russia-EC trade did not constitute a shining instance; moreover, Russia was being indebted to individual countries, like the US or Germany [48] instead of the EC.

In December 1993, the Russian Federation elected a new State Duma and ratified the new Constitution. Beforehand in November, the 1993 Military Doctrine was initiated. In this document, although Russia expressed that "no country is regarded as an adversary", it determined its vital interests by equalizing its own security to that of the *Near Abroad* (a security belt around Russia composed of the Former Republics of the Soviet Union).[49] Furthermore, statements of this doctrine declare that Russia would defend its vital interests on internal order, borders and beyond the country by resorting to the use of military power.

Aftermath of this Military Doctrine also marked the beginning of a more

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[46] Christopher Bluth, *Russia and Europe*, (Stockholm: FOA Swedish Defence Establishment, January 1997), p. 27.
[47] A. Konovalov. "International Institutions and European Security: the Russian Debate", edited in M. Carnovale *European Security and International Institutions after the Cold War* (London: MacMillan, 1995), pp. 120-121.
[48] For instance, Germany provided 81.2 billion DM from 1990 to 1993 to the former Soviet states. Hannes Adomeit, "Russia as a 'Great Power'", *International Affairs*, No.1, January 1995, pp. 35-68; cited in C. Bluth, op. cit., p. 29.
[49] R. Kugler, op. cit., p. 129.

isolationist approach in the Russian foreign policy. This isolationism, stemming from the failure of the economic reforms, further undermined the relations between Russia and the EC. Meanwhile, the growing turmoil in Central and Eastern Europe, and especially the war in Bosnia and Croatia, ended the European euphoria and resulted in increasing importance and prestige of NATO.

In sum, up until the signing of the Partnership and Cooperation Agreement (PCA) in 1994 between the parties, there was no significant attempt to construct closer relations. By the year 1994, the Maastricht Treaty was in force and the Russian interest towards this new international actor, equipping itself with a security identity, was growing. However, those years apart from each other brought about the politico-social gap between Russia and the EU. Contrary to the economic and political development and prosperity enjoyed within the EU, Russia has turned into an authoritarian presidential federation with a ruling elite composed of "pragmatists from the mid-level nomenclature" and a corrupted, criminalized political system.[50] In fact, realities of Russia are different from the expectations of the West: Russia, while trying to adapt itself to the conditions of the market economy, does not modify any of the tenets of the undemocratic political system. Hence, Russia lacks the political and legal system for economic development. However, the EU constructs all its policies on the economic and political initiatives, which would be taken up by the Russian leadership in the future. Finally, this gap and more may be observed in Russia-EU relations in the second half of the 1990s.

The most significant figure of this period, who further improved the relations,

[50] Oleg Bogomolov, "The New Russia in a New International Environment: Political, Economic and Security Dimensions", edited in *Symposia and Conferences: New Security Policy*, National Defence Academy, 6/94, November 1994, p. 41.

is President Vladimir Putin. Under his governance beginning from 1999, Russian-EU relationship entered a new phase. This thesis will focus on the prospects and implications of this contemporary era. In order to make an introduction to the new macro-political structure of the world, to question the capacity to be a model for other confrontational relations and to understand whether it is possible to manipulate economic interdependence, this paper will be organized to configure economic and security aspects in Russian-EU relations. Comparison of different IR theories on the subject matter will not be the main focus of this paper. Yet, realist and liberal viewpoints will be helpful to explain some of the notions and perspectives. Bearing in mind the motivation and purpose of the paper, the research questions and the hypothesis of the whole study is as follows:

- Does Russia constitute a threat for Europe or vice versa?
- Is it possible to define the economic interactions between Russia and the EU as *economic interdependence*, if yes, to what extent?
- What is the role of economic interdependence in easing tensions between the parties?
- What are the 'third variables,' for instance the role of absence of ideological confrontation?
- Does security factor dominate the Post-Cold War relations between Russia and the EU despite the growing economic interdependence between them?

In order to construct a meaningful analysis on these research questions, throughout this thesis paper, the following hypothesis will be the core: increase in economic interdependence stimulates mutual trust, institutionalization of economic

partnership, and through dialogue, eases off long-standing threat perceptions and decreases the possibility of use of force in the form of armed conflict.

CHAPTER II

ECONOMIC INTERDEPENDENCE

A) CONCEPT OF INTERDEPENDENCE

As a concept of social sciences, *interdependence* has a speculative nature despite its simple grammatical structure. Reason of this vagueness is the diversity of argumentations on the features of interdependence. Precisely, conception of interdependence is framed by "objective circumstances that render systems dependent to each other and the subjective interpretations of these circumstances."[51] In order to exemplify these different and "speculative" interpretations, it seems relevant to exhibit two central definitions of the notion and determine its most pertinent features.

Interdependence is defined by Richard Rosecrance as "the direct and positive linkage of the interests of states where a change in the position of one state affects the position of others and in the same direction."[52] According to this conceptualization, interdependence is incapable of changing the policy options or decisions of the actors. Interdependence in Rosecrance's sense is a passive element in international affairs. His version stresses the feature of mutual benefit and weakly refers to decisive influence of interdependence. That is to say, "interdependence only specifies the degree of connectedness between two societies; it does not predict what

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[51] James N. Rosenau, "Subtle Sources of Global Interdependence: Changing Criteria of Evidence, Legitimacy, and Patriotism," edited in James N. Rosenau and Hylke Tromp, op. cit., p. 33

[52] R. Rosecrance, A. Alexandroff, W. Koehler, S. Laqueur, and J. Stocker, "Whither Interdependence?" *International Organization*, vol. 31, no. 3 (Summer 1977), p. 426, cited in Paul A. Papayoanou, "Economic Interdependence and the Balance of Power," *International Studies Quarterly*, vol. 41, no. 1 (March 1997), p. 116

action will be taken by either of them."[53] Moreover, Rosecrance states that "final effect of interdependence among nations is not to choose a course of action for statesmen, but to magnify the consequences of the choice that is made."[54] Thus, whether it is a true interpretation or not, Rosecrance's standpoint assumes the presence of interdependence, but playing a minor role in consequences of power relations instead of giving direction to them.

On the other hand stands Robert O. Keohane and Joseph S. Nye's definition of interdependence, mostly referred in the post-Cold War studies:

> **[...] *dependence* means a state of being determined or significantly affected by external forces. *Interdependence*, most simply defined, means *mutual* dependence. Interdependence in world politics refers to situations characterized by reciprocal effects among countries or among actors in different countries.[55]**

According to Keohane and Nye's argumentation, the key characteristic of interdependence is its reference to *asymmetrical* relationships.[56] That is to say, an interdependent relationship in the form of pure symmetry -balanced in terms of costs and benefits being posed onto both parties- is difficult to identify. Thus, in practice, the spectrum of interdependence ranges from *asymmetrical* to *purely dependent* ties between parties. Since pure dependence is considered as *exploitation,* asymmetry is the main focus of the authors. What makes asymmetrical interdependence more interesting is its capacity to affect the balance of power between the parties rather than just magnifying the already existent consequences:

> **It is *asymmetries* in dependence that are likely to provide sources of influence for actors in their dealings with one another. Less dependent**

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[53] R. Rosecrance, "War, Trade and Interdependence," edited in James N. Rosenau and Hylke Tromp, op. cit., p. 52
[54] Ibid., p. 56.
[55] Robert O. Keohane and Joseph S. Nye, *Power and Interdependence*, (New York: HarperCollins Publishers, 1989), p. 8
[56] Ibid., pp. 10-11

actors can often use the interdependent relationship as a source of power in bargaining over an issue and perhaps to affect other issues.[57]

Contrary to Rosecrance's interpretation, Keohane and Nye's version of interdependence is a new focal topic in international relations. Namely, interdependence in its asymmetrical form has a concrete impact on foreign policy-making processes of states. Even the possibility of this premise deserves attention and research. Consequently, considering the purposes of this paper expressed in Chapter I, Keohane and Nye's approach is more useful.

In sum, economic interdependence in this essay refers to a bilateral relationship, which presents varying degrees of costs and benefits to parties by tying them to each other. Since this affiliation between the parties are not easily given up, unconventional results, in terms of foreign policy-making, can be observed such as making a costly choice to preserve the relationship. Hence, in this chapter, economic interdependence between Russia and the EU with regard to its power to shape foreign policy-making will be explored.

In order to operationalize the chosen definition of interdependence, the researcher needs to identify those criteria against which it will be examined. For the sake of preciseness, list of features are narrowed down to four aspects: institutional channels, trade volume, vulnerability, and shared goals of the parties. By investigating these features, one may understand the particular nature of interdependence between the parties.

First characteristic, which turns cooperation or collaboration into interdependence, is the establishment of permanent *institutional channels* between the parties. Institutional framework for interdependence is shaped with

[57] Ibid.

comprehensive political and economic agreements, regular consultation, and cooperation on long-term projects.

Second feature is the *volume of trade* between the parties. However, there are different criteria to measure the volume of trade: for example, trade concentration (trade with X/total trade volume) or trade-to-GDP ratio analysis, which gives the relative place of trade in that particular state's economy. Thus, it is crucial to evaluate trade volume by giving importance to different sets of data.[58]

Among the selected indicators of interdependence, the most abstract one is the third aspect, namely *vulnerability*, meaning high level of sensitivity of an entity to external effects. Interdependence, by definition, entails certain level of vulnerability of the parties. Vulnerability in an interdependent relationship simply refers to how one of the parties is affected or even transformed as a result of the change in the other's economic policies. For instance, if country A is the biggest trade partner of country B or if A is the main energy supplier of B, then a major difference in A's internal politico-economic conditions will influence country B sharply. Observation of vulnerability is possible by examining comparative economic positions or statements of the statesmen in case of an economic crisis. It is difficult to prove the presence of interdependence without establishing the presence of vulnerability. Yet, the matter of concern is to demonstrate the existence of vulnerability rather than equality between the levels of vulnerability.

The impact of the above-mentioned features are conditionally bound to the last characteristic, that is to say, the existence of *shared goals*. Parties are more inclined to build long-term interdependent relations, if they share common goals.

[58] John R. Oneal and Bruce M. Russett, op. cit. , p. 272

Otherwise, it is difficult to sustain a vulnerable relationship with all its costs and benefits. Significance of the shared goals is also stressed by various authors under different names like "trade expectations" or "perception of benefit."[59]

Factors strengthening economic interdependence may be both political and economic interests, shared by the parties. In fact, whether these common interests are of economic or political origin and the question of which one comes prior to the other are central concerns of this study. In this chapter, character of the economic relations will be investigated and the political factors will be left to Chapter III.

B) A SHORT HISTORY OF RUSSIAN-EUROPEAN ECONOMIC RELATIONS

In order to develop a fully-fledged understanding of contemporary Russian-EU relations, it is necessary to make a historical analysis. This analysis will try to show if and how contemporary economic cooperation between Russia and the EU may have been influenced by the past experiences.

At the beginning of the 20th century, a huge gap in terms of development was observable between Russia and the western European countries. Due to several historical reasons, parties had followed different paths, and this divergence shaped their respective economic and political systems.

In western European countries, the feudal system had grown into a dynamic economic order because of technical innovations, population increase, immigration to urban areas, and high agricultural productivity.[60] These developments stimulated commercial and industrial progress, and the creation of a capitalist economic system

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[59] Please see the following sources respectively: Dale C. Copeland, "Economic Interdependence and War," *International Security*, vol. 20, no. 4 (Spring 1996), pp. 5-41 and Katherine Barbieri and Gerald Schneider, "Globalization and Peace: Assessing New Directions in the Study of Trade and Conflict," *Journal of Peace Research*, vol. 36, no. 4 (July 1999), pp. 387-404.

[60] Rondo Cameron, *A Concise Economic History of the World*, (Oxford: Oxford University Press, 1993), pp. 59-60.

in due course. Political consequences of western European capitalism was the gradual disintegration of the hierarchical order, which became an inadequate system for merchants and aristocrats dealing with commerce. In order to protect their economic rights, commercial strata of the medieval society asked for political liberalization. Hence, capitalist economy and political liberalism have been the trademarks of western Europe together with industrial and technological improvement.

Contrary to the western experience, "in eastern Europe, a different evolutionary course prevailed."[61] Immobility of the vast agricultural population turned into an *agrarian crisis* in Russia by combining with other factors. Due to the immobility of the man power, industrial working class in Russia grew very slowly. In 1900, there were one million full-time factory workers, whereas peasant population amounted a hundred million, constituting nearly 80 % of the whole Russian society.[62] Industrial development was limited to State factories and small number of factories owned by the landowners and carried on by the serf labor. Since purchasing power of the serfs was very low and the wealthy had preferred imported luxuries, consumption was also inadequate for the development of Russian imperial economy. In sum, being devoid of the workforce, know-how, and sufficient markets, Russian economic development was malfunctioning. From the political angle, Russia, despite liberal attempts after the 1905 Revolution and opening of the Duma, remained as an autocratic and centralized country through political censorship and arbitrary police rule. Hence, on the eve of the 20th century, Russia was a backward autocratic state

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[61] Ibid., p. 76.
[62] Richard Pipes, *A Concise History of the Russian Revolution*, (New York: Alfred A. Knopf, 1995), p. 9.

with its immense agricultural population and inadequately developed working class.

Despite the perpetuation of the Russian economic gap with Europe, relations between the parties had flourished in the first decade of the 20th century due to the Russian economic progress. After the 1861 Emancipation, increase in agricultural productivity and consumption, and rapid industrial development were promoted; railway-building projects that stimulated the native iron industry and internal trade, got momentum; and in 1897, gold standard was adopted to establish monetary stabilization. Consequently, foreign loans, investments and technicians poured into the growing Russian economy. From 1892 to 1914, total foreign direct investment, of which French and German capital constituted the main portion, reached to one billion U. S. dollars (= $ 20 billions in 1995).[63] Foreign entrepreneurs decisively contributed to the development of the mining and metallurgical centers.[64] In order to save their investments, foreign businessmen interfered in Russian internal politics to secure their positions by giving ultimatums or sanctioning Russian government with higher interest rates for loans.[65] In accordance with the relative strengths and needs of the parties, Russian-west European trade had been shaped in the form of an exchange, in which Russia acquired technology transfer and investment, and western European countries imported raw materials and energy. For example, France invested in the modernization of the Russian oil industry, and in return imported Russian oil at a cheaper price compared to the high prices in the world market before 1914.[66]

Nevertheless, growing volume of economic interactions between Russia and western Europe was interrupted by the 1917 Bolshevik Revolution. The West refused

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[63] Ibid., p. 18.
[64] R. Cameron, op. cit., p. 269.
[65] R. Pipes., op. cit., p. 18.
[66] Olga Crisp, *Studies in the Russian Economy Before 1914*, (New York: Macmillan Press, 1976), p. 165.

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to recognize the Soviet regime, hence withdrew from all economic activities in Russia to protest the measures of the revolution. For example, the Soviet government's repudiation of all obligations of previous Russian administrations in January 1918 resulted in a loss of foreign governments and bond holders, equal to $6.59 billion (approximately $61 billion in 1990s).[67] Moreover, Soviet expropriation of private property inflicted heavy losses on foreign enterprise owners (e.g. "French investors alone lost $2.8 billion."[68]). Therefore, foreign capital, investors and technicians, many of which were German, left the country and caused an economic decay.[69]

The communist attempt to establish an effective economics distinct from capitalism faced with a catastrophic decline because of the civil war and total isolation of the Soviet Union from the trading system. Hence, to avoid the absolute collapse and to contain the nationwide rebellions, Lenin introduced a tactical retreat or "a breathing spell" to the emerging Soviet economy, namely the New Economic Policy (NEP). [70] As a part of the NEP, Russia experienced a second phase of economic rapprochement with western Europe. In order to rebuild the crumbling economy through foreign trade and investment, Lenin gave his consent to the normalization of diplomatic ties with the West. First step of this revival was the signing of a trade accord with Great Britain in March 1921.[71] Following this step, trade agreements were signed with other countries, and hesitant European businessmen again began to engage in the Russian market.[72] Although this revival in

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[67] R. Pipes., op. cit., p. 306.
[68] Ibid.
[69] G. D. H. Cole, *Introduction to Economic History 1750-1950*, (London: Macmillan Press, 1988), pp. 122-123.
[70] Alec Nove, *An Economic History of the USSR*, (London: Penguin, 1989), pp. 74-76.
[71] For details, see S. Curtis Keeble, *Britain and the Soviet Union, 1917-1989* (New York: Macmillan Press, 1990), pp. 68-79.
[72] One of the most important of these agreements was the 1922 Rapallo Treaty, which aimed at

Russian-European economic relations contributed to stimulation of the Soviet economy, number and essence of this contribution remained limited. By 1928, there were thirty-one foreign enterprises in the Soviet Union with a total capital of $16 million.[73] Moreover, most of these investments were directed to Russian natural resources rather than the manufacturing sector. From the commercial perspective, the Soviet Union achieved to import the most-needed products for its recovery such as grain and coal, and later locomotives, farm machinery, electrical equipment.[74] That is to say, the NEP period, which gradually lost its influence after Lenin's death in 1924, was another period of reconciliation in Russian-western European ties. However, with the end of this period, Russia returned to a state of isolation both because of ideological reasons and exclusion of the West.[75]

Third phase of the Russian-European economic relations was an integral part of the *detenté* between eastern and western blocs in 1970s. Primary motive of the detenté was to tie the Soviet Union to the West irreversibly through arms control and promotion of trade. Moscow regarded the terms of detenté favorable because of the urgent need of the country for technological equipment and grain.[76] Yet, being an American policy, contribution of the U.S. to detenté remained limited due to the restrictive measures taken by the U.S. Congress on trade with the communist bloc.[77] On the other hand, this resolution of the Congress was unable to impede the

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reviving the pre-revolutionary Russian-German trade. Despite Soviet Union's isolation from the world economy after the NEP period, this agreement remained active. Under the provisions of the Rapallo Treaty, the Soviet Union acquired German capital and know-how, whereas Germany found a chance to circumvent the Versailles Treaty and rebuild its army on the Soviet territory. R. Pipes., op. cit., pp. 362-364.

[73] R. Pipes., op. cit., p. 352.

[74] A. Nove., op. cit., p. 79.

[75] The Soviet Union was invited to the negotiations of the Marshall Plan in the aftermath of the WWII. Yet, since the Soviet Union had restructured its economy in a way totally different from those in the West, it was both practically and ideologically unthinkable to get involved in the Marshall Plan.

[76] Peter G. Boyle, *American-Soviet Relations: From the Russian Revolution to the Fall of Communism*, (London: Routledge, 1993), pp. 169-172.

[77] This measure was called the 1973 Jackson-Vanik Amendment to the Trade Reform Bill. Ibid., p.

improvement of the trade between western Europe and the Soviet Union. In fact, increase in Western credits to the Soviet Union and erosion of the barriers to Soviet energy exports had begun in late 1950s. In 1960s, technological and commercial exchange between the parties flourished and institutionalized with bilateral cooperation and credit agreements (e.g. in 1964 with Britain, in 1965 with France and Italy).[78] Among these agreements, the most critical one was the 1970 Moscow Treaty with West Germany, which attached great importance to detenté within the framework of the *Ostpolitik*. However, institutionalization of relations and presence of various links between the parties such as trade, energy delivery, loan agreements, were inadequate devices to tie these totally different economic structures.

The last period of Russian-European rapprochement coincides with the Gorbachev period in the Soviet Union beginning in 1985. Under conditions of economic stagnation, technological deprivation, scarcity of consumer goods, Gorbachev introduced radical economic and administrative reforms. In order to increase production and consumption, Moscow began to promote imports from the Western bloc and to get loans from foreign creditors to finance these imports. Gorbachev's reforms paved the way for openning of the joint ventures with western European partners (e.g. nine German, four Finnish and four Italian firms in 1988).[79] However, heavy external borrowing and use of the hard currency possessions of domestic holders could not revive the Soviet economy. As a result, Soviet banks became unable to pay to foreign firms. Despite the 'shock-therapy' experimented under the supervision of the International Monetary Fund (IMF) in 1990, decline of

178.
[78] J. V. Oudenaren, op. cit, pp. 256-262.
[79] Ibid., p. 273.

the Soviet economy perpetuated.[80] This rapprochement aimed at supporting the Soviet economic reforms left the succeeding Russian Federation a total debt of $77 billion, of which $60 billion was owed to Western creditors.[81]

In sum, Russia remained out of the range of the economic system prevalent in the West. Yet, Russia and western European countries had cooperated economically during certain historical periods. Continuity in these periods appears in the form of trade composition, in which Russia has been a supplier of raw materials and importer of technology and consumer goods. Another point of continuity is the way the western European investors have been discouraged by the shifts in economic and political policies of Russia. More precisely, European businessmen want to secure their investments in Russia through assurance provided by political stability. Although time has worked in favor of Russia[82] since the collapse of the communist rule, there still exist suspicions about the continuation of stability and rule of law in Russian Federation. Therefore, European states decided to incorporate Russia into the western economic and political system so firmly that their suspicions about the future of Russia would be mitigated. This is the political reason for the construction of economic interdependence as a control mechanism for Russian economic and political attitudes. Accordingly, asymmetrical interdependence will give Europe power to influence Russian politics, and bind Russia to Europe with strong links.

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[80] For a full account of those transitional years, please see Anders Aslund, *How Russia Became a Market Economy?* (Washington, DC: The Brookings Institution, 1995); Anders Aslund, *Russia's Economic Transformation in the 1990s* (London: Pinter Publishers, 1997); R. Sakwa, op. cit., pp. 201-249.

[81] R. Sakwa, op. cit., p. 209.

[82] Since 1998, Russia began to show signals of recovery. GDP growth in 1999, 2000 and 2001 was recorded as 5.4, 9.0, and 5.0 percent respectively. Industrial output increased by 11.0, 11.9, and 4.9 percent in these years. Yet, this development is generally attributed to favorable conditions in world economy such as high oil prices. Keith Bush, *The Russian Economy in March 2002* (Washington, DC: Center for Strategic and International Studies, Russia and Eurasia Programme, 2002), p. 1

C) CONTEMPORARY RUSSIAN-EU ECONOMIC RELATIONS

The resolution of the "German problem" has been critical to the positive development of Russia's relations with the West. The approach of both the U.S. and the EC/EU to the Soviet Union and later the Russian Federation in economic and political/security matters essentially flourished on this fundamental new anticipation in European politics: that a reunited Germany would be guided both by its national leadership and American-European influences that it would no longer pose a threat to European and Russian security.

1. EU's Assessment of Russia

Different from the Russian case, there are two actors shaping the European economic system: national governments whose economic decisions still diverge substantially, and the economic integration process, being accomplished by the EU. These two dynamics usually contradict with each other, and are reconciled through negotiations. For the case of economic relations with Russia, all member states share a common objective, namely integration of a politically stable and economically prosperous Russia into European system. This common objective is the main reason for the preparation of the first *Common Strategy of the EU* for Russia in June 1999. Furthermore, the *EU Country Strategy Paper 2002-2006 for the Russian Federation,* adopted by the Commission in December 2001, was the first of its kind. In this document the common objective of the EU members is explained: "the EU has an important strategic and economic interest in Russia's development."[83] More precisely, Russia as EU's future neighbor should be a "prosperous market for EU

[83] The European Union, European Commission, External Relations, "Country Strategy Paper 2002-2006 and National Indicative Programme 2002-2003," adopted on December 27, 2001, p. 1. PDF Full Text, http://europa.eu.int/comm/external_relations/russia/csp/index.htm

exports and investments and a reliable source of EU energy supplies."[84]

On the other hand, certain members of the EU are more willing to see Russia as an ally than the others. Moreover, these countries use the EU mechanism as an instrument to achieve their individual economic and political interests. The principal EU country acting as a catalyst in relations with Russia is Germany. Historically, Russia and Germany have a similar ambivalence about their national identities. Debates on Russian and German Europeanness had revived after the demise of the Soviet Union and reunification of Germany, respectively. Nevertheless, historical association of Russia and Germany goes well beyond national identity question. In the imperial period, Germany had been an influential country for Russia in terms of Russian technological modernization initiated by Germans, intermarriages with the German nobility, Russian high government officials primarily composed of Germans, and the effects of German political ideas and philosophy on Russian *intelligentsia.*[85]

From the political angle, two countries also constitute a peculiar relationship. Russia has viewed Germany, a country in the center of Europe with no clearly defined borders and its growing military and industrial strength, as the main challenge to its security.[86] Especially after the two expansionist attempts of Germany in the 20th century, Russia chose to satisfy its concerns about the "German question" by extending its military and ideological control to eastern Europe. Similarly, Germany has seen Russia as a threat to Europe due to its proximity to German sphere of influence, its size, and the memory of its Cold War domination over east Germany.

On the other hand, Germany remained as Russia's most important economic

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[84] Ibid.
[85] Walter Laqueur, *Russia & Germany: A Century of Conflict*, (London: Transaction Publishers, 1990), pp. 25-37.
[86] Angela E. Stent, *Russia and Germany Reborn: Unification, The Soviet Collapse, and the New Europe*, (Princeton: Princeton University Press, 1999), pp. 4-5.

partner despite their mutual security concerns about each other. Their complementary economic relationship has been established upon Russian raw material exports to Germany and German supply of manufactures for Russia. There is a historical example of Russian-German economic and technical cooperation under the rule of Peter The Great, who employed German technicians for modernization of Imperial Russia. Even on the eve of the WWII, parties collaborated for their individual interests. After the 1922 Rapallo Treaty, Germany opened manufacturing facilities in several Russian cities and the Soviet Union supplied assistance for German military manoeuvres, forbidden by the Versailles Treaty, on Russian territory.[87]

Germany is the leading country among the other EU countries in economic relations with Russia. In bilateral relations, Germany is Russia's biggest trade partner and has the fourth place in the volume of foreign direct investment (FDI) in Russia's economy. Moreover, the debt of the former USSR to the former German Democratic Republic (GDR) amounts to 6.355 billion "transfer rubles".[88] This inherited debt is calculated by the Russian officials as $ 1 billion, whereas the Germans insist on their own calculation that is equal to six times this sum.

The EU enlargement towards eastern Europe is totally matching with the interests of Germany. Apparently, enlargement will increase German influence within the inside mechanism of the Union, especially in the Council. For this end, Germany wants the continuation of Russian approval. This may be possible only by easing Russian concerns about being sidelined. Hence, Germany gives its full support to the establishment of a Common Economic Space (CES), which will link eastwards

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[87] R. Pipes., op. cit., p. 364.

[88] Report by Tatyana Konishcheva: "Weimar Accounting. It Seems That Our Debts to East Germany Will Be Reduced to 1 Billion Euros," *Moscow Rossiyskaya Gazeta*, *FBIS-WEU-2002-0410*, April 10, 2002.

enlargement with Russia.[89]

Although Germany seems to be the main initiator of the Russian-EU relationship, there also exists the *Northern Dimension* (ND), which originally referred to the membership of the Nordic countries Finland and Sweden in 1995. In September 1997, the ND turned into a proposal for the EU with an objective to form a coherent European foreign policy.[90] The ND, as an officially accepted part of the Union's external relations since December 1998 Vienna European Council, aims at reducing all dividing lines between the EU, Russia, and the Baltic Sea region through 'positive interdependence'.[91] Main focus of this initiative is the creation of a non-provocative way to deal with Russia. Yet, this Finnish initiative has two underlying motives: first, mitigating the security dilemma of the Nordic and Baltic countries, and Poland through promotion of interdependence; secondly, use of the ND by Finland for increasing its repudiation within the Union. That is to say, Finland and to a lesser extent Sweden both transferred their security concerns about Russia to the EU, and strengthened their role in the Union.

Bearing in mind the leading positions of Germany and the Nordic countries, it is also crucial for the EU as a whole to construct multi-dimensional relations with Russia. Since relations with Russia is a topic on which a general agreement is possible, it is relevant to see it as "a tool for EU's internal purposes, notably for giving contents to the Common Foreign and Security Policy (CFSP)."[92]

On the other hand, economic cooperation with the EU is very important for Russia, since this relationship granted the most-desired market economy status to

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[89] Interview with Bavaria Minister President and CSU leader Edmund Stoiber by Tina Hildebrandt, *Hamburg Der Spiegel, FBIS-WEU-2001-0811*, August 13, 2001.
[90] Hanna Ojanen, "The EU and Its 'Northern Dimension: An Actor in Search of a Policy, or a Policy in Search of an Actor," *European Foreign Affairs Review*, vol. 5, no. 3 (September 2000), p. 360.
[91] Non-paper of March 1998, Finnish Ministry of Foreign Affairs, cited in H. Ojanen, op. cit., p. 360.
[92] H. Ojanen, op. cit., p. 372.

Russia, together with full support for the World Trade Organization (WTO) membership.[93] Moreover, the EU provides a market for Russian natural resources, plays an indispensable role in Russian trade and FDI account, and gives economic and technical assistance to Russia since the demise of the Soviet Union.

2. Institutional Framework in Russian-EU Relations of Interdependence

The Russian-EU association was formally established with the signing of the Partnership and Cooperation Agreement (PCA) in June 1994. The Agreement came into force on December 1st, 1997 after long negotiations. In fact, the "ratification of the PCA was delayed as a protest against the first war in Chechnya."[94] Since Russian intervention in Chechnya raised the human rights concerns within the EU, especially those of France, "joint projects with the EU, as set out in the Common Strategy and for the most part taken up by the Medium-term document, are suspended, postponed, and possibly cancelled."[95] Although the current EU attitude is reluctant to jeopardize its relationship with Russia for the Chechen problem, this particular instance demonstrated the difference between understandings. The EU views economic and political reforms as complementary parts of the Russian transition, whereas Russia isolates the economic reforms from the rest. Hence, in order to guarantee democracy and respect for human rights in Russia, the EU made the implementation of the PCA conditional upon the adherence to common values and principles.[96]

The PCA, as a document designed to set up the legal and institutional basis of

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[93] Pascal Lamy (EU Trade Commissioner), "The EU wants Russia to make the grade," *International Herald Tribune*, May 29, 2002, p. 6.
[94] Margot Light, John Lowenhardt and Stephen White, "Russian Perspectives on European Security," *European Foreign Affairs Review*, vol. 5, no. 4, (December 2000), p. 497.
[95] Heinz Timmermann, "European-Russian Partnership: What Future?" *European Foreign Affairs Review*, vol. 5, no. 2, June 2000, p. 168.
[96] Hiski Haukkala, "Two Reluctant Regionalizers: The European Union and Russia in Europe's North," *Ulkopoliittinen Instituutti (UPI) Working Papers*, The Finnish Institute of International

the emerging relationship comprises the following topics: improving political dialogue, promoting trade, investment, and harmonious economic relations on the principles of market economy, strengthening political and economic freedoms, supporting Russian democratic reforms, promoting activities of joint interest, providing gradual integration between Russia and Europe, and realizing the establishment of a free trade zone between the parties.[97] These objectives were designed to mark the PCA as a reference document for the development of a multi-dimensional relationship. Despite its 'idealistic' rhetoric, the PCA achieved to define the relations between Russia and the EU as *partnership* and equipped this partnership with necessary means.

The PCA carries out three tasks: 1) setting out the main goals, namely economic and political partnership; 2) determining the necessary legal and technical reforms for policy convergence; and 3) equipping the relationship with relevant institutional instruments.

In order to accomplish the above-mentioned tasks, an intensive mechanism of consultation and dialogue was the preliminary condition:

1. ***Summits***[98] are held twice a year with participation of the Head of Government of the country holding the EU Presidency, President of the EU Commission, and President of the Russian Federation.[99] The essential function of the Russian-EU

Affairs, no. 32, (2001), p. 8.

[97] The PCA Full Text, COM (94) 257 final, Article 1, p. 7.

[98] Russian-EU summits were being held even before the coming into force of the PCA. For instance, Yeltsin and President of the European Commission Jacques Santer met on April 19, 1996 ("Yeltsin Receives EU Commission President Prior to G-7 Summit," *Moscow ITARTASS, FBIS-SOV-96-078*, 04/19/96), and on March 3, 1997 a delegation of EU leaders arrived at Moscow again to hold a meeting with Yeltsin ("EU Leaders Arrive for 3 March Talks With Yeltsin," *Moscow ITARTASS, FBIS-SOV-97-061*, 03/03/97). Thus, the PCA regularized the already existing channels of dialogue.

[99] Since December 1997, nine presidential summits convened in various capitals of Europe. The last two of them were held in Brussels, on October 3, 2001 and in Moscow, on May 28, 2002. An "urgent interaction channel" decided to be set up and monthly ambassadorial-level consultations were started as results of the Brussels summit. In the Moscow summit, the EU granted fully fledged market economy status to Russia, yet parties could not achieve at a solution on Kaliningrad problem.

summits is providing continuity and regularity for bilateral dialogue. Since summits are the meetings held at the highest level, parties have a chance to consult on common problems and to take coordinative steps towards "increasing convergence of positions on international issues of mutual concern."[100]

2. ***Cooperation Council*** meets at ministerial level once a year. "The tasks of the Cooperation Council are to monitor the implementation of the PCA, examine any major issues arising within its framework, as well as any other bilateral or international issues of mutual interest."[101]
3. ***Cooperation Committee*** at senior official level holds meetings as often as necessary to assist the Council in its tasks and gives appropriate recommendations.[102]
4. There are also nine ***sub-committees***, dealing with technical issues.

In addition to these channels of dialogue, there also exist other paths:[103] 1) a Joint Parliamentary Committee, composed of members of the European Parliament and the Russian Duma has been established in accordance with the PCA Articles 95-97; 2) various EU groups in the Troika format (Presidency, CFSP High Representative/Council Secretariat, future presidency and commission) meet with their Russian counterparts on a regular basis; 3) business-driven forums, advisory bodies, and public authorities meet in accordance with the agenda of the formal institutions and make joint declarations on specific projects. For instance, industry leaders from both sides hold meetings in the EU- Russia Industrialists Round-Table

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[100] The PCA Full Text, op. cit., Article 6, p. 10.
[101] The EU Official Homepage, "The EU-Russia PCA: Questions and Answers," http://europa.eu.int/comm/external_relations/russia/pca/q_a.htm
[102] The PCA Full Text, op. cit., Article 92, p. 79.
[103] The EU Official Homepage, European Commission, External Relations, op. cit.

(IRT), which has been founded in 1997 as an advisory body.[104] More than 150 business executives and 30 representatives of public authorities participate to these meetings. The roundtable works on energy, transport, and information technology (IT) sectors and develops pilot projects for the modernization of the small and medium companies (SMEs) in Russia. Another private initiative in Russian-EU relations is the European Business Club (EBC), which brings together several European companies registered in Moscow since Summer 1995. The EBC currently represents and protects the interests of more than 400 companies from the 15 EU member countries.[105] The Club both serves as a lobbying institution for the rights and interests of its members, and constitutes a bridge between the European businessmen and Russian regional and governmental officials. One of the recent activities of the EBC was the organization of a forum in October 2001, named "Invest in Russia" to discuss the investment climate and prospects in Russian economy.[106] A similar initiative driven by the Russian side is the Institute of Direct Investments (IDI) Foundation, which has been established to carry out the Investment Opportunities in Russia (IOR) project with the support of the Russian Ministry for Economic Development and Trade.[107]

Regularity, amount and essence of these channels apparently carry the Russian-EU partnership beyond cooperation. Therefore, from the point of economic interdependence, the PCA seems successful as an initiator of institutional channels. The PCA, with its efforts to build political cooperation through an institutional mechanism and improvement of economic relations, reflects a *liberal* philosophy. In

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[104] The European Commission, Enterprise Homepage, http://europa.eu.int/comm/enterprise/enterprise_policy/business_dialogues/russia/russiaoverv.htm
[105] The EBC Homepage, http://www.ebc.ru
[106] Speech by Chris Patten, EU Commissioner for External Relations, at the "Invest in Russia Conference" hosted by the European Business Club, *Brussels Rapid Database, FBIS-WEU-2001-1002*, October 2, 2001.

Article 6 of the Agreement, this philosophy is expressed:

> **The political dialogue shall strengthen the links between Russia and the European Union. The economic convergence achieved through this Agreement will lead to more intense political relations; shall bring about an increasing convergence of positions on international issues of mutual concern thus increasing security and stability.**[108]

Nevertheless, for the PCA to go beyond rhetoric and become much more applicable, parties continuously try to give substance to their cooperation via multiple paths. One of the most significant of these paths and the one, seen as the proof of interdependence, is the volume of trade.

3. Trade Relations

It rather became a 'tradition' to quote the facts about Russian-EU trade in order to demonstrate the strong link between the parties. Yet, for an objective evaluation one should exhibit both advantages and disadvantages of this association, since even disadvantages may give clues about the nature of the Russian-EU relationship. The question in mind, for this part, is whether the essence of commercial and financial cooperation implies dependence of one party to the other or a degree of interdependence, and which one is more profitable for the future of the relationship.

The facts, mostly listed in economic analyses of Russian-EU relationship, begin with a sentence similar to the following one: the EU is "Russia's most important trading partner outside the Commonwealth of Independent States

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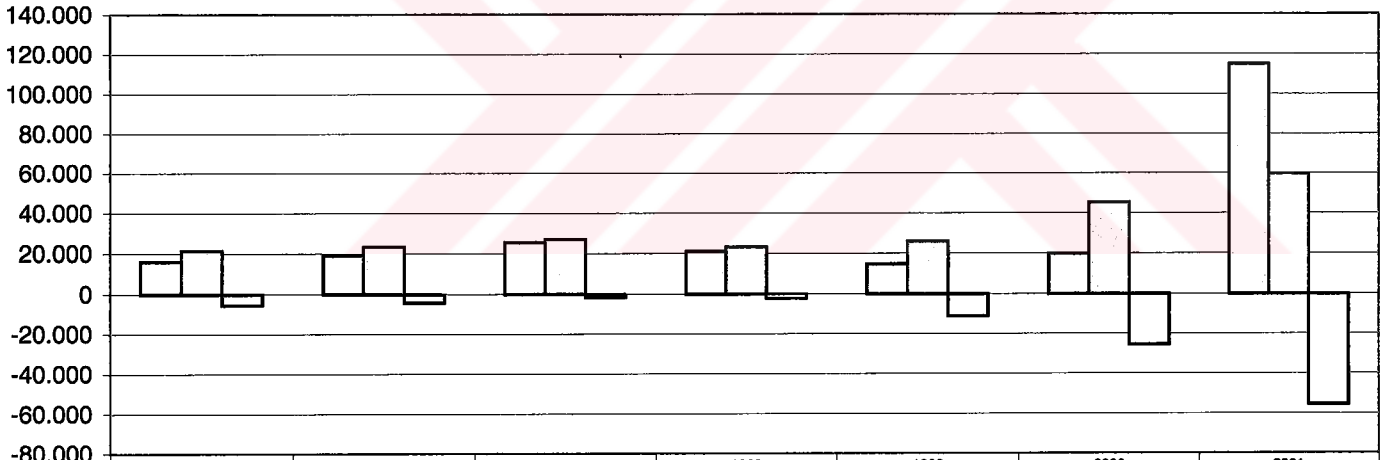
[107] The IDI Foundation Homepage, http://www.ivr.ru/english/ipi.shtml
[108] The PCA Full Text, op. cit., Article 6, pp. 9-10.

(CIS)".[109] This fact is also supported with the data given by the EU. Accordingly, the Union receives nearly 35 % (€ 45 billion) of Russian exports and provides 25 % (close to € 20 billion) of its imports.[110] On the other hand, "Russia's share in EU external trade in 2000 was 4.4 % of imports and 2.1 % of exports".[111] Russia ranked sixth within EU's trading partners after the United States, Switzerland, Japan, Norway and China in the year 2000, and indicated prospects for an higher rank in 2001. From the 'trade-to-GDP ratio' viewpoint, share of exports in Russian GDP was 27. 4 % and 24.8 % in 1999 and 2000 respectively.[112] The ratio of trade to Gross Value Added (GVA)[113] in the EU was 21 % for the year 2000.[114] That is to say, the share of EU exports received by Russia (2.1 % of 21 %) in Union's production is much less than that in Russia's (35 % of 24.8 %).

EU-Russia trade, 1995 – 2001 (€ million)*



	1995	1996	1997	1998	1999	2000	2001
Export	16133	19132	25539	21087	14772	19828	115049
Import	21491	23392	27037	23172	25918	45334	59612
Balance	-5358	-4260	-1498	-2084	-11145	-25506	-55437

ostat data

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[109] Christopher Bluth. op. cit., p. 27.
[110] The European Union, European Commission, External Relations, EU-Russia Trade, http://www.europa.eu.int/comm/external_relations/russia/intro/trade.htm
[111] Ibid.
[112] The World Bank, Country Data, *Russian Federation at a Glance*, http://www.worldbank.org/data/countrydata/aag/rus_aag.pdf
[113] GVA, which constitutes the production side of GDP, is used by the EU statistics.
[114] *Eurostat*, cited in European Commission, *Economic Portrait of the European Union 2001*, (Luxembourg: Office of the Official Publications of the European Communities, 2001), p. 30

T.C. YÜKSEKÖĞRETİM KURULU
DOKÜMANTASYON MERKEZİ

Among the EU member states, Germany is the leading trade partner of the Russian Federation. "Trade turnover between Russia and Germany grew by about 80 per cent during the past two years - from 26.5 billion to 47.5 billion marks."[115] In 2000, Russian exports to Germany rose 50.6 % to $13.4 billion, while imports from Germany were up 13% to $6.1 billion. Yet, under Germany's custom statistics, the trade turnover for Russia is on average 50% higher than stated by Russia, since it takes into account the imports of Russian natural gas, oil products and non-ferrous metals shipped via third countries. Composition of the Russian-German trade is precisely a projection of that of the Russian-EU trade. Germany provides manufactured goods, cooperation in the fields of high technology, aerospace, science-incentive branches, and educational aid in training of Russian managerial cadres.

Although none of them reaches to the volume of Russian-German trade, some of the other EU members play considerably important parts in Russian trade. For instance, trade with France in January-September 2001 amounted to $2.7 billion, and Russian-British trade volume for the same period was $4.35 billion. Britain is responsible for 3.5 percent of the entire Russian trade turnover, whereas Russian share in British foreign trade is under 0.5 percent.[116] As examples of trade with smaller EU members, Russia has trade turnovers with Austria and Finland amounted to $3 billion and $5.5 billion respectively in 2001. The structure of Russian exports and imports in its trade relations with developed countries is standard: About 70

[115] Speech of the Russian Deputy Foreign Minister Sergei Razov, "Russia-Germany Trade turnover Growing," reported by Nikolai Kalintsev and Irina Shatalova, *Reuters Business Briefing*, April 5, 2002.
[116] "Russia-Britain trade slides down 3pc over past 10 months," *Reuters Business Briefing*, December 21, 2001.

percent of Russian exports are fuel, non-ferrous metals, chemical products, and timber. On the other hand, more than 30 percent of Russian imports are composed of consumer goods, including cosmetics, perfume, household electronics, medicines, clothes, furniture and dishes.[117]

EU-Russia trade, 1995-2001 (€ million)

Year	EU Exports	Δ %	EU Imports	Δ %	Trade balance
1995	14,382.015		20,149.545		- 5,767.530
1996	17,110.360	+18.9%	22,133.042	+9.8%	- 5,022.682
1997	23,146.974	+35.3%	25,683.621	+16.0%	- 2,536.647
1998	19,165.825	-17.2%	21,846.875	-14.9%	- 2,681.050
1999	13,373.547	-30.2%	24,735.083	+13.2%	- 11,361.535
2000	19,837	+ 48.3%	45,316	+ 83.2%	- 25,479
2001*	12,032		24,801		

* Figures for January – June 2001
(source: *Eurostat, Comext*)

In sum, Russian-EU trade displays an imbalance. This imbalance is not limited with amount, but it also marks the trade composition. In 1999, 60 % of Russian exports to the EU comprised raw materials and minerals (mostly natural gas and oil), whereas "machinery and transport equipment represent around 40 % (and food 15 %)" of Russian imports from the EU.[118] General analysis of this unbalanced trade relationship brings economists to the conclusion that the Russian-EU trade is "eating" Russia's natural resources, "killing" Russian domestic manufacturers, and it "has a negative effect on the future of development of Russia."[119]

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[117] This evaluation is piled from the above-cited Reuters reports.
[118] The European Union, European Commission, External Relations, "Country Strategy Paper 2002-2006 and National Indicative Programme 2002-2003," op. cit., p. 4
[119] Igor Leshoukov, *Beyond Satisfaction: Russia's Perspectives on European Integration*, Discussion Paper C26, (Bonn: Center for European Integration Studies, 1998), pp. 7-8.

MAIN PRODUCTS IN 2001 (Mio euro and %)**

EU Imports			EU Exports			Balance
Products	**Value**	*Russia share of EU total by products*	**Products**	**Value**	*Russia share of EU total by products*	
Agricultural products	2,058	*2.5*	Agricultural products	3,310	*5.4*	1,252
Energy	24,363	*17.1*	Energy	109	*0.5*	-24,254
Machinery	338	*0.1*	Machinery	9,018	*3.1*	8,680
Transport. Material	173	*0.2*	Transport. Material	2,668	*1.7*	2,495
Chemical products	2,067	*2.7*	Chemical products	3,762	*2.7*	1,694
Textiles and clothings	280	*0.4*	Textiles and clothings	1,542	*3.7*	1,262

**Eurostat data*

It is true that the character of Russian-EU trade is asymmetric. That is to say, Russia is more dependent on the trade turnover with the Union and its members than vice versa. As it is explained at the beginning of this chapter, asymmetry is seen as an integral part of interdependence, and it gives the EU an influential power on Russian Federation. Yet, the EU does not aim to use this power to embarrass and make Russia feel side-lined, since it would be more profitable for the Union to use this influence for constructive purposes. There are clear-cut signs that the EU attaches importance to Russian economic concerns and act accordingly. For example, EU's anti-dumping policy is much criticized. Although "anti-dumping relates only to 1 percent of Russian exports", but since "it comprises 10 percent of the manufactured goods", it is far more important than the figures suggest.[120] Yet, the EU stresses its awareness of Russian worries and is taking steps for resolution: "In 1998, the EU anti-dumping rules were modified to allow the treatment of Russian enterprises as operating in a market economy environment on a case-by-case basis."[121] Another proof of European sensitivity may be observed on Russian irritation about the *enlargement* process of the EU. After the EU enlargement towards Eastern Europe, the Union will begin to absorb nearly 50 % of Russian exports and will cut off

[120] Ibid., p. 13
[121] The European Union Homepage, European Commission, External Relations, EU-Russia Trade, op.

Russia's ties with the region.[122] Yet, in order to resolve this forthcoming problem, the EU started negotiations with Russia to establish a Common Economic Space (CES), precisely a free trade zone, as foreseen in the PCA.[123]

Putting aside the issue of asymmetry, volume of trade between Russia and the EU seems significant in terms of its power to stimulate interdependence. As Leif Pagrotsky and German Gref, trade ministers of the EU presidency and Russia respectively, stated openly; the EU's share in Russian exports and Russia's role as the main energy supplier to the EU create a "solid basis to start from".[124] This declaration makes it evident that parties want to use trade and investment as instruments "to develop a positive interdependence".[125] Their definite aim is expressed as follows:

> **There are close connections between trade, security, and prosperity. Few things are more effective in bringing people together and securing stability than economic integration.**[126]

4. EU Economic Assistance

Another element of the economic relations between Russia and the EU is the economic assistance provided by the Union for Russia's recovery. A long-run economic assistance program like the Union's entails a real commitment to the assisted country. Simply, economic assistance is both a sign of vulnerability and an instrument of political influence. Since the EU countries are politically and economically vulnerable to instability in Russia, they choose to assist to the Russian

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[122] The European Union Homepage, European Commission, External Relations, "EU- Russia Economic and Trade Relations: An Overview," Brussels, 21 May 2001, http://www.europa.eu.int/comm/trade/bilateral/russia/rus_ovw.htm

[123] "Head of European Commission Mission in Russia Interviewed on Russia-EU Relations," *Moscow Rossiskaya Gazeta*, *FBIS-SOV-2002-0124*, 01/23/02.

[124] Leif Pagrotsky and German Gref, "Economic Link with Russia is Key to EU Future," *International Herald Tribune*, March 29, 2001, p. 6.

[125] Ibid.

process of economic recovery and transition to market economy. Yet, this very move makes these countries more involved in Russian economy, and hence more vulnerable. On the other hand, by providing economic assistance to certain sectors such as civil society, the EU tries to influence and control the way Russian reforms proceed.

The EU assistance to Russia goes well beyond mere economic loans. "The EU is the largest provider of economic and technical assistance to Russia," which received € 2.281 billion from the Union between 1991-2000.[127] This total assistance was largely allocated to sub-institutions such as the TACIS[128] program, the European Commission Humanitarian Office (ECHO), the European Initiative for Democracy and Human Rights (EIDHR) and the European Bank for Reconstruction and Development (EBRD) in the form of humanitarian and food aid, technical assistance, and credits or credit guarantees.

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

126 Ibid.

127 The European Union Homepage, European Commission, External Relations, EU Assistance to Russia,http://www.europa.eu.int/comm/external_relations/russia/intro/ass.htm

128 Abbreviation initially for "Technical Assistance for CIS countries and Mongolia" (TACIS), now for " the Community Initiative for the New Independent States and Mongolia" (Tacis).

- **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*)

The TACIS program constitutes the most important part of the economic assistance initiative. The program funding is allocated through three cycles.[129] First and foremost, there are *national country programs* composed of 3-4 year indicative programs and biannual action programs. National country programs determine the priorities of a country and then set out the specific projects that will be supported. Secondly, there exists a horizontal option, namely *regional programs*, which work on multi-country and cross-border projects to solve environmental problems or promote transport networks. Thirdly, in *small projects programs*, specific tasks such as giving advice to governments on particular fields are accomplished.

Distribution of the EU funds to these cycles may be exemplified with the November 2000 grant, amounted to € 92 million. 38 million euro of this assistance package was allocated to the Russian government for topics named in the July 2000 Action Program, such as legal and administrative reforms to improve public finance, banking reforms, and delivery of social and health services. 20 million euro of the grant was given to the Small Projects Program for specific tasks (e.g. Managers' Training Program or Investment Support to SMEs). Last portion of the grant, amounted to 34 million euro, is allocated to upgrade and strengthen nuclear safety designs in Russia.

It is obvious that all assistance programs of the EU have an objective to build

institutional, legal, and administrative standards, compatible with those in the West. Yet, this task of reforming human mentality and code of conduct in Russia brings the EU programs face to face with serious problems. For example, as it is expressed in the *Tacis Indicative Programme 2000-2003*, positive achievements at the pilot regions could not be translated into overall success in the reform process. Thus, the EU decided to monitor its programmes more strictly to prevent possible misuses of funds and to guarantee its increasing - rather risky - involvement to the Russian economy. However, such moves of the EU further irritate the Russian government, which is sensitive about its authority. On the other hand, the Russian government falls short of taking necessary steps towards adaptation due to various reasons. For example, in accordance with the TACIS assistance for "Bank Accounting Reform", Russian government should adopt International Accounting Standards (IAS). However, that would require to the transparency of bank accounts, and as a result, would decrease the capitals of Russian Banks.[130] Thus, the Russian government chooses to delay the reform plan instead of coping with the costs.

Economic assistance is not limited to the EU funds. Member states also make individual efforts to provide assistance for Russian transition. For example, the British Defense Ministry carries on a Russian Retraining Program since 1995. As a part of this program, 9,000 former Russian officers are trained in the fields of management, IT, economics and English at one of the eight centers of the project.[131] The EU aid program also provides humanitarian aid to refugees in Chechnya through ECHO, in which member states' agencies take initiative. Danish Refugee Council is

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[129] The TACIS Program - Overview, http://europa.eu.int/external_relations/ceeca/tacis/index.htm
[130] Dmitry Bulgakov, "European Union Sets $ 3.5 million to Assist Accounting Overhaul", *The Russia Journal*, issue no. 37 (80), 09/23/2000.
[131] Todd Prince, "From Barracks to Boardrooms," *The Russia Journal*, issue no. 40 (83), October 14, 2000.

the largest partner of the ECHO and provides medical supplies and equipment for approximately 310,000 refugees in Chechnya and Ingushetia.[132] Partner agencies such as HELP (Germany), Hilfswerk (Austria), and Action Contre la Fame (France) also participate in the food aid project in Russia, which reached to 50 regions since 1999.

Nevertheless, mentality divergence between Russian and the EU officials has a negative effect on these cooperative projects. For instance, the Union has a tendency to localize the cooperation by supporting the local initiatives. Yet, for the twinning programs, Russia "provides no equivalent to these initiatives in support of local projects as advanced by the EU's Common Strategy."[133] Apparently, the EU wants to build a link between unofficial segments of the parties. However, "Moscow's elites are not interested in developing a civil society," and want projects to be controlled by the centers and bureaucracies.[134]

Under the economic assistance topic, the problem is the suffocated position of the EU between two forces: urgent necessity for the Russian system to be revised to become more operable, and efforts to realize this objective without humiliating Russia. On the other hand, Russia experiences complications about its authority, coordination of the aid and implementation of joint projects. Despite this tension, the EU does not think of giving up the assistance initiative, since this is the only way to be a part of the changing atmosphere in Russia.

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[132] Delegation of the European Commission in Russia, www.eur.ru/eng/newuser/user_eng.php?func=coopspec&id=25
[133] H. Timmermann, op. cit., p. 172
[134] Ibid.

5. Foreign Direct Investment (FDI)

Boosting FDI market is central to Russian economic policy objectives. By attracting foreign investors, Russia hopes to solve its hard currency problem, to update its capital stock, to get know-how (e.g. for its gas sector), to diversify its exports, and hence to become more competitive in the global market. Yet, levels of investment in Russia have been disappointing by comparison with other transition economies. Between 1994 and 1999, Russia attracted FDI averaging $20 a head, whereas Hungary scored ten times this amount in the same period.[135]

One reason for this gap with the other transition economies is the high level of uncertainty in Russia. This problem arises from two main sources. First one is the vulnerability of the European investors to possible future financial crises in Russia. The EU was severely affected in the aftermath of the August 1998 financial crisis because of its involvement in the crumbling Russian economy:

> **(...) other unanticipated consequence of Russia's financial collapse in summer 1998: Notwithstanding its modest role in international economic activity, the disruptive effect on financial markets in Europe and North America was immense. (...) Because of the highly leveraged position many Western banks and investors had taken in Russian capital markets and because of the disproportionate impact of the Russian crisis on general investor psychology, Western economies – at least Western financial markets – proved far more vulnerable to Russian events than anyone had imagined.**[136]

As a result of the crisis, not only Western investors and banks, but also the bilateral trade volume was negatively affected. In 1998, EU exports to Russia fell from € 25.6 million to € 21.8 million.[137] One year before, volume of EU exports increased by 16.0 %, whereas with the crisis it decreased by 14.9 %. On the other hand, Russian

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[135] Speech by C. Patten at the "Invest in Russia Cpnference," op. cit.

[136] R. Legvold, K. Kaiser, A. Arbatov, eds., *Russia and the West,* (New York: EastWest Institute, 1999), p. 11.

[137] *Eurostat, Comext,* The European Union Homepage, European Commission, External Relations, EU-

exports to EU decreased more sharply: from 35.3 % growth in 1997 to 30.2 % fall in 1999. Total FDI in Russia had fallen from $11.7 billion to $9.56 billion in 1999.[138] British investment decreased by 50 percent, whereas German share declined to one third of its pre-crisis amount.

EU FOREIGN DIRECT INVESTMENT WITH RUSSIAN FED. (Mio ecu/euro and %)

	1998	1999	2000		1998	1999	2000
Inflows	34	-6	883	Outflows	435	1,086	1,500
Share of EU Total (%)	*0.0*	*0.0*	*0.5*	Share of EU Total (%)	*0.2*	*0.3*	*0.4*
Inward Stocks	2,114	1,730	2,613	Outward Stocks	2,743	3,976	5,476
Share of EU Total (%)	*0.3*	*0.2*	*0.3*	Share of EU Total (%)	*0.3*	*0.3*	*0.4*

**Eurostat data*

Among the EU member states, the most vulnerable one was surely Germany. "German banks are Russia's largest lenders, and their credit exposure stands at about $33 billion, more than four times the exposure of the U.S. banks."[139] Considering a possible spill-over effect of a Russian economic crisis in Eastern Europe, and German investments in this region, it is obvious that any situation similar to the one in 1998 would cost heavy losses to Germany. Consequently, in such a case, Germany's burden will also be that of the Union, especially after the initiation of European Monetary Union.

Ten Main Foreign Countries-Investors
to the Russia's Economy in millions of US$

COUNTRIES-INVESTORS	1995	1996	1997	1998	1999
ALL FOREIGN INVESTMENT IN RUSSIA	2983	6970	12295	11773	9560
USA	832	1767	2966	2238	2921
GERMANY	308	332	1647	2848	1695
CYPRUS	41	825	992	917	923
GIBRALTAR	n/a	n/a	n/a	n/a	780
GREAT BRITAIN	183	507	2411	1591	734

Russia Trade, op. cit.

[138] Goskomstat of the Russian Federation, 1999-2000, http://www.gks.ru

[139] "Russia's Unruly Ruble," *Euro-Focus*, Center for Strategic and International Studies, vol. 3 no. 5, 09/18/98.

NETHERLANDS	85	981	540	877	541
SWITZERLAND	436	1348	1756	411	405
FRANCE	108	43	209	1546	312
FINLAND	n/a	n/a	n/a	n/a	248
LUXEMBURG	n/a	n/a	n/a	n/a	88
SWEDEN	63	157	72	146	n/a
AUSTRIA	81	200	378	83	n/a
JAPAN	75	22	139	60	n/a
ALL CIS COUNTRIES	---	---	39	9.4	5.6

Source: Goscomstat of the Russian Federation, 1999, 2000

Second reason for the narrow scale in investment market is the uneven implementation of the Russian legislation, which limits foreign investment in certain fields, such as banking and insurance. In accordance with this problem, the EU insists on fundamental reforms on legal, administrative, and technical issues to turn Russia into a more transparent state of law, precisely more attractive for international investors. However, Russian way to boost FDI is trying to activate western investors with directives of the EU. What lies beneath in this simple differentiation between the standpoints of Russia and the Union is the different mentalities. In fact, as Christopher Patten implied, Russia has a misunderstanding about how the market economies function, and has perhaps no idea about how unconventional for the investors to hear directives from the EU authorities.[140]

6. Russian Energy Supply to the EU

As it was noted before, Russian Federation, under the pressure of economic problems, became a raw-material exporting country.[141] Russia is rich in terms of oil and gas, that is to say, the energy resources on which industrial countries are heavily

[140] C. Patten, op. cit., p. 61

[141] Importance of earnings from the gas and oil trade is exemplified by Brookings Institute economist Clifford Gaddy as follows: "Every dollar's increase in the price of a barrel of petroleum translates into roughly $1.5-$2.0 billion of additional yearly export revenues." cited in Fiona Hill, "Russia: The 21st Century's Energy Superpower?" *Brookings Review*, Spring 2002, vol. 20, no. 2, p. 28

dependent. For instance, "oil and gas alone represented 45 % of Russia's exports to the EU in 1999".[142] The Union, on the other hand, is becoming heavily dependent on the imported hydrocarbons. Currently, Russia provides over 15 % of the EU's needs in fuel.[143] According to the estimates of the European Commission Green Paper issued in November 2000, "by 2020, 67 % of the EU's demand for gas and 90 % for oil will have to be met from external sources".[144] Certainly, this will increase Russia's share, too. This is an open indication of European vulnerability.

Nevertheless, EU has some concerns on increasing its vulnerability to Russian energy exports. First and foremost, Russia may use energy delivery as a diplomatic 'weapon'. In fact, this possibility seems unlikely, because of two reasons: 1) there has been a tacit agreement among the European countries, concluded in 1980s, which limits the Russian energy supply to 30-35 % of each of these countries' markets; 2) Russian share in the energy market is not so vital to the extent that can not be easily given up.[145]

Secondly, two great gas companies, namely *LUKoil* and *Gazprom*, behave as political entities within Russia and play great roles in domestic balance of power schemes. For instance, Gazprom's former president Vyakhirev lobbied for the stability in the Balkans in order to sell gas to the regional countries.[146] Another example is the delay in ratification of the 1994 Energy Charter Treaty, which would govern the energy transit flows and set a legal basis for cooperation with the EU,

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[142] Christopher Patten (Member of the European Commission for External Relations), "The EU and Russia," *International Affairs*, vol. 47 no. 2, 2001, p. 61.
[143] The European Union Homepage, European Commission, External Relations, EU-Russia Trade, op. cit.
[144] European Commission Green Paper issued in November 2000, cited in "Powering up EU-Russia Energy Links," *European Voice*, 05/17/01, compiled in *KnowEurope Database*, http://www.knoweurope.net (subscription is necessary).
[145] "Kosovo May Trigger Gas War With Europe", *The Russia Journal*, issue no. 10 (10), 04/05/1999.
[146] Carol R. Saivetz, "Russian Foreign Policy Free-Lancing: The Cases of LUKoil, Gazprom, and Rosvooruzheniye," *Post-Soviet Affairs*, vol. 16, no. 1(January-March 2000), pp. 26-33.

because of the objections raised by the Gazprom.[147] Yet, under the firm leadership of Putin and with the backing of the Duma, Russia may minimize the influence of these enterprises.

Third concern of the EU is the degree of reliability of Russia, in terms of its deficiencies in providing the technology and capital to increase production, and the legal framework to keep cooperation ongoing.[148] For the technology and capital part, the EU is ready to boost investments in Russian energy sector. Thus, as soon as Russia agrees to draw a legal framework, the 'strategic energy partnership,' decided in Russian-EU Summit in Paris in October 2000, will be brought into being.

D) CHAPTER SUMMARY

This chapter handled the economic relations between Russian and the EU by founding its arguments on theoretical and historical bases. When components of the Russian-EU economic rapprochement are considered, it is found out that these components create an interdependent fabric. In the Russian-EU relations of interdependence, all criteria (institutional channels, trade volume, vulnerability, and overlapping interests) are observed to varying extents. It seems reasonable to argue that despite its imbalance, this bilateral relationship is a true case of economic interdependence.

Through this interdependent relationship, Russia wants to strengthen its economic development process, and the EU wants to guarantee a prosperous, financially stable Russia. Since Russia is - by size, proximity, and potential - very influential on the continental economic system, which will mean the EU economic system after the completion of enlargement; recovery of Russia will be decisive.

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[147] "Powering up EU-Russia Energy Links," *European Voice*, op. cit.

Furthermore, the EU wants to get rid of its security concerns about Russia. For this end, the Union uses the benefits of economic interdependence as a carrot for the continuation of Russian political reforms. Apparently, economic interdependence is not an end in itself, but rather a 'political' choice of the parties to overcome the repetition of historical experiences.

CHAPTER III

SECURITY FACTOR

Security factor basically refers to the political and military side of the Russian-EU relationship. In the previous chapter, relying on the exploration on degree and substance of economic interdependence, it is concluded that there is an obvious increase in economic ties and this betterment serves a political end. That is to say, parties do not limit themselves to economic partnership and take steps for going beyond. Yet, it is always difficult to make a connection between two different fields: economy and politics. One may easily claim that for economic cooperation, there should already exist political will. Yet, it is both possible to put politics in front of economy, and vice versa, in hierarchy of fields of rapprochement. In this chapter, concept of security and factors affecting security concerns will be investigated initially. Then, the chapter will proceed to the examination of perceptions and capabilities of the each party. This part of the paper will be concluded with a discussion on the possibility of a Russian-EU security cooperation. Throughout the chapter, the central question in mind will be that of correlation between economic and political rapprochement. Which one comes first, economic interdependence or security factor? How do they affect each other? Is it possible for one of them exist without the other? Answers to these questions will enable the researcher to see whether economic interdependence is indispensable for building a deeper affiliation in the fields of politics and security.

A) THE CONCEPT OF SECURITY

Concept of security is another complex subject matter for the social sciences

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DOKÜMANTASYON MERKEZİ

reader, but in a way different from the notion of interdependence. In fact, the word itself has a vague meaning in every mind. This meaning is usually an "open" one that is "in between the narrow (always state, only military) and the wide (everything people worry about)" variations.[148] This reflection of the concept can best be described with what it is associated with. First and foremost, labelling something as a security issue implies a state of emergency and absolute priority.[149] Hence, a security issue gives actors the right to break the rules and use extraordinary means.[150] This effect of security as a simple word is related to its equivalents: quest for "safety or freedom from dangers"[151]; non-war, survival, stability, and power. However, these notions are not sufficient to define security within the domain of international politics. In the terminology of social sciences, definition of the concept may vary according to the level of analysis and the particular historical period that is in question. That is to say, the notion should be evaluated according to whether it is handled at *national*, *international* or *global* level, and whether it is related to the *Cold War* or *post-Cold War* period.

Since exploring the whole literature on security is beyond limits of this thesis, it is relevant to determine the conceptual framework that will be used in this chapter. This framework is drawn in accordance with the character of the main actors in this research. First and foremost, neither the national nor global security perspectives are applicable to the Russian-EU case, since it involves a relationship between independent governmental actors. This particular relationship implies a

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[148] Ole Waever, "Insecurity, Security, and Asecurity in the West European Non-War Community," edited in Emanuel Adler and Michael Barnett *Security Communities*, (Cambridge: Cambridge University Press, 1998), p. 79.
[149] Ibid., p. 80
[150] Ibid.
[151] Robert L. Pfaltzgraff, Jr., "Future Use of Military Power" edited in Richard H. Shultz, Jr., Roy Godson, George H. Quester, ed., *Security Studies for the 21st Century,* (Washington D.C.: Brassey's, 1997), p. 172

degree of cooperation, but with an emphasis on classical national[152] interests. Thus, this chapter will adopt a standpoint similar to that of advocates of international security. International security perspective broadens the framework by drawing attention onto the links between states. Accordingly, a nation-state cannot shape its security policy in isolation, and either decreases or increases security of the other states as a result. This relational stance refers to the *security dilemma,* which breaks the isolation of the nation-state and forces it to consider other states' capabilities and intentions. That is to say, in order to watch out for possible threats and responses to them, nation-states should be active in the system both for competition and cooperation. Bearing in mind its state-centric tone viewing limited cooperation possible in international system, international security standpoint seems to be in between realism and liberalism.[153]

From the historical perspective, it is easier to make a distinction. During the Cold War, security had been a less complicated notion with definite boundaries. Very briefly, the concept comprised topics such as the causes of instability, conflict, and war; the threat, use and management of military force; balance between the efforts to reduce threats and to maintain capabilities[154]; coordination between political, economic, and military interests in pursuit of foreign and domestic interests[155]. Main reason for such a limited framework was the division of the world into two confrontational ideological and military camps, and the immediate threat of

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[152] The term 'national' may seem odd when it is used for the EU. Yet, as it is explained in Chapter I, members of the EU has common national interests when Russia is in question. Moreover, similar to nation-states, the Union has an aim of protecting its economic and territorial integrity. This is why the EU adopts a security and defense policy. As Ole Waever expressed, "classical political security concerns appear but are mostly conceived for "Europe" not individual states." (O. Waever, op. cit., p. 69)

[153] Robert Jervis, "Cooperation Under the Security Dilemma" edited in Robert Art and Kenneth Waltz, *The Use of Force*, (New York: University Press of America, 1988), pp. 35-65 cited in R. H. Shultz, Jr., op. cit., p. 46

[154] Robert L. Pfaltzgraff, Jr., op. cit., p. 173

a major nuclear war. Thus, the natural consequence of this urgent danger was referring security as the survival of the nation-state intact with its territorial and economic integrity.

This limited perspective on security has been criticized during and after the Cold War as being one-dimensional and short-sighted.[156] In the post-1989 era, criticism of the traditional security standpoint increased because of two developments: Firstly, "relief from the hitherto dominant source of insecurity, namely, superpower nuclear conflict,"[157] and secondly, *globalization*[158]. In this new conjuncture, many notions and organizations either lost their *raison d'être* or got adapted to the new conditions. Likewise, traditional domain of security, that seemed extremely restricted for a world facing with threats other than major nuclear war, needed revision. Non-traditional security paradigm has to respond to multi-dimensional and multi-faceted threats, such as international terrorism, illegal immigration, money-laundering, drug-trafficking, environmental problems, and nuclear safety issues. In the non-traditional sense of security, military dimension does not prevail anymore. There are threats as serious as the threat of use of force, for instance, technological backwardness, economic decline, environmental degradation.

These two variations of security -traditional and non-traditional- are named as 'hard' and 'soft' security. Obviously, 'soft' security issues are overlooked and described as such in order to imply the inability of the environmental or economic threats to pave the way for immediate collapse of states. Yet, the gradually

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[155] Garry L. Guertner, in the *Discussion* section of Robert L. Pfaltzgraff, Jr., op. cit., p. 201
[156] Ibid.
[157] Ibid., p. 16.
[158] The term *globalization* here refers to advances in communication and transportation technologies and lowering trade barriers, which bring about increase in social and economic threats such as drug-trafficking, illegal immigration, money laundering, organized crime and international terrorism.

destructing nature of these threats should not undermine their significance, especially with regard to the impossibility of incarcerating them within nation-state boundaries.

With regard to the historical categorization of the concept, although wider area of post-Cold War security seems interesting and equally challenging, for the purposes of this study, this research will concentrate on the traditional understanding of security. Reasons for choosing this kind of limited conceptualization are: Firstly, narrowing down the framework of the research, secondly continuing dominance of traditional security paradigm[159], and thirdly making the contrast between economic interdependence and security factor sharper. That is to say, some issues fall on grey areas when the broader definition of security is chosen, and these issues may scrape the challenging side of this study: trying to set a linkage between two distinct spheres, economics and politics.

B) HISTORICAL ASSESSMENT OF RUSSIAN AND EUROPEAN THREAT PERCEPTIONS

Russia and western Europe had followed different historical paths as mentioned beforehand. Their respective experiences brought into two divergent traditions. On the one hand stands the western European politico-economic tradition based on private property, individualism, scientific enlightenment, and political participation of different social strata to governance. On the other, there exists Russian political culture, founded upon communalism, mysticism, authoritarianism,

[159] The most prominent example of this dominance is the response given to the September 11 attacks on the United States. Although actors in international politics diversified rapidly in the aftermath of the Cold War (e.g. terrorist groups), realist methods for providing security (e.g. military action, coalitions and alliances) remained as efficient instruments. This example indicates that there is no clear dividing line between the two security definitions, and reality consists of both.

and high self-esteem. Natural outcome of this dichotomy has been the presence of two distinct entities on the same continent, mostly referring to each other as the rival party, and in times of serious trouble as an ally. It is claimed that except for brief episodes against a mutual enemy, such as Sweden in 1700s, Napoleon at the turn of the 19th century, Wilhelmine and Nazi Germany in WWs, a perpetual 'cold war' existed between Russia and western Europe.[160]

1. Factors Shaping Russian Security Thinking

Fear of an external threat dominated the Russian security perceptions and remained as an endemic part of the Russian psyche, despite the fact that invaders of the Russian lands have been eventually overcome.[161] Russian security concerns had partly stemmed from the geographical conditions, namely non-existence of natural boundaries, and partly from the collective memory of wars fought with the powers of the East and West.[162] Outcome of this suspicion constituted the most prevalent characteristic of the Russian mindset on security, namely defending the borders through an imperial policy of expansionism. In accordance with this reasoning, Russia remained as a dominant imperial power of the world until 1917 Bolshevik Revolution. Yet, imperial experience left a footprint on Russian self-image in the way that Russians equated the phenomenon of 'Russia' with greatness and uniqueness.[163]

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[160] Georgi M. Derlugian, "What Happens When Russia is the West's Ally? Some Historical Geopolitical Regularities," *PONARS Policy Memo* No. 225, Washington DC, January 25, 2002.

[161] Robert D. Blackwill, Rodric Braithwaite, Akihiko Tanaka, *Engaging Russia*, (New York: The Trilateral Commission, 1995), pp. 3-4.

[162] For instance, the Mongol domination, lasted for more than two centuries, Napoleon's invasion of imperial Russia in 1812 or German occupation of the USSR, which began in June 1941, and had even held Leningrad under siege.

[163] Value of territory and greatness in the geographical sense has lost its influence beginning from 1945, since nuclear arms entered into the defense options and efficacy of "numerically superior forces and a large industrial war potential" became discussable. Lothar Ruhl, "The Historical

Russia responded to the threats coming from its borders by expanding and putting buffer zones in between its territory and the possible rival country. A clear example of this Russian attitude is the Soviet expansion westwards after the WWII to protect itself from a future revival of the traditional German threat.

This inward-looking but expansionist attitude in Russian history, which pulled Russia into reclusion, affected the European perceptions. For western Europeans, Russia was both a center of gravity with its cultural achievement, and a peripheral threat to Europe.

2. Factors Shaping European Security Thinking

European countries tried to solve their security problem either by establishing a *balance of power* mechanism (e.g. the European Concert of the 19th Century) or creating a *security community*[164]. In the aftermath of the WWII, they embraced the goal of building a security community through a less ambitious path, namely economic integration, with the hope of its spilling over to cooperation in other fields. Hence, the European fear of being thrown into the historical rivalries has been overcome by pursuing a policy of "desecuritization."[165] Through desecuritization, , in which concentration of the parties are drawn from security to issues of asecurity, in European case, to economic cooperation, Germany was firmly incorporated into the European Community.

Background of Russian Security Concepts and Requirements" edited in Vladimir Baranovsky, *Russia and Europe: The Emerging Security Agenda*, (Oxford: Oxford University Press, 1997), p. 29

[164] *Security community* is a concept first raised by Karl Deutsch in *Political Community and the North Atlantic Area* (Princeton: Princeton University Press, 1957). It is defined as a community in which "states become integrated to the point that they will settle their differences short of war." That is to say, use of force turns into an obsolete means of conduct. Emanuel Adler and Michael Barnett, " Security Communities in Theoretical Perspective" edited in E. Adler and M. Barnett, ed., *Security Communities*, (Cambridge: Cambridge University Press, 1998), p. 3

[165] The term "desecuritization" refers to a process through which a political entity gets totally free from security concerns or exits from the sphere of security. O. Waever, op. cit., p. 91.

On the other hand, Russia's image as the primary threat to Europe had grown under the Soviet rule. With the reactivation of the 'internationalist' foreign policy, whose main task was projection of the communist ideology to other states, and Soviet occupation in eastern Europe, historical fears about Russia were multiplied in western Europe. Yet, in the aftermath of the WWII, western European countries had to find another way to contain Germany and Soviet Russia, since their economic cooperation and war-torn military capabilities were far from deterring these two countries.

In order to cope with the threat posed by the USSR, only rational solution seemed as providing permanent U.S. commitment to the defense of Europe. Thus, Europe was spared from the issues of security and defense by transferring the bulk of responsibility to the U.S. and the Atlantic Alliance founded with the signing of North Atlantic Treaty in 1949.[166] Consequently, The Soviet Union perceived NATO and the US, due to its security umbrella over Europe, as the real threats and enemies during the Cold War. That is why even after the demise of the Cold War, the EU has not been viewed seriously as a significant security actor of global politics.

Although the EC made several attempts to establish an all-European security structure (e.g. Western European Union, European Defence Community, European Political Cooperation), history of security initiatives apart from NATO ended up with failure because of the presence of different perspectives interpreting the goals of integration in totally different ways. These failed attempts marked the creation of European security cooperation, simply by deepening the gap between economic and political spheres of integration. As a result of this break-up, European security has been regarded purely as United States' responsibility, hence the Europeans were

[166] Gilles Andreani, Christoph Bertram, and Charles Grant, *European Military Revolution*, (London:

alienated from the sphere of security. Therefore, issues of security and defense have mostly been considered as fields constituting "an anomaly, a missing element in the construction of Europe."[167]

3) Implications of the Demise of the Cold War and Reunification of Germany

Disintegration of the Soviet Union and the demise of the communist rule in eastern European countries paved the way for a turning point in Russian-European security relationship. From the Russian side, the breakdown of the Warsaw Treaty Organization, accompanied with economic collapse and shrinking of borders, added a sense of humiliation and loss to the Russian psyche.[168] Russia had lost its Great Power status, its buffer zone in eastern Europe against western Europe and especially Germany, and faced with the danger of being isolated from the European order, either as a rival or an ally.

Historically, Germany was a critical country not only for the Soviet Union, but also for France and Britain who therefore were hesitant about giving their consent to the German reunification. Collective historical memory warned that a reunified Germany could be a jeopardy for European security. Reunification became possible on the understanding that Germany would remain embedded in the security umbrella of NATO and in a unified Europe. German Chancellor Kohl accepted both NATO and the supranational authority of the EU as a way to prevent renationalization of German security.[169]

Mutual concerns of European countries and especially Russia about German reunification have been mitigated by the firm incorporation of Germany into the EU

Centre for European Reform, March 2001), pp. 17-18.
[167] Ibid., p. 19
[168] R. Blackwill, R. Braithwaite, A. Tanaka, op. cit., p. 5

and NATO. However, western European countries were face to face with several other security challenges: danger of losing the US commitment, possibility of German domination within European institutions, regional conflicts that would arouse in the south and east of Europe as a result of the Soviet power vacuum, and Russia, neither an empire nor a nation-state, but still a country holding a powerful nuclear arsenal. In order to solve these problems, the EU took important steps, one of which was the decision of enlargement. Political reasoning behind this decision was "anchoring Germany more solidly in [Europe's] middle rather than making it a 'border state'".[170] Moreover, enlargement enabled the Union to "extend the zone of peace, stability, and prosperity" to potential areas of local conflict.[171] That is to say, only way to protect Eastern Europe from fragmentation and the European integration from effects of this turmoil seemed as expanding the boundaries of the security community. Therefore, European enlargement is a political decision to build stability in the continent.

With regard to their respective threat assessments, history plays an important role for Russian-EU relations. Especially from the security angle, parties still see each other as the main determinants in their individual schemes. Yet, for Russia, the EU is a totally new representative of western European security structure. Since it is also an emerging political actor, new even to its own members in the political sense, Russia does not know how to deal with the Common European Security and Defence Policy (CESDP) and its capabilities. On the other hand, the EU hesitates about bypassing NATO by establishing an association with Russia with special emphasis

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[169] A. Stent, op. cit., p. 200.
[170] Zbigniew Brzezinski, "Living With Russia," *The National Interest*, issue 66, no. 4 (Fall 2000), p. 15.
[171] The EU Homepage, European Commission, Enlargement, Basic Arguments, http://www.europa.eu.int/comm/enlargement/arguments/index.htm

on security. Furthermore, the EU is suspicious about the Russian intentions due to its authoritative governmental build-up, restrictive measures on democratic aspects of the political life, and obviously the historical experience, which presents no past experience of security cooperation with Russia except in times of crisis.

C) RESPECTIVE SECURITY PERCEPTIONS AND INTERESTS OF RUSSIA AND THE EU

In the post-Cold War environment, both Russia and the west European countries had passed through processes of radical change. In this transitional period, parties tried to understand what kind of threats they were faced with and ways to cope with them. This process had been particularly important for Russia, since its national security identity, foreign policy tradition and institutions were radically changed from the Soviet rule.[172] On the European side, a need for resecuritization[173] emerged in the years following the breakdown of the communist regimes. For various reasons that will be listed later on, the EU decided to have a security pillar and implemented this decision by planning the activation of a Rapid Reaction Force (RRF) in 2003.

1. Russian Perceptions

Determination of the Russian security interests is accomplished through a debate on what Russia is and where it belongs. This debate, rooted back in the 19th

[172] Russia and the Soviet Union relied on the same 'heartland,' and since 1922 Union Treaty, Russia was administered by union institutions. Other socialist republics had their local administrative bodies, thus in the immediate aftermath of the Soviet Union they had just renamed these bodies. Contrarily, Russia faced with the challenge of creating its own administration over night. (R. Sakwa, op. cit., pp. 25-27)

[173] Reentry of a previously desecuritized political entity into the sphere of security; a change in mentality to define oneself with terms of security, such as interests, capabilities, threat assessments.

century[174], took place between the 'Atlanticists,' who "hold that Russia needs to become a part of the Atlantic club, by a combination of integration with Western institutions and adaptation to Western ways," and the 'Eurasianists,' who view Russia as a "unique civilization, a synthesis of European and Asian elements."[175]According to the reasoning of the Atlanticists, recovery of the Russian economy and revival of Russia as a great power were possible only through gaining the West's support for "success of Russia's economic reforms, promotion of democracy, and integration into Western civilisation and international institutions."[176] Hence, Atlanticists sought to join in important economic and political bodies such as the World Trade Organization (WTO), World Bank, International Monetary Fund, and even NATO[177]. On the other hand, the Eurasionists found this allegiance overly romantic and "stressed the great power interests, Pan-Slavism and the maintenance of the Russian military potential."[178] Accordingly, Russia would be a 'balance holder' between Europe and Asia with its distinct civilisation and geopolitical status. That is to say, Russia should "initiate and maintain a multilateral dialogue of cultures, civilisations, and states" instead of associating itself only with Western Europe.[179] Therefore, Russia should establish its distinctive role firmly by re-building ties with its South, especially with the Muslim

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[174] Although this debate of early 1990s was about Russian foreign and security policy, it carried the legacy of the 19the century debate between the *Zapadniki* (Westerners) and *Slavyanofili* (Slavophiles) among the members of the Russian intelligentsia on the 'cultural' identity of Russia.

[175] Ira Straus, "Western Common Homes and Russian National Identities: How Far East Can the EU and NATO Go, and Where Does That Leave Russia," *European Security*, vol. 8, no. 4 (Winter 2001), p. 5

[176] Alvin Z. Rubinstein, "The Transformation of Russian Foreign Policy", edited in Karen Dawisha, The *International Dimension of Post-Communist Transitions in Russia and the New States of Eurasia, Volume 10*, London: M. E. Sharpe, 1997, p. 41.

[177] Hannes Adomeit, "The Atlantic Alliance in Soviet and Russian Perspective," edited in Neil Malcolm, ed., *Russia and Europe: An end to confrontation?,* (London: Pinter Publishers, 1994), p. 31-54.

[178] R. Sakwa, op. cit., p. 295.

[179] Sergei Stankevich, "A Power in Search of Itself," *Nezavisimaia gazeta*, 28 March 1992, in *CDPSP* 44, no. 13, cited in A. Z. Rubinstein, op. cit., p. 41.

world and ex-Soviet states.[180]

As a result of this debate, Russia adopted "a synthesis that still emphasized cooperation and integration with the West, but also incorporated a strong measure of Russian Eurasianism and great power thinking, rooting the policy in a more traditional cast."[181] Yet, for depicting the vital security interests of a country, theories and assumptions are not sufficient. For security policy to be realistic, a compromise should be achieved between the aspirations and capabilities.

Russia is no longer a superpower, yet its claim to being a great power continues relying on two bases: 1) vast nuclear arsenal, inherited from the Soviet Union, and 2) its seat in the UN Security Council as a permanent member.[182] Nevertheless, to keep this claimed international status, Russia would either enhance its capabilities to the extent of a great power or determine a more viable destination for its foreign policy. Due to Russia's aspirations to be a Great Power, Russian interests area of operation can not be as narrow as those of an average nation-state; nor can they be one-dimensional or isolated. However, Russian interests are limited with shortcomings, such as economic deterioration impeding the modernization efforts for weary infrastructure, human capital problem due to diseases, high mortality and low fertility rates, and atrophied military power.[183]

In accordance with the need to depict a realistic scheme of Russian national interests, it is compulsory to look at both the official documents and historically based threat perceptions. The Foreign Policy Concepts (1993, 1997, 2000) and

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[180] Alexander Rahr, "Atlanticists versus Eurasians in Russian Foreign Policy," *RFE/RL Russian Report*, 29 May 1992, vol. 1, no. 22, p. 17

[181] Celeste A. Wallander, "Wary of the West: Russian Security at the Millennium," *Arms Control Today*, vol. 30, no. 2, (March 2000), pp. 7-8.

[182] Lawrence Freedman, "The New Great Power Politics," edited in Alexei G. Arbatov, Karl Kaiser, Robert Legvold, ed., op. cit., p. 30

[183] Rajan Menon, "Structural Constraints on Russian Diplomacy," *Orbis*, vol. 45, no. 4, (Fall 2001), pp. 580-581

Military Doctrines (1993 and 2000) of the Russian Federation contain minor changes in tone and content, avoid naming any country or bloc as an enemy and state that the most crucial threats to Russian security lay in the internal conditions of Russia rather than the international system.[184] Latest of these documents, the Foreign Policy Concept of the year 2000, indicates that Russian concerns about territorial integrity and aspirations for being a great power capable of influencing the world politics continue.[185] Nevertheless, new issues came along such as growing reaction against a U.S.-led unipolar world order, dependence of Russian economic system and information environment on external influences, and increasing negative views on NATO operations outside the Washington Treaty without UN Security Council authorization.[186] Apparently, these pessimistic changes are closely related with the August 1998 financial crisis and NATO intervention in Kosovo. Especially, the economic decline affected Russian security perceptions so deeply that the primary threat to Russia's national interests is declared as its internal economic situation.[187] In fact, this is an example of how internal conditions of Russia reshapes its interests and perceptions. A comprehensive list of these security priorities is as follows:

1. As the basis of national security, threats of the utmost importance are those posed upon territorial integrity and sovereignty. From this perspective, Russia sees "local wars, discrimination against Russian citizens living abroad and expansion of military alliances to the detriment of Russia's security" as the most prominent jeopardies.[188] These new threats necessitate relevant security build-up

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[184] C. A. Wallander, "Wary Of the West," op. cit., p. 9

[185] "Foreign Policy Concept of the Russian Federation," *International Affairs*, vol. 46, no. 5, (2000), p. 1.

[186] Ibid., pp. 3-11.

[187] C. Wallander, "The Multiple Dimensions of Russian Threat Assessment," *Program on New Approaches to Russian Security (PONARS),* Policy Memo no. 199, Council on Foreign Relations, April 2001, http://www.fas.harvard.edu/~ponars/POLICY%20MEMOS/Wallander199.html

[188] Richard F. Staar, "Moscow's Plans to Restore its Power" *Orbis*, vol. 40, no. 3 (Summer 1996), pp.

for internal conflicts, extension of the Russian sphere of influence beyond its borders, avoidance of external intervention to CIS countries in case of local disputes.

2. Russian foreign policy elites and statesmen view the economic problems as the main obstacle in front of Russian objectives of growth and revival. Thus, economic development is seen as the only way of strengthening the military might and restoring the 'Great Power' role of Russia in the international arena. That is why economic issues became an integral part of Russian security perceptions. For instance, since defense industry is one of the pillars of Russian economy, American reaction against Russian arms sales to Iran is not merely perceived as an issue about trade , but rather "about undermining Russia's defense industries, military reform, and modernization."[189]
3. Russian aspiration to be a 'Great Power' is closely related with the humiliation it experienced in the aftermath of the Cold War, fear of being isolated from the international society, and fear of losing its identity and role, which make Russia unique. Threats to this national goal are: a uni-polar world order, in which Russia will not have a say; a one-dimensional Russian foreign policy; and formation or expansion of organizations, capable of making military interventions in the Russian *Near Abroad.*

Evaluating these officially established security interests from the lens of Russian history, it seems apparent that basic Russian concerns are standing still. Yet, instruments to overcome these concerns changed. Being a multi-ethnic federation and

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375-376.

[189] C. Wallander, "The Multiple Dimensions of..." op., cit.

a former empire, Russia is afraid of further disintegration. Russia is also highly vulnerable to its neighbors, especially to those carrying a conflict potential. The most pertinent examples of this Russian concern are the war in Chechnya, supported by the Muslims in southern neighbors of Russia, and the was in Afghanistan with its danger of spreading in Central Asia. Another Russian concern is being encircled and isolated from the international arena. Especially with the Afghan campaign of the US, Russians began to feel "encircled by a dense ring of military and intelligence gathering installations belonging to the North Atlantic Alliance."[190] Likewise, the EU and NATO expansions, which will more or less draw new dividing lines in Europe, are seen as threats. According to the Russian perceptions, the EU memberships of Finland and Austria, two neutral states of the Cold War era, represent an example of central and east European countries acquiring Western security guarantees. Russia believes that the EU membership of these countries has brought indirect NATO commitment to the Russian border, and integrated framework of economy and security will exclude Russia.[191] Yet, both the EU and NATO try to curb the Russian worries by increasing Russian participation in the exclusionary bodies. For this end, the EU consults with Russia on the questions of enlargement (e.g. the Kaliningrad Question) and promises for a common free trade area. On the other hand, NATO agreed to establish a joint council with Russia, in which Russia will have a voice in discussion sessions, but no right to veto the NATO decisions.

As the threats perceived by Russia have changed, so have the means to deal with these threats. Considering the war in Chechnya, it is apparent that Russia can not

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[190] Sergey Ptichkin and Aleksey Chichkin, "Russia 'Encircled' by US, NATO When Afghan Operation Over," *Moscow Rossiyskaya Gazeta, FBIS-NES-2002-0122*, January 22, 2002.

[191] C. Bluth, "The Post-Soviet Space and Europe," edited in R. Allison and C. Bluth, *Security Dilemmas in Russia and Eurasia*, (London: Royal Institute of International Affairs, 1998), p. 328 and p. 340.

solve its security problems by resorting to military means, simply because its military capabilities are obsolete and irrelevant for the post-Cold war tasks. In order to respond internal threats, Russia needs to cut the number of its forces and restructure its army. Nevertheless, Russia will keep its nuclear arsenal despite its irrelevancy for local conflicts to maintain its claim to be a Great Power.[192]

Inadequacy of traditional means, namely military capability, to satisfy the security interests causes the search for other possible means such as diplomacy through consultation, international organizations, and economic cooperation. That is why Russia puts extra emphasis on multilateralism, international regimes like UN or OSCE, economic stability, increase in FDI and trade volume, and integration with the global economy. Being devoid of sufficient mechanisms of a Great Power, Russia adopts a foreign policy advocating for a multilateral international order, in which U.S. does not impose its own aspirations on other states, and multi-dimensional external relations with Western Europe, U.S., China, Japan, Iran, India, S. Korea, and its *Near Abroad* to legitimize its status as a 'balance holder.'

2. EU Perceptions and Policies

At this point, Russian and European positions converge. Being distant from the security matters for so long due to the presence of NATO, European capacity to cope with its security interests is very weak.

First of all, what are European security interests? Since CFSP is an intergovernmental body, it is difficult to mention a single unified list of European security interests. Each member of the EU has its own security perceptions, as it was exemplified in the case of the ND. Since Russia poses multiple -soft and hard-

[192] R. Menon, op. cit., p. 584.

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security threats to Nordic countries that are incapable of dealing with them on their own, Finland, as one of these countries, chose to assign this task to the EU. Likewise, Germany realizes its own aspirations on eastern Europe and goal to lead the EU through the enlargement process of the Union. From the French viewpoint, the EU is a foreign policy instrument again to have a leading role in Europe and to construct a multilateral world order, in which only a unified Europe can be a match of the US. The CFSP, itself, is revived in the 1998 St. Malo Declaration partially as a result of a change in British standpoint:1) Tony Blair has wanted Britain to play a key role in European integration or even lead a part of it. Or from another point of view, Blair chose to control the integration process by involving in it instead of remaining at the sideline; 2) it seems easier to keep the U.S. security commitment in Europe via enhancing the European military capabilities and silencing the advocates of 'burden-sharing.'[193]

The factors behind the EU decision to adopt a security dimension gather together different individual perspectives of the members, and pave the way for convergence between Russian and European interests.

After the humiliations experienced in the Bosnian Wars and Kosovo, a broad consensus was created on the necessity to play an autonomous role in international security agenda.[194] The EU weight in global economic structure should be counter-balanced with weight in international affairs. Yet, there is a huge gap between the EU and the US in terms of military capability. Similar to Russia, the EU is lacking the features necessary to deal with contemporary threats.

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[193] Jolyon Howorth, "Britain, France, and the European Defence Initiative," *Survival*, vol. 42, no. 2 (Summer 2000), p. 34

[194] Klaus Becher, the Helmut Schmidt Senior Fellow for the European Security at the IISS, *EU Defence Policy: Evolution, Prospects, and Implications*, (Ramat Gan: The Begin- Sadat Center for Strategic Studies, Bar Ilan University, December 2001), p. 5

Although both Russia and the EU are devoid of relevant means, they both want to have influential roles in global politics. The EU needs to avoid local conflicts in its *near abroad* in order to secure its economic position. Likewise, Russia made the connection between economic development and security by defining them as intertwined parts of its national vital interests.

Divergence between the European and American interests on security issues is another important reason for change in perceptions. That is to say, since the common enemy and its threat of use of nuclear weapons faded away, the EU began to find opportunity to express its own viewpoint. Apparently, the EU differentiates from the American attitude by being less concerned with 'rogue' states, giving priority in security spending to cultural and diplomatic means rather than soldiers and weapons, and adopting a multilateral approach towards international politics.[195] Russia favors this divergence, yet faces with a dilemma on whether it is better to have NATO or to leave the EU alone on the continent with a potential "German problem."

D) MUTUAL SECURITY CONCERNS OF RUSSIA AND THE EU

1. Shared Goals

Although it is an unlikely possibility in the medium term, common goal of Russia and the EU is an historically rooted one, namely to prevent the emergence of a dominant continental force. In such a case, not only Russia and the EU, but also the US will agree to establish an alliance. A non-traditional example of a threat to European stability is now Islamic fundamentalism and terrorist attacks of the fundamentalist organizations. Russia and the EU reached an accord on cooperation

[195] G. Andreani, C. Bertram, and C. Grant, op. cit., pp. 74-75.

against terrorism in the October 2001 Brussels summit.

Since accession of Finland in 1995, the EU and Russia share a 700 mile long border, which will lengthen after the completion of the enlargement process. Hence, much of the so-called adjacent regions will coincide with Russia's *Near Abroad*[196]. That is to say, Russia will lack a buffer zone with western Europe except Ukraine. This may cause problems in case of a local conflict like the one in the former Yugoslavia. Under such conditions, Russia may try to avoid NATO intervention, yet being devoid of economic and military capacity to be influential, may compromise and act in accordance with the EU policies. For example, the EU expects Russian participation to the settlement of crises in Moldova and the North Caucasus.[197] Yet, because of the non-existence of the EU military assets and the consultative attitude of the EU towards Russia, the EU security initiative seems unchallenging for Russia.

Both the EU and Russia have reservations on the unilateralist attitude of the Bush administration. Precisely, for the EU to obtain a weight in international politics, the world order should be a multilateral one.[198] Bearing in mind its opposition to rhetoric of anti-Americanism, the EU is in favor of a multilateral world order, in which major decisions about macro-politics are taken collectively via consultation.[199] For being a seriously-taken counterpart of the U.S., the EU advocates for

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[196] The term *Near Abroad* (Blizhnoe Zarubezhe) refers to the countries emerged after the break up of the Soviet Bloc minus Russian Federation and special relations of Russia with the newly independent states. Hannes Adomeit, "Russian National Security Interests," edited in Roy Allison and Christoph Bluth, *Security Dilemmas in Russia and Eurasia*, (London: Royal Institute of International Affairs, 1998), p. 36.

[197] Report by Vladimir Babkin incorporating comments by EU External Relations Commissioner Chris Patten, "Christopher Patten: We Must Appreciate How European It Wants To Be," *Moscow Izvestiya, FBIS-SOV-2002-0529*, 03/29/02.

[198] David Hannay, "Europe's Common Foreign and Security Policy: Year One" *European Foreign Affairs Review*, vol. 5, no. 3 (September 2000), p. 277

[199] "A European Foreign Policy: Ambition and Reality," Speech by The Rt. Hon. Christopher Patten, External Relations Commissioner, *Institut Francais des Relations Internationales* (IFRI), Paris, 15 June2000,SPEECH/00/219,www.europa.eu.int/comm/external_relations/news/patten/speech_00_219_en.htm; Heinz Timmermann, "European-Russian Partnership: What Future?" *European Foreign Affairs Review*, vol. 5, no. 2, (June 2000), p. 167

multilateralism. This same objective is also in the Russian foreign policy agenda. Thus, at this point, Russia and the EU are seen as natural partners. The tricky point is that with a hesitant attitude inherited from the Cold war years, the EU both desires to be a world power and refrains from decoupling from the Transatlantic relations. Another concern of the Europeans is the danger of being played off against the U.S. by Russia.[200] Ironically, this fear itself resulted in insistence of the EU officials on presenting the Common European Security and Defense Policy (CESDP) as a mechanism enhancing, not undermining NATO.[201] However, this false reaction creates a situation, in which Russia automatically feels more isolated and marginalized. Therefore, only way to form a multilateral environment by avoiding both being used as a wedge to divide Europe and the USA, and giving Russia the impression of being sidelined is pursuing a policy of integrationism for Russia.

With regard to NATO, the main security entity of the continent, it is a fact that Russia still perceives the presence and expansion of the Alliance towards its Eastern frontier as a threat. Besides, Russians tend to make a distinction between "the good West of Europe/EU" and the "bad West of America/NATO."[202] Even the recently launched goal of creating credible military forces for the EU could not change this attitude deeply rooted in the Russian public opinion.[203] Apparently, Russia makes this distinction with the hope to diminish American influence and commitment on Europe. Yet, President Putin, different from his predecessor, does not exaggerate this wishful thinking and pursues a policy of 'recoupling' Russia with

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[200] "It is not that we will never have differences with the Americans; it is simply that it will be against our interests to externalize these differences, to turn them into sources of public dispute, to allow others to play off against each other." D. Hannay, op. cit., p. 278

[201] M. Light, *et al.*, op. cit., p. 503

[202] Dimitri Trenin, "Russia-EU Partnership: Grand Vision and Practical Steps," *Russia on Russia*, issue 1, Moscow School of Political Studies and Social Market Foundation, February 2000, p. 106

[203] M. Light et al., op. cit., p. 500.

Europe instead of 'decoupling' Europe from the transatlantic relationship.[204] For this purpose, Russia embraces the role of operational means supplier and proposes "a non-strategic system of missile defense based mainly on Russian territory near the borders of countries that could potentially launch a missile attack."[205] Moreover, Russia is capable of supplying complementary operational assets to the EU, such as cooperation on Russian-European satellite navigation systems project (GLONASS/GALILEO).[206] Needless to say, Russian and European military systems are operationally incompatible to a great extent, and the EU would not take initiative in projects undermining the U.S. commitment. Nevertheless, cooperative efforts of the parties are beneficial for both: through security cooperation, Russia tries to maintain its nuclear arsenal and technological assets to be a valuable world power, an indispensable actor of the international system. On the other hand, the EU gets rid of its military deficiencies by incorporating Russia into the European security arrangements.

As they were mentioned above, Russia and the EU aim to preserve the continental peace and construct a multilateral world order. With regard to local conflicts in Europe, there are prospects for military cooperation, through which

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[204] Dmitriy Danilov and Stephan De Spiegeleire, "From Decoupling to Recoupling: Russia and Western Europe, A New Security Relationship?" *Chaillot Paper 31*, (Paris: Institute for Security Studies, WEU, April 1998), p. 19. In December 2001, "NATO foreign ministers meeting in Brussels agreed to set up a new forum for closer cooperation with Russia, but planned to limit the decision-making power offered to Russia. The ministers agreed to create a council for consultation and joint decisions between the 19 NATO members and Russia." (Jeremy Bransten, "2001 In Review: Russian Foreign Policy Brings Moscow Closer To West," *RFE/RL Newsline,* December 2001, www.rferl.org/nca/features/2001/12/13122001094059.asp)

[205] Alexander Golts, "Misguided Bid to Split Americans and Europeans," *The Russia Journal*, issue no. 49 (92), December 16, 2000; Yevgeny Grigoryev, "Russia: Germany and Russia Discuss The ABM Treaty," *Nezavisimaya Gazeta*, February 14, 2001, cited in Reuters Business Briefing on February 16, 2001; "Can Russia's Missile Defence Penetrate NATO Resistance?" *Jane's Intelligence Review*, vol. 13, no. 5, (May 2001), pp. 22-24.

[206] "USA: Artemis satellite will aid European in using GPS, GLONASS," *Global Positioning and Navigational News*, cited in Reuters Business Briefing, June 13, 2001; An agreement has been reached between Rosvooruzhenie, the Russian arms export agency, and the WEU Satellite Center in Torrejon on the provision of Russian imagery on a commercial basis in the WEU Permanent Council in March 1995. D. Danilov and S. De Spiegeleire, op. cit., p. 8

parties can both avoid the US intervention and develop their own military capacities.[207]

A more blurred mutual interest behind Russian-EU rapprochement is their use of each other as means of legitimation. More precisely, as the 1997 Amsterdam Treaty equipped the EU with a new policy means, namely CFSP, which needs to be experimented. This experiment should be conducted on a rather easy case, on which foreign policy interests of 15 members of the EU may converge. That is why, the first 'common strategy' document of the EU is prepared for relations with Russia. According to the EU perspective, foreign policy experience with Russia will contribute to the Union's legitimacy as an international actor.[208] On the other hand, Russia enjoys a new status within multi-directional partnership. The Russian-EU partnership, itself, with its institutions and consultative mechanisms on global affairs, legitimizes parties' claims to be equal major powers in macro-politics.

To sum up, the EU does not pose any serious threats to Russia, and even does keep some of Russia's fears under control (e.g. Germany). Yet, the EU should evaluate the significance of economic development for Russia, and how Russia tends to link its economic interests with its security needs. On the other hand, an economically developing Russia is not enough to overcome European concerns about Russia. An economically strong Russia under an authoritarian rule, not sufficiently being controlled by democratic means, is a greater security problem for Europe, especially when its continuing nuclear might is considered. Thus, the EU wants to be assured about the stability of the democratic regime in Russia even more than

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[207] "In November 2000 Foreign Minister Igor Ivanov declared 'we will be looking at the possibilities for Russian participation in European Union deployments in the framework of crisis management'" cited in Haig Simonian, "Russia Seeks 'Strategic Partnership' with Brussels," *Financial Times*, 27 November 2000, p. 2, quoted in Erik Yesson, "NATO, EU and Russia: Reforming Europe's Security Institutions," European Foreign Affairs Review, vol. 6, no. 2 (Summer 2001), p. 216

[208] Hanna Ojanen, op. cit., p. 362

accomplishment of its economic transition. Since Russia puts its economic interests under the title of security and the EU has an economic orientation first and foremost, economy seems as if the stage where mutual security concerns will be consulted and solved. Yet, there will always be a third party, namely NATO, when European security is discussed. Consequently, the Russian-EU security cooperation can go as far as it is accompanied by the NATO consent.

2. Areas of Tension

Shared goals of Russia and the EU, and the institutional mechanism established by the parties increase the prospects for change in continental history. However, for this interdependent association to become a model for other historically conflict-oriented relationships, it should be tested. By focusing on the areas of tension, it is possible to measure the capacity of the Russian-EU mechanism to resolve common problems.

Russian intervention in Chechnya raised the human rights concerns within the EU, especially those of France. Russia referred to the subject matter as an exclusively internal part of Russian politics, whereas the EU evaluated the war as a setback in the democratic values. Consequently, "joint projects with the EU, as set out in the Common Strategy and for the most part taken up by the Medium-term document, are suspended, postponed, and possibly cancelled."[209] For instance, "ratification of the PCA was delayed as a protest against the first war in Chechnya."[210] Yet, despite the threats to implement economic sanctions against Russia unless certain steps including a cease-fire are taken, the EU is reluctant to

[209] H. Timmermann, op. cit., p. 168
[210] M. Light et al., op. cit., p. 497

jeopardize its relations with Russia.[211] President Putin's handling of the Chechen problem in the international arena has also been effective on the European hesitation to take action against Russia. Putin's argument has been that "Chechnya was the frontline of an attack by political Islam on Russia and Europe as a whole, that by its military action Russia was in fact fighting for Europe's security as much as its own."[212] Especially, after the September 11 terrorist attacks on the World Trade Center and Pentagon, Russian efforts to demonstrate Chechen case as another terrorist action became more apparent during the October 2001 Russian-EU summit.[213] Current situation is a stalemate between Russia and the EU, in which Russia insistently objects to any joint humanitarian action of the EU in the region and the EU continues to stress the importance of the issue in every speech or document about Russia.

The Kaliningrad Question is named as the most important issue of the bilateral relations in the Russian-EU summit in Moscow on May 29, 2002, is a consequence of the EU enlargement policy. Kaliningrad, the annexed part of the former East Prussia by the Soviet Union after the WWII, became an exclave of Russia surrounded by the Baltic Sea, Poland, and Lithuania after the collapse of the communist rule in Eastern Europe.[214] Yet, after the entry of Poland and Lithuania to the EU, citizens of Kaliningrad will need visas to travel to homeland Russia, moreover Russian exclave will lose its economic value as formerly being a free-

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[211] Christopher Edwards, "Europe gives Chechnya deadline," *The Russia Journal*, Issue No. 3 (46), January 31, 2000.

[212] Martin Nicholson, "Putin's Russia: Slowing Down the Pendulum Without Stopping the Clock," *International Affairs*, The Royal Institute of International Affairs, vol. 77, no. 4, (October 2001), p. 875

[213] Breffni O'Rourke, "Russia: Putin's Brussels Visit Underscores EU Ties, Chechnya Focus," *The RFE/RL Newsline,* October 2001, www.rferl.org/nca/features/2001/10/01102001122245.asp

[214] Jeremy Bransten, "Russia: As EU Prepares For Expansion, Kaliningrad Worries It Could Find Itself Orphaned," *The RFE/RL Newsline, January 31*, 2002, www.rferl.org/nca/features/2002/01/31012002092040.asp

trade zone, since it will be excluded from the Common Market and Customs Union of the EU. However, parties still could not find a satisfactory way to solve this problem. In fact, the problem has two dimensions: 1) on the issue of movement of people and goods, Russian legal provisions are totally incompatible with those of the EU, 2) Russia finds assistance given to Kaliningrad, amounted 40 million euros, insufficient and tries to use the situation to try and win investments.[215] Although negotiations continue on the future of the Kaliningrad district, even the way consultations conducted is promising for viewing the impacts of an institutionalized relationship. As one Russian political figure put it, compromise can be reached for Kaliningrad, if only because, European business has major long-term interests in Russia and the EU, itself, has an interest in political cooperation.[216]

Another area of tension is the discord in Russian and European approaches. The EU sees the true establishment of democratic institutions and rule of law as a prerequisite of the Russian development. The EU officials believe that, through this path, threat of an authoritarian and expansionist Russia will never again be a concern of Europe. Moreover, practically, commitment of the EU and European businessmen to the Russian economy necessitates legal guarantees compatible with those in the West. Thus, the EU insists on the completion of reforms in Russian political, economic, and legal systems. The EU even gave an ultimatum to Russia by stating that "either Russia becomes a more democratic state along Western lines or there will be less cooperation."[217]

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[215] Report by Vladimir Babkin incorporating comments by EU External Relations Commissioner Chris Patten: "Christopher Patten: We Must Appreciate How European It Wants To Be" *Moscow Izvestiya*, FBIS-SOV-2002-0529, 29 May 2002.

[216] Interview with Maksim Medvedkov, deputy minister of economic development and trade, by Aleksey Chichkin, "Russian EU Negotiator Sees Kaliningrad Compromise 'Inevitable' Document," *Moscow Rossiyskaya Gazeta*, FBIS-SOV-2002-0531, 31 May 2002.

[217] Alexander Rahr, "What Awaits Russia and the EU in the 21st Century," *CSIS Election Briefing Series*, January 6, 2000, www.csis.org

On the other hand, Russian tendency is towards severing the political and legal pillars of the reforms from economic ones. Yet, as their economic interdependence becomes more profound, parties adopt more flexible policies. For instance, Russian legal system is under revision for 18 months, and Russian officials demonstrate the firm political will to develop and implement market reforms. Parallel to this mitigation, the EU officials changed their tone from giving ultimatums to such declarations: "we cannot and should not try to standardise every corner of Europe. It's not a matter of imposing EU legislation word for word on Russia but of offering a model for economic and legislative integration."[218]

E) CHAPTER SUMMARY

With regard to the discussion about the hierarchy between spheres of economy and politics, mutual economic interests and their exhaustion by building an interdependent relationship can be seen as key instruments to stimulate overlapping security aspirations. Yet, without a certain level of rapprochement, it is impossible to boost economic relations. It is the construction of a system of dialogue through economic interdependence that turns a 'cold' peace into a security partnership, even a security community. Economic interdependence affects the nature of the relationship indirectly, but profoundly. Once parties stop to see each other as threat or enemy, either due to lack of ideological confrontation or military capability, economic cooperation takes the stage to deepen the roots of partnership. In sum, there is no hierarchy between spheres of common economic and security interests, but rather a complex association. Understanding this association is important, since, if it is proved

[218] Speech by Christopher Patten, EU Commissioner for External Relations, at the "Invest in Russia Conference," Brussels Rapid Database, FBIS-WEU-2001-1002, October 2, 2001.

to be valid in different cases, it may be seen as a formula for lasting peace.

For the Russian-EU case, chapter on security provides a further insight apart from the above discussion. Since parties are both face to face with new challenges and devoid of military means to cope with these threats, their security relationship is conducted only on the perceptional level. The EU with its economic power and Russia with its definition of economic development as one of its primary security objectives share a common ground. Hence, Europe has an influential role in Russian politics more than ever, and it is possible to change the historically based perceptions of the parties about each other due to this common economic ground.

CHAPTER IV

CONCLUSION

This study has focused on the Russian-EU relationship by giving reference to two different domains, namely economy and security. Hence, main objective of this paper was not only to analyze the emerging association between Russia and the EU, but also to understand the link between these two domains. This specific relationship presented an interesting and valuable example both because of the historically, culturally, politically and economically effective roles of the parties and possibility to formulate the case as a model. Formulating a model for relationships labelled with long-lasting confrontation and perpetual threat of war, in fact, poses a theoretical question: liberal philosophy argues that it is possible to break down frozen bilateral perceptions via "economic integration 'spilling over' in political and eventually in security integration."[219] This formula served to Western Europe in formation of the EU and desecuritization of the policy agendas of the member states. Yet, the realist paradigm may raise up against this premise by giving the example of the Détente, in which a similar scenario had been experimented but failed because of the unsolved security concerns of the parties.

Despite the methodological constraints laid upon the subject matter, the conduct of this research put out some clear-cut answers to the questions posed in the first chapter. First of all, Russia and the EU do not constitute threats for each other due to the facts of absence of ideological confrontation, lack or weakness of military capabilities of both sides, and convergence of their economic and political interests.

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[219] Stephan De Spiegeleire, "Recoupling Russia: Staying the Course, Europe's Security Relationship with Europe," *IISS/CEPS European Security Forum*, Brussels, January 14, 2002, www.eusec.org/spiegeleire.htm

Secondly, it is more than possible to define the economic interactions between the parties as economic interdependence. The Russian-EU economic partnership, despite its imbalance, fulfils the criteria determined for economic interdependence - institutional links, trade volume, vulnerability, shared goals. This relationship has been first framed by the 1994 Partnership Cooperation Agreement, and gradually institutionalized on a regular and multi-dimensional basis.

The EU is an indispensable economic ally for Russia due to its share in trade relations and technical assistance programs. The Union absorbs nearly 35 % of Russian exports and provides 25 % of its imports. The total EU assistance to Russia amounts € 2.281 billion in the period of 1991-2000. Moreover, the EU became the first country to grant Russia the fully fledged market economy status, which "will allow tariff-free sales of a broader range of Russian goods, provide greater protection against European anti-dumping laws, pave the way for Moscow's long-desired entry into the World Trade Organization."[220]

From the viewpoint of the EU, it is important to have Russia as an economically stable partner. The EU is vulnerable to economic crisis in Russia because of its involvement in Russian economy in the form of economic assistance, loans and credits provided, and Russia's role as an energy supplier and market for European consumer goods. Besides, the EU is also investing in its own future with regard to the enlargement process, which will turn Russia into the largest neighbor of the Union. Since an isolated and instable Russia may threaten the EU with its possible economic ills and dangers either stemming from or passing through Russian homeland, such as drug-trafficking, illegal immigration, environmental hazards or unsafe nuclear weapons.

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[220] Peter Baker, "Europe Dubs Russia A Market Economy," *The Washington Post*, Foreign Service,

Briefly, Russia and the EU constructed an essential economic relationship that goes beyond cooperation. Yet, it is argued that the *raison d'être* behind the creation of economic interdependence is of political origin. That is to say, flourishing the economic ties was not a spontaneous result of the relationship between the parties or a coincidence, but rather a chosen path to boost political and security cooperation in Europe. This is an act, rooted in the respective fears of the parties from their own pasts and the desire to guarantee stability and security for further economic and political development.

Third of the research questions interrogates the role of economic interdependence in easing tensions between the parties. Economic interdependence brought about two important outcomes: firstly, regular and intensive consultations introduced continuation and traditionalization to the relationship. Secondly, since interdependence ties the parties to each other with strong links, parties choose to compromise on their common problems instead of jeopardizing the relationship. That is to say, parties are building up a code of conduct, which needs to be tested with actual disagreements. Three spots of disagreement are summarized in Chapter III. Especially in the case of Chechnya, it is found out that the EU mitigated the tone of its opposition and tried to prevent the escalation of this problem. Yet, in order to make valid judgements about the future of Russian-EU relationship, other areas of tension should be resolved through consultation and compromise. The way the Kaliningrad Question is dealt with and how discord in approaches is overcome will be decisive on this partnership.

The fourth research question of this study is about the role of the 'third variables,' if there are any. Answer to this question is affirmative. In fact, there exist

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May 30, 2002, p. A18.

two external factors, which affect the correlation between economic interdependence and easing political tensions. First one is a prerequisite for the model itself, whereas the second one is special to the Russian-EU case. The first one, which will be touched upon later in this chapter, is the absence of ideological confrontation. Accordingly, for economic interdependence to flourish, a historical level, at which seriousness or urgency of security concerns lessen, should be reached. Secondly, for this specific case, betterment of relations between Russia and the EU is bound to the character of the relationship between Russia and the U.S. Although the EU has different views on certain issues, it still needs the transatlantic link. Thus, Russia should not force the EU to make a preference by contradicting with the U.S. That is to say, the EU engages in economic and security cooperation with Russia more easily, if it does not feel like making a choice between Russia and the transatlantic alliance.

Last question of the list draws attention to the domain of security/politics: does security factor dominate the post-Cold War relations between Russia and the EU despite the growing economic interdependence between them? Both yes and no.

In order to explain the link between economic interdependence and security factor, an international security perspective with focus on traditional security traits is chosen by giving reference to perceptions, national interests, political will and military capabilities. To make the connection between the domains of economy and politics/security, a question is put forward: which one of these domains has the priority and influence to affect the other or is it possible to build on a political integration directly through economic rapprochement? This would also be the main question that is in charge of interrogating the liberal philosophy. Therefore, the Union's and Russia's security structures are explored.

It is found out that despite its newly enriched substance, the EU is lacking the physical and operational capabilities. Yet, it is necessary for the member states to develop their joint capacity in order to unify separate and inefficiently managed defense budgets under one single organizational scheme, to avoid any further humiliations in the field of preserving the continental security, to guarantee the stability for international trade and investments, and to set up a legitimate role in world politics, especially for matters it does not share the U.S. stance.

From the Russian side, there exists a heavy security heritage, labelled with expansionism, high self-esteem, strong leadership and even authoritarianism, and fear of being sidelined or isolated. Moreover, Russia experienced an institutional duality during the demise of the Soviet Union and a debate on security identity, which resulted in a balanced position between integration with the West and Russian uniqueness. Similar to the European case, Russia, despite its continuing great power thinking, is devoid of the means and influence of what its political will necessitated. This gap between capacity and will is tried to be filled in by President Putin's diplomatic efforts. These efforts are aimed at preserving Russia's 'vital interests,' namely preventing any local conflicts inside Russia or in the Russian sphere of influence, achieving at economic might in order to re-establish its military capabilities relevant to the post-Cold War needs, and impeding any move towards a uni-polar world order. The most important of these national interests is the depiction of economic interests as an integral part of security structure. That is to say, any threat against Russian economic development would also be perceived as a pure security threat. This is one of the reasons for Russia's attachment of so much importance to economic interdependence with the EU.

When one combines the perceptions, assessments and security plans of

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Russia and the EU, it becomes apparent that they do not see each other as threats, furthermore they have overlapping interests in the field of security. It is possible for the parties to cooperate in crisis-management, peacekeeping operations, joint defense projects to secure peace on the continent, to build a multi-polar world order, and to legitimize their roles in macro-politics. However, it is not realistic to analyze the future of Russian-EU security cooperation without giving reference to the predominant US role through NATO in European security. Hence, the above-mentioned prospects for the Russian-EU joint action are conditionally bound to the future Russian-NATO rapprochement.

On the question of hierarchy between the domains of economy and politics, it is relevant to make a conclusion as such: Russia and the EU made a policy choice for economic interdependence to establish foundations of a European peace tradition. Yet, this argumentation of direct and positive correlation between economic interdependence and betterment of political relations may seem over-idealistic unless one puts the prerequisite for an initial improvement in security perceptions. More precisely, liberal philosophy may come true as a formula in the long-run, but only by rising up on the shoulders of the realist paradigm.

For the specific case of Russia and the EU, political rapprochement through economic partnership would be impossible whether ideological confrontation of the Cold War would not have ended. This version of liberal thinking was exemplified with the failure of the Détente due to clashes of interest. Thus, mitigation of urgent security concerns creates an appropriate environment for presence and spilling over of economic interdependence. That is to say, security factor, even with its absence, dominates the post-Cold War Russian-EU relations.

This paper concludes that economic interdependence and the liberal

philosophy behind it are useful instruments for establishing a tradition of dialogue, and easing the tensions between parties historically hostile to each other. Yet, for the sake of being down to earth, it is necessary to stress that such an influence of economic interdependence becomes lasting, if it is built upon a certain level of security. To view the correlation between economic interdependence and political rapprochement, one should neither underestimate nor exaggerate the power of economic domain.

This thesis focused on the EU-Russian relationship, which has recently flourished. Yet, further research should be conducted to see whether spots of disagreements can be solved by the mechanism parties established. In sum, as it is expressed at the 6th Russian-EU summit declaration, "conditions are favorable" for the strategic partnership. Both interests of the parties and the international context favor the Russian-EU relationship. Nevertheless, time will be decisive on this partnership, especially when some day unfavorable conditions rule over Europe.

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